

What are the key current issues shaping equity release by older home owners?

Round table discussion

November 7th 2012

About this project

- Focus today on equity release – but a bigger picture.
- Initial proposal to Nuffield Foundation - Housing wealth and wellbeing.
- Understanding who uses housing equity release products and the impact they have on older people's lives.
- Issues around available data and sample of individuals.
- Scoping study – more narrow in focus – existing research about use of equity release products, scope the data, round table discussion with key stakeholders.
- Housing wealth and wellbeing – equity release only one option.
- Recent research – working with FirstStop, Cambridge Older Peoples' Reference Group, Pocklington Trust, role of planning in delivering choice for older people, future of homeownership and tenure trends, impact of welfare changes.

Introduction

- Ageing population - by 2035 it is projected that those aged 65 and over will account for 23 per cent of the total population. Fastest increase those aged 85 and over.
- Range of strategies and options related to housing and wealth that older people may choose to take.
- Role of equity release in situ?
- What evidence base do we already have about equity release and, in particular, the impact on the wellbeing of older people who use it?
- Can existing data better answer research questions?
- What are the key issues shaping the use of equity release— now and in the future?

Background

- Ageing population places additional pressures on housing, health and social care services. Without intervention, social care expenditure would need to increase more than threefold by 2041 (DCLG, 2008).
- A suitable home environment can be crucial to independence, health and wellbeing in later life, yet many older people live in the poor housing conditions with a third of older people in the UK living in non-decent or hazardous housing.
- Asset rich, income poor households.
- Debt in retirement.
- Insufficient retirement savings, pressure on pensions.
- 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.

Use of housing equity

- Quarter of current/former owner-occupiers accessed housing equity. Most common method to borrow against the value of the home, followed closely by trading down (Rowlingson and McKay 2005).
- 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. The study found that 25–34 year olds were four times as likely to undertake equity withdrawal and this correlates to the period of family formation and not impending or actual retirement.
- More used to flexible mortgages and drawing on housing equity – or not have enough equity left on retirement as withdrawn earlier?

Equity release by older homeowners

- Releasing housing equity may be done by selling a property and moving or by withdrawing housing equity 'in situ', i.e. without moving home.
- Equity release - 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).
- Regular draw down of smaller sums or lump sum.

The products

- Two main types of products - Lifetime Mortgages and Home Reversion plans.
- Lifetime mortgages are drawdown plans that allow people to access small amounts of equity initially and give them the opportunity to expand that in the future as their needs require.
- Home reversion plans; allow customers to sell all or a portion of their property whilst maintaining the right to live there without paying rents 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.
- Most equity release products are lifetime mortgages. Currently, only around 1% of all equity release sales are home reversion plans (FSA, 2012)

Take up

- Very small.
- Fewer than 2% of households were involved in equity release schemes according to the Wealth in Great Britain survey (2006/08 and 2008/10). First half of 2011 2.1% of mortgage sales and 0.7% by value of total mortgages sales were equity release products.
- 2011, just over 19,000 sales worth £840m (FSA 2012).
- But the market is growing.
- Increasing preference for drawdown over lump sum?
- LV= September 2012- 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.
- Higher level of interest than take up.

Existing research

- 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?

- Neither very rich nor very poor. Average house values.
- Private pension income but relatively small amounts of savings and investments.
- With children. Couples and singles.
- Average age took out plan = 72 (Overton, 2010).
- The average age of a lifetime mortgage borrower currently stands at 70, with the majority of borrowers (90%) being between 60 and 81 years-old (FSA, 2012).
- Average LTV on a lifetime mortgage around 20%. Generally, older the borrower, more equity can expect to release from their property (FSA, 2012).
- Q2 2012, average size of home reversion plan £55,000 and the average size of lifetime mortgage around £43,000 (FSA, 2012).

Use of funds released

- Home improvements, income supplement, lifestyle, family, debt repayment.
- The top three uses for released equity were: House maintenance/repairs (46%), holidays (36%) and debt clearance (35%) (Overton, 2010).
- (a) passing it on, (b) enhancing later life, (c) getting by.
- Plans used to supplement, rather than substitute for, private pension assets (85 % of respondents had a private pension).
- Plans used to provide capital rather than a regular income.
- Just over half of the respondents (51%) said that they would definitely make the same decision about entering into an equity release plan today while 4% said that they definitely would not. This leaves 45% of respondents who were less certain, one way or the other.

