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Equity release amongst older homeowners

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Contents

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1) Introduction

This 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 focus is on equity release, but this is part of a much bigger picture of ageing, wellbeing and the use of housing wealth. The use of equity release products is only one option. It is also an option that has become tainted by some miss-selling to older people in the past. As a result many of the major lenders no longer supply equity release products to the market. This topic is important because the UK population is ageing, but not necessarily healthily, which puts pressure on the housing stock as well as on health and social care services.

Many older households own their homes outright and most prefer to remain in the family home as they age. However, many will need home adaptations as they get older and this requires financial investment. Some will need home care and many will face financial pressures in later life. For owner occupiers, one way of meeting these costs is to releaser equity from their home. This can be achieved by moving to a smaller house or a cheaper area – or both – but it can also be done without having to move by using equity release products.

The equity release market has suffered from negative publicity in recent years. For products aimed at older owner occupiers, the potential client group is relatively wary of borrowing and getting into debt. This generation of home owners also expects to be able to leave their property to their children and grandchildren. Yet the estimated value of equity tied up in home ownership among the UK's over-55s is £2,000bn according to FTAdvisor.com and research from Equity Release Council member Key Retirement Solutions found the total value of equity tied up in pensioners' property is now an estimated £756.3 billion. This means over 65s are sitting on a substantial pot of property equity which could help to reduce financial woes if accessed via equity release (www.caesar-howie.co.uk, 2012).

It is in this context that this scoping study, funded by the Nuffield Foundation, aims to explore the issues that shape equity release by older home owners. It builds on earlier work conducted by the Cambridge Centre for Housing and Planning Research at the University of Cambridge on housing and ageing. This includes for example working with the national information and advice service for older people, FirstStop, work with the Cambridge Older People's Reference Group, exploring the role of the planning system in delivering greater housing choice for older Londoners, and more broadly, analysing the future of home ownership and tenure trends as well as the impact of recent welfare changes.

The current research began with a proposal to the Nuffield Foundation that was broadly based on the use of housing wealth and its relation to well being in old age. It focused on understanding who uses housing equity release products and what impact this has on people's lives. The proposed research included analysis of existing survey data and a new survey of those who had and those who had not taken up equity release products after making initial inquiries. However, peer review of the proposed methods raised questions about the sample size of the available data from existing surveys and concerns about how to access the proposed sample of individuals for a new survey. Instead a scoping study was suggested that was narrower in focus. As a result the Centre was funded to explore existing research about the use of equity release products by older households, to scope the existing data and to hold a round table discussion with a range of key stakeholders.

Research questions

The overarching research questions are:

1. What do we already know about the use of equity release products by older homeowners?

2. What might it be valuable to research further and why?

The specific questions addressed in the scoping study are:

- What is the role of equity release?
- What are the key issues shaping the use of equity release – now and in the future?
- What evidence base do we already have about equity release and, in particular, its impact on the wellbeing of those who have used it?
- What are the main gaps in the existing evidence base?
- Can existing data answer the remaining research questions or is new research needed?

Methods

The scoping study involved a review of existing research, literature and policy in order to explore the current evidence base on the use of equity release products by older homeowners. Existing data sets were explored to see what information they could provide about equity release in older life. The findings from this literature and data scoping were presented to key stakeholders at a round table discussion to explore their views and experience of the use of equity release products and related issues and to discuss gaps in existing knowledge. The points for discussion focused on:

- Why is take up of equity release relatively low?
- What are the key issues that are shaping the use of equity release and the sector now and in the future?
- What are the main gaps in the evidence base?

A summary of the round table discussion and the handout summarising emerging findings were published on the Centre's website and circulated to stakeholders. Individual interviews were also conducted with some of the key stakeholders in addition to broader discussions with academics, policy makers and practitioners. This report draws together the findings to assess current evidence about the use of equity release in older life and to identify gaps in the knowledge base.

Next step

The next step in this research programme will be to use the findings from the scoping exercise regarding the gaps in our knowledge and understanding of the issues to develop proposals for further research.

2) Background

Housing and ageing
Over the last 25 years the percentage of the population aged 65 and over increased from 15 per cent in 1985 to 17 per cent in 2010, an increase of 1.7 million people (ONS, 2011). This trend is projected to continue. By 2035, 23 per cent of the population is projected to be aged 65 and over compared to 18 per cent aged under 16 (Ibid). The fastest increase has been in those aged 85 and over. From the 1950s onwards, the number of people aged 100 and over in England and Wales has increased at a faster rate than any other group.

The ageing of the population often appears in popular discourses as a problem, with concerns in particular around the costs of a 'demographic time bomb'. However, it is important to remember that not only is increasing longevity a good thing for the individuals concerned and their families, but that older people make important contributions to our society and economy. For example, research has suggested that the contribution of older people outweighs any costs by £40 billion through the hidden value of older people's volunteering, charity and family donations and the provision of social care by older people (WRVS, 2011). Older households are a resource in multiple ways, rather than a drain on services, particularly in the context of their accumulated housing wealth. It is important to think about developing the best ways to support older households to make the most of what they have built up over the years.

However, it is also true that an ageing population places additional pressures on housing, health and social care services. Without intervention, social care expenditure will need to increase more than threefold (325 per cent) by 2041 to meet demographic pressures (DCLG, 2008).

A suitable home environment can be crucial to independence, health and wellbeing in later life (Hill et al., 2010), yet many older people live in the worst housing conditions. A third of older people in the UK live in non-decent or hazardous housing (DCLG, 2008). For the increasing number of older homeowners, this results from declining income and capacity to deal with the repairs and improvements required to maintain a property to a decent standard (DCLG, 2009). Where older people are living in unsuitable homes that are in need of repair, heating and insulation, this can contribute to ill health and social exclusion (Oldman, 2006; Age Concern, 2008).

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 (DCLG, 2008). Outright owners are concentrated in the older age groups: 71% of those aged 65 or over were outright owners compared to less than 10% of those age groups under 45 (English Housing Survey Household Report, 2009–10).

Nationally, the majority of over-65s (89%) live in 'mainstream housing', 6% live in specialist retirement housing and 5% live in residential care or nursing care accommodation (Knight Frank, 2010). Currently only approximately 10-15% of people in England tend to move in older age (Monk et al, 2012) as older people predominantly choose to stay in their own home (Hayes, 2006). They have strong emotional ties to their home, possessions, or neighbourhood, moving house can be a very daunting and stressful experience for some older people, and they are often unaware of their housing options, or simply perceive that there are no suitable homes available for them (Hughes, 2012). Ageing in place is a key component of UK policy for older people (DCLG, 2008) as helping older people to 'age in place' at home, i.e. to stay in their own homes as they get older, is seen to benefit quality of life and also to provide a cost-effective solution to the problems of an ageing population (Sixsmith and Sixsmith, 2008). The focus is on encouraging older people to make early preparations and prevent unwanted and expensive moves into residential care (Burgess, 2011). Ageing in place is an important issue. People live in homes that they have invested in, not just in a financial sense but in personal, emotional and psychological ways, so people often have a strong sense of place that is associated with their home and this affects their future housing decisions (Blake and Simic, 2005), as they prefer to remain in their family home and in existing social networks.

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. There has been an increase in the number of people entering retirement with outstanding debt, and this is very likely to become more common, in addition to growing concerns about insufficient retirement savings. There are a range of strategies and options related to housing and wealth that older people may choose to take. One way of meeting the cost of making the preparations for older age is to release housing equity. This could be done by selling up and trading down, but it may also be done using equity release products, which is the focus of this study.

