Funding Retirement: The role of equity release

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Draft version (please do not quote)

Abstract

Across Europe there has been much debate about the potential of housing assets to ease the fiscal pressures inherent in current pension systems. However little is known about what people do with housing equity once it is released. Do they extract equity to supplement inadequate pension provision or do they use it for conspicuous consumption? And are they reluctant to use housing equity anyway because of a desire to leave it as a bequest? While the scale of equity release currently varies greatly across Europe, it has been largest by far in the UK. This paper presents the findings of a survey of over 500 equity release customers in the UK as a case study of the actual usage of equity release. It reveals that equity release products are not just used to supplement low pension income, but rather, a significant proportion are also using these products because they want a more enjoyable retirement while others appear to have early bequest motives. Consideration is given to what these findings might mean for the 'house as pension' debate in other European countries.

Introduction

Drawing on the findings from an empirical piece of research, this paper looks at the use of equity release products by older people, taking the UK as a case study, to shed light on the kinds of people who use these products and what they use them for. In the absence of European-wide information about the extent and nature of equity release markets, the paper also considers what the UK experience might mean for the use of equity release products in other European countries. Before presenting the empirical data, the paper sets out the context for increasing interest in the use of housing assets in later life.

Background

The ageing of populations across Europe is leading to increased budgetary pressures on pension systems and welfare resources. The impact of this demographic change may be more significant for countries that base their pension systems on the pay-as-you-go-principle but the current financial crisis has also highlighted the vulnerability of pension funds based on stock market performance (Dol, 2009). At the same time, owner-occupation rates have increased in most European countries and house price increases have been high (with the exception of Germany) (Doling, Horsewood and Neuteboom, 2009). Consequently, many older Europeans have a substantial level of housing wealth. It is in this context, and that of a more general shift towards an asset-based approach to welfare, that housing

assets are seen as offering a potential solution for relieving some of the problems of population ageing and the sustainability of pension systems.

Although the promotion of asset-based welfare (or, more specifically, housing asset-based welfare) is often associated with liberal countries such as the UK, Australia and the US, the idea of using housing wealth to pay for old age was being discussed as early as 1999 by housing ministers of all of the then EU member states:

In most EU Member States, older people live in owner-occupied housing. This means that many older people possess capital in the ownership of their homes. The Ministers were aware of the need to explore new ways of helping older people to safely utilize their capital, for example, to obtain the housing and support services they need, to repair or adapt their existing homes or to release income to cover the costs of support services or to purchase new accommodation with support services available (Finland 1999; paragraph9)

According to Doling and Ronald (2010, p5) '*home-ownership is already developed in many countries as an explicit means to supplement or substitute public welfare provision'.* But while governments may be increasingly keen for older home-owners to use their house as a pension, to date, housing equity has tended to remain locked up in people's homes (Chiuri and Jappeli, 2002; Turner & Yang, 2006). Most older people remain in their present home when they retire making use of the housing asset by benefiting from reduced living costs (Dol, 2009; Toussaint and Elsinga, 2009). Commentators suggest that housing assets are only likely to be used if absolutely necessary, once other, more liquid assets, have been used up (for example Dol, 2009; Levin 1998). Bequest motives are often cited as the reason for this (Haffner, 2008) and the fact that housing assets tend to be viewed differently from more liquid assets. The precautionary motive is also considered to be important here (Fisher et al, 2007). But despite these issues the combination of political and socio-economic trends outlined above are likely to increase the need for retirees to look for alternative/additional sources of finance and thereby lead to changes in their strategies for using housing assets in later life (Doling, Horsewood and Neuteboom, 2009).

One way of accessing the equity tied up in owner-occupied homes is by using an equity release product. Equity release products such as lifetime mortgages (otherwise known as reverse mortgages) and home reversion schemes give households the opportunity to turn their housing assets into cash without having to move. Equity can be accessed in the form of a lump sum and/or income or in instalments as and when needed through the use of draw-down plans.

