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# A Study on Reverse Mortgage: As a Retirement Plan

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**ABSTRACT**

*Reverse mortgage as an innovative financial product allows senior citizens to mortgage their house property with a loaner and convert a part of the house equity into tax-exempt financial gain while not having to sell the house. Despite growth during this market and therefore the expected quality of the idea, the results aren't satisfactory in Asian nation. The most objective of this analysis is knowing the preference of various age teams on opting a retirement savings plan within the future and knowing their information or awareness of the idea of Reverse Mortgage Loans and therefore the practicability of Reverse Mortgage Loans among senior citizen in India. It's seen that lifespan has increased significantly creating it necessary for the senior to travel for a retirement savings plan so as to beat the concern of outliving their pension/ financial gain. This research tries to study a selected geographic area relating Mumbai.*

*Keywords: Reverse Mortgage, Retirement Planning, India, and Financial Independence*

## 1. INTRODUCTION

Senior Citizens are a growing section of the Indian society and dependency in old age is increasing in the country. With increased urbanization and prevalent nuclear family culture, many senior citizens are forced to fend for themselves. While on one hand, there is significant increase in Life expectancy and low mortality, on the other hand increase in cost of living accompanied by escalating cost of good health care is thus making it very difficult for the senior citizens to make both the two ends meet. Senior Citizens need a regular cash flow stream for supplementing their financial needs. Government of India introduced the Reverse Mortgage Scheme in its budget 2007-08. The National Housing Board has been given the task of drawing up the regulatory mechanism to enable the use of reverse mortgage in the country. Under this scheme, the senior citizens can unlock and tap the value of their residential house while enjoying the benefits of living in the house during their lifetime Reverse mortgage aims at partially meeting the financial needs of senior citizens without selling the self- occupied property and enables recurring funds inflows to the senior citizens during their life time .

## 2. LITERATURE REVIEW

The review of literature paves way for clear understanding of the area of research already undertaken and throws light potential areas which are yet to be covered. In this regard an attempt has been made to make a brief survey of the work under-taken on the field of cash less transactions. To review some of the important studies are presented below such as.

**Rajagopalan (2006)** tried to explore the prospects for reverse mortgage (RM) products in India. As developed and developing countries are having a higher rate of RM successfully implemented. Also, he suggested that if proper RM products are made available by prospective lenders it could attract potentially a large market. However, he also says there should be proper assessment of the demand, supply and rules and regulations should be considered. Any interested RM lender should get into the market cautiously.

**Dr. V Chandrasekar (2007),** in his research paper titled "Reverse Mortgage in India: Social Implications" found that, despite the potential for reverse mortgage, there are several issues that may slow its spread as a reliable and acceptable means of income generation. These issues include, complexity of reverse mortgage loan, fears of a debt burden, eviction and inability to leave a legacy behind by way of a bequest, lack of comprehensive database useful to construct the appropriate environment for reverse mortgage etc. He concluded that, key to the efficacy of reverse mortgages is the development of a strong financial and regulatory infrastructure that will minimize loopholes, prevent fraud, and make this product successful in serving the needs of the senior citizens in India.



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**Prof. Sachin Napate (2012),** concluded that, though the concept of reverse mortgage still in infancy stage in India, with the changing social milieu in India and the collapse of the joint family system, introduction of reverse mortgage products could be a worthwhile experiment. Instead of being dependent on their children for monetary support, this would be a good option for the elderly to continue with a graceful lifestyle.

**Anurag Pahuja, Rinku Sanjeev (2016)** Reverse mortgage, though the concept is not even a decade old, is not getting the requisite popularity in India. The study probed into various factors that affect its usage amongst the potential users. In total, five factors that affect the attitude of potential buyers towards reverse mortgage have been identified i.e. Financial Independence, Revenue Returns, Risk Involvement, Complex Structure and Ownership. While the banks should promote this product by emphasizing on the factors like financial independence, revenue returns and ability to maintain the ownership, they should work upon the factor like complex structure and risk involvement. The advertisements and awareness campaigns should focus on these areas for increasing the popularity of the product.

