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Retirement income and assets: how can housing support retirement?

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Retirement income and assets: how can housing support retirement?

Introduction

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 project has the overall aim of providing independent evidence to inform debate about the role of different types of assets in funding retirement.

Recent pension policy developments in the UK have mostly been targeted at the accumulation of assets to fund retirement income, for example, the introduction of auto-enrolment, compulsory employer contributions and personal accounts. There has been some research on the use of assets in retirement, however most of the research has examined particular assets in isolation. The HMT review of annuitisation considered only private pension assets; previous PPI work has considered the potential role of property in supporting retirement; DWP research has focussed on possible needs in retirement.

There is a need for a holistic consideration of the evolution of financial needs during the course of retirement and the roles that different sources of income could have in meeting these needs, combined as well as in isolation.

This report examines the various methods and attitudes to the use of housing assets to support retirement, the distribution of housing wealth and projects possible future use of housing wealth under a number of scenarios. It builds on the results from the first report: *do pensioners have sufficient income to meet their needs?*[1]

Chapter one discusses how much wealth is held by UK households in housing assets compared to other assets. It considers how many people are using property to save for their retirement compared to saving for retirement in other ways or not at all. The distribution of housing wealth and how it correlates with other assets is also considered.

Chapter two considers how current pensioners use housing assets to support retirement. This includes the use of housing assets to reduce living costs, to access housing wealth, as a source of investment income, as insurance against adverse events or to pass on as a bequest.

Chapter three considers how housing could be used to support the retirement of some of the hypothetical individuals used in the first report.

Chapter four considers the extent to which housing assets could play a role in supporting retirement for future generations and what scope there is for growth in the use of housing wealth to support retirement.

[1] PPI (2009)

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.

Chapter one: how much is saved in housing and other assets by UK households?

Chapter one discusses how much wealth is held in housing compared to other assets. It considers how many people are planning to use property to support their retirement compared to saving for retirement in other ways or not at all. The distribution of housing wealth and how it correlates with other assets is also considered.

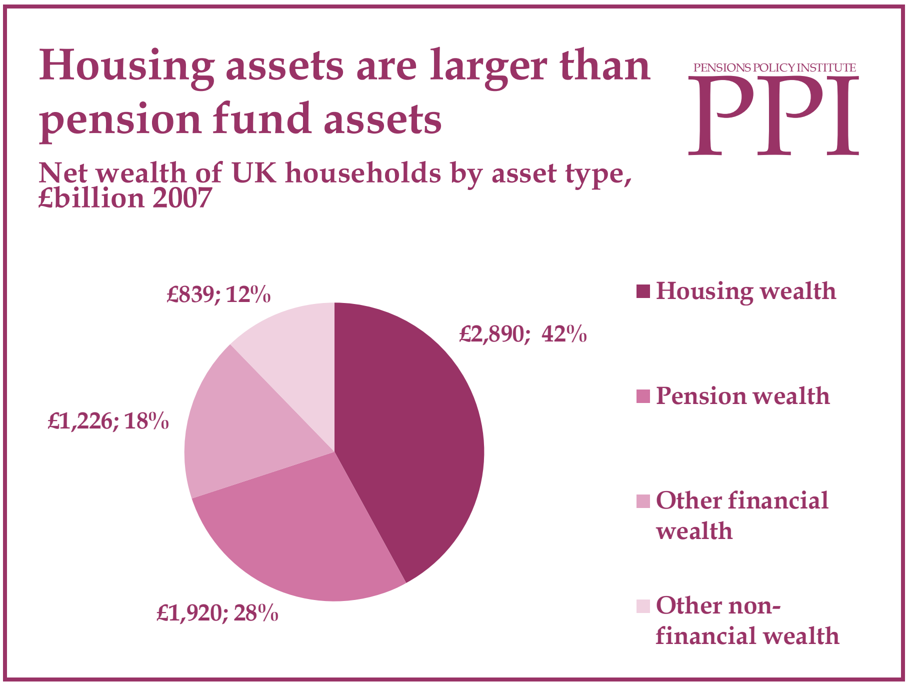
Introduction
The first report in this series *Retirement income and assets: do pensioners have sufficient income to meet their needs?*[2] concluded that many people could find it difficult to meet all of their spending needs throughout retirement using only state pensions, state benefits and private pension provision. There is scope for other assets to be used to support retirement. Housing wealth is one potential source of support in retirement.

Housing is the largest single asset held by UK households. However not everyone views housing as a way to save for retirement, and many people who have housing assets also have other forms of retirement saving. Differences in housing wealth by region and concentrations of large amounts of housing wealth among a small number of individuals mean that not everyone will be able to use housing to provide support in retirement.

Housing wealth is the largest single asset held by UK households
People in the UK hold a variety of assets, including those traditionally thought of as savings such as assets in a pension scheme, ISAs and stocks and shares. But the largest asset class held by UK households is housing. Total net household wealth in the UK in 2007 was around £6,875bn.[3] More than 40% of this was net housing wealth in residential property (Chart 1). Around 30% was held in pension assets, with most of the remainder in other financial assets. There is therefore considerable potential for housing wealth to be used to support retirement.