Given the absence of official statistics on equity release in the EU (with the partial exception of the UK which collects data on the lifetime mortgage market) it is difficult to gain an accurate picture of the extent and nature of the markets that operate in various countries. Furthermore, data on equity release are often conflated with that on mortgage equity

withdrawal giving rise to contradictions in the small amount of information that is available. However a publication by Refiner et al (2009) distinguishes equity release from mortgage equity withdrawal and using this we can see that the UK has by far the largest market for equity release but that products are becoming increasingly available in other European counties, in particular Ireland, Spain, Italy and Hungary (See Table 1). In Scandinavian countries such as Denmark and Finland products that resemble loan-type equity release plans are available but they are not strictly equity release schemes in the sense that credit should be for life and repaid with the sale of the home on death (Reifner et al, 2009). Most of the products in these countries (and those in the Netherlands) are more like second mortgages for old age (Reifner et al, 2009) but they can still be used to access equity tied up in owner-occupied homes.

Table 1 EU providers of Equity release schemes

Country	**Type of plan available**	**Number of providers identified**
UK	Loan Model and Sale Model	40*
Ireland	Loan Model and Sale Model	27*
Spain	Loan Model and Sale Model	21
Austria	Loan Model	1
Finland	Loan Model	2
France	Loan Model	1
Italy	Loan Model	5*
Sweden	Sale Model	1
Netherlands	Loan Model	1
Romania	Sale Model	1
Bulgaria	Sale Model	1
Germany	Loan Model and Sale Model	2
Hungary	Loan Model and Sale Model	3

*Includes some intermediaries Source: Reifner et al, 2009.

According to Doling, Horsewood and Neuteboom (2009) reverse mortgages have the potential to increase net household income by more than 10 per cent. For French and Spanish homeowners it could come close to 20 per cent. Overall, their potential for improving the incomes of older home-owners is greatest, perhaps, in countries with relatively ungenerous pension systems such as Eastern and Southern European countries (Doling, Horsewood and Neuteboom 2009). But while these figures indicate that equity release products could provide an important mechanism for increasing household income, there are a variety of institutional and cultural factors that could limit this potential. These include differences in the meaning of the home, homeownership rates, pension and welfare arrangements and product availability in different countries. In addition, what people actually do (and are willing to do) with their housing equity once it is released is also an

important factor affecting its potential for providing a substitute for, or compliment to, state provision.

To date, much of the literature on the role of housing wealth in later life has focused on people's perceptions of, and intended uses for, housing assets (for example Dol, 2009; Haffner, 2009; Smith, 2004). As such very little is known about what people do with extracted equity in practice and whether equity release products are being used by those who might be considered most in need of additional income. This paper therefore uses an empirical piece of research, based on the UK, as a way of trying to increase understanding of the kinds of people who use equity release products and what they use them for.

Research methods

The empirical data used in this paper comes from a survey of equity release customers that was carried out in 2009. Overall, a response rate of 39 per cent was achieved and the total sample size was 553. For further detail on questionnaire design and sampling methods used see appendix 1.

1 What kinds of people take out equity release plans?

This section looks at the socio-economic characteristics and attitudes of respondents in the sample to see what kinds of people take out equity release plans.

Age

The results in Table 1.1 show that the average age of respondents at the time of the survey was 74 years. The age at which respondents took out their equity release plans ranged from 55 to 91 with a mean age of 72 years (mean age for lifetime mortgage customers was 71 years and 73 years for home reversion customers). This is consistent with previous research stating that the average age at which a regulated equity release plan is taken out is 71 (FSA, 2008).

Reports from the equity release industry suggest that customers are getting younger. Key Retirement Solutions, for example, reported that the average age of their customer was 69 in 2007 falling slightly to 68 in 2008 while in 2009 their fastest growing customer group is in the 55-59 age range (SHIP, 2009). One of the reasons for this trend might be that some pensioners are finding it increasingly difficult, earlier on in retirement, to meet all of their income needs from pension income alone. Although each generation of pensioners is likely to have a higher income than previous, older generations, the decline in Defined Benefit pensions could mean that pensioners will now have less, or the same income, as previous generations (PPI 2009). The ability to meet income needs may therefore be going down rather than up.

