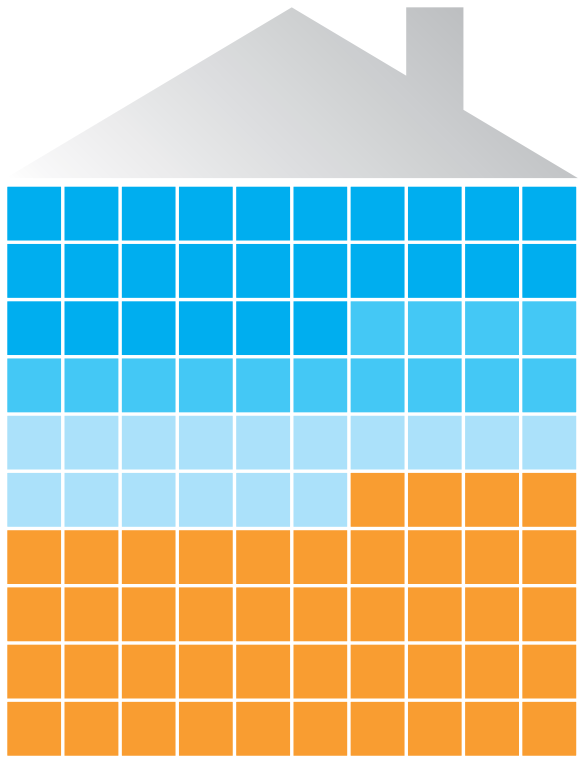
justretirement

The role of housing equity in retirement planning



July 2012

Contents

The respondents to this research have been divided into the segments below. The colour coding is used throughout the report.

Approaching Retirement	1-5 years from anticipated retirement date
At-retirement	<1 year to anticipated retirement
Recently Retired	<1 year spent in retirement
Established Retired	1-10 years spent in retirement
Long-term Retired	>10 years spent in retirement

Foreword

Increased affluence and advances in medical science mean that people in Britain are living longer. This is undoubtedly good news, but there is a price to pay. A longer life means a longer retirement. The challenge is how to finance these additional years of retirement particularly as the period spent in good health is not keeping pace with overall improvements in life expectancy.

State pensions in future will be less generous than those enjoyed by previous generations and occupational schemes are also under pressure, with defined benefit arrangements rapidly giving way to less generous defined contribution schemes where increased risk is transferred to the individual. The last FTSE 100 employer offering a defined benefit scheme to new members has announced that it will close to new hires from January 2013.

Many people are approaching retirement with pensions inadequate to provide them with a decent standard of living. As a company founded on the belief that *'everyone deserves a just retirement'* our mission is to help people get competitive returns on their savings and other assets to support their financial needs in later life. The chief asset for most people is their home and it is becoming increasingly clear in debates about the looming crisis of pensioner poverty that unlocking the equity in property must form part of the solution.

The value built up in people's homes over their working lives may be converted into retirement income. Equity release products provide a mechanism to deliver a solution for retirees, yet the take-up of these products is relatively low. Some people have negative perceptions based on the early days of the industry, but the equity release market has changed significantly over the years. The products are different, the market is regulated and substantial safeguards are in place to protect consumers.

Just Retirement has commissioned a major study that will provide policy makers with greater understanding of the choices being made by people to manage their financial resources in retirement. Our research provides the latest insight across generations of current and future retirees. This study is the largest of its kind conducted to date and draws on more than 300 hours of interviews with a nationally representative group of individuals.

Consumer attitudes are important factors that must be considered when public policies to encourage the use of housing equity are being formed. Because this policy landscape is complex, we have also commissioned Oxford Economics to conduct a macroeconomic impact assessment of the effect on the UK economy of making housing wealth more liquid. That research will be published later this year.

Some important messages for policy makers emerge from the consumer insight report. People need certainty about where the balance will lie between the individual and government when it comes to meeting the costs of later life. Government leadership and guidance are needed on what options for increasing retirement income may safely be considered. Regulation of equity release products should offer consumers protection without undue expense. People rely on a mix of central and local government agencies, commercial providers and advisers and voluntary organisations for support and information about their retirement finances. Clear and accurate information from all partners in providing retirement income is essential and needs to be more integrated.

Just Retirement is helping many retirees secure the funding to improve their lives in retirement through the provision of equity release. The majority of people who could benefit from equity release to increase their retirement income do not currently take advantage of the products offered by our company and others in the market. If policy makers wish housing equity withdrawal to become a more significant solution to people's financial needs, then we must develop policies that provide confidence to retirees and their families.

We should do all we can to make sure as many people as possible can enjoy a comfortable retirement now and in the future.

Rodney Cook
Chief Executive Officer
Just Retirement

Executive Summary

Many people in the UK are struggling to sustain an acceptable retirement. With the move away from defined benefit pension schemes and the erosion of state benefits, the associated reduction in retirement income will impact on an ever-greater number of people. Hundreds of thousands of people are sleepwalking into retirement without adequate financial provision to support themselves and their families.

There is no silver bullet that will alleviate this problem, but with home ownership at record levels in the UK – it is estimated that homeowners aged 65 or over own nearly £750 billion in unmortgaged property – there may be opportunities for retirees to make greater use of all of the assets at their disposal to satisfy their needs for liquidity.

Increasingly the policy debate has started to focus on housing equity withdrawal as part of the solution to funding individuals' needs in retirement, such as helping to pay for long-term care costs. Strong consumer insight is essential in the development of robust policies. For this reason, Just Retirement conducted the largest ever UK primary consumer research study into usage and attitudes towards equity release. Over 300 hours of interviews were undertaken with current and future retirees.

The research findings suggest that greater awareness, understanding and promotion of equity release could help thousands more people enjoy greater comfort in retirement by unlocking some of the value in their home. For this to happen, the equity release industry and the government need to work together.

The initial qualitative stage of the Just Retirement research included intensive interviews, not only with people who could be candidates for equity release, but also with family members, such as their sons and daughters, who may have an interest in any inheritance. The insight and analysis from this phase shaped a second, major quantitative phase in which a further 1000 people were interviewed.

The government has an important role to play in the following areas

- HM Treasury should take the lead on government policy for housing equity withdrawal and co-ordinate activity across departments.
- The government should establish an industry-wide group to examine how markets for housing equity withdrawal could be encouraged to function more efficiently.
- The government should work with the industry and the third sector to increase the awareness and understanding of people from the age of 50 of the financial choices facing them in retirement.
- The government should ensure that older homeowners have access to high-quality advice which addresses their housing, finance and care needs and makes best use of all the resources available to them, including equity release, state benefits, pensions and savings.
- Local authorities should be required to produce clear generic guidance that can be used by staff to advise people on whether they might benefit from equity release.
- Confirmation of the government's position on funding of long-term care and the implications for equity release would provide the industry with clarity to develop an appropriate market response. Transparency and certainty are essential for retirees to know where they stand.
- Develop an appropriate tax/contribution incentive to encourage people to ring-fence a proportion of the value of their property to fund their long-term care contribution.
- Consumers want the government to give them confidence that equity release is a legitimate product to consider.
- Greater clarity and better integration between the benefits system and equity withdrawal are needed to overcome retirees' perception of unfairness.

The research distinguished between people approaching retirement, separating those people who were still a few years from retirement from those who were within a year of retiring. People in retirement were split into three groups; those who had retired less than one year ago; those who had been retired for up to 10 years and those in retirement for more than 10 years.

The research objectives were: to explore people's expectations of their likely level of financial contentment in retirement; understand the significance of passing on wealth to the next generation; consider attitudes to using the home to fund long-term care; and assess how retirees feel about releasing equity in the home as a potential solution to financing a more acceptable retirement.

When the safeguards in place to protect consumers who buy equity release plans are understood, and the design of modern equity release plans explained, there is far greater acceptance of equity release as a possible solution to boosting income in retirement.

The Equity Release Council (formerly Safe Home Income Plans) has done a great deal to improve consumer safeguards through its code of conduct and its 'no negative equity' guarantee. This guarantee means customers will never owe more than the value of their home and no debt will ever be left to their estate. However, the research suggests there is more the government and the industry can do to make equity release better understood and to reassure consumers that it is a safe product to use.

