PRESS RELEASE - UPDATED VERSION
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"Housing wealth could play a greater role in supporting retirement in the future" says Pensions Policy Institute

A report published today by the Pensions Policy Institute commissioned by Prudential UK and Europe considers the role that housing wealth could play in supporting retirement for today's pensioners and for future generations of pensioners.

The report shows that housing wealth could play a greater role in supporting retirement in the future, but not everyone has housing wealth and those who do have housing wealth do not always view it as a way to save for retirement. For most people, housing wealth will be a complement to saving in a private or occupational pension, not a substitute.

Niki Cleal, PPI Director, said:

"The main way that home ownership supports retirement for many people is to reduce living costs in retirement. Owning your own home in retirement can reduce living costs relative to paying rent (not having any housing wealth) by around 30% for a single person and by around 40% for a married couple."

"This research shows that if current demographic and homeownership trends continue, the number of households where the head is aged over State Pension Age with higher value housing wealth which could be used to release equity to support retirement – whether by downsizing or using commercial equity release products - could increase by a third, to 5.2 million households by 2030."

"There may still be a number of barriers to the use of housing wealth to support retirement: many people are emotionally attached to the family home or may wish to leave the home as a bequest. Pensioners may also be concerned about the costs and risks of releasing housing equity."

Keith Haggart, Prudential's Director of Lifetime Mortgages, added: "The first PPI report in this series highlights the fact that, during retirement, income needs change. At retirement people spend more money on leisure and require a higher level of income. This need for income falls as travel costs reduce and then rise again in later retirement as health costs increase."

"However, for most people their income is fixed or rises only in line with inflation. This report shows that the real benefit of equity release is it allows customers to supplement their retirement income to match their individual needs."

ENDS

Notes for editors

1. The Pensions Policy Institute is an educational charity, which provides non-political, independent comment and analysis on pension policy and retirement income provision in the UK. Its aim is to improve information and understanding about pensions and retirement provision through research and analysis, discussion and publication.

2. This report is the second in a series of reports looking at the evolution of financial needs during the course of retirement and the roles of different sources of income in meeting those needs. The retirement income and assets project has the overall aim of providing independent evidence to inform debate about the role of different types of assets in funding retirement. The first report in the series, *Retirement income and assets: do pensioners have sufficient income to meet their needs?* considers the needs and aspirations of pensioners, and can be downloaded from the PPI website at www.pensionspolicyinstitute.org.uk.

3. This report considers the role that housing assets can play in supporting retirement. The report has been commissioned by Prudential UK and Europe and will be launched at a seminar hosted by the Prudential on Tuesday 15th September for an expert audience with an interest in pension and retirement policy.

4. Prudential UK is a leading life and pensions provider with approximately 7 million customers in the United Kingdom. It operates from two core strategic UK sites in Stirling and Reading and has offices in London, Belfast and Dublin, as well as a customer service centre in Mumbai. Prudential UK provides a range of products and services including individual and bulk annuities, individual and corporate pensions, with-profits bonds, onshore and offshore bonds, savings and investments, lifetime mortgages, healthcare and protection products. Prudential is also the corporate pension provider to 20 per cent of FTSE 350 companies and manages more than 4,000 pension schemes. Prudential UK is part of Prudential plc, an international retail financial services group with significant operations in Asia, the US and the UK.

5. Future reports in the retirement income and assets series will look at the roles of pensions and other financial assets (sponsored by JP Morgan Asset Management) in supporting retirement needs, with a final report considering policy implications. The research project as a whole has been co-funded by the Department for Work and Pensions, the Association of British Insurers, the Investment Management Association and Age Concern and Help the Aged.

A summary of conclusions from the report follows on the next page.

The report can be downloaded from www.pensionspolicyinstitute.org.uk from 16.00 on Tuesday 15th September 2009.

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Retirement income and assets: how can housing support retirement?

Summary of Conclusions

Housing wealth is the largest single asset held by UK households, but not everyone has housing wealth and those who do have housing wealth do not always view it as a way to save for retirement.