The decrease in age might also be due to 'baby boomers' having increased expectations for retirement but, again, not having sufficient income/capital from pensions to service the pre-retirement lifestyle they wish to maintain. Savings and investment income could help to meet some of this expenditure but for those who don't have such income, or, very little, equity tied up in the home is perhaps the next best option.

Person with whom plan was entered into and marital status

Over half of all respondents (56 per cent) entered into their plans with a husband/wife or partner while 44 per cent took out their plans alone. Of these, 46 per cent were male and 54 per cent were female.

Fifty two per cent of respondents stated that they were married/cohabiting at the time of the survey. Those who were widowed made up 28 per cent of the sample. Just 20 per cent were separated/divorced or had never been married (11 and 9 per cent respectively). The fact that equity release customers seem more likely to be in couples rather than men and women living alone could reflect differences in the reasons why people now use equity release products. For example, as a way of enjoying life in the earlier years of retirement while able to do so as a couple. It could also mean that more pensioner *couples* are now finding it harder to meet their needs and preferences from pension incomes alone.

Work status

A large majority of respondents were retired (93 per cent) which reflects the age composition of the sample.

Children

The majority of respondents had children (73 per cent) reflecting trends in the wider population.

Table 1.1 Sample characteristics

Characteristics	**2009**
Mean age	74 years
Mean age when plan was taken out	72 Years
Marital status	%
Married/cohabiting	52
Separated/Divorced	11
Widowed	28
Single	9
	Total (N=531) 100
Person with whom plan was entered into	
Husband/Wife/Partner	56
No one else	44
Other	0
	Total (N=540) 100
Sex of those who entered into plans alone	
Male	46
Female	54
	Total (N=229) 100
Work status	
Working in paid employment (full/part-time)	6
Retired	93
Other	1
	Total (N= 532) 100
Children	
Yes	73
No	27
	Total (N=531) 100

Income and sources of income

The results in Table 1.2 show that a third of respondents received a gross annual income of £10,000-£14,999 (excluding income from their equity release plans). Almost a quarter (23 per cent) reported that they received just £5,000-£9,999 while 19 per cent of respondents earned between £15,000 and £19,999 in the last year (this figure represents the median value for the sample). Single respondents were more likely to be living on less than £10,000 per annum than their couple counterparts (40 per cent compared with 15 per cent). Relatively few respondents, whether single or living as part of couple, earned either less than £5,000 or £20,000 or more. These figures therefore show that the incomes of respondents in the sample were clustered in the middle bands though the incomes of single respondents were slightly more skewed towards the lower end of the distribution.

Comparing the incomes of those in the survey with the wider population it seems that the differences are fairly small. Although direct comparisons cannot be made due to measurement differences, the Pensioners Income Series (DWP, 2009) shows that median net income (before housing costs) in 2007-08 was £18,404 for couples and £10,036 for single pensioners.

Table 1.2 also indicates that the respondents in the sample were receiving income from a number of different sources. The overwhelming majority were in receipt of the state pension (98 per cent) and this figure is largely in line with the figure for pensioners in the wider population which is 95 per cent (DWP, 2009). Eighty five per cent of respondents were receiving income from a private pension with more couples than singles receiving this type of income (91 and 79 per cent respectively). This figure is somewhat higher than the figure for this age group overall. The Pensioners Income Series (2007-08) indicates that 67 per cent of all pensioner units are in receipt of private pension income (DWP, 2009).

Although pensioners with private pensions tend to have higher incomes than those who rely solely on the state pension, it may be that those in this survey had relatively small occupational pensions, perhaps because of sub-optimal earning levels during their working lives. Alternatively, it might be that their private and state pension income is sufficient for day to day expenditure but not for larger items such as holidays, house repairs and so forth. Indeed most of the respondents in the sample (67 per cent) did not appear to have savings or investments which could otherwise be used to support this kind of expenditure. Having said this, the result could partly be due to under-reporting because not all respondents may have viewed, for example, a savings bank account as a source of income.