[2] PPI (2009)
[3] ONS (2008 BB) and ABI (2008a)

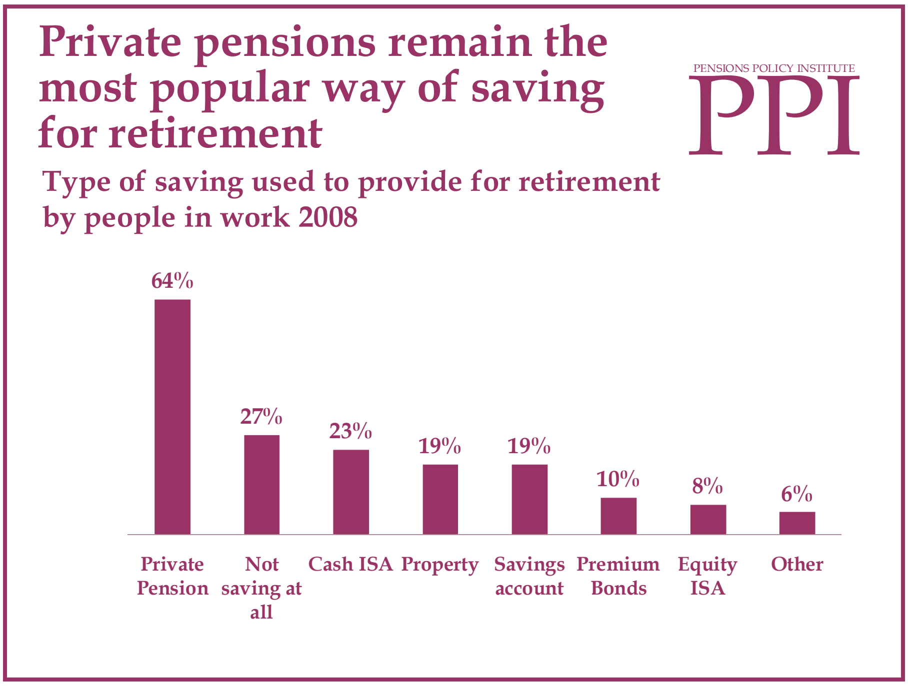
Chart 1[4]



People with housing wealth don't necessarily view it as an investment for retirement

Although housing wealth is the largest single type of asset held by UK households, many people do not consider housing wealth as a way of saving for retirement.

Chart 2[5]



[4] PPI calculations based on ONS(2008 BB) and ABI (2008a)
[5] ABI (2008b)

Chart 2 shows that:

- The most popular way to save for retirement is through a private pension (64%).
- A large number of people are not saving at all for retirement (27%). This has increased from 21% in 2003.
- Saving in cash ISAs for retirement is a more popular way of saving for retirement than property.
- In 2008 19% of people in work said that they were investing in property for their retirement, compared with 32% of working people in 2003.[6]

Of working people who do own their home, 29% plan to downsize their property in order to provide retirement income while 5% intend to use equity release to fund any care they require as they get older.[7] Most people saving in property see it as an additional, rather than main, source of retirement income. But one-in-ten of all working people expect property to be a main source of retirement income.[8]

However, people often do not think of their home in terms of how it can support them in retirement. Some of the issues in retirement which the use of housing wealth could help address may not be anticipated in advance, such as having a lower than expected pension income or the need for residential care. People who do eventually use property to support their retirement may not have considered themselves to be saving in property with the aim of supporting retirement at the time when they were working.

Among working adults, property is regarded as the best long term investment. 42% of working adults in 2008 thought of property as the best long term investment, although this has dropped from 65% in 2007.[9] This fall in confidence may be as a result of the current financial crisis in which people have experienced falling house prices.

Housing wealth is not equally distributed

Housing wealth is unequally spread across the population. Although housing assets are the largest single asset held by many people in the UK, more than 20% of people over State Pension Age (SPA) have no housing wealth. The distribution of housing assets by region, age and other asset wealth show that certain groups are more likely to have housing assets than others.

[6] ABI (2003), ABI (2008b)
[7] ABI (2008b)
[8] ABI (2008b)
[9] ABI (2008b)

Regional differences in house values can affect the level of support in retirement

Housing wealth is not uniformly distributed across the country (Table 1). The average house price in London is just under £300,000, in the North East the average house price is £112,000. Annual changes in house prices also vary in different regions. As a result of the financial crisis, in the year to March 2009 house prices fell throughout England and Wales. The largest decline was in the South East where, on average, house prices fell by 17.6%.

