

## **Equity release amongst older homeowners: summary of findings**

### **The Question**

There is increasing interest in the role the use of equity release products can play in coping with some of the pressures of an ageing population. This study analyses what we already know about the use of equity release products by older homeowners to identify what might it be valuable to research further.

The scoping study reviews our understanding and knowledge from research on the use (or not, in most cases) of equity release products by older homeowners. It pulls together findings from the existing literature, reviews different data sets and draws on stakeholder discussions to identify what is already known about equity release in later life, what is missing from the current evidence base and the key research questions that need tackling in relation to likely future policy directions.

### **The Issues**

Although there is a strong preference amongst older people for remaining in their own home as they age, there has been an increase in asset rich, but income poor households, with few savings and relatively low incomes, yet not insubstantial amounts of equity tied up in their home. The growth in home ownership over the last 40 years means that many people aged 60 and over own their own homes and this age group now own about £932 billion in equity in their homes.

Equity release in its broadest sense can be defined as converting housing wealth into liquid assets. Most equity withdrawal is done without the use of specific products, for example, housing equity may be released by selling a property and trading down. However, housing equity may also be withdrawn 'in situ', i.e. without moving home, using equity release products. There are two main types of equity release products - lifetime mortgages and home reversion plans.

### **The Findings**

- Take up of equity release products in general is very small as compared to the potential market. Equity release accounts for a small proportion of regulated mortgage sales, at present, around 2.1% by the number of sales and 0.6% by the value of sale.
- The main uses of the equity released are for home improvements, as an income supplement, for lifestyle reasons, to support family and for debt repayment.
- There is negative public perception of equity release products and providers related to past mis-selling of products in the 1980s and the complexity of the products.
- Further research is needed to better understand the nature of each of the current equity release products and how they affect future decision making once the product has been taken out.
- There are concerns about the effects of equity release on entitlements to means-tested benefits. A significant number of older home-owners have little income, even though they may live in a valuable property. But taking out an equity release product may impact on their right to benefits.
- There are confusions about what releasing equity means for the capacity to leave an inheritance which deters people from taking out a product. But attitudes towards inheritance are changing and it seems that most middle-aged and younger households do not anticipate passing the entirety of their housing wealth to their heirs.

- A key problem is that people often do not plan ahead for older age. Many people substantially overestimate what their retirement income will be and many retirees are now reaching retirement age without the funds they need to meet their retirement income aspirations. There are also increasing numbers of people retiring with outstanding debt.
- One gap identified in the current evidence base is that we do not know what people who enquired about equity release products but did not take them up did instead. There is also little robust evidence analyzing how different older people make decisions about their housing wealth and finances in older age and what shapes these decisions.
- The way in which the equity release market will expand in the future is uncertain, partly because of uncertainties about the funding of care for older people. There is public pressure to implement a system which will prevent people having to sell their home to pay for care. The cap on care costs announced in February 2013 will not come into force until 2017 and it will take time for insurance and equity release providers to respond with any new products.
- There are a lot of unknowns which may shape the market for equity release. Even if we can analyse and understand the attitudes and behaviours of people who retire with equity and a good pension, this will not tell us about the attitudes of the next generation of older people coming through with less equity and a lower pension. There is no single market for equity release, but it is varied and nuanced.
- Research on wealth and inheritance shows that property related wealth is most significant for those with middle incomes. What is evident is that in the last two decades we have seen both home ownership as a tenure and house prices peaking (at different times) with both declining subsequently. This means fewer households have access to property wealth and that the monetary value of that wealth is lower.
- Equity release does not sit neatly within any particular government department and perhaps as a consequence it is an area where there is little policy momentum.

### **What Next?**

One important issue that has been identified as needing research to create a robust evidence base is an analysis of the circumstances and experiences of people who enquire about equity release products but do not take them up. This was identified as a gap in the existing evidence base and discussion with stakeholders identified it as a priority for expanding our understanding about the use of equity release products, the financial decision making of older people in relation to equity release products and the alternatives and the realisation of potential benefits from equity release for the individual and for government.

A second issue that has been identified as needing further research is exploring how older people make decisions about the use of their housing wealth and financial decision making in later life more broadly than just focusing on equity release products. The literature and stakeholder consultation suggests that attitudes towards housing equity and the equity available in older age is likely to vary across existing age groups as they reach older age.

A third area of future research is to better understand the nature of each of the equity release products; what objectives they intend to meet; how they affect future decision making once the product has been taken out; and the relative costs and benefits as compared to alternative ways in which people's objectives could be achieved.

### **Contacts**

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