Table1.2 Income and sources of income

Household income	**All** **%**	**Singles** **%**	**Couples** **%**
Under £5,000	4	8	1
£5,000-£9,999	23	32	14
£10,000-£14,999	33	35	30
15,000-£19,999	19	14	24
£20,000-£24,999	12	8	16
£25,000-£29,999	5	2	9
£30,000 or more	4	1	6
Total	100 (N=512)	100 (n=244)	100 (n=267)
Sources of income			
Private pension	85	79	91
State pension	99	97	100
Pension credit	14	19	10
Other social security benefits	13	10	16
Savings and investments	35	31	39

Housing wealth

According to the latest Halifax House Price Index (2010) the average property is worth £169,777 (not accounting for regional differences). Although this is lower than it has been in recent years due to the economic downturn, we can see from Table 1.3 that typically, respondents' homes were of approximately average value. There is a concentration of respondents who owned homes below the average value (given that the majority took out their plan within last five years) and very little with properties above average value. Compared with the incomes of the majority of respondents however, they could be classed as relatively house-rich, income-poor. Having said this, the table does indicate that income and house value could be correlated thus house value was crosstabulated with household income to examine the relationship between these two variables. Results are contained in Table 1.4. A chi-square test demonstrated that the association between house value and income was statistically significant (chi-square = 95.205, df = 20, $p < .001$) and a Cramer's V statistic, calculated to assess the strength of the association, was 0.218, a moderate association.

The results indicate that that those with low value properties were more likely to have low incomes and those with high value properties were likely to have higher incomes. Those with house prices in the middle range were still more likely to have low incomes (given that the sample overall is concentrated in the lower income bands) but were more evenly

distributed across the intermediate income bands. This relationship is not unexpected given that previous research has found that housing equity has a tendency to rise with income (Hamnett and Seavers, 1996; Hancock, 2000; Sodha, 2005). That said, it is also accepted by these commentators and others that there is no simple, direct relationship, between high incomes and high levels of housing wealth.

Table 1.3 Housing wealth

House value	**%**
Under £100,000	7
£100,000-£149,000	19
£150,000-£199,999	**29**
£200,000-£249,000	19
£250,000-£299,999	11
£300,000-£349,999	6
£350,000-£399,999	2
£400,000-£449,999	2
£450,000-£499,999	0
£500,000 or more	5
Total	100
	(N=543)

Table 1.4 House value by household income (column percentages)

	Under £10,000	£10,000-£14,999	£15,000-£19,999	£20,000-£24,999	£25,000 or more	All
House value						
Under £100,000	12	6	4	3	0	6
£100,000 - £149,000	26	25	8	12	0	18
£150,000 - £199,999	31	31	32	21	18	29
£200,000 - £249,999	15	19	26	18	17	19
£250,000 -£299,999	8	10	13	20	15	12
£300,000 or more	8	9	17	26	50	16
Total	100	100	100	100	100	100
						N=501