Equity release

It is important to distinguish between equity release, which often occurs without using a specific instrument or product, and the use of equity release instruments. This section discusses how equity release is used across the life cycle in different ways. In some cases it is used for housing related issues such as repairs, but it is also often used for other purposes such as coping with job loss.

Housing equity withdrawal is the process by which households can convert some or all of the equity in their dwelling into cash (Holmans, 2012), but is not most commonly used by older households (Lowe et al, 2012). Research suggests that a quarter of current/former owner-occupiers accessed equity, and the most common method was to borrow against the value of the home, followed closely by trading down (Rowlingson and McKay 2005). Nearly one third of home owners in general with mortgages in any one year withdrew equity, and the mean amount borrowed peaked in 2007 at £22,600 (the median amount was £8,500) (Lowe et al, 2012). Equity released via in situ mortgage products is most frequently used not by elderly people on the classic ‘life-cycle’ model, but by younger people. A study found that 25–34 year olds were four times as likely to be involved in equity withdrawal and this correlates to the period of family formation rather than impending or actual retirement (Ibid). Research shows an increasing significance of housing equity in planning for care needs, and especially providing for school-aged children (Lowe et al, 2012). It has been suggested that many home owners think of their home as an asset, a safety net and a financial resource that can be called upon ‘as a last resort’ or as a means of ‘survival’ in times of financial need across the life cycle (Lowe et al, 2012).

It has been argued that British home owners have come literally to ‘bank’ on housing (Smith and Searle, 2008), thinking of it as a resource to fall back on. Evidence suggests that this behaviour goes well beyond planning for older age (Lowe et al, 2012). Parents increasingly secure borrowing to fund their adult children’s housing aspirations and this has underpinned the first-time buyers market (Ibid). Against a much-reduced demand (only 109,000 transactions in 2009), 80 per cent of first-time buyers relied on family money, usually by family providing the mortgage deposit.

Recent studies have indicated a shift in the use of equity funds away from property improvement and extensions. Instead, trends in borrowing show that people rely on housing wealth as a store of precautionary savings to manage risk over the life-course and in particular, to provide for school-aged children (Parkinson et al 2009; Lowe, et al 2012). Parkinson and colleagues, drawing on the British Household Panel Survey, found that equity borrowing is often prompted by a series of events that are uninsurable through private means, such as relationship breakdown and job loss. Equity borrowings are triggered by circumstances such as the ending of a relationship, unemployment and the presence of school-aged children in the household. People also released equity to help children and grandchildren through financially difficult periods following divorce or unemployment (Overton, 2010). One study found that the main reasons for accessing equity were to carry out property repairs/improvement, pay bills/debts and buy essential items and there were relatively few examples of people releasing equity to spend the money on non-essentials (Rowlingson and McKay 2005).

This poses two conflicting scenarios of what may happen to the use of equity release products as new cohorts of people reach older age. On the one hand, this research suggests that people will be more used to flexible mortgages and drawing on housing equity and may therefore be more likely to use the products. But on the other hand, it is also possible that more frequently drawing on housing equity earlier in the lifecycle may mean that there is not sufficient equity left to withdraw during retirement. The longer term view of what may shape the market is discussed further later in the report. But there are potential intergenerational inequalities, for example between younger cohorts and older 'Baby Boomers'. At one end of the spectrum the ability, and in some cases need, to borrow equity earlier in the life course increases the demands on housing wealth at that time, whilst longer lives stretch limited household resources at the other (Searle, 2012). The ageing of societies may create new tensions between generations if future inheritance is channelled into meeting current welfare needs as owners who need to hold on to their wealth longer will delay the point at which wealth is gifted to, or inherited by, their children (Ibid). This may have implications for the life chances and timing of key life events of younger people, where they are increasingly dependent upon parental support to fund education, marriage or establishing their own homes (Ibid).

Equity release by older homeowners
Whilst the use of housing equity is made through the lifecycle, this project focuses on what older home owners do or don't do. There are different ways in which they may access their housing equity. Equity release in its broadest sense has been defined as "converting housing wealth into liquid assets. It includes downsizing, moving out and renting, taking an interest only mortgage, taking out a sale and rent back scheme among others" (SHIP, 2009)

The main ways in which releasing housing equity may be done are either by selling a property and moving home or by withdrawing housing equity 'in situ', i.e. without moving home, using equity release products. People can access the equity in their homes through a number of methods, such as: trading down by selling their current home and moving either to a smaller, less expensive property in the same area or a similar property in a less expensive area; selling and moving into rented accommodation; or borrowing against the value of their home through:

- Extending an existing mortgage on a property;
- Taking out a 'lifetime' or interest 'roll-up' mortgage in which no payments are made until the person dies (this is an equity release scheme);
- Selling a share (or all) of the property to an equity release company. This form of equity release scheme is referred to as a home reversion scheme; or
- Selling a share of the property to a member of the family. (NIHE, 2010)

Residential mobility in older age is relatively low across Europe and the UK is no exception as there is a strong preference for ageing in place (Sixsmith and Sixsmith, 2008; Tatsiramos, 2006). Many older people want to stay in their current home for as long as possible and have strong emotional ties to their home, possessions, or neighbourhood, but in addition, moving house can be a very daunting and stressful experience for some older people. Moreover they are often unaware of their housing options or simply perceive that there are no suitable homes available for them (Hughes, 2012). So whilst downsizing may financially be better value than using equity release products (Wyatt, 2006), there are a number of constraints on the housing options of older people which can restrict their choices and make finding appropriate housing solutions difficult. For example, trading down/downsizing to release equity can be difficult because of a lack of affordable and desirable properties to move to. Evidence shows that appropriate housing prolongs independence and reduces the need for care homes, and that more people would downsize if there was better information and advice about the options and support with the move and if we had more attractive and affordable options in general and more high quality specialist housing for people to move to (Sutherland, 2010). There is a limited supply of specialist accommodation for older people and it is often relatively expensive, meaning that selling an existing property may not release sufficient funds to purchase specialist market housing, such as ExtraCare (Monk et al, 2012). If moving home is not suitable or possible, people may have to look to alternatives such as using equity release products.

3) Use of equity release products by older home owners

Types of products
Equity release is the release of cash at a point in time in return for giving up some or all of the value of one's home (the equity) (Terry and Gibson, 2006). The equity can be released as either the regular draw down of smaller sums or as a lump sum. There are two main types of equity release products - lifetime mortgages and home reversion plans.

A lifetime mortgage is a mortgage which does not require monthly repayments, although with some plans, rather than roll up the interest the mortgagor can opt to make monthly repayments. Ownership of the home is retained and interest on the loan is rolled up (compounded). The loan and the rolled up interest is repaid by the estate when the mortgagor either dies or moves into long term care (ERC, 2012)

Home reversion plans allow customers to sell all or a portion of their property whilst maintaining the right to live there without paying rent until death or movement into long term care. It also offers the potential for a percentage of the property to be left as an inheritance or for future use. At the end of the plan the property is sold and the sale proceeds are shared according to the remaining proportions of ownership (ERC, 2012). Equity release home reversion schemes are most popular among 60-years-olds and those from the professional classes (McKay and Rowlingson, 2005).

The equity release market has its own industry body in the Equity Release Council (ERC) (expanded from the body for lenders Safe Home Income Plans - SHIP) which represents the providers, qualified financial advisors, lawyers, intermediaries and surveyors who work in the equity release sector. SHIP was set up in 1991 in response to the mis-selling of home reversion plans and the call for more consumer protection (Rozario, 2012). Since 31 October 2004, the Financial Services Authority (FSA) has regulated the sale of lifetime mortgages and from 6 April 2007 the sale of home reversion plans also became regulated (Hanifan, 2012).