Table 1: Average house price by region (March 2009)[10]

Region	Average house price	Annual change
London	£299,613	-15.4%
South East	£187,357	-17.6%
South West	£163,167	-15.5%
East Anglia	£159,317	-16.5%
West Midlands	£126,820	-17.2%
Yorkshire and Humber	£121,919	-15.5%
East Midlands	£120,301	-16.4%
Wales	£117,266	-15.3%
North West	£115,258	-15.9%
North East	£112,258	-13.2%
All England and Wales	£152,895	-16.2%

House values can impact on how much equity can be released to support retirement. If equity is to be released then the amount available will depend on the value of the house. However, while there are regional variations in house prices there are also regional variations in the costs of living.[11] So, while people in the North East may have less housing wealth to unlock, they may also need less income.

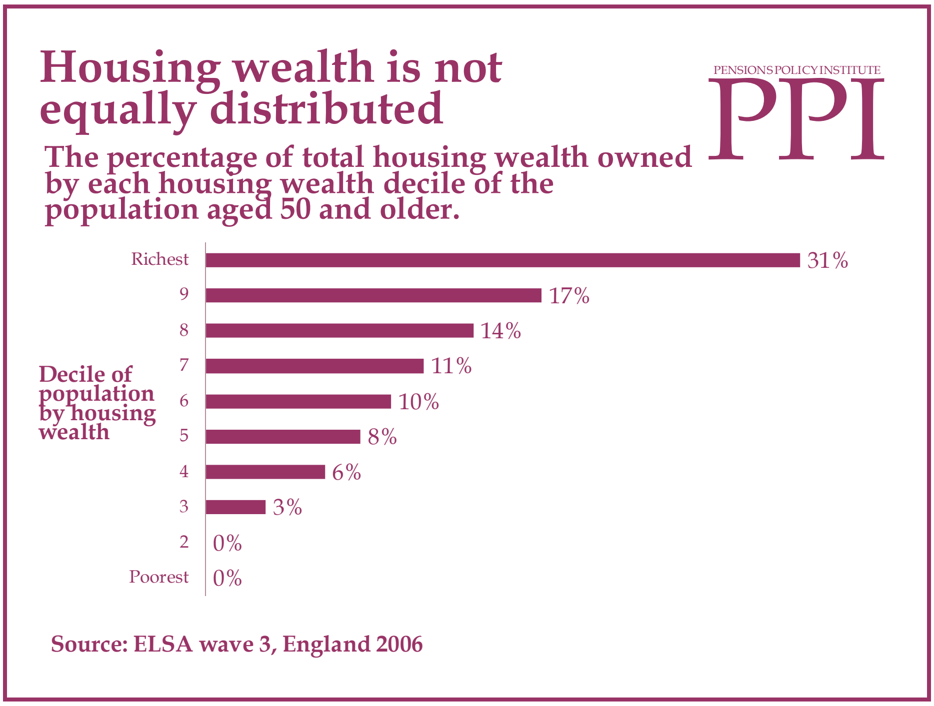
Although house prices have fallen, the amount of the fall is less than the decline in the value of the stock markets. For example an investment in the components of the FTSE All-Share would have made a loss of 29% over the year from March 2008 to March 2009[12] compared to a 16% decline in housing wealth across England and Wales. However, both housing and shares are long term investments, the returns of which should be considered over a longer timescale than one year.

There is significant housing inequality at older ages

Housing wealth is not evenly distributed among older people. More than 20% of individuals aged 50 or older in England have no housing wealth (Chart 3).

[10] Land Registry (April 2009)
[11] Wingfield et al (2005)
[12] FT.com FTSE All Share total return index 3550.2 on 31 March 2008, 2508.94 on 31 March 2009 a fall of 29.3%.

Chart 3[13]



Housing wealth is concentrated among a small number of people:

- The top 10% of homeowners over age 50 own almost a third (31%) of all the housing wealth held by people over age 50 in England.
- The top 20% of homeowners over age 50 own nearly half (48%) of all the housing wealth held by people over age 50 in England.
- The 50% of people over age 50 with the least housing wealth own only 17% of all housing wealth held by people over age 50.[14]

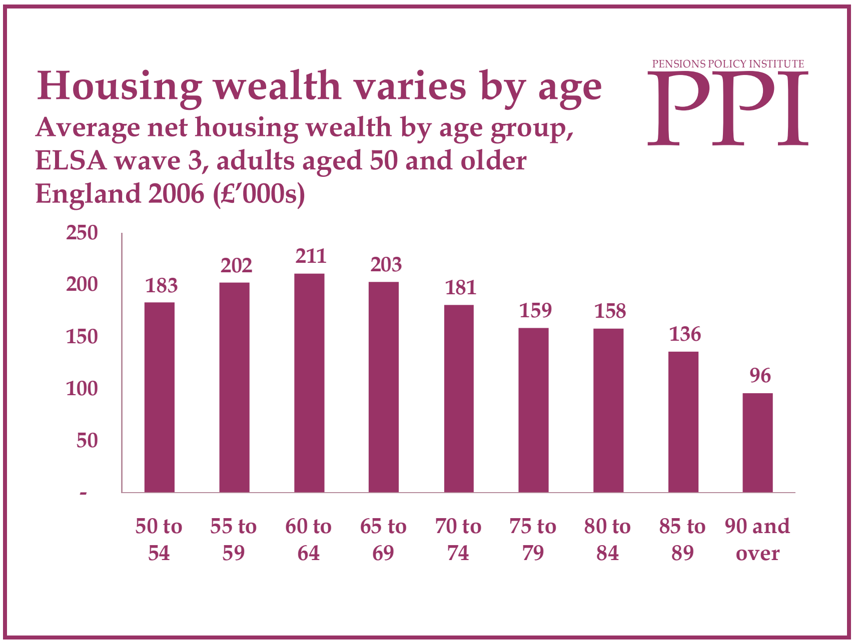
There are therefore a large number of people who have little or no housing wealth to support their retirement, while a relatively small number of people have very large levels of housing wealth which could potentially be used to support their retirement.