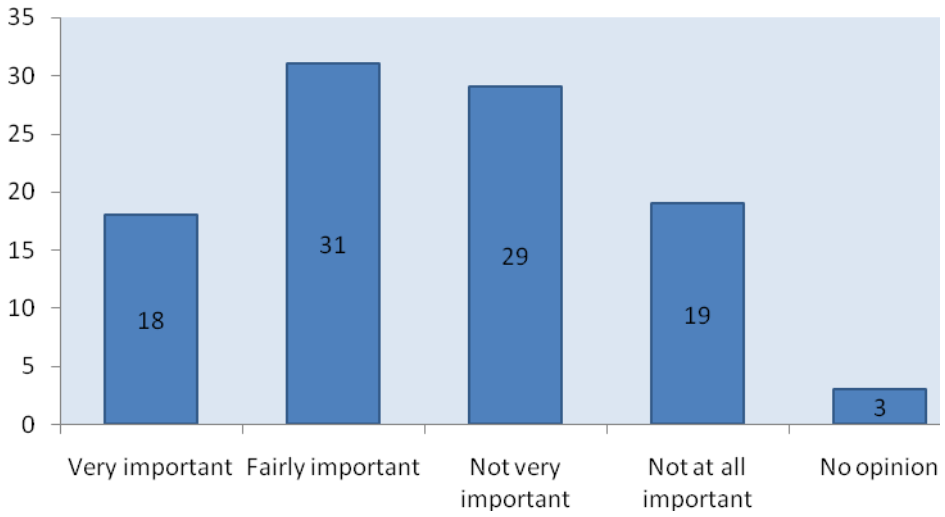
Attitudes to inheritance

Figure 1.1 shows the results of a question which asked respondents to state how important it was for them to leave property or money as an inheritance at some point in the future. It might be assumed that those who take out equity release plans and thereby reduce the value of their estate will demonstrate less support for inheritance than those in the wider population. On the other hand, those who take out equity release plans may do so in order to pass on some of their housing wealth now, rather than later.

Forty nine per cent of the sample said that inheritance was important to them. This is less than the 60 per cent of respondents who stated that is was important to them in the survey from which this question was taken (Attitudes to inheritance in Britain, Rowlingson and McKay, 2005).

Twenty nine per cent of respondents said that leaving money or property was not very important (compared with 28 per cent in 2005) while only 19 per cent stated that it was not at all important compared with just 6 per cent in 2005. These figures suggest that those in this survey demonstrated less support for inheritance compared with those in the wider population though there could be a number of reasons for this. It may be that inheritance is not that important because wealth transfers have already been made using some or all of their equity and/or it may be that the respondents take a more pragmatic view towards their housing assets wanting or needing to consume some and leave some as a bequest.

Figure 1.1 Importance of leaving money or property as an inheritance (per cent)



2 How do people make use of the money from equity release plans?

This section looks at the ways in which respondents were using the money overall before looking at whether the sample contained distinct groups of respondents who took out equity release for specific purposes and whether or not these groups shared similar socio-economic characteristics.

2.1 Use of equity

As Table 2.1 illustrates, 79 per cent of the sample said that they had used the money from their equity release plan for house maintenance or improvements (46 and 33 per cent respectively). Research carried out by equity release providers often reveals that customers make use of their equity in this way. According to three leading providers (Just Retirement, Aviva and Key Retirement Solutions) maintaining or improving the home features in the top four uses for released equity (SHIP, 09).

Nineteen per cent of the sample indicated that the money from their plan was being used to provide extra income in order to pay for everyday living expenses/regular bills. This figure is lower than expected given that 27 per cent of the sample had incomes of less than £9,999 and 33 per cent had incomes that were less than 14,999. But what this might indicate is that most of the respondents took out an equity release plan in order to boost capital rather than to provide a regular income. Indeed research by Reifner et al (2009) suggests that equity release schemes typically provide lump sums or access to a flexible reserve of funds for customers in the UK.

More than a third (33 per cent) of respondents were using equity release to repay debts. The increasing use of equity to service debt has been reported by a number of providers. For example, Aviva, Just retirement and Key Retirement Solutions all found that debt repayment was among the top four uses for released equity among their customer base (SHIP, 2009). Furthermore, Key Retirement Solutions reported an almost 40 per cent increase in the number of those aged 65 and over who used equity release to relieve the burden of mortgage debt in 2008 compared to 2007 (KRS, April 2009 Press release). This trend may reflect baby boomers' changing lifestyles and attitudes to consumption, ease of access to credit (with the exception of the last year or so) and/or divorce and family break up, causing more people to retire with outstanding debt, mortgage or otherwise (SHIP, 2009). It may also reflect the failure of an investment vehicle, such as an endowment, to meet the total repayment balance of a mortgage (KRS, April 2009 Press release).

Other research, however, has suggested that the number of those with outstanding debt in retirement has not increased significantly in the last ten years but that those who do have debt later on in life owe more than they did ten years ago (McKay et al, 2008). This may

explain why some people are turning to housing assets to help pay off the debt that they can no longer manage in retirement given their reduced income.

Using equity to help out or treat family was also a relatively common use of funds. Twenty six per cent of the sample indicated that they had used some or all of their equity in this way. Open responses indicated that this was often for the purpose of helping children or grandchildren to buy houses/manage mortgages, meet university costs and to clear debts. Respondents indicated that they saw more benefit in passing on some of their wealth when they felt their family needed it most rather than waiting until they died. It was also quite common for respondents to simply say that they wanted to see their children or grandchildren enjoy their inheritance.