Take up of products
Take up of equity release products in general is r very small. Equity release accounts for a very small proportion of regulated mortgage sales, at present, around 2.1% by the number of sales and 0.6% by the value of sales (FSA, 2012). In 2011, there were just over 19,000 equity release sales worth £840m (Ibid). Mintel estimates that 2% of home owners aged 55+ have an equity release mortgage. Fewer than 2% of households were involved in equity release schemes according to the Wealth in Great Britain survey (2006/08 and 2008/10). More households express an interest in equity release than actually take out the products. Recent work by the insurance and investment company LV= in September 2012 found that nearly half (49%) of homeowners over 50 say they would consider downsizing to a smaller property, or using an equity release product (17%) to access the money in their property during retirement.

However, there is evidence that the market is growing. The Equity Release Council (ERC) reported that market figures for the third quarter of 2012 showed significant growth in both volumes and value. In Q3 2012, total advances of £248.9m were recorded which is 11% up on the previous quarter (Q2 2012 - £224.8m) and 21% up year on year (Q3 2011 - £206.1m). This is also the largest amount of equity released since Q4 2008 (£274.1m). The number of plans sold also increased from 4,302 (Q2 2012) to 4,777 (Q3 2012) which is the highest number since Q4 2009 (4,888). While drawdown mortgages continue to account for the largest percentage of the market (Q3 2012 - £161.9m or 65%), the Council has also seen an increase in the number of lump sum mortgages sold (+3% to 35% or £86.1m - Q2 2012), although both are lifetime products. With an increasing number of people using equity release for ‘big ticket items’ such as the repayment of debt (mortgage or unsecured) or household renovations, this is a trend which is likely to increase (ERC, 2012)

Low take up of equity release products was discussed at the round table and with other key stakeholders, particularly in a context where older households are increasingly asset rich but income poor. The consensus was that low take up is not simply an issue about the available products. It was pointed out that where people do take out a product, customer satisfaction is very high. Once people have taken out an equity release deal it is common to take another slice of equity, suggesting that people find the product satisfactory and worth pursuing again.

Existing research

Existing research goes part of the way to explaining why this disparity between interest and take up exists. Research has explored:

- Pros and cons of different product types.
- Awareness and public perceptions.
- How products can be adapted for low income households.
- Customer profiles.
- Amount released and intended purpose.
- Satisfaction and impact on financial wellbeing.

Who uses equity release products?

A recent detailed breakdown of users and their characteristics is provided by Overton (2010) based on a survey of 553 equity release customers and 26 follow-up semi-structured interviews. This showed that take up was by:

- The youngest of the older age groups with average age of 72 years.
- Couples and singles alike. While 56 per cent of respondents entered into their plans with a husband/wife or partner, 44 per cent took out their plans alone so the difference in partnership status was fairly small.
- Those with children. The large majority of respondents (73 per cent) had children.
- Those who are neither very rich nor very poor.
- Those with private pension income but relatively small amounts of savings and investments. 85 per cent of respondents reported that they had a private pension while only 35 per cent reported that they had income from savings or investments.
- Those with average house values. Most (55 per cent) reported homes worth less than £200,000 at plan commencement.

Equity release providers generally prefer that customers own their property with no current mortgage attached to it. Based on panel data from Britain and Australia, Parkinson et al (2009) found that the majority of equity savers are outright owners, not mortgagors paying off their loan in the traditional way. The majority of current customers live in terraced and semi-detached houses, in suburbs with average property values of between £100,000 and £200,000. 60 per cent are from households with incomes of less than £30,000 per annum (SHIP, 2009). The typical equity release customer releases £48,952 from their home (Ibid).

Research suggests that equity release clients have many of the characteristics of older homeowners in general, and so the demographic and socio-economic characteristics of those taking out equity release products throw little light on why they in particular have been willing to contemplate mobilising their home equity to provide income rather than preserving it for inheritance or for some possible contingency in the future. Attitudinal differences may therefore be important (Davey, 1996). These include how people see the wealth which they have tied up in their homes, whether it should be used or preserved, and hence their views on inheritance (Ibid).

Use of funds released
Older research found that the main reason for going into an equity release scheme is to acquire more income (Leather and Wheeler 1988). More recent research suggests that 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. For example, research for the Northern Ireland Housing Executive (NIHE) identified different types of uses including:

- Home repairs, improvements and maintenance
- ‘Lifestyle’ products, aimed at providing additional income or capital to supplement, sustain or further develop an older person’s lifestyle choices. This might include taking holidays, buying a new car or for a special celebration. This aspect has also been quoted in terms of releasing equity for children and grandchildren when they need it – e.g. at a life stage where they themselves are purchasing property or need funds for education – rather than waiting to release equity at a time of inheritance.
- An emerging third reason for equity release products – paying for one’s care in later life (NIHE, 2010)

The top three uses for released equity in Overton’s study were house maintenance/repairs (46%), holidays (36%) and debt clearance (35%) (Overton, 2010). Equity release products were used to provide capital rather than a regular income. This research found that equity release plans were used in different ways by different groups categorised as follows:

Group 1 – Passing it on
Equity release was commonly used to make early bequests to family members and in some cases for large one-off purchases. This group was typically better off than the other two groups.

Group 2 – Enhancing later life
Equity release was used to provide a boost to capital to increase financial security and enable a more enjoyable and comfortable lifestyle. Equity was typically spent on a wide range of housing and non-housing consumption. This group had lower levels of pension income and savings than those in group 1 and were using equity release to enable them to maintain or enhance their lifestyles.

Group 3 – Getting by
Equity release was described by these people as a last resort to relieve financial difficulty. This group were much more likely to be in debt than the other two groups (Overton, 2010) and some had already downsized.

The overwhelming majority (99 per cent) were satisfied that they had received all the information and advice they needed and there was generally a high level of customer satisfaction among respondents. Most respondents (62 per cent) had taken out life time mortgages with 36 per cent taking out home reversion schemes. Just over half (51 per cent) said that they would definitely make the same decision about entering into a plan today. Thirty per cent of the sample said that they probably would while only ten per cent said that they would not (Ibid).

Impact of taking out a product
Although as a research concept, well-being has been marked by persisting problems of definition and measurement and by uncertainties about its changing pattern over the life course, housing has been identified as an important factor in determining wellbeing and quality of life (Kahn and Juster, 2002). For example, high housing quality is positively associated with well-being; low housing quality is associated with lower well-being and psychological stress and home ownership is associated with higher well-being whilst renting

is associated with lower well-being (Stoll et al, 2012). There has been no research analysing the impact of taking out an equity release product on wellbeing in the holistic sense. More generally, it has been suggested that there is a tension where wellbeing is concerned between property as asset and housing as home (Searle et al, 2009). As an investment, owned homes have performed well in recent years, but the stress of relying on this and the effort of maintaining it, can be costly for well being.

We know little about the impact of equity release on the welfare of older people in a holistic sense, although the assumption is that it would help support or improve individual wellbeing (Appleyard and Rowlingson, 2010). However, the impact of equity release on respondents' financial situation has been explored and been found to vary. In research which asked respondents to state how well they were managing financially before, and after, taking out an equity release plan, just over a third of respondents stated that they were just about getting by before taking out the plan and 13 per cent found it either quite difficult or very difficult to get by. For these people it seems that equity release may have represented an essential purchase (Overton, 2010). Financial security seemed to improve particularly for those who were previously finding it difficult or just about getting by. During interviews people often described how the plans had brought about a greater sense of choice, freedom and peace of mind. However, this level of improvement in financial security and wellbeing did not apply to everyone. For those who were in more serious financial difficulty, equity release had improved their situation to a degree, primarily by reducing some of the debt that they owed, but it did not mean that they were now living comfortably. Rather, in most cases, they were simply managing to get by, indeed the potential for equity release to improve living standards depends, among other things, on the value of one's home and of course one's financial circumstances before taking out a plan (Ibid).