Housing wealth varies by age

Housing wealth also varies by age. Net housing wealth is higher for individuals aged 55 to 69 than for those aged 70 or older (Chart 4). So the next generations of pensioners may have more housing wealth than previous generations.[15] This may mean that housing wealth plays a greater role in supporting retirement in the future.

[13] PPI analysis of wave 3 of the English Longitudinal Study of Ageing (ELSA), 2006
[14] PPI analysis of wave 3 of the English Longitudinal Study of Ageing (ELSA), 2006
[15] The technical name for this is a "cohort effect". It occurs where there are differences between generations.

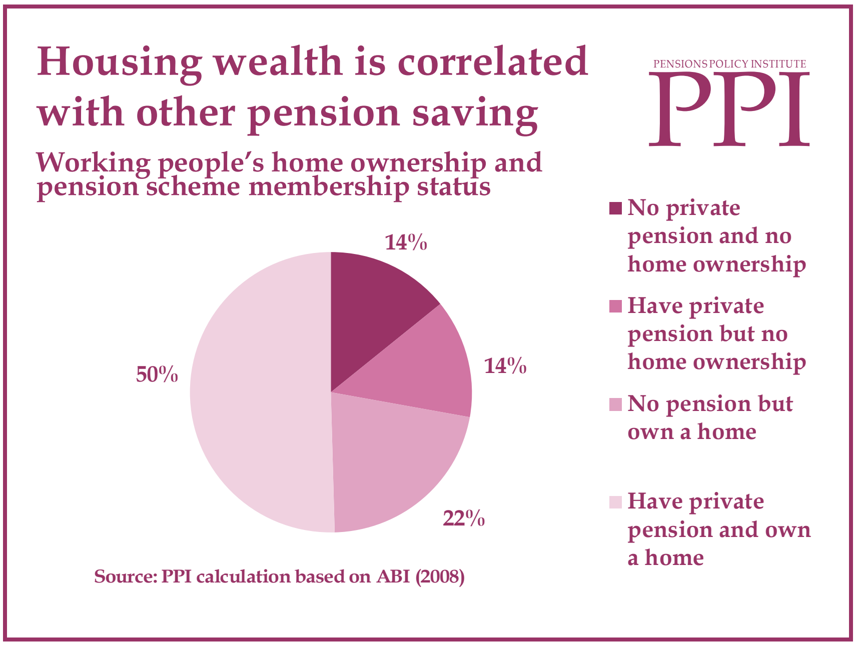
Chart 4[16]



Housing wealth is correlated with other wealth

Chart 3 highlighted the unequal distribution of housing assets. Other types of assets (for example, pension assets and non-pension financial assets) are also unevenly distributed.[17] But holdings of these types of assets are positively correlated: individuals with high levels of housing wealth are more likely to have high levels of pensions and other financial wealth (Chart 5).

Chart 5[18]



[16] PPI analysis of wave 3 of the English Longitudinal Study of Ageing (ELSA), 2006
[17] Marmot et al (2005)
[18] PPI calculations based on ABI (2008b)

Chart 5 shows that:
- 50% of working people are members of a pension scheme and also own a house.
- 22% of working people own a house but are not members of a pension scheme.

The high correlation between home ownership and private pension scheme membership means that those people who have housing wealth in retirement are more likely to have other sources of support in retirement, so support gained from housing wealth is likely to complement rather than replace other retirement income.

While housing wealth is not evenly distributed, it may be more evenly distributed than other types of wealth. Research suggests that for people between age 50 and SPA, a person at the 80th percentile, by total wealth, had 11 times as much housing wealth as one at the 20th percentile, compared with 38 times as much private pension wealth and 650 times as much financial wealth.[19]

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.**

[19] Banks et al (2005)

Chapter two: to what extent are current pensioners using housing assets to support retirement?

Chapter two considers how current pensioners use housing assets to support retirement. Property can be used to support retirement by reducing living costs, allowing access to housing wealth, as a source of investment income, or as insurance against adverse events or a bequest.