Key findings from the study

- In the run up to retirement, expectations of future income levels are unrealistic.
- People are disappointed to discover how little income they are likely to receive from their pension savings.
- A significant number of people wish to explore how they may top-up their retirement income by accessing the value in their homes to support an acceptable retirement.
- Attitudes to leaving an inheritance are changing. While the belief in a duty to leave something to the next generation is strongly held by many of those who have been retired for some time, the generation Approaching Retirement are less inclined to sacrifice a comfortable retirement in order to leave money to the next generation.
- Consumers are willing to use the equity in their homes to support their retirement but there is reluctance to use equity release. This is partly built on misconceptions about how the product works.
- Consumers want reassurance from the government that equity release is a regulated and safe product to use.
- There is resentment at the prospect of having to sell the family home to fund long-term care.
- People want certainty about where the balance of responsibility lies between the individual and the state. The most obvious example here relates to the contribution they will have to make towards any future long-term care costs.
- Downsizing is seen as a more acceptable method of releasing equity for many people (though a significant number of people want to remain in the family home).
- If people release equity from the home, they would not consider it appropriate to use it to pay for frivolous or extravagant purchases. It should be used responsibly to boost income or pay for essential items.

Retirement should be a fulfilling and rewarding period to follow working life. Through better diet, lifestyle and healthcare, retirees can now look forward to a long and productive life after work. At Just Retirement we believe that people who might struggle financially in retirement should be aware of the options available to improve their position.

We believe that the findings of the research in this report, as the largest insight into consumer views on equity release ever undertaken, add a valuable contribution to the policy debate.

Later this year we will publish macroeconomic research, carried out by Oxford Economics, which will seek to add to these consumer insights by estimating the impact of an increased use of housing equity withdrawal on the UK economy.

We believe there is still a great deal for both the industry and the government to do to make housing equity withdrawal a more viable option for current and future generations of retirees. As a first step we would like to see a joined-up policy approach on housing equity withdrawal across government, led by and co-ordinated through HM Treasury, with the objective of ensuring those who can benefit from equity release aren't impeded from accessing the market.

Specifically, the equity release industry should

- Help people take greater control over their financial needs at and in retirement.
- Work with government, to support the development of policy on strengthening the housing equity withdrawal market by improving confidence in equity release products and the industry.
- Do more to inform the public about these products and to eliminate the misconceptions about how they work.
- Continue to improve the value these products deliver to consumers. Releasing higher percentages of equity and reducing upfront charges are examples of areas that should be explored.
- Develop a mechanism to enable people to ring-fence value in their property to fund future long-term care contributions.
- Increase the supply of advice, raise awareness of where to go for help and encourage more advisers to become involved in presenting equity release as a retirement solution.
- Respond to consumers' dislike of the term 'equity release' by exploring alternative names to describe the group of products that are used to release equity in the home. For different reasons, 'lifetime mortgage' is also perceived negatively.
- Demonstrate how the growth of the housing equity withdrawal markets will impact the UK economy.

Background

Financing a comfortable retirement should be possible if people start saving early enough, save a reasonable amount and invest their money wisely. In practice, this is becoming increasingly difficult.

The main reasons for this are:

- **The move away from defined benefit schemes to defined contribution arrangements.** The average total employer and employee contribution to defined benefit schemes in 2010 was 20.8% of salary compared with just 8.9% for defined contribution schemes[1]. Indeed, the last FTSE 100 scheme still open to new members, Royal Dutch Shell, announced earlier this year that it will close to new hires from January 2013.[2]

- **The declining value of state pensions.** The value of state pensions has been gradually eroded over the years. For an average earner retiring in 2007, the UK replacement rate of 17% was the lowest in Europe[3]. The so-called 'triple guarantee' on future increases to the State Pension and the introduction of the new, proposed Flat Rate State Pension from 2015 will help boost the value of the State Pension for many (particularly those on low incomes), but the days of generous state pensions are unlikely to return.

- **Increasing longevity means the savings people have managed to accumulate need to last much longer.** These days, a 65 year old man can expect to live for a further 21 years and this is forecast to rise to 23 years by 2030. A 65 year old woman can expect to live for nearly 24 further years now, rising to 26 years by 2030.[4]

A Pensions Policy Institute report suggested that a male median earner would need a pension contribution of 15% of his earnings throughout his working life in order to reach a replacement target income of 70%. This figure includes the value of state benefits.[5]

Consequently, an acceptable retirement is difficult to achieve, even for many of those who are saving regularly. An estimated 6.25 million people aged over 50 have no pension plan in place and are likely to end up solely relying on the State Pension.

Auto-enrolment should ensure that in the future fewer people reach retirement without any pension provision, but it will be many years before the benefits are felt.

Faced with the prospect of inadequate income in retirement some people will stay in the work place longer, either full-time or part-time, or by developing a small business. Others will attempt to economise and live on an inadequate income.

Yet for many people there is a solution that could increase their income: the release of some of the equity in their home. The potential wealth available is significant:

- 79% of people over 55 own their own homes while 59% of homes owned by people over 55 are owned outright[6];

- 84% of people in their 60s and 70s own their own home and have more than £200,000 of wealth locked up in the property[7]; and

- In total, it has been estimated that homeowners aged 65 or over own nearly £750 billion in unmortgaged property[8].

However, the market for equity release has shown little growth over the years. In fact, it has contracted over the last five years.

The market for equity release is in decline

Year	No of new plans	Value (£m)
2007	29,293	1,210
2008	28,224	1,096
2009	20,493	946
2010	17,574	804
2011	16,095	789

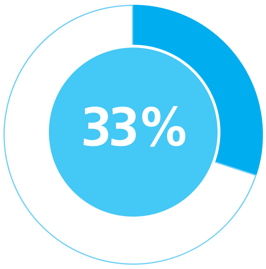
Source: Equity Release Council (formerly SHIP)

This report explores attitudes to different aspects of retirement and the consumer perspective on housing equity withdrawal. It considers people's feelings about leaving an inheritance, investigates attitudes to selling the home to pay for long-term care and assesses expectations of income in retirement and views about equity release solutions.

1. Expectations of retirement

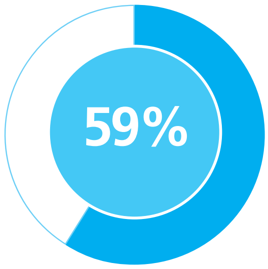
Most people have completely unrealistic expectations of how much income they can expect in retirement. The generation Approaching Retirement will have insufficient income from their pension savings to support an acceptable retirement. Lack of knowledge about financial options and failure to plan early enough are compounding these problems.

"I will need twice as much as now as I will have more time. I don't want to be bored"



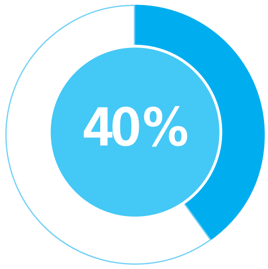
rely on the State Pension and have no private pensions at all

I haven't got a clue (amount in pensions), I think it could be about 80-85%"



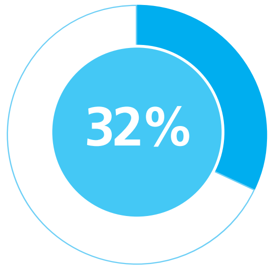
believe they are 'very' or 'quite' financially comfortable in retirement

"It's when you get nearer you think 'oh gosh'. I've even considered working extra"



think they will still be 'very' or 'quite' comfortable in ten years time

"We're okay as long as we don't have a larger bill, we always have the house to fall back on"



of those Approaching Retirement expect to be 'very' or 'quite' comfortable in ten years time

As retirement draws nearer, people are shocked by how little income they can expect. They are also conscious of the impact of inflation and how this will erode their savings further. Many are resigned to making sacrifices during retirement.

Those already in retirement are found to have much higher retirement incomes than future retirees. This is consistent with the move from defined benefit to less generous defined contribution pension schemes. Many of the Long-term Retired are still enjoying final salary pensions. In contrast those Approaching Retirement - while perhaps still enjoying some final salary pension provision - are likely to hold a proportion of their retirement savings in money purchase arrangements.

