BRIEFINGS

MIND THE £££ WEALTH GAP

Intergenerational Justice and Family Welfare

Equity release consumers: who are they and why do they use the products?

Equity release products have been available in the UK for over 40 years. There is a reasonable amount of data on the scale of the market, but much less information exists on the consumers. This briefing draws mainly on a mixed methods study carried out with 553 equity release consumers between 2009 and 2010, providing information and data on their socio-economic characteristics and circumstances (Overton 2010).

Consumer characteristics

Age

The amount of equity available for release with UK Lifetime Mortgages (by far the most popular type of equity release plan) is fairly limited starting at around 20 per cent of the house value at age 55-60. This increases by approximately 1 percentage point for each year above the minimum age with an upper limit of 45-50 per cent at age 85 and over (see Table 1).

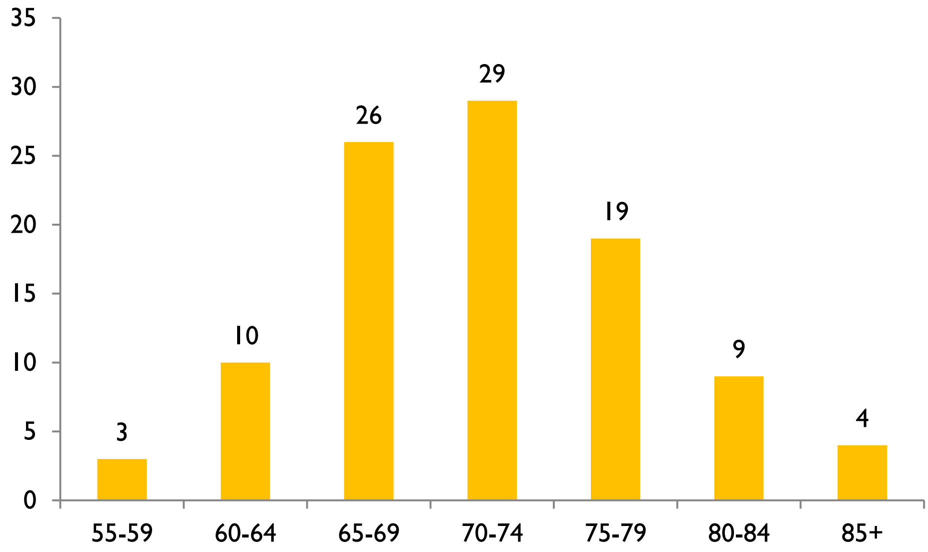
Table 1: Age-related LTVs

Age	Maximum loan to value
60	20 %
65	27 %
70	32 %
75	36 %
80	41 %
85+	45 %

Source: http://www.justretirement.com/Documents/3076%20equity%20release%20at%20a%20glance.pdf
Figures correct at April 2013

In 2009, the median age of consumers (at the time of taking out equity release) was 71 years (age range 55-91). More recent analysis by Key Retirement Solutions suggests that the 65-69 and 70-74 age groups are the most likely to use equity release products (see Figure 1). With the recent removal of the Default Retirement Age, however, older people are likely to be economically active for longer, and this may lead to a rise in the average age of equity release consumers in the long term (ERC 2012).

Figure 1: Equity release customers by age (2012)

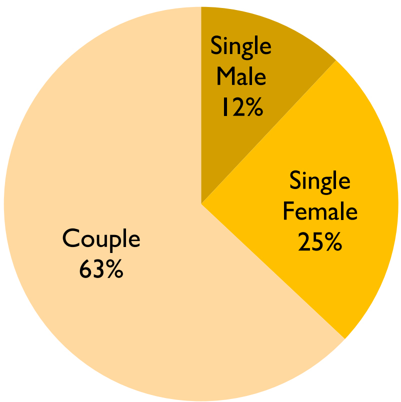


Source : http://www.keyrs.co.uk/media/MARKET-REPORT-ANNUAL-2012.pdf

Marital status

In 2009, 52 per cent of equity release consumers were either married or cohabiting, while 28 per cent were widowed and 20 per cent were single. Key Retirement Solutions latest annual market monitor suggests that couples now make up an even greater proportion of equity release customers, while single females continue to outnumber single men (see Figure 2).

Figure 2:
Equity release customers by marital status (2012)



Source: http://www.keyrs.co.uk/media/MARKET-REPORT-ANNUAL-2012.pdf

Location

In 2012, the largest number of equity release plans was sold in the South East (see Table 2) where property prices are among the highest in the UK (ONS 2009). By contrast, the smallest number of equity release plans was sold in Northern Ireland where property prices are among the lowest. This suggests that high levels of housing wealth provide a strong incentive for equity release.

Table 2: Number of plans sold and average property value by region (2012)

UK region	Number of plans sold in 2011	Average value of property on which plans were sold
South East	4,580	£261,166
South West	2,467	£230,183
North West	2,063	£171,409
London	1,719	£404,254
East Midlands	1,715	£173,169
Yorks & H'side	1,581	£168,473
West Midlands	1,547	£186,274
Scotland	1,161	£172,801
East Anglia	1,039	£186,534
Wales	890	£178,609
North	787	£159,495
Northern Ireland	126	£197,894

Source: http://www.keyrs.co.uk/media/MARKET-REPORT-ANNUAL-2012.pdf

Financial circumstances

Table 3: Respondent's reported financial situation before taking out their equity release plan

Response	Before plan
	%
Living comfortably	20
Doing alright	33
Just about getting by	34
Finding it quite difficult	9
Finding it very difficult	4
Total	**100**

The financial circumstances of equity release consumers are varied, with some finding it difficult to get by while others are living comfortably (see Table 3). Most participants reported that they received income from private pensions (85 per cent), no doubt reflecting the positive correlation between home ownership and private pension wealth. Just 35 per cent received income from savings and investments, while 14 per cent were receiving Pension Credit – a means-tested state benefit.