About a quarter of the sample were investing or saving the income from their plans. This is more than expected because such uses are not encouraged by providers or IFAs given the tax implications. But what this might indicate is that people decided to withdraw equity from their homes when house prices were high in order to provide a buffer against future shortfalls in income and/or to guard against unexpected one off payments. Thus although it might be assumed that precautionary saving is not a concern among those who consume their housing assets, this finding suggests otherwise.

Finally, funding holidays was at least one of the ways in which 36 per cent of the sample was using their equity. Some of these respondents may be able to take one or two modest holidays each year having released some of their housing equity while others may be using it solely for this purpose and to enjoy more regular, expensive holidays. It would seem, however, that equity release is being used for lifestyle purposes more so now than over a decade ago (SHIP, 09).

Table 2.1 Way(s) in which respondents were making use of their housing equity

Use of equity	%
House maintenance/repairs	46
Holidays	36
Clear debts	35
House/garden improvements	33
Help out or treat family	26
Investment and saving	24
Everyday living expenses/regular bills	19
Leisure activities	17
Other	12
Reduce IHT liability	9
Pay for health/care needs	8
Early retirement	1

2.2 Equity release: different purposes for different people

We have seen that there is a wide variety of uses for the money that equity release plans provide and it seems that there is a wider range of uses today than was the case some years ago when equity release plans were largely used by lower income home-owners for managing day to day living costs (SHIP, 09). This increasing diversity in the way in which housing equity is being used suggests that there is likely to be increasing diversity in the socio-economic characterises of customers. Cluster analysis was carried out to determine whether or not the sample contained distinct groups of customers who used equity release plans for specific purposes and shared similar characteristics. The analysis produced three clusters. The results are contained in Table 2.2 below.

Cluster 1

The majority of respondents in this cluster (97 per cent) were already 'doing alright' or 'living comfortably' before entering into their plans and 67 per cent of them disagreed that they couldn't do without the money. Equity release was not considered a last resort.

Given that a relatively large number of respondents in this cluster (30 per cent) did not agree that 'taking out an equity release plan enabled them to have a more enjoyable retirement' it also seems that the purpose for which they released some of their housing equity was not necessarily personal gain. Their financial situation could help to explain this. Table 2.3 indicates that those in cluster one were financially better off than those in clusters two and three. In particular they were more likely to have higher incomes, more valuable homes and to be in receipt of income from savings and investments. They were also less likely to be receiving means tested benefits.

Unlike those in clusters 2 and 3 cluster 1 respondents recorded just one use for their equity and a further 27 per cent recorded just two uses. The purpose for which equity was released seems to be less about providing an overall boost to income and more about enabling one of expenditures and/or the early transfer of wealth to younger generations. Indeed more respondents in this cluster (35 per cent) were using their equity to help out or treat family and considerably more (32 per cent) cited other reasons for taking out equity release. Open responses suggest that some of these other uses may include divorce settlement, the purchase of holiday homes and other large items.

Cluster 2

The respondents in cluster two were not 'finding it very difficult' to manage before taking out an equity release plan but neither were they 'living comfortably'. For these people equity release was not an absolute last resort but perhaps more of an economically rational decision based on using their most valuable asset to improve their standard of living. The additional capital appears to enable them to have a more enjoyable retirement and to maintain the lifestyle they had when they were working by allowing a wide range of non-housing consumption. The respondents in this cluster recorded the most uses for their equity out of the three clusters (60 per cent cited 3 uses, 47 per cent 4 uses and 22 per cent 5 uses).

Cluster 3

The majority of respondents in cluster 3 were 'finding it difficult' to manage or were only 'just about getting by' before they took out their equity release plans suggesting that they were desperate and had no other option (80 per cent agreed it was a last resort and they were least likely to have income from savings or investments). For the respondents in this cluster, equity release seems to have been a mechanism enabling survival rather than a more enjoyable retirement.