- **Around 40% of UK households' £6,875bn net wealth is held as housing wealth**, compared to around 30% held in pensions wealth.
- **UK housing wealth is unequally distributed**: the top 10% of homeowners aged over 50 with the most housing wealth, own around 30% of UK housing wealth held by people over 50, and the top 20% own nearly a half. More than 20% of individuals aged 50 or older in England have no housing wealth at all, so cannot rely on any housing to support them in retirement.
- **Although housing wealth is more evenly distributed than other forms of wealth, housing wealth is still highly correlated with other wealth**. For example, 50% of the working population are members of a pension scheme and own a house, 22% of the working population own a house but are not members of a pension scheme. As a result, for most people **housing is likely to be a complement to, rather than a substitute for, other forms of retirement saving.**

Housing wealth can be an important insurance against poverty in older age, and can be used to support retirement in a number of different ways:

- **The main way that housing will support retirement for most homeowners is to reduce living costs in retirement.** Owning your own home in retirement can reduce living costs relative to paying rent (not having any housing wealth) by around 30% for a single person and by around 40% for a married couple.
- **Some – but not all – of the equity available within a home can be released to support retirement**, for example by downsizing to a less expensive property, or by using specific equity release financial products. Of people who do own their home, 29% plan to downsize their property in order to provide retirement income.
- **Currently relatively few UK households use commercial equity release products to release equity from their home**. At the end of 2005 there were 100,000 lifetime mortgages outstanding, worth around £5bn. This is around 1% of the net housing wealth held by UK pensioner households.
- **Housing assets are also important in helping to meet the extra costs of disability or to help fund long term care**, by providing the funds to pay for residential care or providing the means to have care at home. Of those who own their own home, 5% intend to use equity release to fund any care they require as they get older.

- **Retirement income can be improved by renting out rooms or investing in a second property.** In 2006, there were around 16,000 boarders and lodgers living in pensioner households, and around 2% or 200,000 retired adults reported receiving rental income from a second property. Although the number of pensioners with more than one property is small, recent trends suggest this may increase in the future.

In the future more people may be able to rely on housing wealth to support retirement:

- **In future there may be greater scope for housing assets to support retirement**. Home ownership has increased amongst older people. If as expected this trend continues, eventually around 80% of people over State Pension Age could be owner-occupiers.
- In the central scenario, **the value of housing wealth owned by people over State Pension Age could increase by around 40%** from £907bn in 2009 to £1,274bn in 2030 (in 2009 earnings terms), based on reasonable assumptions about house price growth.
- **Not all housing wealth can be released to support retirement**: many pensioners may have low value homes which may limit the amount of wealth that can be released and the ways in which housing wealth can be accessed.
- **The number of households where the head is over SPA with medium or high value houses who could release their housing wealth in order to support their retirement could increase by a third**, from 3.9 million households in 2009 to 5.2 million households in 2030.
- **There could be a 40% increase in the value of housing wealth that pensioners could release to support retirement** from £251bn of housing wealth in 2009, rising to £359bn in 2030 (in 2009 earnings terms).
- **Much of the growth in housing wealth is among pensioners who are over age 75.** There could be a 70% increase in the value of housing that could be released in households where the head is aged over 75, from £124bn in 2009 to £211bn in 2030 (in 2009 earnings terms).

However, there are a number of barriers to the growth in the use of housing assets to support retirement:

- **Emotional issues can dissuade people from downsizing their house**. People have ties to both their home and their area and may be reluctant to move if it means moving away from friends, families and their local amenities.
- **People may wish to pass on their house as a bequest**, they may be reluctant to spend what they see as their children's inheritance
- **Releasing equity can in some cases reduce entitlement to means tested benefits**. Wealth that is held within property does not affect Pension Credit or Council Tax Benefit, however releasing income from housing wealth can reduce entitlement to those benefits.

- **Equity release products still have an image problem after mis-selling and bad product design in the late 1980s** that left pensioners in debt although this may be helped by FSA regulation and the no negative equity guarantee in SHIP compliant products.
- **The interest rates charged by equity release providers often appear high, relative to other mortgage products**, although this may be due to the different risks faced by the providers of equity release products.
- **There are currently no major banks offering equity release products.** This may reduce the awareness and attractiveness of the product. However there are large insurance companies in the market such as Prudential and Aviva.

The PPI is grateful for the additional support of other sponsors of this project:

ABI Association of British Insurers
J.P.Morgan Asset Management
Investment Management Association ima
DWP Department for Work and Pensions
AGE Concern
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Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.