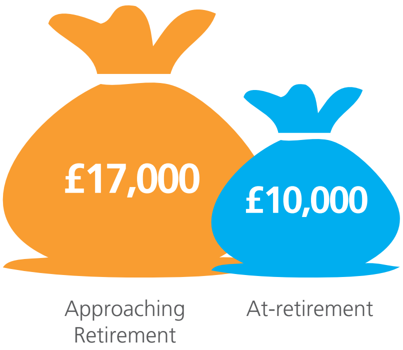
The quantitative stage of the research endorsed this perspective. Figure 1 shows the estimated income of those Approaching Retirement contrasted with the average income of those in retirement. The optimism of those Approaching Retirement can be seen in the anticipated average annual income in retirement of £17,000. Contrast this with the reality of those who have just reached their point of retirement (£10,000) and also with the income of those in retirement (£14,000/£15,000). It all points to a more frugal retirement for future generations of retirees.

Those currently Approaching Retirement may still have a reasonable proportion of their pension savings in final salary schemes. Fewer people in the generations that follow will have access to final salary benefits.

40%

of all respondents said that they would be very/quite comfortable in ten years time

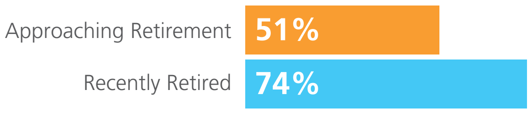
Figure 1: Estimated income in retirement



Base: All respondents (1,000)

When asked how comfortable they are likely to be in retirement, those Approaching Retirement are less likely to feel confident that they will be 'very/quite comfortable' in retirement, compared with those in retirement (figure 2), despite their optimism about their likely level of income in retirement.

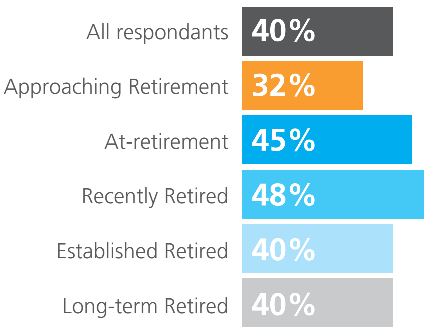
Figure 2: Financial position in retirement
Number of respondants who said they were very/quite comfortable



Base: All respondents (1,000)

Asked how comfortable they think they will be in ten years' time, only around a third of those Approaching Retirement expect to feel 'very/quite comfortable' in retirement (figure 3), compared to about half of the Recently Retired.

Figure 3: Financial position in ten years' time
Number of respondants who said they would be very/quite comfortable in ten years



Base: All respondents (1,000)

This suggests that even if people do not automatically consider the equity in their home as a retirement asset at the point of retirement, it should figure in any post-retirement review of their financial position.

Key finding

- The expectations of those Approaching Retirement are unrealistic. If people were better informed about their likely income levels in retirement this could encourage greater commitment to save in the years before retirement.

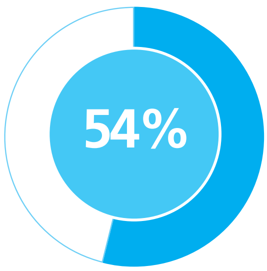
Recommended government actions

- The government should work with the industry and the third sector to increase the awareness and understanding of people from the age of 50 of the financial choices facing them in retirement.
- The government should ensure that older homeowners have access to high-quality advice which addresses their housing, finance and care needs and makes best use of all the resources available to them, including equity release, state benefits, pensions and savings.

2. Concerns over long-term care

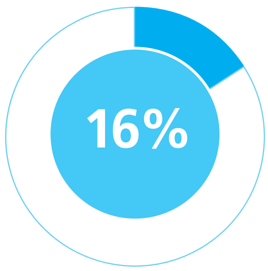
Many people are confused about how long-term care is funded and resent the idea that their home may be sold to pay for it. Certainty is needed about where the balance lies between the individual and the state in paying for care so that people can take responsibility for planning their future finances.

"It is disgraceful. You try and do the right thing and be sensible... and now we've got to pay it all out at the end"



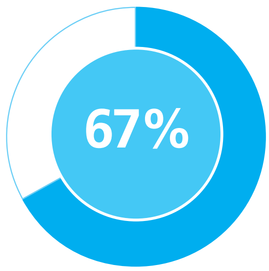
can only afford to pay for long-term care if they sell their house

"It's appalling that you work hard to get your own property and then you have to pay for your own care"



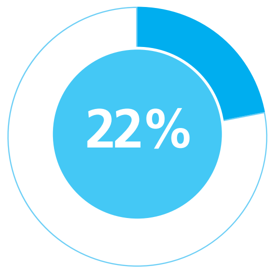
have seen their parents or a close relative spend most of the equity in their home on paying for long-term care

"The costs involved with care are horrendous. You basically have to get rid of all your money before you need care"



resent having to sell their home to pay for care home fees if they need to go into residential care

"I'm not going to worry about paying for care, I will have to fund retirement by downsizing so there won't be much left"



do not resent potentially having to sell their home to pay for residential care

The research found that when people were informed about how care is paid for, most thought it would be a good idea to sort out their finances in advance so they didn't have to pay for care.

Very few people wanted to burden their children with the costs of providing for care. Only some respondents had experience of parents who had required care that had to be paid for by selling the family home and these people tended to be more aware of the costs of care.

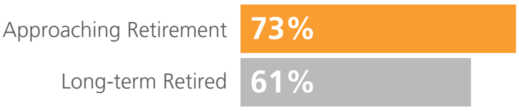
The quantitative phase revealed that 67% resent the idea of having to sell their home to pay for care, but 54% could only afford to pay for care if they sold their home.

The resistance to selling the family home is more pronounced among those Approaching Retirement compared with the Recently Retired, Established Retired and Long-term Retired (figure 4). This suggests that there is a hardening of attitudes towards the idea that the family home should be used to pay for care.

73%

of those Approaching Retirement resent potentially having to sell their home to pay for care home fees, if they needed to go into residential care

Figure 4: Attitudes to paying for long-term care
Agree/strongly agree: "I resent potentially having to sell my home to pay for care home fees. If I needed to go into residential care"



Base: All respondents (1,000)

Key finding

- Transparency and certainty about where the balance lies between the state and the individual in paying for care are essential for retirees to be able to plan their finances.

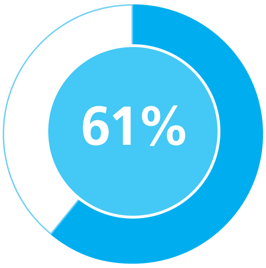
Recommended government actions

- Confirmation of the government's position on funding of long-term care and the implications for equity release would provide the industry with clarity to develop an appropriate market response. Transparency and certainty are essential for retirees to know where they stand.
- Consumers want the government to give them confidence that equity release is a legitimate product to consider.

3. The importance of leaving an inheritance

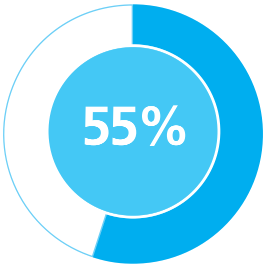
Attitudes to leaving an inheritance are changing. While the belief in a duty to leave something to the next generation is strongly held by many of those who have been retired for some time, the generation Approaching Retirement are less inclined to sacrifice a comfortable retirement in order to leave money to the next generation. This poses policy challenges in future if people are motivated to access the wealth in their property earlier in their retirement.

"I'd like to leave something to my children if there's anything left, but I won't ruin my retirement"



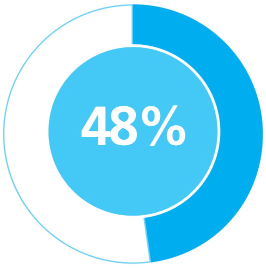
would not sacrifice their own lifestyle to make sure they leave money to their family when they die

"You've got to enjoy life while you've got it"



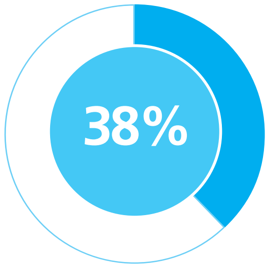
would prefer to give money to their family while they are still alive to enjoy it

"I'm not particularly worried as both my daughters are doing well"



agree that they are going to enjoy their retirement and spend their money

"I'd like to leave the house. We have been in it for 40 years. It will be a foundation for our son"



do believe it is important to leave as much as they can as an inheritance

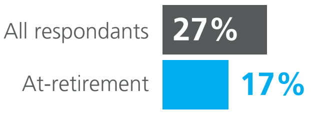
The research findings show that changing attitudes to inheritance are more pronounced among the younger segments. For example, there is a marked change of attitude to passing wealth on to the next generation apparent among those Approaching Retirement, the At-retirement and the Recently Retired segments. In contrast people in the Established Retired and Long-term Retired are more likely to believe in a duty to leave as much as possible to the next generation even if it means going without during their retirement.