## 3. OBJECTIVES OF THE STUDY

a) To study the feasibility of RML in Indian markets

b) To understand the popularity of RML

c) To know the preference of different age groups

d) To suggest increase in promotion of RML's

## 4. RESEARCH METHODOLOGY

In this study, the data is obtained from both primary and secondary sources. The primary data is collected using questionnaire method, which has been created using Google Forms and distributed among internet and social media users in Mumbai Suburban. Whereas, the secondary data is collected from the newspapers, magazines, websites etc.

**Sample Design**: The method of Convenience sampling has been used to collect the data from the respondents.

**Sample Size**: The sample size is 50.

**Data Analysis and Interpretation**: The data is analysed and interpreted using Google Drive and Microsoft Excel 2007.

## 5. LIMITATIONS OF THE STUDY

1. The study is limited to Mumbai Suburban because of time constraints.
2. Sample size used for the study is small. Hence, the results cannot be taken as universal
3. The limitations of the Convenience sampling technique are applicable to this study.

## 6. DATA ANALYSIS AND INTERPRETATION

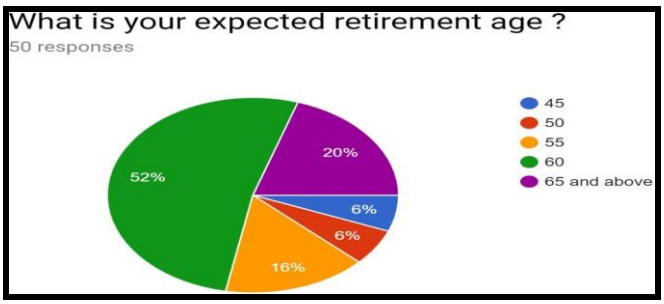



Fig. 4.1 Expected retirement age



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**INTERPRETATION**

The above pie chart shows 6% i.e. 3 respondents are expecting 45 age as their retirement age followed by 6% i.e. 3 respondents expect 50 as their retirement age, 16% i.e. 8 respondents are considering 55 as their retirement age. The maximum no of respondents are under the 60 age bracket making 26 of them and 20% respondents are expecting 65 and above as their age of retirement making 10 of them.

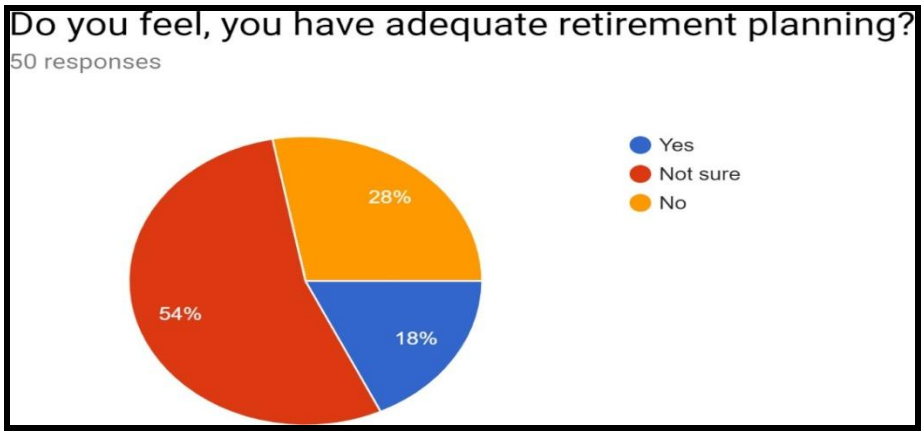



Fig. 4.2Adequate retirement planning

**INTERPRETATION**

The above pie chart indicates that 18% respondents i.e. 19individuals have an adequate retirement plan, followed by 54 % respondents i.e. 27 individuals are not sure about their future retirement plan and remaining 28% respondents i.e. 14 individuals do not have adequate retirement plan. This shows a major no of respondents still have the option for opting RML in future.