Housing wealth is an important protection against poverty at older ages
Housing wealth can help to prevent poverty in a number of ways:

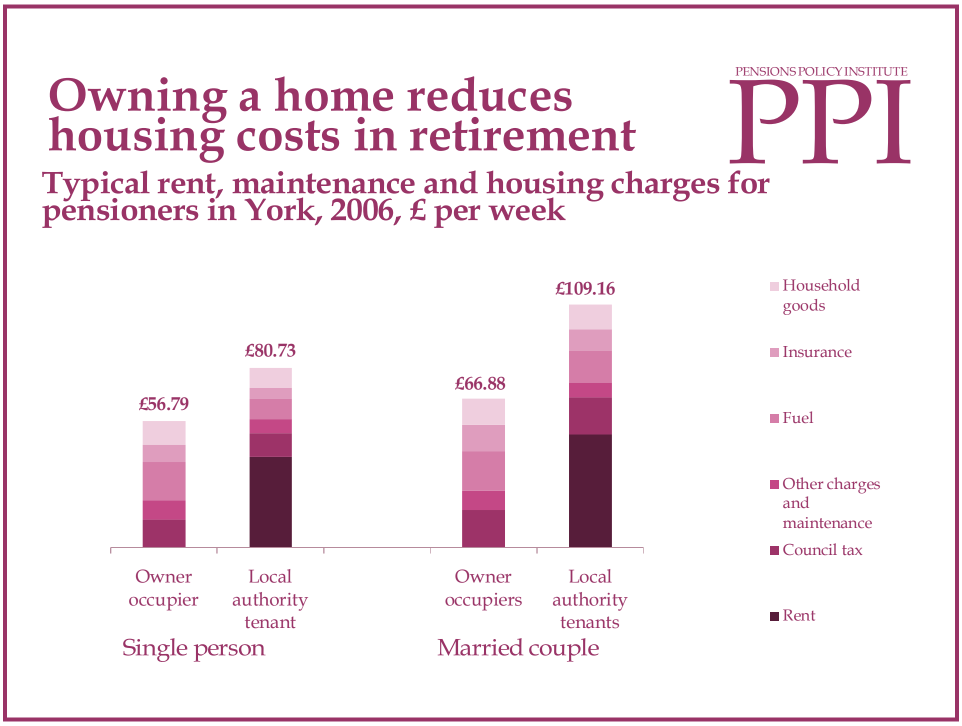
- Owning your own home can reduce day-to-day living costs in retirement compared to the costs faced by tenants.
- Equity can be released by homeowners to provide extra income or a lump sum when required.
- Property can be used as part of an investment portfolio, and individuals can generate retirement income through owning a second home or through a buy-to-let arrangement.

Housing can reduce living costs
Even though owner occupation brings some increased costs, such as buildings insurance and maintenance, a large saving is made through not having to pay rent. This means that owner-occupiers may need a lower retirement income to provide a similar standard of living to the one they would experience as tenants. Rather than increasing retirement income, owning property can improve a household's standard of living by reducing costs in retirement.

After allowing for the increase in housing related costs, owning your own home in retirement reduces living costs relative to paying rent (not having any housing wealth) by up to 30% for a single person and by up to 40% for a married couple (Chart 6).

This difference may not arise for low income pensioners, where any rent is likely to be paid for by Housing Benefit (HB). In such cases the maintenance and insurance costs of home ownership may mean that disposable income is lower for low income homeowners.

Chart 6[20]



Having housing wealth does not automatically affect entitlement to Council Tax Benefit and Pension Credit. Other forms of wealth (e.g. savings in an ISA or bank account) are often taken into account when calculating eligibility for means-tested benefits and may reduce the amount of benefit paid. Keeping wealth in property may therefore be preferred over other methods of storing wealth, while still receiving means tested benefits. Housing wealth is, however, often taken into account when calculating eligibility for Local Authority support for long term care.

Homeowners may face large one-off expenditures, for maintenance or improvements to maintain the quality of their housing, on top of a low level of ongoing maintenance such as repairs to the property. This may result in a need to set aside a lump-sum, or save throughout retirement in order to meet these costs. An alternative is to use an equity release product to provide funds to meet costs as they occur.

Accessing housing wealth

If older people want to access the housing wealth from their home, there are a number of different ways of doing so.

People can access some of the wealth in their homes by downsizing. That is, by selling the house then purchasing another at a lower cost, or moving to rented accommodation. Of working people who do own their own home, 29% plan to downsize their property in order to provide retirement income.[21]

[20] Parker (2006)
[21] ABI (2008b)

However there are a number of reasons why pensioners may choose not to downsize:

- Transactional costs such as stamp duty and legal fees associated with a house move can be high and will reduce the amount of housing wealth accessed (see Box 1).
- There are further costs associated with adapting a new house into a home, such as furnishing and decorating.
- Many pensioners have an emotional attachment to their home, and are reluctant to sell it in order to 'trade-down' to a smaller property.
- Downsizing may be more difficult in a falling housing market. With lower house prices smaller amounts of housing wealth can be accessed.
- There also has to be somewhere to trade down to – this must fit the wants and needs of the pensioner. Significant levels of housing wealth may only be accessible by moving to a smaller property, or to a less expensive area.
- Downsizing is usually suitable for releasing a large lump sum rather than periodic withdrawals and there are extra costs associated with converting the lump sum into an income stream.
- The home is still often considered to be a family asset that will be passed down to children or grandchildren. Some pensioners are reluctant to spend what they see as their children's inheritance.[22]
- People may have ties to their local area such as proximity to family and friends and the familiarity with local amenities which could discourage them from moving away.
- People without support may find the physical upheaval and effort of moving house an obstacle.