This can be contrasted with the views of those Approaching Retirement who are much less inclined to sacrifice their own enjoyment in order to leave money to their children. The attitude of the younger segments was not entirely self-centred; there was a sense that they had done enough for their children and that the children were often in a better position than they were so they did not feel the need to preserve an inheritance.

Interestingly, their children agreed with this approach. All the adult children interviewed claimed that they hoped their parents would use the money to have a better life and not try to cut back simply to leave an inheritance.

The quantitative stage also reinforced the general reluctance to struggle to get by simply to pass wealth to the next generation. The gradual hardening of attitudes displayed in the qualitative stage by the Pre-retirement, At-retirement and Recently Retired segments also came through in the quantitative stage (figure 5).

Figure 5: Attitudes to leaving an inheritance
Agree/strongly agree: "I would sacrifice my own lifestyle in retirement to make sure I leave some money to my family"



Base: All respondents (1,000)

The qualitative stage also explored two further concepts in the context of inheritance. Firstly, the notion of ring-fencing a set amount or percentage of the estate that would be passed on after death. The second was the concept of pre-inheritance, or transferring wealth to the next generation during the individual's lifetime.

About half of those interviewed liked the idea of ring-fencing a set amount to preserve a legacy and felt more confident about using equity release if this could be guaranteed. Some respondents had already allocated specific amounts in their will. In contrast, those who were less positive thought it might cause problems in the future if they couldn't access the money should they need it. They also expressed concerns about how a mechanism to safeguard legacies would work.

The idea of passing money to children during one's lifetime was greeted more enthusiastically. People could see that this could be useful to their children to help them get a foot on the housing ladder, for example. Generally, they preferred the idea that it was for a specific purpose. A small number were aware that this practice could be beneficial for Inheritance Tax purposes and this was seen as positive. Adult children who were also interviewed felt this could be a good way for them to access the housing market. Again, those less supportive of the idea were worried in case they should subsequently need the money.

Key findings

- The greater willingness of younger segments to spend their capital to ensure an acceptable retirement suggests that any actions that make it easier for people to access the equity in their home would be well received.
- Adult children wanted their parents to have an acceptable retirement. The majority wanted their parents to access some of the value of their homes to boost their retirement income. However, there were some adult children and retirees who liked the idea of passing on wealth through pre-inheritance to help the next generations.

Recommended government action

- Develop an appropriate tax/contribution incentive to encourage people to ring-fence a proportion of the value of their property to fund their long-term care contribution.

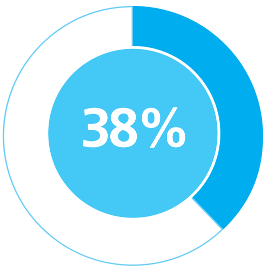
Recommended industry action

- Develop a mechanism to enable people to ring-fence value in their property to fund future long-term care contributions.

4. Initial reactions to releasing equity

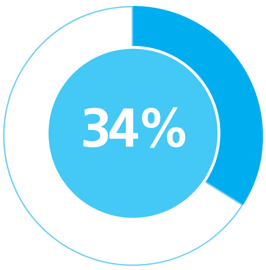
Initial reactions, primarily from those people with limited exposure to equity release, were unfavourable, but largely based on misconceptions. People were not aware of the ways in which they could benefit from these products. There is a need for information and reassurance from the government and the industry that this is a safe and legitimate choice to consider.

"I thought the provider would probably have the deeds because it is not your house anymore"



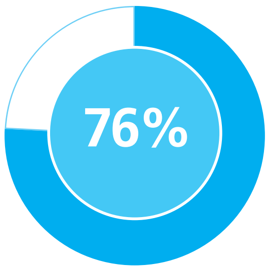
have an unfavourable view of equity release

"My parents were talked into it. I thought it was terrible what they got in cash and what the house was worth"



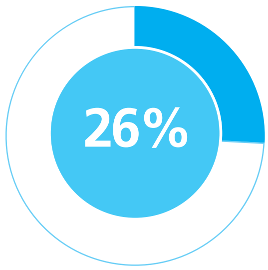
claim to have heard of equity release but know nothing about it

"I thought if you took out equity you would have to pay rent"



are not interested at all in boosting their income by taking out an equity release plan

"I never knew if you had to start paying something back on a regular basis"



have heard of equity release and have a positive view

The research findings show that attitudes to equity release are unfavourable amongst many respondents. A small number of people know someone who had used equity release. Where the experience was positive this tempered their concerns, but most people were wary. In most cases, their views were formed either by stories they had heard or from the media.

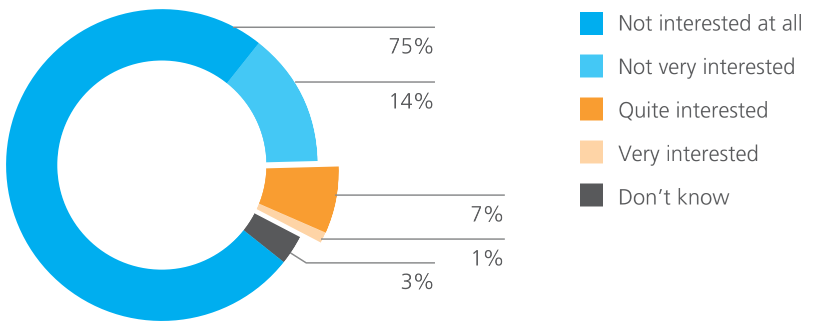
Concerns included that ownership of the property was transferred to the lender, that they might be forced to leave the home in some circumstances and that they could end up owing more than the value of their home.

The reaction to the question in the quantitative stage 'If you needed a large cash lump sum (more than £20,000) during retirement how interested would you be in taking out an equity release plan' generated an unfavourable response (figure 6). The question was also asked about boosting income by taking out an equity release plan to top up annual income. The response to both questions was similar (figure 7). Around 75% are 'not interested at all' and 14% 'not very interested'.

Recommended government action

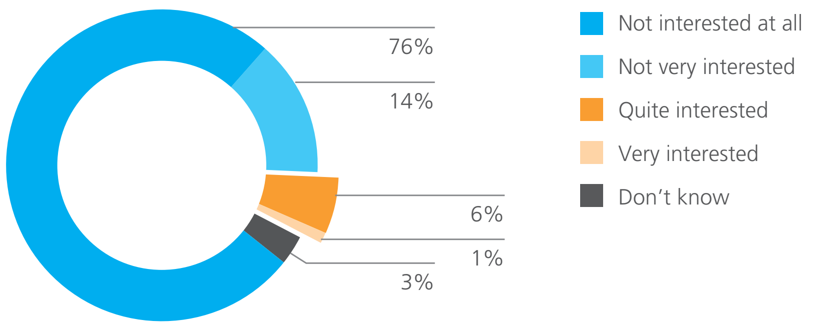
- Greater clarity and better integration between the benefits system and equity withdrawal would help to overcome retirees perception of unfairness.

Figure 6. If you needed or wanted a large cash lump sum during retirement how interested would you be in taking out an equity release plan?



Base: All respondents (1,000)

Figure 7. If you needed or wanted to top up your annual income in retirement how interested would you be in taking out an equity release plan to boost your income on a regular basis?