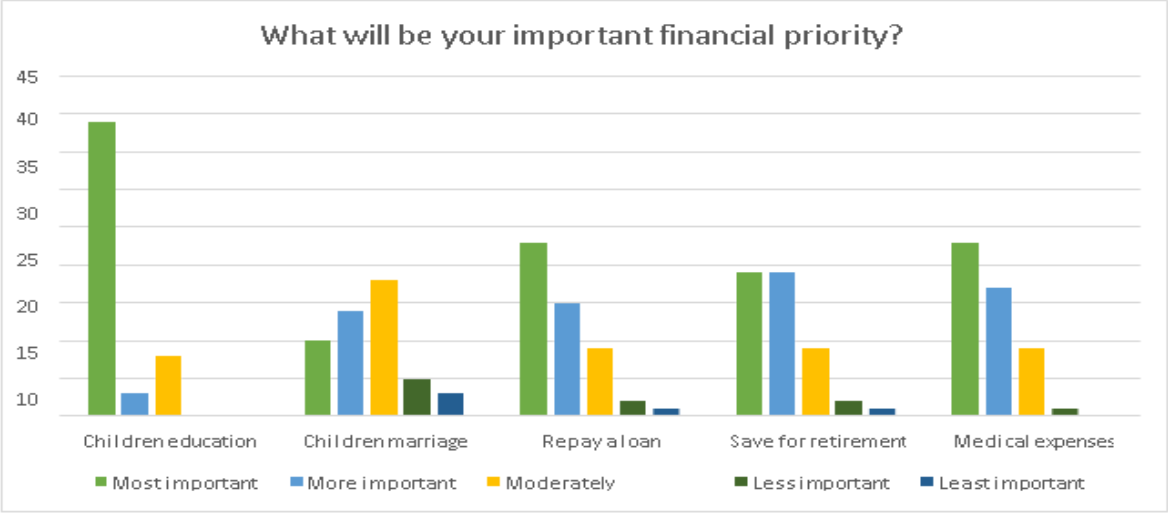



Fig. 4.3 Comprehensive ranking of various financial priorities

The above multiple bar diagram is a comprehensive data which is explained with help of tables considering each variable separately.

**INTERPRETATION**

It can be observed from the data in the above Chart that, the main reasons for not making retirement planning investment is saving for education, for repayment of loan, incur medical expenses as a small percentage of individuals are thinking for saving for their retirement. In India as people spend a large part of their income in purchasing the home, they fail to make required investment for retirement planning. This type of situation again creates demand for the additional income during post retirement period, which can be generated through reverse mortgage.



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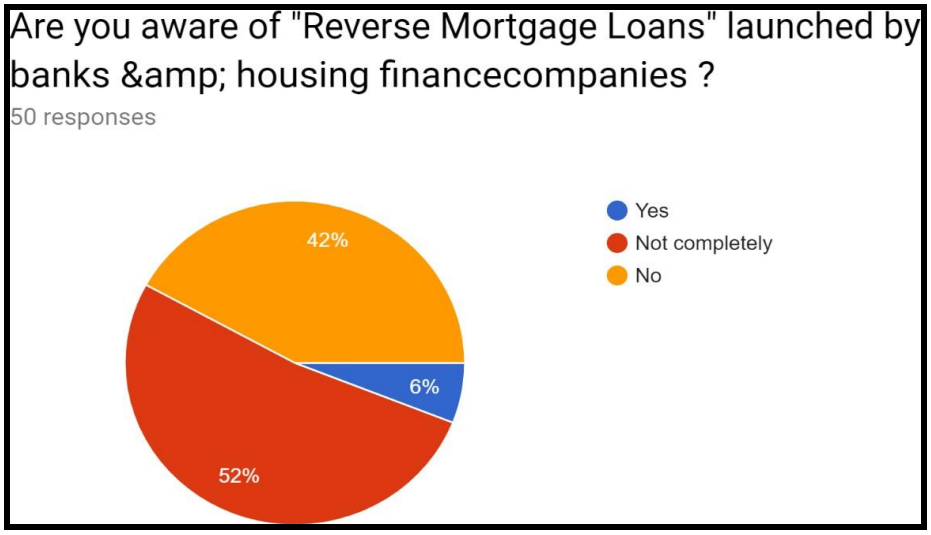