The positives

A number of advantages of using equity release products have been identified. Many of the positives of staying put and potentially releasing equity focus on the older people's desire to stay where they are comfortable and have a good support and family network. The reported benefits are:

- Receive a lump sum or income supplement.
- Are able to spend it on what they choose.
- There are usually no monthly repayments.
- Can stay in their own home for the rest of their life.
- Can still leave an inheritance for their dependants with some products.
- Benefit from the protection of a regulated industry with guaranteed no negative equity. (NIHE, 2010)

There have been changes in the equity release market and its regulation over recent years and Terry and Gibson (2006) conclude that these changes have gone a long way to counter the past criticisms of the drawbacks of equity release deals. They particularly highlight the availability of draw-down options and the reduction in the minimum size of sum to be taken out and the fact that the market now has strong consumer protection via the FSA.

Overton's survey asked respondents to state why they had opted for an equity release plan in particular to release the equity tied up in their homes. The most common reason (59%) for using a plan was because people did not want to move away from family, friends and/or local amenities. The second most common reason (51%) was that people did not want the upheaval of moving house and some (26%) said that it would have been too expensive to move house (Overton, 2010).

The negatives
A number of negative aspects and disadvantages to equity release have also been identified. Public perception of equity release can be low and there is a lack of confidence mainly because of the controversial home income plans sold in the late 1980s which also have led to a certain lack of trust and concerns about the quality of advice. The products can be perceived as complex, risky and difficult to understand and also perceived as poor value and a constraint on future moves (NIHE, 2010), even though these perceptions of the products are based on an older generation of products and regulatory structure. Although the products and regulation have changed over time, it is also the case that the profile and needs of customers has also changed as people are living longer etc, and there is a need for more flexibility in the products. There are a lot of issues people have to take into account when deciding whether an equity release product is a good option, including uncertainty about how long they going to live; uncertainty about whether they will need to move again in the future; their welfare benefits position; and any other alternatives that may be more suitable. These complexities mean that the decision to release equity is not straightforward.

Although awareness of equity release is high, research suggests understanding of the schemes is low. A 2006 DWP Pensions survey found 90% of owner occupiers over 55 were aware of equity release, while a 2005 YouGov survey for Scottish Widows found 97% awareness among home owners aged between 55 and 75, However, despite this high awareness there is a low level of understanding of what equity release is, how products work, who the providers are and the range of products on offer (SHIP, 2009). Recent research which looked at views of equity release found that initial reactions were unfavourable, but largely based on misconceptions (Just Retirement, 2012). There is negative public perception of equity release products and providers. Mistrust of providers is deep-seated (SHIP, 2009). Negative perceptions include:

- Equity release is a risky product – losing one's home, becoming hugely indebted or otherwise "ripped off" are the key risks associated with equity release.
- Equity release is very expensive – the amount paid back is considerably more than the original loan, and arrangement fees are high.
- Providers make huge profits – linked to the second point above. It is then inferred that providers are willing to sell a product to anyone, regardless of suitability, because of the huge returns, and are intent on minimizing the associated risks and costs. Perceived high returns for the provider also imply the customer must be the "loser" in the deal.
- Providers are "dodgy" – there is an association in the minds of some consumers between equity release providers and high interest loan and IVA providers (SHIP, 2009, p31)

There is a perception that the products are costly. People often compare the interest on an equity release product to the mortgage they had and do not appreciate the greater risk the lender is taking on as they do not understand the products, meaning that until they are really desperate for money they will not consider them. However, Louise Overton described how the people in her study who said that they were unsure whether the product had been right for them had issues that were not always about the product features. Although one issue was the shock of how much interest was accrued, there were also concerns about changes in personal circumstances such as inheriting money or a spouse dying.

Research conducted for Just Retirement asked participants specifically why they would not consider taking out an equity release plan. Forty per cent said they were just not interested, 25 per cent said they did not need any extra money and 10 per cent did not want to be in debt (Just Retirement, 2012).

Whilst we know the general reasons why equity release is not popular, we do not know how this is differentiated by age, gender, geography or income (Williams, 2008).

4) Issues which limit take up of products by older home owners

Asset rich, income poor

There are also concerns about the effects of equity release on entitlements to means-tested benefits (Terry and Gibson, 2010; 2012). Around a million older people who own their home are “income poor” despite being “asset-rich”; their incomes are so low that they qualify for means-tested social security benefits, yet they have at least £100,000 of housing wealth (Terry and Gibson, 2010). But taking out an equity release product may impact on their right to benefits, for example, leading to a reduction in the amount of Pension Credit they receive (Ibid).

Supported by the Joseph Rowntree Foundation, a major equity release provider, Just Retirement, developed and agreed to offer an equity release loan – the Home Cash Plan – whereby older home-owners entitled to Pension Credit would be able to use this equity release loan without loss of state benefits (Terry and Gibson, 2012). The number of enquiries for the product was small which partly reflected the reluctance or uncertainty felt by local authority staff about promoting equity release (Ibid). In contrast, a much larger number of enquiries have been made via Age UK Enterprises and First Stop Advice following the national roll-out of the Home Cash Plan in November 2010, during the pilot period (Stone, 2012).

Rowlingson et al (1999) estimated that 22 per cent of the population in 1995/96 were ‘asset rich, income poor’ (defined as being above the median for the overall asset distribution and below the median for the overall income distribution). Those over state pension age were most likely of all groups to be asset rich, income poor, with 67 per cent of pensioner couples in this situation and 53 per cent of single pensioners (Rowlingson, 2006). Another study found that 25 per cent of homeowners over 75 and 22 per cent of those 65 to 74 were defined as living in poverty using the bottom household income quintile measure (Burrows, 2003). However, the number of households who really are ‘property -rich and income-poor’ has been questioned (Holmans, 2012). It is argued that a stringent definition would take the bottom income quintile and the top two home value quintiles, which would give a figure of about £250,000. With the bottom two income quintiles and the top two quintiles of home values, there would be 500,000 outright owners aged 70 and over who would count as property -rich and income-poor (Holmans, 2012). These are substantial numbers; but even on the broader definition of ‘income poor’, only one-fifth of owner-occupiers aged 70 or over are ‘property -rich and income-poor’ and with the narrower definition of ‘income-poor’, an income in the bottom quintile, the number of owner-occupiers that are property -poor and income-poor far exceeds the number that are property -rich and income-poor (Ibid).

Lack of planning ahead

There are also broader issues which restrict the use of equity release products. The principal barrier to change is public and personal attitudes. A home is frequently regarded as a family asset to be valued as a statement of personal freedom and intended for passing on to other members of the family (German, 2012). There are confusions about what releasing equity means for the capacity to leave an inheritance. Many older householders have spent much of their working lives paying off a mortgage and equity release brings the household back into a mortgaged relationship (Williams, 2012).

A key problem is that people often do not plan ahead for older age. Today’s cohorts of pensioners have higher incomes, for every age group, than their predecessors ten years before (Segars, 2012). This has been driven by increases in income from state benefits, and from occupational pensions, personal pensions and earnings. However, the same cannot be said for the generations that will follow them into retirement (Ibid). Those already in retirement are found to have much higher retirement incomes than future retirees can expect, which is consistent with the move from defined benefit to less generously defined contributory pension schemes (Just Retirement, 2012). Over 30% of those aged 35 to 64 still have no private pension wealth, women are less likely than men to have adequate pensions, twelve million people are either not saving or not saving enough for retirement and more than one in five households (22%) that own their own home are not saving in a pension (Segars, 2012).