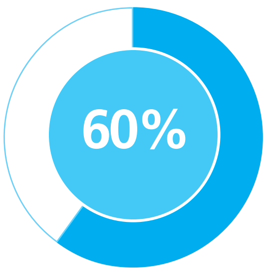


Base: All respondents (1,000)

5. Further exploration of equity release

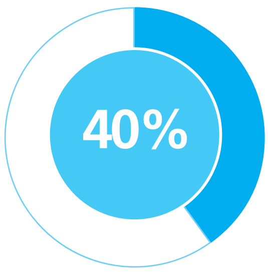
A lack of understanding about how equity release products work is the biggest barrier to people considering it as an option to finance an adequate retirement. The industry should work with government to support the development of policy that strengthens the housing equity withdrawal market by improving consumer confidence and understanding of the products and the industry.

"It is good if people are on their own and have no one to leave their money to"



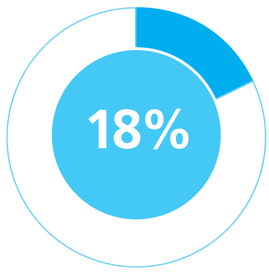
would not consider equity release under any circumstances, while 26% say they would consider this route

"It is a nice asset and it is a shame to think of it sitting there doing nothing"



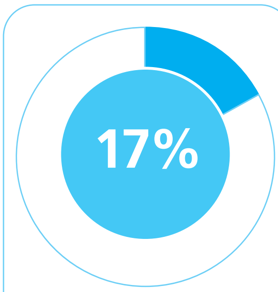
of those who are not interested do not give a specific reason – a further 25% say they do not need the money

"We are all of a generation that strived to buy their own home... and then to think you don't own it again"



say as long as they can leave their family some money they are happy to release equity. 64% disagree

"If you live for 30 years then what you owe could be more than the value of your home"



of those who are interested in releasing equity would do so because they need extra money

At the beginning of this section of the qualitative research study the interviewees were presented with a definition of equity release, which read:

'Equity release is the process of using the value of your home to raise cash. It allows you to borrow against the value of your home if you are over 55 and own your property. You normally don't need to make any payments during your lifetime. Instead, the loan plus interest is repaid when you die or go into long-term care.'

Given the general level of confusion about equity release, this explanation helped to clarify how these plans work. This was particular true for those Approaching Retirement. However, there was still uncertainty expressed about equity release; the explanation didn't address all of the concerns expressed within the groups. For example, the explanation does not clarify who owns the property and many thought that ownership passed to the company providing the funds. People do not make the natural comparison with traditional mortgages where ownership does not automatically transfer to the provider of funds.

The At-retirement group continued to hold a largely unfavourable view of these products even after the explanation. Some still believed there would be a risk of being forced to leave the home. When asked about their views on levels of interest rates on these products estimates ranged from 7% to 20%.

Of those already in retirement, the Recently Retired and the Established Retired found the explanation helpful, but were still concerned to know what would happen if someone lived for a long time and the loan was significantly more than the value of the home. Respondents found it difficult to grasp that the amount owed is paid on death.

The most sceptical group was the Long-term Retired, who remained wary of these products.

17%

interested in equity release as they need extra income in retirement

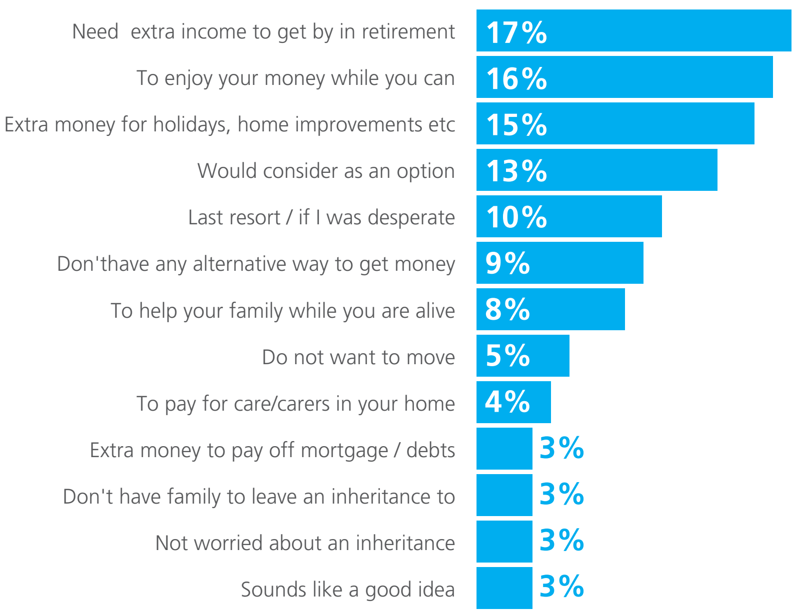
Reasons for taking out an equity release plan

When asked why they would take out an equity release plan, those Approaching Retirement and At-retirement could see several reasons why people might consider equity release: the need for cash; being unconcerned about leaving an inheritance and potentially using equity release to avoid paying for future care fees. Most people in these segments felt that any cash released should be used for a 'worthy' purpose, not applied frivolously to pay for holidays or extravagant purchases.

The retired segments (Recently Retired, Established Retired and Long-term Retired) saw equity release as a last resort or for people with no children. Notwithstanding this, when asked why they might consider taking out an equity release plan, they volunteered several examples. These ranged from people who have already downsized or live in a small property (where the scope for downsizing is limited) through to people with no children, people whose children are well off or people looking to pass wealth on to the next generation while they are still alive (pre–inheritance).

Most of the reasons given for wanting to use equity release in the qualitative phase also figured prominently in the quantitative stage (figure 8). The number one reason was to provide extra income in retirement. Of those who gave this response, when asked how much income they thought they would need each month, the average was £283 per month.

Figure 8: Reasons for expressing interest in equity release



Base: All respondents interested in equity release (96)

16%

interested in equity release as they want to enjoy their money while they can

Reasons for not taking out an equity release plan

There are a number of explanations why the groups felt equity release is not an appropriate solution. Many of these reasons were based on a fundamental misunderstanding of how these products work. Those Approaching Retirement listed a number of concerns:

- Fears about the accumulation of interest and whether the debt could become greater than the value of the property, and the consequences of this;
- People are worried about the loss of control and the security that comes from owning your own home outright; and
- Many struggle with the notion that, having spent most of their working life paying off their mortgage, they would then consider taking out a mortgage on their property.

There were also concerns about the tax treatment of any lump sum. Finally, there were apprehensions about the ability to move house after taking an equity release product, the small print in the contract and issues about unrealistic property valuations.

The At-retirement and retired segments echoed a number of the concerns expressed by those Approaching Retirement. The Recently Retired cited the issue of the family and how they would feel about not receiving an inheritance as well as the view that this is only acceptable as a last resort.

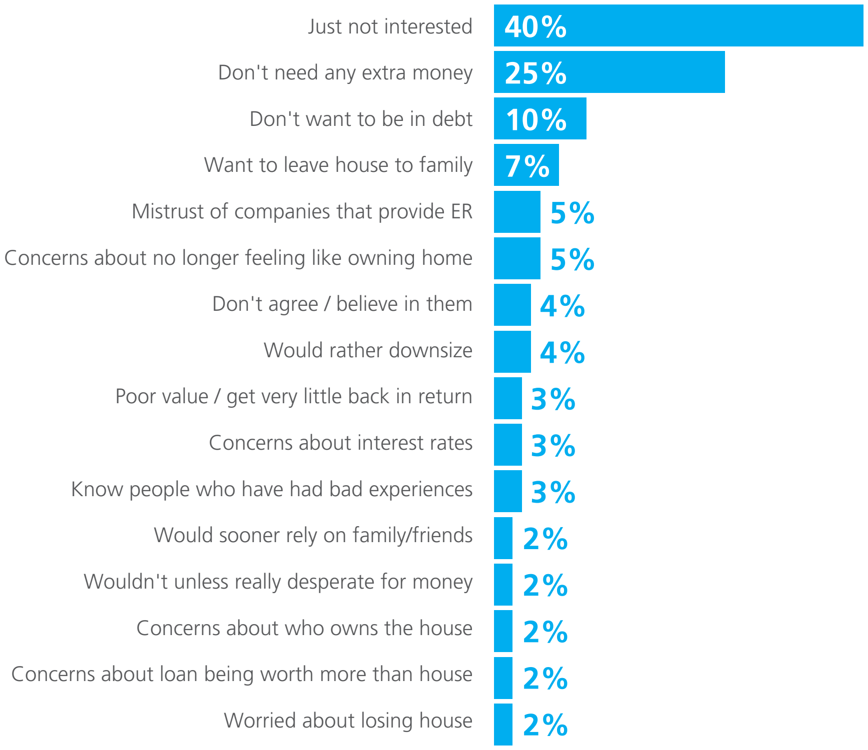
The Established Retired repeated their concerns about using equity release for self-indulgent purposes. They would not sanction equity release to pay for holidays, buy a new car or fund home improvements. This group also asked the most questions about how these products work and continued to exhibit the most caution about these products. They had a list of concerns centred on ensuring value for money and no loss of control. Examples include:

> 'What if the value of the property decreases?'
>
> 'What happens if the couple divorce or split up?'
>
> 'Does interest still accumulate after the person has died?'
>
> 'Do providers ever charge rent?'
>
> 'What if the company said I had to leave the house?'
>
> 'What are the costs involved, interest rates and charges?'

