



Mid-term Project Event

Friday 6th September 2013

The Scotch Malt Whisky Society, 28 Queens Street, Edinburgh EH2 1JX

Briefings



WS1 – Patterns of family wealth: past, present, future



WS2 – Housing wealth and household welfare



WS3 – Equity release and older owners: the paradox of law and policy



WS4 – Young people: tenure choices and welfare



WS5 – Intergenerational risk sharing



WSI – Patterns of family wealth: past, present, future

Karen Rowlingson and Ricky Joseph

Research Aims

- What is the extent of financial transfers across generations in different directions ('down' and 'up')?
- Why, and how, do people finance such transfers?
- What is the impact of inter-generational transfers on both the donors and the recipients?
- What are people’s attitudes towards supporting or being supported by family members?
- How does all this vary by demographic factors such as ethnicity, gender and social class?

Fieldwork update

We have conducted secondary data analysis of the Attitudes to Inheritance dataset and have completed 11 whole family interviews to date. This includes 9 x 3 generations and 2 x 2 generation. We are hoping to interview a third member of one of the 2 generation families. One family initially gave verbal consent to participate in the study but had a change of mind and did not wish to take part. Two further families have agreed to take part and we are awaiting consent. We are hopeful of including an Asian Family using personal contacts and further visits are being arranged for local community centres. Given the richness of the data collected and the challenges of recruiting the families we have reduced the overall target of whole family interviews to be completed by 30 September 2013 from 20 to 15. A profile of families is given below.

Table 1: Profile of families interviewed

	Gender	Age	Housing type	Occupation	Ethnicity
Grand Parent	Male (2)	69-86	Home owner (7)	C1 (1)	Black Caribbean (2)
	Female (7)		Social housing (2)	C2 (7) D (1)	White UK (7)
Baby Boomer	Male (4)	44-57	Home owner (10)	A (3)	Black Caribbean (3)
	Female (7)		Social housing (1)	B (2) C1 (3) C2 (2) D (1)	White UK (8)
Young Person	Male (5)	18-33	Home owner (1)	A (1)	Black Caribbean (3)
	Female (6)		Parental home (4)	B (1)	White UK (8)
			Private rented (3)	C1 (2)	
			Social housing (1)	E (7)	
			Student housing (2)		



Key themes

From the research conducted so far, we found that a minority of the population receive substantial financial support for housing but this is far more common among middle class families. It enables members of such families to: become home owners by providing money for deposits; afford a larger mortgage than would otherwise be possible (without a struggle). It also enables younger people in these families greater choice about where they live, whether they wish to leave home and live independently (through supporting the costs of rent) or to stay at home, rent-free. It also enables people to reduce housing debts and therefore remain home-owners. Inter-generational support is instrumental in building housing wealth, improving the quality of housing that people can afford, reducing financial stress and providing greater choice in life. In one of our cases it also made the difference between a young person going to university or not, with all the potential ramifications in terms of job prospects and social mobility. It therefore makes a major difference to people's life experiences and life chances.

Most financial support for housing flows down the generations due to a combination of relative need and relative resources. Younger generations are more in need and older generations have greater resources. Families support each other because they feel it is 'the right thing to do' as loving family members. But, of course, our families are self-selecting and we may have interviewed particularly supportive families. There is, nevertheless, evidence of ambivalence if not conflict within the families we interviewed. People do not particularly like to ask for help and where they actively ask there are indications that support is more likely to be given as a loan than a gift. Generally, older generations offer to help and younger generations feel grateful for that help. There are also some indications that younger generations feel that they should support their parents in turn, where appropriate, though this may be more through 'wanting' to reciprocate than feeling obliged to do so. Support is therefore provided where people feel they can afford to provide it, where others are perceived as having a 'reasonable need' for it.

There is an interesting tension between wanting to support younger generations but also wanting them to become independent. In some cases, this is not seen as a tension but seen as a two-part process. Financial support is designed in such a way as to enable younger members to become 'independent' financially. But some older generations are concerned not to 'spoil' younger members of the family by supporting them too much.

The relative roles of the family versus the welfare state became a very lively issue when discussing how care for older people should be paid for. Most interviewees felt that the state should provide a decent level of care such that families would not have to subsidise it. But current levels of care were not always seen as sufficiently high leaving families to provide extra financial support. The balance between family and state in providing certain levels of welfare will be a major theme we will return to as we continue with the research.