Many people substantially overestimate what their retirement income will be and are disappointed to discover how little income they are likely to receive from their pension savings (Just Retirement, 2012). To provide a modest annual income of £10,000, accumulated savings have to be around £200,000, a figure approximately eight times the current average pension pot at retirement. Thus many retirees are now reaching retirement age without the funds they need to meet their retirement income aspirations (Haggart, 2012). In addition, increasingly people are entering retirement with debts in the form of credit cards and loans, as well as sizeable undertakings such as mortgages (Haggart, 2012). Mortgages are particularly problematic for retired borrowers who are currently on interest-only arrangements. Research suggests that most have no specific repayment strategy, and it is not clear how they are expecting to pay off the capital (Ibid).

Because people often do not want to consider making financial preparations for older age, many do not consider equity release products unless they approach an organisation for advice when they are looking at care fees or for other particular purposes. Yet it is only when they directly receive information about the products that they will look more broadly at other options. Of the relatively small number of older people who do enquire about the products, many do not go on to take them up. This may be for a range of personal reasons and may also be because as part of the enquiry process they receive a lot of financial advice which may point them to other options, such as unclaimed benefits.

The downturn has reduced property values which also may affect decisions about taking out products. UK pensioner households are reluctant to turn their housing wealth into income, or even to downsize in order to create more disposable income. People may have lived in their homes for a very long time and often do not consider their property as a financial asset in planning for later life. Many older people do not plan ahead sufficiently for older age, and there is often a feeling of ‘it won’t happen to me’. One concern raised in the discussions was that the people who find out about equity release are either those in dire financial need who seek advice, or those at the top end of the market with high value homes and who may have financial advisors. There is a group in the middle who could benefit from the products but who are not really aware of them and this advice gap poses a considerable challenge.

Lack of government direction

Equity release does not sit neatly within any particular government department and perhaps as a consequence it is an area where this is little policy momentum (although it is also the case governments have been reluctant to endorse equity release products given the history of miss selling and poor products). The industry and government need to work more closely together in order to provide a holistic response to funding retirement (German, 2012) in which the use of equity release products could play a part.

There was discussion by stakeholders around how people are looking for a steer from authorities, i.e. government, on what the respective burden for social care costs between the state and individual should and will be. Some stakeholders are of the opinion that until that debate has really been tackled and a clear policy on the burden of responsibility has been laid out by government, then equity release products are likely to be a crisis purchase for people with few, if any, other options. Product providers are looking to policy makers and government to decide how social care costs will be met and by whom, and the pressure to make these decisions will increase as pensions decline and the issues of how to support older people become more pressing.

Discussion with stakeholders also reflected on how it is not the group who are using their housing equity for holidays or debt payment, but it is those who are asset rich and income poor who are of interest to policy makers as there is potential for using housing equity for co-payment of welfare arrangements such as care. However, as noted above, equity release does not fit neatly into any single government department and there is political concern about the media backlash were any government or department to encourage the use of equity release products. This is in a context of a welfare state where attitudes to entitlement to wealth mean that people generally do not feel it is their responsibility to fund care etc in later life and there is resistance towards against any contribution to personal welfare. Some stakeholders felt that what is needed is further investment in initiatives working directly with older people to help them find the most appropriate solution for their individual needs, in which equity release products are only one possible option.

Changing attitudes towards inheritance

Attitudes towards inheritance are changing for both benefactors and beneficiaries (Williams, 2010) but this is somewhat of a mixed picture. It seems that most middle-aged and younger households do not anticipate passing the entirety of their housing wealth to their heirs (Parkinson et al, 2009). People do not wish to 'live poor to die rich' but nor are they keen to spend their resources recklessly as they wish to leave something to their families, while also maintaining a reasonable standard of living in later life (Rowlingson, 2006).

Around 2 per cent of the UK population receive an inheritance every year and the average inheritance is increasing in value (Ibid, Karagiannaki, 2011 and Hamnett et al 1996). The pattern of inheritance varies by age and socio-economic group, with older households and professional and managerial households more likely to get an inheritance. The highest expectations of receiving an inheritance in the next ten years are among those aged 54-59 years old, and it is clear that there is a strong association between being wealthy and expecting an inheritance (Ibid).

Research on people's attitudes towards inheritance in Britain found that a third of the public think that they will definitely leave property as a bequest and a further 26% say they are very likely to do so (Rowlingson and McKay, 2005), although this research was conducted before the economic downturn. The majority of the public (64%) say they have property or savings that they could leave as a bequest now if they wanted to. A further 27% say that they might have savings or property in the future that they could leave as a bequest. The most supportive age groups were found to be those aged 80 or more and those aged 18-29. Owner occupiers do not see their homes primarily as potential bequests but those aged 70 or more are more likely to take this view than other owner occupiers (Ibid). Smith (2004) also found that older households were more likely to want to leave their home as a bequest but this was much less likely for younger households.

In a recent study the generation 'Approaching Retirement' were less inclined to sacrifice a comfortable retirement in order to leave money to next generation (Just Retirement, 2012) and other research found that the group least supportive of the concept of inheritance appears to be those in their fifties (Rowlingson and McKay 2005). More than half the population think they will not receive a property inheritance, although young people with owner occupier parents have the greatest expectations (Ibid).

The idea that housing wealth is a resource to spend from rather than accumulate for future generations appears to be spreading. Evidence of this attitudinal and cultural shift surfaced in a joint DWP/HMRC study which found that nearly two-thirds of home owners 'would consider' using their home to help fund retirement and the strategy most likely to be used for this would be to trade down in the market and release equity (Lowe et al, 2012).However, there is also increasingly an issue of intergenerational interdependence, as not only are attitudes towards inheritance changing, but there is also a growth of older family members subsidising younger members both in their day to day living and supporting them financially to access home ownership.

Funding for care

The way in which the equity release market will expand in the future in uncertain. This is partly because of uncertainties about the funding of care for older people. As part of the proposed changes to the system of funding of care and support, the Fairer Care Funding Report suggested that a variety of different financial products may emerge, taking into account the needs of different segments of the market, supporting those of different ages and income levels (Commission on Funding of Care and Support, 2011). Possible products include those linked to housing assets as the Commission thinks many people may decide to use a part of their housing wealth to meet their contribution to care. To release housing equity, some people may decide to downsize, others may take out an interest-only loan secured on their house (Ibid). Equity release may be attractive for some people and the industry may develop new mortgage-based solutions specifically to meet this need in the future (Ibid). Although according to Dilnot, capping care costs would open up the market for a range of financial products, including equity release, how far the government is willing to stimulate the market for such products is still unclear (Hackett, 2012) and it is also not clear whether the market would use this as an opportunity to come up with new products. There is no political consensus on using housing equity for welfare purposes. 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.

5) Taking a wider view

Equity release sits in a wider context related to assets and wealth including property, pensions and other assets. In broad terms the more wealthy the household the less likely they are to draw down on the value of their homes. Research on wealth and inheritance shows that property related wealth is most significant for middle income groups (Hamnett et al, 1991; Holmans, 2008). Levels of property wealth then link to back to the functioning of the housing market and trends in access to property purchase and house prices. 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.

Changes in home ownership
The overall level of home ownership is falling and we are witnessing a restructuring of the tenure in terms of much greater differentials in terms of this tenure by age group (Williams et al 2012). Although this trend is not new it has clearly accelerated since the mid-2000s. It is not yet t clear what impact this will have on the use of equity release. People are entering home ownership later and will hold mortgages for longer possibly taking those mortgages into retirement.