The Established Retired questioned the need for these products. This group also had the clearest recollection of the early market difficulties in the eighties. Additionally, in many cases they enjoy generous defined benefit pensions and are proud of the fact that they own their own home outright.

The quantitative stage expressly asked why people would not take out an equity release plan. The most popular response was 'just not interested'. This suggests that there is an instinctive resistance to these products born out of a misunderstanding of how they work and from stories they have heard.

Figure 9: Reasons for not taking out an equity release plan



Base: All respondents not interested in equity release (898)

4%

are not interested in equity release as they would prefer to downsize

Recommended government actions

- The government should ensure that older homeowners have access to high-quality advice which addresses their housing, finance and care needs and makes best use of all the resources available to them including equity release, state benefits, pension and savings.
- Local authorities should be required to produce clear generic guidance that can be used by staff to advise people on whether they might benefit from equity release.
- Greater clarity and better integration between the benefits system and equity withdrawal would help overcome retirees' perception of unfairness.
- The government should establish an industry-wide group to examine how markets for housing equity withdrawal could be encouraged to function more efficiently.
- The government should work with the industry and the third sector to increase the awareness and understanding of people from the age of 50 of the financial choices facing them in retirement.

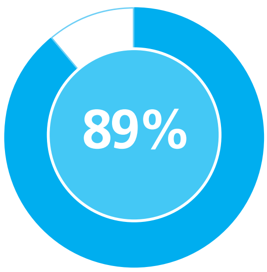
Recommended industry actions

- Work with government, to support the development of policy on strengthening the housing equity withdrawal market by improving confidence in equity release products and the industry.
- Do more to inform the public about these products and to eliminate the misconceptions about how they work.
- Increase the supply of advice, raise awareness of where to go for help and encourage more advisers to become involved in presenting equity release as a retirement solution.
- The industry should help people take greater control over their financial needs at and in retirement.

6. Improvements in the governance of the equity release market

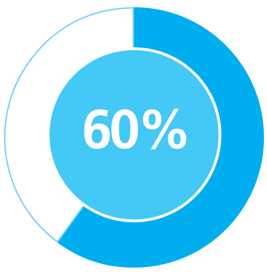
People's disposition towards considering equity release products changes from unfavourable to favourable after they are shown how equity release products work and the important safeguards that exist within these products to protect consumers.

"The whole thing seems more positive"



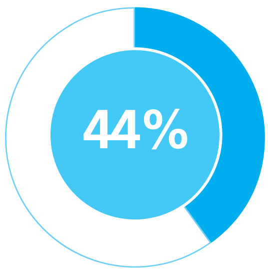
could not spontaneously name a company that provide equity release products

"The bigger companies are coming into it. It does give you more confidence"



want the reassurance that equity release products are regulated by the government

"Drawdown. I like the idea of that because you do not run up lots of debt and lots of interest if you do not need the money"



don't know where to get advice on equity release products

Interviewees participating in the qualitative phase were read out several reassuring statements about the equity release industry: the safeguards introduced by the Equity Release Council (formerly SHIP); the emergence of better value products like equity release drawdown; the involvement of well-known brand names in this market and the regulation of the industry by the FSA (figure 10).

None of the people in the Approaching Retirement segment were aware of any of these safeguards or improvements, but when they were made aware, their perceptions of equity release became more favourable. These measures answered some of the concerns they had and made them feel more confident about using these products. The reputation and credibility of the FSA was called into question by some of the respondents as a result of its connection to the banking crisis.

The At-retirement group were still cautious at this point. They had not heard of SHIP and expected the product to be regulated by the FSA as a matter of course, so this unawareness did little to reassure the group.

In contrast, the Recently Retired and the Established Retired groups were reassured by these initiatives, but still harboured reservations about the level of interest charged under equity release products.

The Long-term Retired were the least reassured group. Nevertheless, they did acknowledge that younger generations may be more open to these products and that the measures introduced would benefit them.

The quantitative stage asked if people wanted reassurance that these products are regulated by government. Overall, 60% do want reassurance that these products are regulated by government and only 13% do not (figure 11).

Figure 10: The equity release industry has changed over the last 20 years

Significant safeguards have been introduced
A new organisation of product providers, Safe Home Income Plans (SHIP), was formed in 1991. SHIP members must adhere to a code of conduct that means customers:

- Must be allowed to remain in their home for life
- Can never owe more than the value of their home
- Must take advice before buying one of these products

Better value products are now available
Products are better value, particularly for people interested in boosting their income in retirement. New 'equity drawdown' plans mean clients only withdraw the money they need each year (to be explored later).

Major well-known companies now offer equity release
Early market entrants tended to be lesser-known companies that people might have felt uncomfortable dealing with. These days major companies, like Aviva, offer these products.

Increased regulation means greater protection for consumers
More recently, these products became regulated by the Financial Services Authority. The Financial Services Authority is an organisation accountable to the government for the protection of consumers.

The desire for government regulation is even greater among the Approaching Retirement and At-retirement segments, with 70% of those Approaching Retirement and 78% of those at the point of retirement wanting government regulation. These are also the segments that are most positive about these products.

Recommended government actions

- HM Treasury should take the lead on government policy for housing equity withdrawal and co-ordinate activity across departments.
- The government should establish an industry-wide group to examine how markets for housing equity withdrawal could be encouraged to function more efficiently.

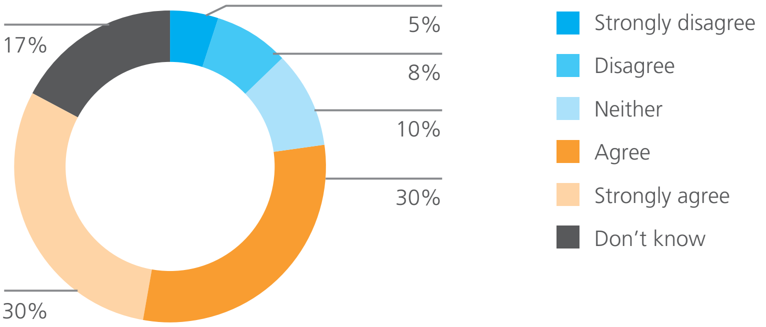
Recommended industry actions

- Work with government to support the development of policy on strengthening the housing equity withdrawal market by improving confidence in the products and the industry.
- Do more to inform the public about these products and to eliminate the misconceptions about how they work.
- Continue to improve the value these products deliver to consumers. Releasing higher percentages of equity and reducing upfront charges are examples of areas that should be explored.

60%

Agree/strongly agree that they want reassurance that equity release products are regulated by the Government

Figure 11: Importance of government regulation of the equity release market

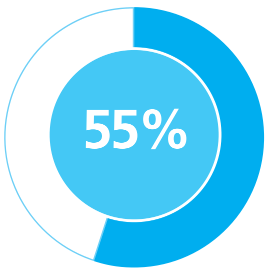


Base: All respondents (1,000)

7. Downsizing

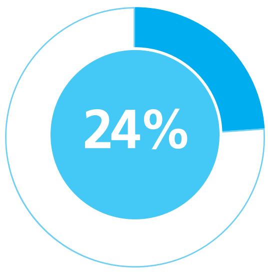
Downsizing is spontaneously recognised by a significant proportion of people as the most popular option for releasing equity from their property. However when the human and financial implications of downsizing are understood it becomes a less popular solution and is rejected by many.