WS2: Housing Wealth and Household Welfare

Beverley Searle and Adriana Soaita

Research questions

- What role does housing and housing wealth have in the provision of welfare?
 - Where does housing wealth fit into short, medium and long-term financial planning?
 - What alternative provisions for welfare do people who rent make?
- How do homeowners decide between using housing wealth for their own needs and sharing their wealth with other generations?
 - Why do people withdraw equity? What do they use the funds for?
 - Why do people save equity? What are they saving it for?
- What are people’s thoughts on the concept of asset-based welfare policy and what are the implications of these in terms of social welfare provision?
- What are the opportunities and limitations for positioning housing wealth as an asset-base for welfare for different cohorts and socioeconomic groups?

Fieldwork progress

50 phone interviews were conducted (out of 200).

Tenure				Gender		Age			Regions	housing wealth
a.	b.	c.	d.	Female	Male	35-44	45-54	55-65	All except N. Ireland	From negative wealth to > £1m
19	9	11	11	23	27	8	17	25		

a.Own outright; b.Mortgagers paying off c.Re-mortgagers d.Renters

Preliminary observations:

Patterns of welfare provision are shaped by unequal socioeconomic resources.

- Ms S, aged 48, lives on social benefits and owns no assets. Our questions amuse her.
- Ms G, aged 47, is a strategic self-developer buying, refurbishing and selling homes to build up wealth. She expects no inheritance but assumes passing on about £50k to each child. She endorses the philosophy of asset-based welfare: accumulating now in order to insure her family future.
- Mr W, aged 52, owns outright and feels financially secure against any foreseeable disaster. A parental gift provided the deposit for his first home, whilst inheritance has helped to clear the mortgage, increase investment in stocks and shares and will create his rental portfolio.

The role of housing and housing wealth in welfare provision

Progression on the housing ladder to outright homeownership and eventually to ‘better’ homes remains a key long-term route to the private provision of welfare since housing markets show better financial returns and ‘one needs a place to live’. ‘Better’ housing is also a portal to access superior welfare provision, particularly regarding children’s education:

- For participants located outside or beyond this route, being rich or poor does not matter, they perceive housing rather as a home than a financial asset.
- For participants located along this route, outright homeownership is ‘sacrosanct’ and a key means to welfare provision, mainly by downsizing and imputed rents. While their house values differ considerably, these participants share similar attitudes.



- Tenants and marginal homeowners can hardly afford additional private welfare provision. Unaided private tenants are a very divergent group. While the younger and better educated save for a deposit and hope to enter homeownership, those recently immigrated appear extremely vulnerable.

For discussion: *Can and should we conceive future rent payments as 'imputed negative equity'?*
What about the self-delusion of homeownership where:

'profit' = current value - asking price

Are people overlooking sums paid in interest or inflation?

Decisions about increase/using housing wealth; intergenerational sharing:

Except a couple of participants, these decisions seemed easy to make as they were ingrained in personal values and circumstances, and sustained by psychological coping mechanisms. Interviewed homeowners increased their housing wealth substantially. Main reasons for:

- *increasing* were to leave an inheritance; provide for older age; and progress housing careers.
- *using* were home improvements and consolidating family debts. However, only as a *last resort* would participants jeopardize their route to outright homeownership.

Participants with children see housing wealth mostly as a private resource to be inherited, while childless participants are more likely to accept the notion of housing wealth as a safety-net.

The paradoxical nature of home – an investment instrument akin to no other – provoked expected equity dilemmas regarding its deployment for elderly care and a total lack of awareness of the idea of 'un-earned' housing wealth.

Housing as asset-based welfare:

Socioeconomic inequality challenges the potential for housing to form an asset-based welfare. The affluent have various assets, insurances and income to engage in welfare provision with no need to draw from their housing wealth encapsulated in their home. For marginal homeowners with small incomes, relying on housing wealth might escalate in dangerous 'spirals of debts' and dropping out from homeownership, and there is little scope for downsizing. Conversely, those in between actively pursue strategies of 'housing-based welfare' by:

- *Traditional routes:* building up housing careers in order to downsize.
- *Letting:* landlords are heterogeneous emerging via different routes (RTB, buy-to-let, inherited homes).
- *Internal tension:* leaving an inheritance *and* providing for own needs.

Participants were unsure of the potential of 'housing-based welfare' in the long term as they do not have 'a crystal ball to look into the future' in order to solve the dilemma of managing housing wealth. There seems to be intergenerational support for social *and* family solidarity in order not to pass old age burdens onto the young and a clear preference for contribution and tax based welfare.