Over half of the sample (55 per cent) owned homes worth just under £200,000 or less while the modal house value was £150,000-£199,999. Participants in the equity release survey were less likely to have substantial amounts of housing wealth compared to the 65+ population (27 per cent of home owners aged 65 and over have houses worth £300,000 or more compared to 15 per cent of survey participants). Overall, equity release customers seem to be neither asset-rich nor poor, but rather, 'asset-average'.

Participant's incomes tended to rise with the value of their homes, but 21 per cent of consumers could be considered house-rich, income-poor. However, the majority were spread across income and wealth classes (see Table 4 on next page).

Table 4: Income and housing wealth combined (column percentages)

	Income		
Housing wealth	Income-poor	Income-rich	**Total**
Asset-poor	38	15	**52**
Asset-rich	21	26	**48**
Total	**59**	**41**	**100**

Notes: The data in this table relate to annual household income and house values as reported by the survey participants. For the purpose of this analysis, participants with a gross annual household income of £15,000 or above are considered income-rich; those with a gross annual household income below £15,000 are considered income-poor. Those with houses worth £200,000 or more are considered asset-rich while those with houses worth less than this are considered asset-poor.

A segmented market

Table 5 shows that equity release is used to support retirement in a number of different ways. A 1995 survey of equity release consumers (Davey 1996) revealed that the products were largely used for everyday living expenses among middle-income home owners, but there is now considerable diversity in terms of consumer's circumstances and their reasons for using the products (see Table 6 on next page). Three groups of consumers can be identified (using cluster analysis).

Table 5: Why are equity release products used?

Use(s) of money 2009	%
House maintenance/repairs	46
Holidays	36
Debt clearance	35
House/garden improvements	33
Help out or treat family/friends	26
Investment and saving	24
Everyday living expenses/regular bills	19
Leisure activities	17
Other	12
Reduce inheritance tax liability	9
Pay for health/care needs	8
Early retirement	1

Notes: Participants were permitted to provide multiple answers therefore the total exceeds 100 per cent.

Passing it on

The majority of consumers in this cluster (97 per cent) were already 'doing alright' or 'living comfortably' before entering into their plans, and they were financially better off than those in Clusters 2 and 3. In particular, they were more likely to have higher incomes, more valuable homes and to have savings and investments. Equity release was used strategically, either to transfer wealth to children or to make large, one-off purchases.

Enhancing later life

These consumers were not 'finding it very difficult' to manage before taking out an equity release plan but neither were they 'living comfortably'. Equity release enabled them to maintain or enhance their lifestyles by allowing a wide range of housing and non-housing consumption. The money was commonly used for repairs, improvements, replacing household appliances and other essential items, but also for lifestyle purposes.

Getting by

The majority of consumers in this cluster were 'finding it difficult' to manage or were only 'just about getting by' before they took out their equity release plans. Many were not only finding housing costs difficult to meet but they also tended to be in debt and had used equity release to help clear some of this.

Table 6: Socio-economic characteristics of participants in Clusters 1, 2 and 3 (column percentages)

	1 Passing it on N = 99	2 Enhancing later life N = 190	3 Getting by 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	20	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	11
£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	20	11	5
£300,000 or more	24	12	15
Age (at plan) (ns)			
Under 70	33	42	45
70-74	32	29	24
75-79	14	19	14
80+	21	10	17
Entered into plan with: (ns)			
Husband/Wife/Partner	60	60	55
No one else	40	40	45
Marital status			
Married/cohabiting	52	60	53
Separated/divorced	15	8	16
Widowed	28	20	23
Single	5	12	8
Children			
Yes	80	70	77
No	20	30	23

Case studies

Passing it on

Mr E and his wife were in their early 70s at the time of interview. They were financially secure with good occupational pensions and a house worth £550,000, for which they originally paid £5, 150. They took out a Home Reversion plan to help out and treat their children. While the children were not in urgent need of financial support, Mr E and his wife decided it would be more beneficial for them to have some of the value of the their home now, rather than waiting until they died. Mr E also said that he benefited from doing this because he saw the pleasure of them getting the money which he wouldn't when he was dead.

Enhancing later life

Mr M was 79 at the time of interview and had never married. He was made redundant during a period of high unemployment and was unable to get another job. By this point, he had paid off his mortgage and assumed that his redundancy package and pensions would be sufficient to 'see him out'. A few years down the line, however, he found his pensions were not keeping up with the cost of living and he was finding it hard to meet all of his housing costs. Mr M had very little savings and a fairly modest annual income, meaning he could not afford to pay for some necessary repairs. However, his flat was worth approximately £350,000.

Before equity release, Mr M said he had to be very careful with his money and hadn't been on holiday in over 10 years, but the work that needed doing to his property prompted his decision to take out a lifetime mortgage. Mr M says equity release has given him a new lease of life.

Getting by

Ms C was 83 years old at the time of interview and had taken out a home reversion plan over ten years ago to help her manage with regular bills and living expenses. She had retired with a small occupational pension and no savings. This meant she was struggling to manage housing and living costs. She traded down to a smaller house in a cheaper area, but still found things difficult. Ms C took out an income–based plan, and some years later took out a small lump sum to help pay off credit card debts which she had been relying to pay for one-off purchases such as a new boiler and fridge-freezer.

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