Research on impact

- Financial security seemed to improve particularly for those who were previously finding it difficult or just about getting by.
- 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 (Overton, 2010).

The positives

- Receive a lump sum or income supplement.
- Spend on what people choose.
- Usually no monthly repayments.
- Stay in own home for the rest of their life.
- Can still leave an inheritance with some products.
- Regulated industry, guarantee no negative equity (NIHE, 2010).

The negatives

- Negative public perception and low confidence mainly because of events in the late 1980s.
- Lack of trust and concerns about quality of advice.
- Perceived as complex, risky and difficult to understand.
- Perceived as poor value (NIHE, 2010).
- Confusions about inheritance.
- Impacts on right to welfare (Terry and Gibson, 2012)
- Difficulties if later want to move house.
- People often do not plan ahead.
- Overestimate what their retirement income will be (Just Retirement, 2012).
- The downturn has reduced property values.

For discussion – why is this not a more popular choice?

1. Low take up is not simply an issue about products - what are the main barriers preventing take up?
2. What are the most problematic issues with equity release now and how will these change going forward?
3. Where does equity release fit in the broader suite of housing options for older people? Is it an option of last resort? How best to decide it is the best option and for whom?

Changing attitudes towards inheritance

- Attitudes towards inheritance are changing –a mixed picture.
- Generation Approaching Retirement less inclined to sacrifice a comfortable retirement in order to leave money to next generation (Just Retirement, 2012).
- More than half population think will not inherit from property, but young people with o/occupier parents have greatest expectations.
- Group least supportive of the concept of inheritance appears to be those in their fifties (Rowlingson and McKay 2005).

A longer term view

- On the 'supply side' the potential for equity release is a product of the sustained long term growth in home ownership and house prices.
- Both of these are now under threat because to falling home ownership and real/nominal prices.
- CCHPR study of tenure trends from 1993 to 2025 looking at London and England and by household type.
- Home ownership falling since early 2000s and now down to 65% from 72% and likely to continue to fall further.
- The fall is masked by the rise in outright home ownership – the core equity release market.
- We have also had a 25% fall in real house prices and in many areas falls in nominal prices. The policy stance seems to be to let prices drift downwards to correct previous inflation?

A longer term view

- Both trends would limit equity release over the longer term though policy might well change!
- On the demand side we have increased pressures for equity release as a product of 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.
- Reflecting the past there has been a shift in attitudes to property and inheritance we can expect households appetite (and need) to use their housing equity to increase. There is a question as to whether given the changes above that shift will be sustained?
- 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?

A longer term view

- Clear tensions here between the needs/wants of different generations.
- This polarises the position – in reality it might be possible to satisfy both.
- In part this turns on greater flexibility of choices/products and ability to make modest steps – whether by downsizing or formal products.
- So to conclude the longer view – we are in something of a window of opportunity here regarding housing equity – the potential ER population is rising even though home ownership is falling.

For discussion

- How might particular key issues shape the equity release sector:
 - Impact of declining home ownership?
 - Changing attitudes towards inheritance?
 - Interest only mortgages?
 - Cost of care? Dilnot?
 - Other issues?

Gaps in research

- Specifically on equity release and more broadly.
- What determines what people do with their housing wealth?
- What was different about those who did take out the products?
- Why people enquire about products and do not take them up – why not? What did they do instead? What shapes their decision making process?
- 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?

Future research interests

- Holistic analysis of impact of taking out a product and the decision to do so.
- People who enquire about products and do not take them up.
- More broadly about housing wealth and wellbeing - how do older people make decisions about their housing equity, what are their options, what shapes their decisions, and what are the impacts of different choices?
- Housing wealth into the future.
- Existing data sets limited and small sample sizes.
- Work with Equity Release Council, providers/distributors.

For discussion

1. Are there things we still don't know?
2. Are there things we know but don't have a solid evidence base for?
3. What is the best way of finding out?

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