WS3: Equity release and older owners: The paradox of Law and Policy

Lorna Fox O’Mahony and Louise Overton

Research aims

- To explore the needs and circumstances of older owners who have taken out (different types of) regulated equity release plans.
- To investigate the decision-making of equity release consumers in the context of current regulatory measures.
- To evaluate the extent to which legal regulation and remedies provide appropriate protections for different types of consumer.

Fieldwork update

Consumer interviews: 251 participants were sourced from previous research in 2009, and contacted at the beginning of 2013. We aimed to recruit 80 interviewees to this study, and 70 took part in total (Table 1). Using the 2009 study as a recruitment tool means we have been able to capture the long-term experiences of consumers. In 2013, the majority of participants have held their equity release plans for a minimum of 5 years, but more often than not, 8 years or more. We have therefore been able to explore how equity release plans cope with change such as a house move, the death of a spouse, or deteriorating health, and whether or not this affects how consumers feel about the decision.

Stakeholder interviews: Approximately 20-30 interviews with stakeholders involved in the equity release arena are to be carried out later this year.

Table 1 Sample sub-groups

Plan type		Consumer type*		Household type			Children	
Mortgage	Reversion	Marginal	Non-marginal	Couples	Single female	Single male	Yes	No
42	28	34	36	20	22	18	47	23

Age					House value on entering into equity release				
66-70	71-75	76-80	81-85	85+	< £100k	£100k - 149,999	£150k - 199,999	£200k - 299,999	£300k or more
5	16	20	24	5	6	10	21	21	12

* Using participants’ self-reported financial situation before taking out their equity release plan (captured in the 2009 survey), the interviewee sample was divided into marginal (‘finding it very difficult to get by’, ‘finding it quite difficult’ or ‘just about getting by’) and non-marginal (‘doing alright’ or ‘living comfortably’) categories. T

Key findings

Financial and legal advice in equity release decision-making

The FSA/FCA regime revolves around the provision of clear and accurate information, supported by professional advice, to enable equity release consumers to make appropriate financial decisions. We have explored the role and effect of professional advice in the decision-making process and found that:



- Non-marginal consumers were much more likely to have carried out their own research before seeing an adviser, helping them to feel prepared and able to ask relevant questions. They were also more likely to feel that there was little need for professional advice since they had negotiated the information effectively themselves.
- A significant proportion of non-marginal consumers who felt that they negotiated the process independently of professional advice had access to either financial resources or friends or family working in the financial services industry.
- Marginal consumers were much less likely to have expressed the same sense of confidence, or had people to call on to help them negotiate the process. They were much less likely to have carried out their own research before seeing an adviser, and even where they had attempted to seek out and understand some of the information beforehand, there was a sense that this had not been done successfully. These findings undermine the FSA conclusion that ‘most’ lifetime mortgage consumers are ‘financially capable’: they conduct extensive personal research weighing up the benefits and disadvantages, discussing the decision with family members.
- The relationship between the adviser and consumer played a key role in the effectiveness of advice, particularly for those who had a low level of prior market understanding.
- Plans did not always satisfy consumers’ future needs. In some instances, this was because providers had ‘moved the goal posts’.
- Legal advice tended to be seen as a formality by consumers, and rarely enhanced the decision-making process.
- Measures that might enhance the effectiveness of the advice process, particularly for marginal consumers, include:
 - Emphasising the importance for equity release advisers to be sensitive to the needs and circumstances of the consumer in the future;
 - The role of ‘soft-skills’ training in supporting a positive relationship in which the consumer feels able to ask questions.
- Since mandatory financial advice appears to be of unequal value across the differentiated consumer population, a regulatory system geared towards the needs of marginal consumers might usefully consider additional regulatory mechanisms (for example, control over terms, pricing) if it is to achieve its aim of protecting the differentiated consumer population.

Housing and home in equity release decision-making

- The multiple meanings and functions of house and home played a key role in equity decisions. For all interviewees, factors important in helping decisions on equity release products: rather than sale
 - Living close to family, friends, amenities
 - Safety, security, familiarity
 - Memories/roots/positive value of community/locale
 - Possessions and difficulty of downsizing
 - Upheaval
 - Importance of space
- Other factors influencing the use of equity release products over and above trading



down included:

- Lack of suitable alternative housing
 - Having already downsized
 - The transaction costs of downsizing being prohibitive
- For marginal owners, choice of product tended to be driven by concerns for security, while non-marginal owners were largely concerned with value for money. Our findings show that decisions are not always made on economically 'rational' grounds.



