California offers lessons for Massachusetts property tax deferral program

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Extensive education, easy application process, and a reasonable interest rate are the keys to success

I am a great fan of thinking about the house as a retirement asset and about ways that people can access the equity in their home to support themselves in retirement. The **conventional approaches** involve downsizing to a cheaper home, which involves moving, or taking out a reverse mortgage, which allows people to stay in place but requires substantial up-front fees. Recently, I've concluded that property tax deferral is **an easier and cheaper option** for accessing home equity. Massachusetts has a very minimal program, which hopefully can be expanded by increasing income thresholds and reducing interest rates.

Given my enthusiasm, I was eager to see what we in Massachusetts could learn from a **new assessment** of California's Property Tax Postponement Program. The program allows those who are over age 62, blind, or disabled with incomes less than $35,500, and who own at least 40 percent of the equity in their home, to defer property taxes until they die or sell their house. The state pays a participating homeowner's current-year property taxes directly to the county on their behalf and charges a 7-percent interest rate. The average length of postponement has been 15 years.

The bottom line is that take-up is low and administrative expenses are high. Of the over 1 million Californians who could participate in 2017-18, 1,300 applied and 900 qualified. (Most of those turned down had misstated their income.) Two obvious explanations for the low participation are the high interest rate and the bumpy history of the program.

The program was introduced in 1977. In the first year, 13,000 people applied. After the passage of Proposition 13 in 1978, which limited property taxes, applications declined to 8,500. In 2009, in the face of budget problems, the state suspended the program and did not reauthorize it until 2014. It is unclear the extent to which potential participants are aware that the program has been reinstated.

The administrative costs of the program seem very high – about $2 million or $521 for each participant. And they are high compared to other similar programs (costs for the state's former Senior Citizen Property Tax Assistance Program averaged $10 per participant). Apparently, part of the explanation for the high costs is that applications are processed manually, applicants require multiple phone calls, and many who inquire do not apply.

The lessons from the California program are threefold. First, link the interest rate to some market rate – e.g., 10-year Treasuries — perhaps with a buffer to cover administration, so that participants get a fair deal. Second, undertake an extensive educational campaign, so that people know the program exists. Third, make the qualifications very clear and the application process simple – perhaps just checking a box on the property tax bill. In Massachusetts, the city or town could verify eligibility.

The positive aspect of California's design is that the state pays the property tax to the taxing entity on behalf of the participant. This approach seems like a necessary arrangement if the program is to have substantial take-up.

Anyway, I still really like the idea of a meaningful property tax deferral program for Massachusetts, so the more we can learn from the experience of other states the better.