Fig. 4.5Awareness of RML

**INTERPRETATION**

The above pie chart indicates that 4% respondents i.e. 2 individuals are aware of RML, followed by 8% respondents i.e. 4 individuals are not completely aware, 18% respondents i.e. 9 individuals have just heard about it and remaining 70% respondents i.e. 35 individuals are completely unaware about RML. The data in table shows that awareness level about reverse mortgage loan is very low. This is mainly because concept is not promoted well in India, despite the fact it was introduced before 11 years. Again, those who are aware about the reverse mortgage loan possess much generalized knowledge about it. Most of them don't know about the pros and cons of loan and other operational issues.

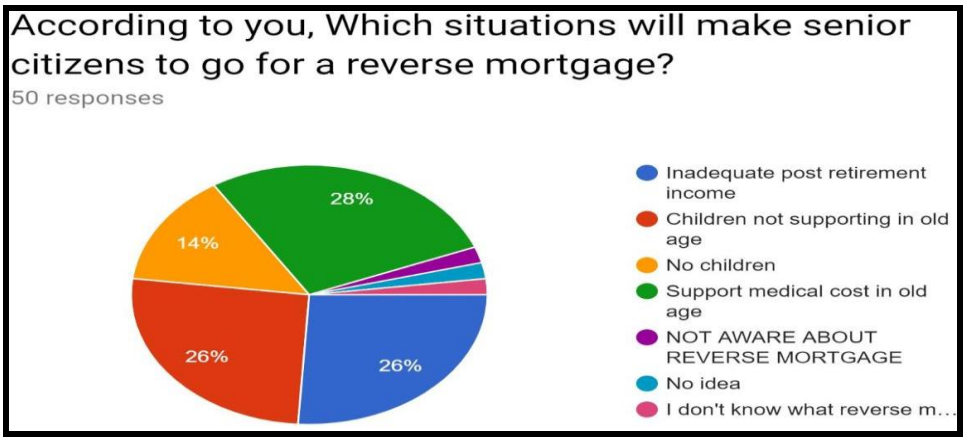



Fig: 4.6 Situation which would attract RML

**INTERPRETATION**

The above pie chart indicates that 26% respondents i.e. 13 individuals consider Inadequate post retirement income could be a reason people could be attracted towards RML, followed by another 26% respondents i.e. 13 individuals are of the opinion that Children not supporting in old age could be a valid reason, 14% respondents i.e. 7 individuals think having no children may be a possible reason, maximum no of 28% are of the view that people will go for RML to Support their medical cost in old age and remaining 6% respondents i.e. 3 individuals are unaware about RML.

## 7. CONCLUSION

Researcher would like to conclude that with the changing social habits and fall of joint family system in India which is taken over by nuclear family system use of Reverse mortgage loans will be of great resort for senior citizens who aspire of living an independent life without being dependent on their children for money



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they can lead a peaceful and respectable life. On the basis of the analysis of the responses received it is clear that majority of people of different age groups are still not aware about the availability of Reverse Mortgage loans and lack knowledge of the concept of RML, despite its introduction in Indian markets over a decade. There is a high need for promoting and advertising these retirement products for its growth in Indian market. The current market for reverse mortgage is very low when compared to post office saving schemes pension scheme, mutual funds, etc. However, there is great potential for Reverse mortgage loans in future if it is properly advertised. The research subjects show readiness to invest in RML on making them aware about the concept. But the thought of giving away their homes, limited loan tenure and high interest rates may cause obstacles in the growth of RML in India.

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