WS4: Young People: Tenure choices and Future Welfare

Kim McKee and Tom Moore

Research Questions

1. What are young people's expectations of inter-generational transfers of wealth? How does this influence their housing pathways? Are there any cross-tenure differences?
2. How have young people benefited from inter-generational transfers of wealth? Does homeownership provide a financial resource that can be accessed to support intra-family transfers of wealth? How is this negotiated within the family?
3. How do young people reconcile the tensions between government expectations that individuals take increasing responsibility for their own well-being in old age, and the potential loss of inheritance (through inter-generational transfers) that may result?

Fieldwork progress

Fieldwork for this workstream takes place in 10 local authority case study areas in England (Cornwall, Surrey, Sheffield), Scotland (North Lanarkshire, Edinburgh, Scottish Borders), Wales (Gwynedd, Merthyr Tydfil) and Northern Ireland (Belfast, Ballymena). Young people aged 18-35 that currently reside in the case study area are recruited. Fieldwork due to be completed by April 2014.

Method	Target	Done	To Do
Focus Groups (2 for each region)	20	4	16
Telephone Interviews with YP	20-30	4	16-26
Expert Interviews	10	1	9

Themes emerging from fieldwork

Intergenerational differences in opportunity

- Perceived difference in life opportunities compared to parents.
- Opportunities for independence seen as 'distant' and difficult to attain.

When my parents were my age, I think they were - they owned their own home and were able to completely support themselves; they had stable jobs, they had their own house that they could pay the mortgage on. Whereas for me, it's completely different. I think I've pretty much given up on the idea of owning my own home. (Joanna, Cornwall)

- Some recognition of greater opportunities, particularly for women. Although this is offset by delayed life transitions compared with previous generations and more instability, particularly in labour and housing markets.



Tenure perceptions

- Participants discussed the pros and cons of different tenures.
- Benefits of renting acknowledged, although there is still a desire to own. Improvements sought in PRS include greater agency in the management and renovation of homes, as well as greater security of tenure.
- Ownership of an asset (i.e. housing) is seen as positive; a source of security and independence. There was less reference to homeownership as a wealth generator or welfare resource.

Discomfort at receiving familial support for housing needs

- Support during tertiary education was often mentioned and gratefully accepted. There is awareness of the 'safety net' that parents offered during early independence from the home.
- There is however discomfort amongst young people in relation to familial support for housing needs. Particularly at drawing on significant financial resources for larger transactions (house deposits, mortgage support, regular rent paying). This thinking related to different factors:
 - Desire for personal responsibility and economic independence.
 - Strong concerns that parents may also be financially vulnerable and require savings and wealth for their own retirement and future welfare needs/support.
- Some concerns about disconnect between social expectations of young people and the realities of their situation: "My parents expected me to step right into a good job after finishing uni".
- The prevailing and crosscutting theme was one of uncertainty, limited choices and that choices that ought to be open to young adults are closed off because of the recession.

Themes to expand on/refine

- Role of parents in financially supporting student pathways – how many students are getting support not with their housing, but their education
- Consider asking about gifts from parents, as most are thinking of inheritance or asking for financial help, rather than receiving gifts/in-kind contributions
- What kinds of degrees students are studying – are they vocationally focused or motivated by lifestyle/projects of the self?
- How much is concern with employment the overriding concern, and how does this relate to housing choices?
- Explore young people's feelings about how the recession has affected them
- Explore young people's reflections on how things compare/contrast with different peer groups, especially at the case study level and their cohorts
- How do feelings about homeownership, settling, mobility and 'doing what you love' differ across cohorts?



WS5: Intergenerational Risk Sharing

Duncan MacLennan and Stephan Köppe

Research Questions:

1. What notions of intergenerational justice can be identified and how do they relate to housing wealth?
2. How do individuals and households acquire, manage, use and transfer housing wealth over the life course? Which types of housing pathways can be identified and by which socio-demographic factors are they influenced?
3. What are the policy and tax implications when considering housing wealth distribution between and within generations?

Themes Emerging

We pursue three work packages to bridge empirical results and theory development:

1. *Notions of Intergenerational Justice*

Within this work package we review notions of intergenerational justice and how they relate to housing wealth. We identify five notions of generation (family, age group, cohort, cultural generation and past/future generation) and two basic concepts of justice (rectificatory, distributive) which results in a matrix of ten different concepts of intergenerational justice. In the policy section we focus on distributive justice and differentiate further between the principles of need, merit, equality and difference. We critically assess which housing wealth transfers are fair.

