

Financing retirement with real estate assets: an analysis of Mexico

Carmen Hoyo and David Tuesta¹

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Abstract

Real estate assets represent a major form of savings for families when they reach retirement age. Reverse mortgages are a financial product developed as an alternative way of generating flows of liquid income during retirement in some countries. As income during old age must be diversified from different sources, in this work we assess the potential of reverse mortgages as an alternative income stream in retirement. Our work focuses on Mexico, using projections of the replacement rate that would be received by an old-aged pensioner, only considering the pension from the Instituto Mexicano del Seguro Social (IMSS), whilst incorporating annuity income from the reverse mortgage. Using a macroeconomic-actuarial model to generate projections, we found that these rates could be increased by 45 percentage points by incorporating annuity income from real estate assets. This result reinforces the concept of establishing not only policies focused on improving formal pension schemes, but also of making private financial mechanisms available to generate other adequate income flows for old age based on alternative assets.

Key words: reverse mortgage, pensions, defined contribution

JEL: G23, J32, G22, D14, G21.

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