A CCHPR study of tenure trends from 1993 to 2025, looking at London and England and by household type, found that home ownership has been falling since early 2000 and is now down to 65% from 72% (CCHPR, 2012). It is likely to continue to fall further. The fall is masked by the rise in outright home ownership – the core equity release market. These findings have been mirrored in the recent output from the 2011 census which showed that at the England and Wales level home ownership now stood at 64% with outright ownership[up 5% and mortgaged home ownership down 15%. In percentage terms home ownership peaked at 71% in 2003 and numerically at 14,791,000 households in 2005.

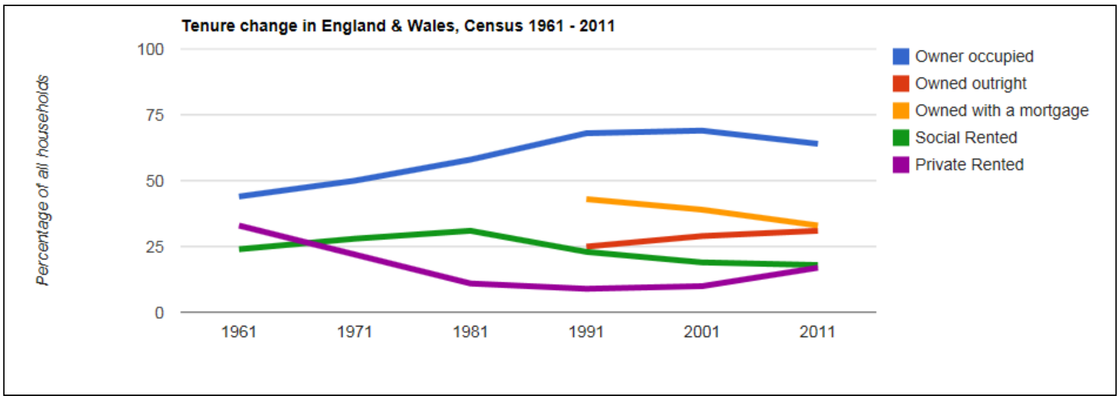

Chart 1: Tenure change in England and Wales. (Shelter, 2012)

There has also been a 25% fall in real house prices and in many areas nominal prices have also fallen. The government's policy stance in practice seems to be to let prices drift downwards to correct previous inflation and to allow for increased affordability.

These general shifts in tenure and the underlying pressures producing these changes are then also reflected by age group. Chart 2 below taken from the recent CCHPR study referred to earlier highlights the decline in mortgaged home ownership amongst younger age groups over the period 1993 to 2010 with the biggest decline being in the 25-34 year old age group.

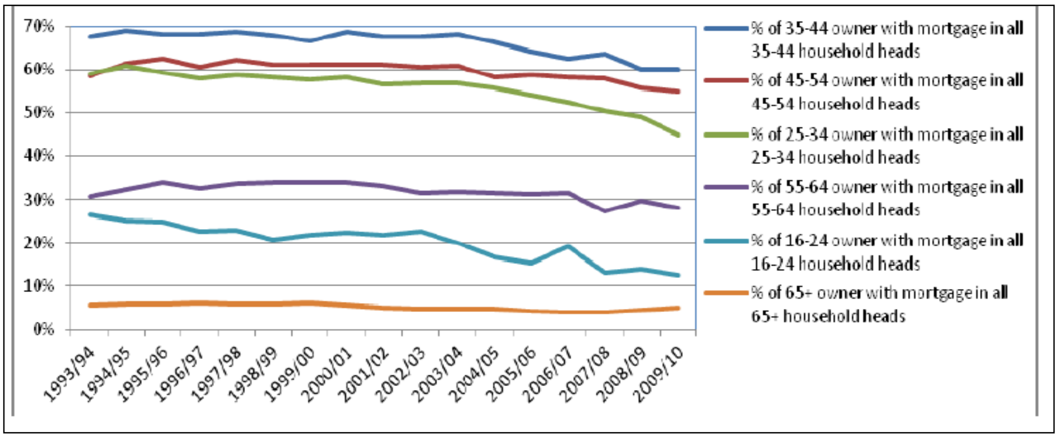

Chart 2: Home ownership levels. (CCHPR, 2012)

Subject to any subsequent catch up (a trend evident in previous periods; see Botazzi et al, 2012) the decline in home ownership (and the current fall in price if sustained) will clearly place tighter limits around the potential for equity release later in life when we look three to four decades out.

However, in the near term with rising levels of outright ownership and high and broadly stable levels of home ownership in general amongst households with ‘heads’ 55 years and older we have an increasing potential for equity release over the next one to two decades.

The question then is what might this older age group do? It is a group who have been used to home ownership and to traditional mortgages, perhaps unlike their parents who may well have been first generation home owners. Their parents were more uncomfortable with debt and more focussed upon inheritance. This current 55 plus group have benefitted from significant property price inflation and many cases will have children aged 30 plus who are now also well established in the home ownership market. They may thus feel less pressure about inheritance and be more likely to draw down upon their property wealth for their own use. These changes will be reflected in attitudes to equity release products and the willingness to use them, not least to sustain their lifestyle. So we may see a rising demand for equity release products.

There may also be a greater need. With each successive younger age cohort the number of households facing a financial gap immediately on retirement will increase. Ever more people will face a more complicated retirement and from the start of retirement may have to use a range of options to supplement their income. For example, some people may not fully retire and will have to continue in some form of employment after official retirement. There will also be increasing numbers of people entering retirement with existing debt in addition to relatively lower pensions, so it is possible that the market will grow as more people release equity from their homes as part of financial strategies to manage their retirement.

The sequential generational rise in home ownership which has been evident since the 1950s is ending. Although stakeholders felt that there is a group of older home owners who are may be happy to utilise the equity in their homes with the right support and advice, it was also suggested that this could be followed by middle aged home owners who may revert back to being more conservative as their offspring as first time buyers continue to struggle. So the market may increase then revert back. As this suggests how it will evolve is uncertain.

A varied market

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. There will be diverse attitudes and behaviours across ages such as 55s, 65s, 75s, 85s (and within that by gender, race and income group) and considerable differences both in their needs and attitudes towards their homes.

One stakeholder called for a stronger geographical focus in considering the potential for equity release with a concern that policy is driven by London and the wealthy south east in any consideration of asset based welfare. A national system based on this are may not work as it will not easily translate to areas of much lower property values and to people with a different situation in terms of income and wealth. There was also concern that we do not have enough evidence about what the rest of people's wealth portfolios look like, especially poorer people, to make these kinds of policy decisions.

Some stakeholders raised a concern that all the questions posed about equity release products are very value laden. There is an undercurrent of 'why are all these people not doing this good thing'? It fails to understand that it is not a single market and that people have a spectrum of attitudes to borrowing/selling based on age, family, where they live in the country etc. It is important not to see the debate about equity release products as people being resistant to a good thing.

Growth in the market

The UK has the most sophisticated equity release market in the world, and whilst the expectation within the equity release sector is that the market will triple in the next 3-5 years, this is uncertain as there are barriers to providers entry into the market relating to regulation and risk. There are also concerns that government and policy makers are over-estimating the potential for people to use their housing equity for welfare purposes. It will not be easy to overcome some of the issues and uncertainties identified earlier, such as mis-selling in the past which has given the products a bad reputation and the difficulties of considering equity release products against alternative options, and gaining the advice to be able to confidently do so.

Whilst it may appear that the amount of equity held within people's homes is very high, in reality the market may still be small as it depends on the attitudes of those with housing equity towards its release. It also depends on the fact that a relatively high value house is necessary in order to get enough equity. Not all housing assets have the same liquidity as other types of asset such as savings. There was discussion around the need to cap expectations of growth in the market amongst government and policymakers. At the moment it might grow two or three times but its wealth can only be spent once and policy makers need to consider this.