The incomes of those in cluster 3 were not too dissimilar from those in cluster 2 (see Table 2.3) but as they were considerably more likely to be using their equity to clear debts this would have reduced their expenditure opportunities in other areas. This may be why they were less likely than those in cluster 2 to say that equity release enabled them to have a more enjoyable retirement. Indeed far fewer (15 per cent) spent their equity on holidays and none of the respondents in cluster 3 spent the money on leisure activities.

Table 2.2 Two step cluster analysis

	Cluster 1 n=99	**Cluster 2 n=190**	**Cluster 3 n=123**
Financial situation before plan			
Finding it very difficult	0	1	11
Finding it quite difficult	0	5	24
Just about getting by	3	40	54
Doing alright	36	47	10
Living comfortably	61	7	1
Equity release last resort			
Strongly disagree	39	13	2
Tend to disagree	22	18	6
Neither agree nor disagree	23	43	11
Tend to agree	7	20	43
Strongly agree	8	7	39
Couldn't do without money from plan			
Strongly disagree	41	4	2
Tend to disagree	26	17	9
Neither agree nor disagree	16	37	9
Tend to agree	10	32	37
Strongly agree	6	11	43
Equity release enabled more enjoyable retirement			
Strongly disagree	13	1	6
Tend to disagree	17	0	9
Neither agree nor disagree	20	7	21
Tend to agree	21	46	40
Strongly agree	28	46	24
Use of equity			
Everyday living expenses	1	23	28
Maintenance/repairs	10	67	50
Home improvements (ns)	27	38	34
Clear debts	10	24	78
Investment and saving	15	33	16
Help out/treat family	35	27	12
Holidays	19	63	15
Leisure activities	8	35	0
Other	32	8	6

Table 2.3 Clusters by socio-economic variables (column percentages)

	Cluster 1 n=99	**Cluster 2 n=190**	**Cluster 3 n=123**
Income			
Under £10,000	13	23	29
£10,000-£14,999	23	37	40
£15,000-£19,999	31	20	13
£20,000 or more	33	21	18
Income source			
Private pension	93	87	82
State pension (ns)	100	100	98
Pension credit	10	10	23
Other SS benefits (ns)	12	14	18
Savings and investments	52	44	14
House value			
Under £100,000	2	6	12
£100,000-£149,999	16	17	22
£150,000-£199,999	21	33	33
£200,000-£249,999	17	21	14
£250,000-£299,999	19	11	5
£300,000 or more	24	12	15
Age (at plan) (ns)			
Under 70	42	45	45
70-74	29	24	24
75-79	19	15	15
80+	11	17	17
Entered into plan with: (ns)			
Husband/Wife/Partner	60	60	55
No one else	40	40	48
Marital status			
Married/cohabiting	52	60	53
Separated/divorced	15	8	16
Widowed	28	20	23
Single	5	13	8
Children			
Yes	80	70	77
No	20	30	23

3 What are the implications of these findings for the potential role of equity release as an alternative to pension finance in the UK and other European countries?

Governments across the EU are keen for older people to use their house as a pension in order to relieve some of the problems of population ageing and the sustainability of pension systems. At present, most older home-owners do not draw on their housing equity in old age, thus the majority of the housing wealth held by the over 65s remains intact which is not ideal for policy makers who are keen to ease fiscal pressures on pension systems. But the empirical data in this paper show that even among those who do consume their housing assets in retirement, they are not necessarily doing so in ways that policy makers intend. There are households who draw on the equity in their homes for essential rather than lifestyle reasons but this does not necessarily mean that they are using the plans primarily as a substitute for inadequate pension provision. Indeed most respondents had both state and private pensions.

In practice, equity release products play different roles for different groups of people. For the better off, they appear to function as a way of making early bequests and for large one off purchases. This is interesting because it is often assumed that those who consume their housing assets in old age make a break with the intergenerational contract. But these findings show that equity release can provide a mechanism for early bequests. This trend might become increasingly popular in the future in the context of demographic change. Increased longevity means that the transfer of wealth between generations will be delayed and the timing of inheritance influences the benefits it will have for younger generations (Izuhara, 2005). Thus as people live longer they may wish to pass on some of their wealth earlier, rather than later, when their children need it most.