First, we argue that transfers of housing wealth between family members are unfair on the grounds of needs, merit and equality. We suggest that a *real* inheritance tax, and not an estate tax, can reconcile tensions between individual freedom and distributive justice. Taxing the inheritor of housing wealth enhances distributive justice and protects the freedom of the estate holder to sign a will.

Second, we critically assess discussions around unfair distribution of housing wealth between cohorts that occur especially if one cohort is larger than the other like the baby boomers. We identify three different arguments in that context: a) higher ownership rates compared to previous cohorts, b) 'hoarding' of housing wealth among older cohorts, resulting in shortage for younger cohorts and c) house price gains due to high demand. We argue that a) is justified as long as the subsequent cohort experience similar levels of homeownership. The discourse around 'hoarding' housing wealth is also very problematic because it focusses entirely on the needs of the younger cohort, neglecting needs of the elderly. We argue it is rather a problem of several overlapping generations than an issue of fairness.

The fairness of house price gains is discussed on the final section on housing wealth taxation over the life course. We recognise three key housing wealth taxes, namely stamp duty, capital gains tax and inheritance tax. We criticise stamp duty because it levies a tax on



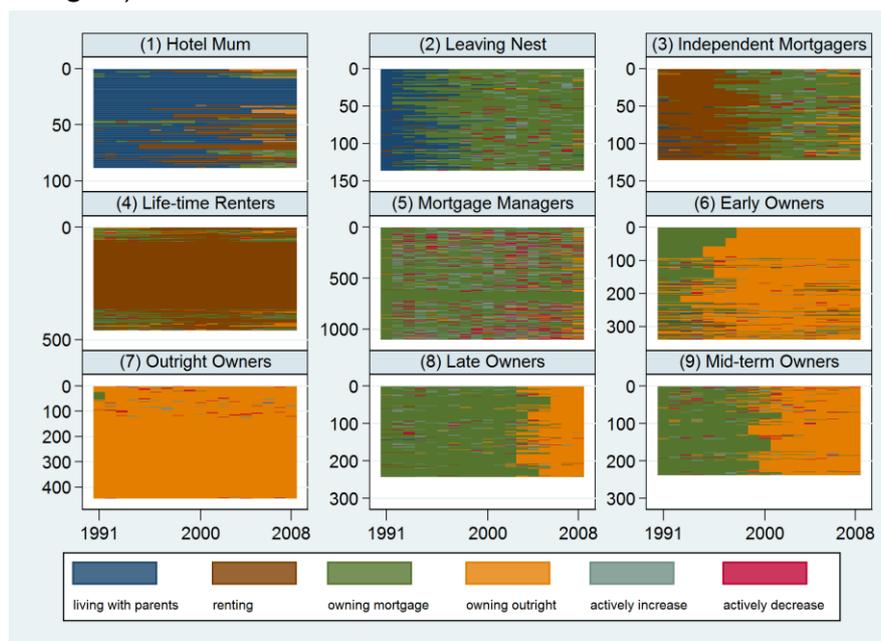
mostly negative net wealth. It would be fairer to increase capital gains tax and inheritance tax.

2. Analytical Framework

We developed an overarching analytical framework of housing wealth stages over the life course. We call our framework gAMUT which covers the whole gamut of housing wealth from the cradle to the grave. The four key stages are: (1) Acquiring, (2) Managing, (3) Using, (4) Transferring, in short gAMUT. The purpose of this framework is to highlight which stages each work stream investigates. When the empirical results are cumulated, it helps to know at which stage of housing wealth the individuals and households were in order to understand their behaviour, perceptions and responses.

3. Housing Trajectories

Empirically we analysed housing pathways of individuals in the British Household Panel Study (BHPS). We identified 9 key housing pathways and basic social characteristics associated with them (see figure).



The key findings are:

- We observe a high stability and concentration of housing trajectories on a few typical sequences, eg renting or transition from mortgaging into outright ownership.
- The main pathway from renting via mortgaging into outright ownership seems still valid. In addition we only found first-time buyers who moved into ownership directly from their parental home.
- Life-time renters seem permanently cut off from housing wealth.
- Age explains a lot of the variation between housing wealth clusters.

Further statistical analysis has to scrutinise socio-demographic driving factors behind these 9 housing pathways.