Box 1: Illustrative costs associated with downsizing

Downsizing allows equity to be released from a property however there are costs associated. For example, consider an elderly couple downsizing from a detached house worth £350,000 to a bungalow worth £230,000[23] to release £120,000.

Buying and selling expenses[24]

Stamp duty on bungalow	£ 2,300[25]
Survey on bungalow	£ 500
Preparation of Home Information Pack	£ 300
Estate agent fees (2% of selling price +VAT[26])	£ 8,000
Legal fees	£ 1,000
Removal costs	£ 1,000
Total	£13,100
As a percentage of equity released	10.9%

[22] Gay (2004)
[23] House prices used are average UK prices for detached house and bungalow from CLG (2009)
[24] Typical costs from Channel 4 website. http://www.channel4.com/4homes/buying-selling/moving-house/
[25] Stamp duty is 1% of price on properties bought for between £120,000 and £250,000. Stamp duty is not paid on properties priced below £120,000 and is higher for houses bought for more than £250,000.
[26] Assuming VAT of 15%

Equity can be released using commercial products
Equity can also be released using commercial financial products, commonly called equity release products. There are currently three main types of equity release product (see Box 2):[27]

- Lifetime mortgages
- Home reversion schemes
- Sale and rent back agreements (SARBs)

Box 2: Commercial equity release products

Lifetime mortgages
This is a loan which is secured against the property, which can be taken either as a lump sum or withdrawn over time using a drawdown facility. The loan is normally repaid when the house is sold, or on the death of the pensioner. The interest accruing can be repaid on a monthly basis, or rolled-up and added to the original amount borrowed, and repaid at the end of the loan period. Lifetime mortgages are regulated by the Financial Services Authority.

Using a drawdown facility can provide a way of obtaining cash when required, and can reduce the interest costs of equity release because interest is only paid on the equity released. Drawdown does not offer complete freedom however, as the amount available to be drawn down on each occasion money is released will be subject to a minimum amount and a maximum amount related to the homeowner's age and the value of their house.

Home reversion schemes
Under a home reversion scheme, all or part, of the property is sold to a reversion company, who then own that proportion of the property. The pensioner lives rent-free in the property, until death. Home reversion schemes are also regulated by the Financial Services Authority.

Sale and rent back agreements (SARBs)
Under a sale and rent back agreement the property is sold to a third party who then rents the property back to the customer at a lower level than their mortgage payments. This type of agreement is not fully regulated by the Financial Services Authority, however interim regulations were put in place from July 2009 with full regulation anticipated in 2010.[28]

Safe Home Income Plans (SHIP) are the UK industry body for equity release providers. Their members comprise over 90% of the equity release sector. They represent provision of only the regulated products, lifetime mortgages and home reversion schemes. SHIP provide some level of security to consumers by requiring members to sign up to a code of practice which includes a no negative equity clause which limits the amount of the loan to be paid back by the value of the house, meaning that there will never be a debt placed on the estate. The code of practice also requires members to provide fair and simple information on the product.

[27] FSA Money made clear - http://www.moneymadeclear.fsa.gov.uk/pdfs/equity_release.pdf
[28] FSA Press release 3 June 2009
http://www.fsa.gov.uk/pages/Library/Communication/PR/2009/071.shtml

Not all housing equity can be released using commercial products

The maximum amount of equity that can be released under a lifetime mortgage is usually expressed as a percentage of the house value. Generally, older people can release a higher percentage of their house value than younger people as they have shorter life expectancies. The drawdown facility within lifetime mortgages allows homeowners to access their housing wealth as and when it is required. Income can be taken in regular instalments, or to meet specific needs as they fall due.

For example, at age 65, the maximum that can be withdrawn is around 20% of the value of the property. However, as the homeowners age this maximum increases up to 35% by age 80. So the amount taken out at each time can be planned to allow for the greater scope for drawing down in the future.[29]

When deciding how much to draw down, the homeowner may base their decision regarding how much income to release on how long they expect to live, in an attempt to ensure that they can continue to draw down from their home for as long as they require.

For example, the median net housing wealth for people aged over 50 was £165,000 in 2006.[30] If a 65 year old man who owns a house worth £165,000[31] uses drawdown within a lifetime mortgage where the maximum limit is 20% of the value of the house at age 65, increasing to 35% of the value of the house when he is aged 80 or above:

- If he decided to take the maximum available at age 65 he could release 20% of his house value, £33,000, then by age 85 he could release a further £24,750. If he chooses to do this then by age 85 he would have released in total £57,750 or 35% of his house value.
- Alternatively, if he wishes to provide himself a level income and assumes he will live till age 85, then he could use equity drawdown to boost his weekly income by £56. By age 85 he would have released £57,750 or 35% of the value of his house.