"I do not want to downsize. It is my home. I have been there for 23 years"



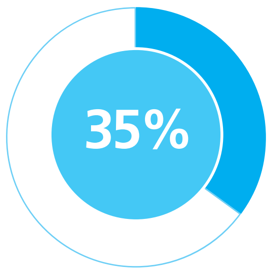
have lived in their present home for 25 years or more

"My friends are around me and that's the most important thing"



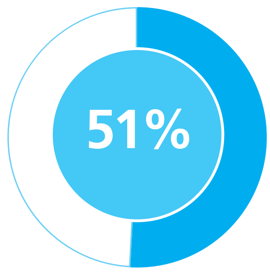
have been living in their home for between 16-25 years

"I have downsized once and the costs of moving are off-putting"



of those in retirement agree strongly that they would rather downsize than use equity release

"I'm not interested in moving. We talk about it, but that's all"



of those Approaching Retirement agree strongly that they would rather downsize than use equity release

A small number of those in the Approaching Retirement segment had moved several times during their adult life and would think nothing of moving again if they felt the need to, but the majority were against moving from the family home. The memories, the friends and the neighbourhood were compelling reasons to stay where they were. Many also rationalised the need for the extra rooms to accommodate visiting adult children and their families.

Some had looked into the costs of moving and decided it wasn't worth it. Others had calculated that the value of a smaller house would not increase as much as their present home and resisted moving for this reason.

The At-retirement segment largely wanted to stay where they are for all the reasons put forward by those Approaching Retirement. Some also claimed they needed a large home to house all the belongings they had accumulated over the years.

14%

said that they planned to pay off their mortgage by moving to a smaller property

Of those respondents currently retired, reactions were more mixed. Some wanted to stay in the family home for the same reasons as those Approaching Retirement. However, some had experienced health problems and could see the attraction of a smaller property that would be easier to maintain. Others calculated that not only would they potentially release equity if they moved to a smaller home, but the costs of maintenance and household bills would be less burdensome. A few had downsized and been disappointed with the results after the costs of downsizing were taken into account. The Long-term Retired are settled into their homes and would view moving as a major upheaval in their life.

The quantitative phase asked how long the respondents had been in their present home. Given that almost 80% of the sample had been in their homes for 16 years or more it is not surprising that people have strong ties with the home and the area they live in.

Key findings

- Downsizing may be a solution for some people, and there may be positive advantages in moving to a smaller home for those in ill health, but a significant number of people want to remain in the family home.
- Some of these people may be interested in releasing equity from their home, but are uncertain about equity release. It is important to ensure that people feel sufficiently confident and empowered to make informed decisions about the different methods of releasing equity in the home and the advantages and disadvantages of each approach.

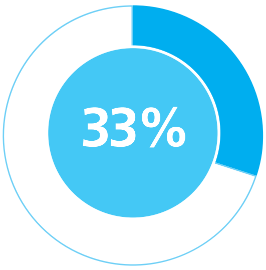
Recommended government actions

- The government should work with the industry and the third sector to increase the awareness and understanding of people from the age of 50 of the financial choices facing them in retirement.
- The government should ensure that older homeowners have access to high-quality advice which addresses their housing, finance and care needs and makes best use of all the resources available to them, including equity release, state benefits, pensions and savings.

8. Income in retirement

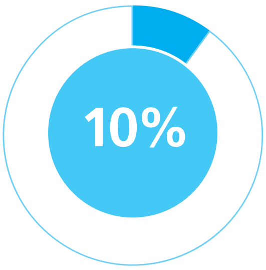
Confronted with the facts of how little income their retirement savings would provide, there is a reluctance to face up to the consequences and a tendency to leave things to chance. The government should work with the industry and the third sector to increase the awareness and understanding of people from the age of 50 of the financial choices facing them in retirement.

"That's made me think about equity release. I can see now that my house will be part of my pension"



only have the state pension to rely on for pension income. They do not have final salary or private pensions

"It is clear now why people need to consider equity release as their income reduces"



currently have an outstanding mortgage. Most have a plan for paying this off, although 15% say they do not have a plan

"Everyone thinks it won't happen to them, but if you are struggling equity release has to be the answer"

predicted income per year of people in the Approaching Retirement segment

"My husband was bitterly disappointed as a few years ago the forecast was really good"

stated income per year of people in the At-retirement segment

The quantitative study demonstrated how optimistic people Approaching Retirement can be about the likely level of income they will receive in retirement. This theme was explored further in the qualitative study. Samples of annuity rates were shown to the groups together with the possible impact of inflation in reducing the value of their income over time. The Approaching Retirement segment estimated that their income in retirement would range from 50 – 100% of their final earnings. This suggested a significant lack of awareness and when estimates of how much income their savings might provide were shown, many were shocked by the results.

Confronted with the facts of how little income their retirement savings would provide, there is a reluctance to face up to the consequences and a tendency to leave things to chance.

In considering their position in the light of these circumstances, some start to mention equity release as a safety net they could fall back on if they need to do so.

In contrast, those who have been retired for some time are shocked by how low annuity rates are these days and consider they were fortunate to have retired when they did.

Recommended government action

- The government should establish an industry-wide group to examine how markets for housing equity withdrawal could be encouraged to function more efficiently.

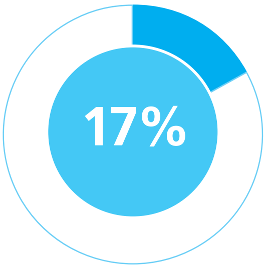
Recommended industry action

- The industry should help people take greater control over their expected financial commitments at and in retirement.

9. Equity release drawdown

After being shown how it works, people see clearly the benefits of the style of equity release solution known as 'drawdown' and how the product enables the customer to maintain improved levels of flexibility and control relative to other solutions.

"From my point of view this would help me maintain my lifestyle"

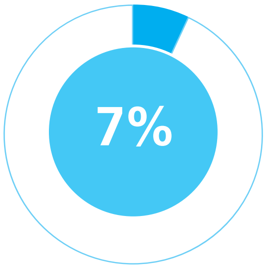


said they needed extra income to get by in retirement

"That sounds fair and would help in topping up your income"

average extra income needed per month

"That's much better, so you only pay interest on the smaller amount"



are interested in equity release for extra income

The quantitative phase suggested that the majority of people had little interest in either an equity release product that pays a lump sum or a drawdown product where the amount can be taken in stages over a period of years. In the qualitative study, this subject was covered in greater detail. In the groups and in the one-to-one interviews, examples were used to compare lump sum equity release with drawdown equity release demonstrating how the build-up of interest differs.

The reaction from all the segments was overwhelmingly positive towards equity release drawdown, sales of which now account for 61% of new business[9]. Even those who were sceptical about equity release started to warm to the concept.

While the main financial benefit is the reduction of interest incurred, the interviewees also identified several other benefits in this approach. The fact that the money is taken out in small amounts, rather than a lump sum, satisfied their requirement that the money shouldn't be spent frivolously. It was felt the money was less likely to be 'wasted' than if it were taken in one lump sum.

They also felt a greater degree of control as they could determine how much to take and when. Additionally, the accrual of interest, only on the amount that is borrowed, at any time was seen as an indication of being treated fairly by the provider and was welcomed by the segments.

No one could see any disadvantages in the product, but there were still some who refuse to consider equity release under any circumstances.

Recommended government action

- Consumers want the government to give them confidence that equity release is a legitimate product to consider.

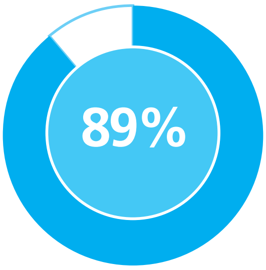
Recommended industry action

- Do more to inform the public about these products and to eliminate the misconceptions about how they work.