On the demand side there have been increased pressures for equity release to meet problems such as reduced pensions, debt into retirement (the overhang of interest only loans repayment and under-performing endowments), falling incomes and a determination to sustain lifestyles/consumption patterns.

The generational rise in home ownership levels is ending. Will this make parents more protective of their 'achievement' and thus limit their draw down and refocus on 'passing on' wealth? There are clear tensions here between the needs/wants of different generations. This polarises the position – however, in reality it might be possible to satisfy both. In part this turns on the need for greater flexibility of choices/products and the ability to take modest steps – whether by downsizing or through formal products.

In conclusion, there is something of a window of opportunity here regarding the use of housing equity in old age. The potential equity release population is rising even though home ownership is currently falling.

6) Gaps in knowledge

Consideration of existing research and discussion with stakeholders suggests that there are some gaps in knowledge and the evidence base, both specifically about the use of equity release products and more broadly about the use of housing and financial decisions in later life.

In relation to the use of equity release products, the take up of the products is clearly much lower than interest in them, and much smaller than the size of the group of older people who could possibly benefit from them. We do not fully understand what was different about the minority of people who did take out the products. Their financial and household circumstances are not atypical, so what shaped their decision making processes and led them to take out an equity release product? Also we do not know why people enquire about the products and do not take them up. There could be many reasons and anecdotal evidence suggests that these include unsuitable products or better alternative options. There is no research analysing these factors, or exploring what these individuals and households did instead. What shaped their decision making processes is not yet understood and this gap in research needs addressing.

This also points to the need to further research the attributes and nature of each of the equity release products; what objectives they intend to meet; how they relate to alternative options; 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 achieved.

There was a call from stakeholders to inject some realism into the political debate about equity release. It will not solve all the financial problems related to the ageing of the population. The figure of the amount of equity tied up in homes needs analysing properly to produce a realistic reflection of how much equity people are actually likely to use and the geographical differences between high and low value areas. Research needs to show that a much smaller amount of equity in homes will or could actually be used. We also do not know how many people really need equity release products as we do not have an evidence base which tells us how many households are struggling financially in ways that equity release would help and be affordable.

One gap identified in our knowledge is that not enough is known about current attitudes towards inheritance to be able to predict how people will behave or to make appropriate policy. Attitudes towards what middle aged people should do with their wealth are not known, it is possible that the attitude of children will move towards the idea that their parents should spend their wealth on their own needs, but it is equally possible that pressures from children's needs e.g. the need for financial help in accessing home ownership, may lead to pressures on this group to use their housing wealth to help their children.

There is also no clear understanding on what determines more broadly what people do with their housing wealth in older age. These decisions are individual, complex and multi-faceted and the literature does not provide an evidence base for what factors shape the decisions around housing wealth of different groups of older people.

A challenge for research is trying to understand what influences older people, but the question is which group of older people? There is a big spectrum. There is a sharp distinction between the people most likely to take products up and those at the bottom of the market who are very unlikely to be able to use the products. Research should not focus on this group but on the people who are more likely to enter the market.

A further more general question is what housing wealth will the next generations of older people have and how might this shape equity release opportunities and use of housing wealth and wellbeing more broadly? There has been no analysis of what housing equity different cohorts are likely to have in retirement and older age. For example, the available housing equity of those who bought under Right to Buy, those with interest only mortgages, and those who have not yet bought but are the first cohort to incur debt under the new student fee regime, is likely to be very different. A useful and interesting piece of analysis would be to identify different cohorts and assess what housing wealth they are likely to have in older age and what this might mean for the equity release market.

7) Future research plans

The next stage in this research will be to build on this scoping study with a proposal for an in depth research programme to fill some of the gaps in the existing evidence base identified in the section above.

1) People who enquire about equity release products but do not take them up

The first 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 and the financial decision making of older people.

CCHPR has developed a research proposal to explore this issue. Because the take up of equity release products is relatively low, existing data sets are somewhat limited and sample sizes are quite small. Therefore a full exploration of the circumstances and experiences of people who enquire about equity release products but do not take them up will require primary data collection.

We have the support of the Equity Release Council and some key stakeholders in the sector, such as the equity release product provider and distributer Just Retirement Solutions. The proposed method is to work with an equity release product distributor to send postal questionnaires to people who have enquired about products, to be returned anonymously to the University, with the option to leave contact details if they are willing to be contacted for a follow up telephone interview. We have also been working very closely with the FirstStop information and advice service for older people since 2009. We hope to be able to contact people who enquired about equity release through FirstStop and ask what action they took.

The survey and interviews will analyse the decision making process around the use of equity release products specifically and more broadly about housing wealth and wellbeing. The research will analyse how and why people came to enquire about equity release products, what their experience of this process was, who they consulted for advice, why they did not take out a product, and what they did instead.

2) Decisions around the use of housing wealth in older age

The second important 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. 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.

This research would explore how older people make decisions about their housing equity, what do they see as their available options, what shapes their decision making, and what are the impacts of different choices? We expect this to vary between people in their 50s, 60s, 70, and 80s. We propose to explore this through a qualitative research method by holding a series of qualitative focus groups in different geographic areas in England with different age groups to discuss the perception and use of housing wealth in older age more broadly.

3) The products and alternatives

A third issue that needs further 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.

One problem is that existing data does not discriminate between types of product, nor does it identify the objectives of the mortgagor. Therefore a qualitative approach must be used.

We propose two sets of interviews: one with providers and one with mortgagors. Providers are easily identified and we have already made contact with some who would be prepared to talk to us in greater detail. Mortgagors are more difficult but again, one provider has agreed to assist us in finding people willing to be interviewed, within the laws of data protection. Interviews with providers of equity release products, exploring the objectives each product is intended to meet and the costs of each product to the purchaser.

Interviews with users of equity release products exploring how they affect future decision making once the product has been taken out and the relative costs and benefits compared to other ways of meeting their objectives such as downsizing or moving to a cheaper area/ in with child/ren, etc.

We would expect the interviews to be quite detailed, taking up to an hour and a half. It would be advisable to pilot the schedule, and also to test whether a short questionnaire might be useful as a pre-requisite, to reduce the length of the interview so that it is not burdensome. We would hope to achieve at least 30 interviews with mortgagors, and 100% of equity release providers.

8) Appendices

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Round table discussion

As part of this research a round table discussion was held on the 7th of November in London bringing together key stakeholders from different sectors to discuss issues shaping the use of equity release now and looking into the future. One of the issues discussed was the relatively low take up of equity release products, particularly in a context where older households are increasingly asset rich but income poor, and where satisfaction with the products amongst those who use them is high. Rather than the nature of the products being a disincentive to releasing equity, discussion focused on how it is an emotive decision to release funds or to trade down. People have often lived in their homes for a very long time and often do not consider their property as a financial asset in planning for later life.

However, as increasing numbers of people enter retirement with existing debt and relatively lower pensions, it is possible that the market will grow as more people release equity from their homes as part of financial strategies to manage what are likely to be increasingly complicated retirements. One issue raised in the discussion was that the people who find out about equity release are either those in dire financial need who seek advice, or those at the top end of the market with high value homes and who may have financial advisors. There is a group in the middle who could benefit from the products but who are not really aware of them and this advice gap poses a challenge. Equity release does not sit neatly within any particular government department, and so there is little impetus for policy makers to engage.