Table 2 shows the amount of income that could be released from a house worth £165,000 under a typical lifetime mortgage by pensioners who might expect to live to age 85.

[29] Percentages of house value that can be released are from the Increasing Cash Reserve product on the Prudential website
[30] PPI analysis of wave 3 of the English Longitudinal Study of Ageing (ELSA), 2006
[31] We assume that people over SPA have no outstanding mortgage, so net housing wealth is equal to the house price

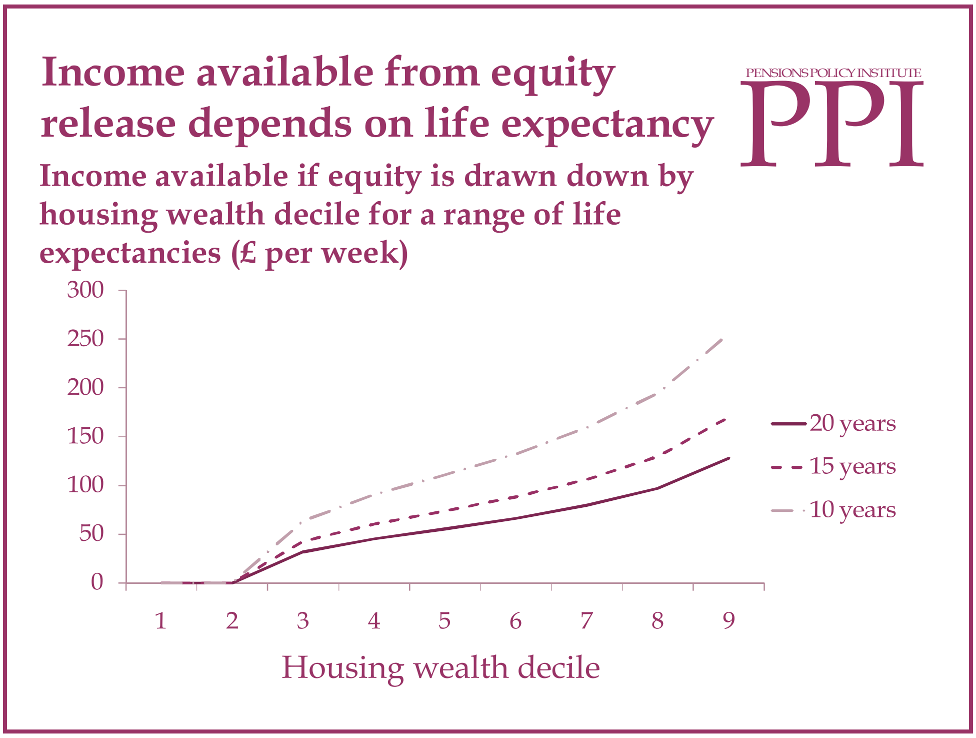
Table 2: Amount of income available from using drawdown from a lifetime mortgage on a £165,000 home to provide an extra income up to age 85[32]

Age	Assumed life expectancy	Amount released per year (£)	Income (£ pw)
65	20	£2,888	£56
70	15	£3,850	£74
75	10	£5,775	£111

If a homeowner lives longer than expected, they could reach a point where they have already drawn down the maximum available to them. At this point they may be able to ask their provider to revalue their house, if their house has increased in value since the start of the policy there may be scope to release further equity. Otherwise they would be unable to release any further instalments.

Chart 7 shows the extra income that could be obtained by pensioners who consider themselves to have either 10, 15 or 20 years to live when they take out a lifetime mortgage (and use the drawdown facility) for each of the decile points of housing wealth held by people over age 50 in England.

Chart 7[33]



[32] PPI calculation assuming 35% of house value may be drawn down in total by age 85, and that house is not requested to be revalued.
[33] PPI calculation assuming that death occurs at an age where 35% of house value may be drawn down and that an income is taken such that at the time of death the maximum available equity has been drawn down. Housing wealth deciles calculated from ELSA wave 3 England 2006.

Chart 7 shows that a 65 year old with housing wealth at the 80th percentile point could use a lifetime mortgage to provide an income of around £100 per week for 20 years. This suggests that very few people may have sufficient amounts of equity in their property to allow them to use income from equity release instead of private pension provision if they retire at SPA or earlier. The positive correlation between house ownership and private pension savings shown in Chart 5 suggests that home owners tend to have private pension provision as well as housing wealth, so may have less need to access housing wealth simply in order to have "enough" money to live on.

The current equity release market is relatively small

Current estimates of the total size of the regulated equity release market are not publically available. However, at the end of 2005 there were over 100,000 lifetime mortgages outstanding, worth £5,307m.[34] There was £1,096m worth of equity released through SHIP members in 2008. Lifetime mortgages accounted for £1,038m of this; the remaining £57m were home reversions.[35] New business written has been relatively flat since 2003 (Table 3).