10. Building consumer confidence

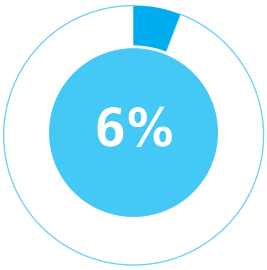
Many people could benefit from housing equity withdrawal to improve their life in retirement. The equity release market currently only reaches a small proportion of those who could benefit from its products. The government and the industry should work together to give people the knowledge and confidence to consider using these products as part of the solution to managing their financial commitments in later life.

"It sounds a bit sleazy, back street money lenders"



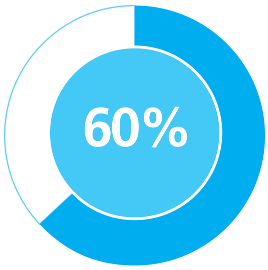
are not able to spontaneously name a company in the equity release market

"Lifetime mortgage is even worse, a mortgage has always been a millstone"



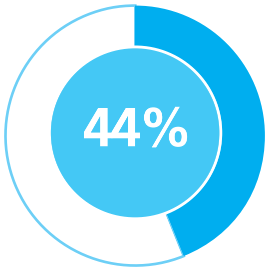
awareness of SHIP

"The most important thing for me is that the product is regulated"



overall want the reassurance that equity release products are regulated by the government

"The fact that no one can come and take your home away is the most important protection"



don't know where to get advice

To better understand the issues that may be inhibiting people from using equity release to fund an adequate retirement, the research sought to understand whether the name 'equity release' is irrevocably associated in the minds of consumers with the products marketed in the 80s that had none of the protection for consumers built into today's products.

The name does evoke negative reactions in many people and this could account for the people who were cautious about these products in the quantitative phase. As well as the associations with the products of the 80s, many also made the point that 'equity' isn't a word they tend to use.

'Lifetime mortgage' was also criticised. Most people have spent their working life paying off a mortgage.

9%

said that if they wanted to take out an equity release plan they would speak to friends and family

The safeguards people want are, firstly, that the government regulates these products. This now happens, but it is obviously not well-known. Other protections respondents would like to see include confirmation that they:

- Cannot be asked to leave the home during the lifetime of both partners where there is more than one person in residence;
- They or their family will never owe more than the value of their home;
- Cannot be asked to pay rent; and
- Know that the rate of interest is fixed (even if the company is taken over by another company).

There was a great deal of concern that people did not understand how these products work and that the consumer safeguards and protections should be communicated more effectively.

Recommended industry actions

- Continue to improve the value these products deliver to consumers. Finding solutions to release higher percentages of equity and reducing upfront charges are examples of areas that should be explored.
- Respond to consumers' dislike of the term 'equity release' by exploring alternative names to describe the group of products that are used to release equity in the home. For different reasons, 'lifetime mortgage' is also perceived negatively.

11. Concluding remarks

The current generation of retirees are likely to be the final generation to retire with a significant proportion of their private pension income arising from final salary schemes.

Those near retirement may still have periods of service in final salary schemes, but are also likely to have a reasonable proportion of their benefits in less generous money purchase arrangements. Despite this, the research indicates that people Approaching Retirement are still optimistic about their financial circumstances. When they realise how little income their retirement savings will provide they are disappointed. The government should work with the industry and the third sector to increase the awareness and understanding of people from the age of 50 of the financial choices facing them in retirement, so that people have adequate financial provision in place.

There is a greater willingness from those Approaching Retirement, those at the point of retirement and the Recently Retired to spend their capital to ensure an acceptable retirement. This suggests that any actions to provide the appropriate services to people and develop the confidence to access the equity in their home would be well received.

Consumers are willing to use the equity in their home to enrich their retirement, but there is widespread caution about using equity release. This is partly built on misconceptions about how these products work. Greater understanding could promote a more positive response.

A significant number of people also mistrust the industry. Their faith in the products and the companies that provide them must be restored if progress is to be made.

Downsizing may be a solution and there are positive advantages for some people in moving to a smaller home, but a significant number want to remain in the family home.

People across the segments stressed the need to act responsibly with any money released from the home and would not release equity for what they considered to be frivolous expenditure. This should signal that these products are most likely to be used to provide for a comfortable retirement or meet essential financial commitments.

If people feel confident that these equity release products provide value, have a real understanding of how they work, and are assured that the necessary consumer safeguards are in place, the younger segments in particular are much more likely to consider it as an appropriate option to supplement their retirement income. This is particularly true of equity release drawdown that was well received across all of the segments.

People want the government to regulate this industry. It is now regulated by the FSA, but if more people are to be encouraged to release equity the government needs to do more to promote its role in the regulation of this market to reassure people that it is a safe product to use.

The industry needs to promote the benefits and safeguards that are in place to reassure potential consumers that they can use these solutions with confidence. We must not let people struggle in retirement when there may be a way to increase their standard of living that would appeal to them if they were better informed of the facts.

The attraction of passing on wealth (so-called 'pre inheritance'), could release much-needed capital for future generations, potentially to help with property purchase. The adult children interviewed are also in favour, both of their parents spending their inheritance and of the potential for their parents to provide access to capital for specific purposes, such as property purchase, while they are still alive.

There is resistance across all of the segments to funding care by selling the home, therefore alternative ways of funding care are likely to be favourably received.

If the present position remains unchanged there is some evidence that more people will take action to avoid having to forfeit their home to pay for care.

There is a question mark over the value of retaining the name 'equity release' to describe these products. They bear little resemblance to the original equity release products, which are largely responsible for shaping current views and attitudes.

Methodology

The research was carried out in two phases during April and May, 2012:

1. Qualitative stage

A total of 6 focus groups and 22 in-depth interviews were undertaken. These groups included single people, couples and adult children. The interviews were conducted in London, South East and Birmingham. The focus groups were run over two hours and the in-depth interviews lasted for one hour. The selection criteria included:

- A range of different attitudes towards equity release
- People with a financial adviser and those without
- A mix of men and women
- A selection of healthy and active people and people who are unhealthy and inactive
- Homeowners with or without a mortgage with between £0-250,000 in their pension fund

2. Quantitative stage

This stage involved 1,000 telephone interviews with consumers. The key characteristics were that:

- All interviewees were over age 60
- They were either Approaching Retirement, at the point of retirement or retired
- They all owned a property worth at least £125,000

Specific quotas were set based on age, gender and region.

The interviewees were segmented into the following groups:

- Approaching Retirement: Between 1-5 years from their anticipated retirement date
- At-retirement: Less than 1 year to their anticipated retirement
- Recently Retired: Less than 1 year spent in retirement
- Established Retired: Between 1-10 years spent in retirement
- Long-term Retired: More than 10 years spent in retirement

Notes

1 Occupational Pension Schemes Survey 2010, ONS 2011
2 www.pensionfundsonline.co.uk, 6 January 2012
3 2007 European Pensions Barometer Report, Aon Consulting Limited
4 ONS data (based on cohort life expectancy)
5 Retirement income and assets: outlook for the future, Pensions Policy Institute, February 2010
6 The Aviva Real Retirement Report, September 2011
7 Equity Release Council, May 2012
8 Key Retirement Solutions, May 2012
9 SHIP, 2011

Notes

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Report designed and produced by Cicero Consulting

About Just Retirement

Just Retirement is a specialist provider of financial services for people at and in retirement. We have developed intellectual property in understanding how people's medical conditions and lifestyle impacts their life expectancy. Applying this intelligence enables Just Retirement to create a personalised rate for the customer and deliver higher levels of retirement income compared to standard annuities.

In less than a decade since we started in 2004 we have grown to become the largest provider of enhanced annuities and the second largest provider of equity release mortgages in the UK*. In 2010 we helped our 100,000th customer towards the retirement they hoped for – an achievement we're particularly proud of as we're still a comparatively young company.

Just Retirement campaigns for people to get a better income in retirement. We work tirelessly to ensure more people are encouraged to shop around the market to attain an improved financial outcome.

Housing equity withdrawal is an important additional resource that would enable many people to fund a decent life in retirement that their pensions alone would not support.

Our equity release mortgages have unlocked cash from the homes of nearly 20,000 customers, to improve their lifestyle in retirement.

**ABI and ERC data for year 2011*

www.ERresearchcentre.org

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Member of

Equity Release Council – Incorporating SHIP Standards

ABI – Association of British Insurers

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