For those on middle incomes with lower levels of savings and investments they seem to function as a way of further enhancing their consumption possibilities and allowing them to maintain their pre-retirement living standards. This group of customers most closely represent the baby boom generation who are considered to have a very different outlook to previous generations. '*Whereas previous generations were frugal and conservative and expectant of a quiet retirement, Baby Boomers are goal driven and aspirational. They expect the retirement to provide a quality of life matching that which they enjoyed during their working lives'* (SEQUAL, 2008, p 21).

Finally for those in financial difficulty, as a result of unmanageable debt, for example, equity release products increasingly provide a mechanism for managing this. Some of the more common ways in which extracted equity is used, then, are not necessarily what governments would want not least because if equity is being used up in the earlier years of retirement either to enhance lifestyles, to clear debts or to pass on to younger generations, then this reduces the amount of equity that is available to meet future welfare needs such as the costs of long-term care.

As for socio-economic characteristics it seems that those who currently use equity release products are not predominantly those on very low incomes or those who might be considered most in need of additional income. The majority of respondents in this sample were on middle incomes. One of the most likely reasons for this is that those without private pensions are least likely to have large amounts of housing equity to draw on (Pensions Commission 2004). The commercial products that are currently available are generally only applicable to those who have homes worth a minimum of £100,000 (in some cases companies will accept properties worth £75,000). Furthermore, the start up costs involved in taking out equity release plans are likely to deter those on lower incomes from entering into a scheme as is the impact on benefits. Those in receipt of means tested benefits may lose substantial amounts of entitlement by taking out a plan and so the net gain can be significantly less than the amount obtained from the plan in the first place (Terry and Gibson, 2006).

Clearly the findings from this research cannot necessarily be generalised to other European countries and one must take into account the fact that cultural differences and differences in pension and welfare arrangements will variously affect the way in which equity release products are used if and when they become more widely available. But in the absence of information on the way in which equity release products are used or, might be used, across Europe, the findings from the research reported on in this paper raise some important issues about the future development of equity release markets both in and outside the UK.

In particular, it seems that equity release products in their current form, no matter how widely available will not provide an alternative to pensions, particularly for those most in need, though they may play some role in augmenting them. Thus If governments are keen for lower-income home-owners to use the value of their homes as a substitute or even compliment for pension finance, then they should go further in enabling this through some sort of subsidy or by encouraging the financial services industry to provide products that are more suited to their needs. These would be schemes that allow smaller amounts to be withdrawn, have less impact on means tested benefits and reduce the restrictions on minimum house values. In the UK, such schemes are currently being piloted involving local authorities and one leading intermediary within the equity release industry (see Terry and Gibson 2010). But until there is more emphasis on developing products for those most in need, both in the UK and elsewhere, it seems that they will be purchased largely by those on middle and higher incomes for the purpose of further enhancing either their own or their families consumption possibilities and thereby increasing inequality.

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Appendix 1

Research methods

The survey forms part of an ongoing mixed methods study looking at the role of housing wealth in later life. The main aim of the survey was to get an idea about the kinds of people who take out equity release products and to find out what they are doing with the money. It also aimed to establish respondents' views on associated topics such as inheritance, responsibility for financial security in later life and retirement saving strategies. Information was also collected on various aspects associated with taking out an equity release product including levels of satisfaction and dissatisfaction.

The questions for the survey comprised a mixture of questions which had previously been asked on surveys such as the Attitudes to Pensions Survey (2006) and Attitudes to Inheritance in Britain (2005) and new questions designed specifically for this survey. The questionnaire was tested in a small-scale pilot with the assistance of Age Concern England and the necessary amendments made before the main fieldwork.

The sample for the survey was drawn from a variety of sources. Around three quarters of the sample were drawn from four equity release providers (all of which were members of the UK trade body for equity release, Safe Home Income Plans). The remaining quarter of the sample was drawn from a data base belonging to Age Concern England. As such, it cannot be guaranteed that the results are fully representative. Caution should therefore be exercised when interpreting the results.