Discussion also reflected on how there is no single market for equity release, but it is varied and nuanced. There is also increasingly an issue of intergenerational interdependence, as not only are attitudes towards inheritance changing, but there is also a growth in family members of the older generation subsidising younger members in both their day to day living and in supporting them financially to access home ownership, so there is one pot of housing wealth for several generations. A further issue discussed was the ways in which home ownership is declining and restructuring. People will have mortgages into retirement, enter home ownership later and hold mortgages for longer. Outright home ownership will rise for a while, then fall as first time buyers are squeezed. The generational rise in home ownership is ending. There is a group of older home owners who are may be happy to utilise the equity in their homes with the right support and advice. But this could be followed by middle aged home owners who may revert back to being more conservative as first time buyers struggle. So the market may increase then revert back and how it will evolve is uncertain.

The UK has the most sophisticated market in the world, and whilst the aim is for the market to triple in the next 3-5 years, this is uncertain as there are barriers to entry into the market relating to regulation and risk.

Round table participants

	Name	Organisation
1.	Andrea Rozario	Equity Release Council
2.	Nicky Edwards	Just Retirement
3.	Richard Gibson	Consultant
4.	Daniel Pearson	FirstStop
5.	Susan Smith	Cambridge
6.	Gemma Penn	DCLG
7.	Sue Adams	Care & Repair
8.	Christine Whitehead	LSE and University of Cambridge
9.	Paul Hackett	Smith Institute
10.	Jim Johnstone	Foundations
11.	Nigel Barlow	Partnership
12.	Chris Curry	Pensions Institute
13.	Dean Mirfin	Key Retirement Solutions
14.	Louise Overton	Durham University
15.	Peter Williams	University of Cambridge
16.	Sarah Monk	University of Cambridge
17.	Gemma Burgess	University of Cambridge

Data scoping

Explorations of datasets that might be used to address the research questions in the original unsuccessful proposal:

1. What are the characteristics of the older people who decide to use equity release in situ? How do they compare to the older population in general?

2. Why do most older people decide not to use equity release products and what are their characteristics?

3. Why do some older people decide to use equity release rather than other strategies?

4. What do they use the funds for? Is equity release used to help age in place, for example, to fund home adaptations or pay for care at home?

5. How does using an equity release product impact on the wellbeing of those who use equity release in situ?

6. Looking to the future, how might different housing market events (e.g. Right to Buy, the housing boom of the early 2000s, the recent downturn) impact upon different age cohorts and shape their likely housing wealth in older age? What are the policy implications for the use of housing wealth to meet the costs of older age?

7. How do current products meet the spectrum of needs and demands? How far do they meet potential future needs and demands?

The scoping study aims to produce a preliminary audit of the data that could be used to analyse mobility and tenure changes in older age. In particular we would want to look at the characteristics of people who used equity release and compare these with those of all older home owners. We know from the existing literature that surveys of those taking out equity release predominantly use it for capital rather than income, and for improving consumption and lifestyle (holiday, car, home improvements and extensions) rather than paying for specialist housing or care in older old age. But these samples are purposive, whereas we would want to use random sample datasets that include information on take up (and non take up) of equity release products.

Audit of possible data sources

Understanding Society (US) is a new longitudinal study that builds on 18 years of the British Household Panel Survey but with double the sample size. It includes booster samples to enable detailed analysis of topics such as ethnicity and disability. The first wave started in 2009 alongside the final wave of the BHPS, while the second wave includes the BHPS sample (which was previously interviewed alongside US). The data from the first wave and half the data from the second wave are available for analysis from the Essex Data Archive.

The questionnaires are available on the website. The study includes a self completion questionnaire for adults and a separate one for children aged 10 – 15, in order to capture feelings and experiences that individuals might be reluctant to share with others except in a completely confidential environment. Much of the emphasis of the study is on inter-family relationships, attitudes and behaviour in relation to the environment, and health and well being. However, the questionnaire to adults includes sufficient questions on income, mortgage payments, and dates of last payment etc. to enable information about equity release to be extracted (although this would be very time consuming). The study does not include attitudes towards equity release or reasons why it was / was not taken up.

The survey plan is given below:

2009	2010	2011	2012	2013	1014
Wave 1					
	Wave 2				
		Wave 3			
			Wave 4		
				Wave 5	

The sample is composed of the following:

- General population sample of 28-29,000 households sampled from representative postcodes
- Innovation panel sample of 1,500 which will use different research methods
- Ethnic minority boost sample of 1,000 for each of the five main ethnic groups
- BHPS sample of 8,400 households which dates back to 1991.
-

This will produce over 40,000 responses.

The main survey started in January 2009. Reports on both wave 1 and wave 2 are now available. These have looked at HEALTH OVER THE LIFE COURSE: ASSOCIATIONS BETWEEN AGE, EMPLOYMENT STATUS AND WELL-BEING (wave 1) and MOVING HOME: WISHES, EXPECTATIONS, AND REASONS (waves 1 and 2) as well as a range of analyses relating to children, families, unemployment, health etc. that are not related to ageing.

The English Longitudinal Study of Ageing (ELSA) is a panel study conducted (like US) by NatCen. It is modelled on the Health and Retirement Study in the USA conducted by the National Institute of Aging, which is part paying for ELSA. A parallel study, the Survey of Health, Ageing and Retirement in Europe (SHARE) is being carried out in Europe, and similar studies across the world will enable analysis of how we understand ageing and the relative importance of differences in culture and context.

The main objectives of ELSA are to:

- construct three waves of accessible and well-documented panel data
- provide these data in a convenient and timely fashion to the scientific and policy research community
- describe health trajectories, disability and healthy life expectancy in a representative sample of the English population aged 50 and over
- examine the relationship between economic position and health
- investigate the determinants of economic position in older age
- describe the timing of retirement and post-retirement labour market activity
- understand the relationships between social support, household structure and the transfer of assets

The focus is very much on health but as it contains only people aged 50 and over, it would be a good source for our purposes. In particular, the derived financial variables do identify equity release as a separate item, in addition to showing when an existing mortgage was increased, the amount and what the money was spent on. One problem when looking at older people and home ownership is the high proportions who are outright owners, having paid off their mortgage. So equity release might show up as a new mortgage.

Wave 3 of ELSA includes a life history interview which covers housing, education, employment and health up to the age of joining the survey. So it would be possible to link some of these other characteristics to whether or not someone took out equity release.

Although it is a longitudinal survey, we would not need to track individuals over time – we could simply use the wave 3 datasets as a cross section. Because the respondents are all aged over 50, we should have a large enough sample to compare the (probably tiny number) of people who took out equity release with those that did not.

The English Housing Survey We had proposed to use data from this annual survey as a reference population to compare with those who do use equity release. However Alan Holmans noted that the sample size is only 20,000 so he suggested that the **US wave 1** might be used as a cross sectional snapshot instead as the US covers 40,000 households. Unfortunately Wave 1 is only 20,000 as it has not yet been combined with the BHPS sample. We might still be able to combine the two to get a larger sample, but this would be difficult and time consuming. Using **Wave 2** might be a better possibility, although we do not yet know whether the same questions will be asked. This is one of the problems in using panel data where the same people are surveyed repeatedly, as many of the questions are simply asking whether anything has changed since the last interview and if so, what, while other questions may be entirely new. An annual survey like the EHS usually asks the same questions but to a different sample of households.

Conclusions

The best data source for our purposes would seem to be the ELSA wave 3 dataset, to be analysed simply as a cross section sample of approximately 7,000 older people. While this sounds relatively small, the fact that it comprises the target group of people, those aged 50 and over, makes it more likely to deliver robust information than larger samples of the whole population.

It might also be useful to conduct similar analyses using the **EHS** despite its smaller sample size. Three years' worth of data from EHS could be combined to create a larger sample. We have used a EHS combined dataset in previous studies looking at different aspects of housing and who is housed. A sample of over 50,000 can be created in this way, allowing considerable robustness in terms of analysis.

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