A Review of Korean Reverse Mortgage Program as Retirement Income Security

Reverse mortgages have been suggested by many studies as an alternative to alleviate poverty and supplement lacking public pensions after retirement. These can be more beneficial in Korea where the babyboomers hold about 79% of their assets in real estates. This report evaluates the potential effects of reverse mortgages on alleviating poverty among elderly home-owners using data from the National Survey of Tax and Benefits and estimates that the ratio of elderly home-owners in poverty would decrease from 30.4% to 18.8% if all of them took advantage of reverse mortgages.

Nonetheless, the korea reverse mortgage market is so small that there are less than 0.5 percent of eligible home-owners having a reverse mortgage. This report proposes policy recommendations to encourage non-bank financial institutions to participate in the reverse mortgage markets by making fixed-rate reverse mortgages eligible for the government guarantee and changing how the loan interest rate is determined.

It is also recommended to make the government guarantee eligible for homes valued more than KRW 900 million and the initial guarantee fee determined depending on the amount of initial lump-sum withdrawals.