Table 3: New business released by SHIP members (£million)[36]

	2001	2002	2003	2004	2005	2006	2007	2008
Home Reversion	*	*	*	41	55	74	83	57
Lifetime Mortgages	*	*	*	1,152	1,049	1,081	1,128	1,038
Total	**572**	**852**	**1,161**	**1,192**	**1,104**	**1,154**	**1,210**	**1,096**

People with high property values are more likely than those with low property values to use equity release products to provide extra retirement income (Table 4). But Table 4 also illustrates that the funds released by equity release are not just used to provide extra income. Many people use the released funds to pay off debts, pay for home improvements and to fund a holiday.

Table 4: How people who take out equity release products use the funds by property value (% of people who took out the product)[37]

	Extra monthly income	Gift to family	Home improvement	Long term care	Immediate healthcare	Essential repairs	Holidays	Repay mortgage/ debts
Less than £200,000	0.3%	13.2%	63.2%	0.1%	0.3%	0.2%	40.0%	57.2%
Less than £500,000	1.0%	14.8%	58.3%	0.3%	0.4%	0.1%	38.3%	57.2%
Less than £750,000	6.3%	14.6%	40.6%	0.0%	1.0%	0.0%	25.0%	62.5%
Greater than £750,000	5.8%	25.0%	48.1%	0.0%	0.0%	0.0%	30.8%	51.9%

34 CML statistics. Figures refer to the end of 2005.
35 SHIP Final year figures for 2008
36 SHIP, Collation of final year figures results
*data not available
37 Key Retirement Solutions (2009)

The use of equity release for home improvement and repaying debts does not directly provide an income but can reduce expenditure, thus indirectly freeing up income from other sources. However, the debt being paid off may not be a debt owed by the person releasing the equity. Anecdotal evidence suggests that older people are accessing their housing wealth to help pay off the debt of family members, for example student debt of their younger relatives.

Retirement income may be improved by renting out rooms or investing in a second home

Rental income may be obtained by either renting out a room in the home or investing in other properties.

Retired people who find that they have more room available in their own house than they require may rent out rooms. In 2006 there were around 16,000 boarders and lodgers living in pensioner households.[38] This may mean renting to a lodger, or opening a bed and breakfast or simply an informal arrangement with a family member.

As well as using their own home to provide retirement income, retired people can also obtain retirement income through investing in other properties. This could mean buying a holiday home, or one or more properties to rent out (also known as buy-to-let). During retirement, these properties can be sold in order to access housing wealth, or retained and rented out to provide an income stream. Providing retirement income is often reported as a major motivation of part-time buy-to-let landlords,[39] and 15% of all people in work say they plan to use income from properties *other than their home* as retirement income.[40]

These plans may be beginning to be transformed into action. The number of mortgages advanced for buy-to-let increased rapidly, from 28,700 advanced in 1998 to around 350,000 advanced in 2007, however, this dropped back in 2008 with around 225,000 new mortgages advanced. There are now more than a million buy-to-let mortgages outstanding.[41] However, buy-to-let is not currently widespread; in 2006 around 2% of retired adults (around 200,000 people) reported receiving rental income from a second property.[42] This may increase in the future; just under 3% of 40 to 55 year olds (around 370,000 people) say they receive an income from a second property while over 3% of people between 55 and State Pension Age (around 160,000 people) report receiving rental income from a second property.

The current economic climate is having an effect on the buy-to-let market. As noted above, the number of new buy-to-let mortgages taken out fell in 2008 compared with 2007, and fell further in the first quarter of 2009. 22,400 new buy to let mortgages were taken out in the first quarter of 2009 compared with 72,400 over the same period in 2008.[43]

[38] PPI analysis of the Family Resources Survey 2006/07
[39] Bevan and Rhodes (2003)
[40] NOP (2003)
[41] Council of Mortgage Lenders statistics
[42] PPI analysis of the Family Resources Survey 2006/07
[43] Council of Mortgage Lenders statistics

While property can be used as a source of investment income in retirement by those who do own a second home it may be that only a minority of people actually own more than one home in retirement. Therefore, using a second home as a source of retirement income may not be possible for most pensioners.

Housing can be used as insurance against adverse events

Housing assets can provide insurance for times of unanticipated need in retirement. An example of this is in the case of supporting the additional costs as a result of acquiring a disability. Around 70% of people over age 80 have a disability of some sort.[44]

For certain types of disability, owning a house may enable the home to be adapted to the needs of the individual. Accessing housing wealth may be a way for people to fund the necessary adaptations.

Housing assets may be used to fund long term care

Many older people will need long term care at some point in their life. In such circumstances the local authority will assess the needs and circumstances of the person, their eligibility for care provision and consider their financial circumstances.

The local authority will determine how much of a contribution a person should make to the cost of their care. Nursing and other NHS care is paid for by the NHS. Other costs, including the costs of residence at a care home, are paid for by the local authority and/or funded by the assets of the person needing care. Local authority provision is generally provided on a means tested basis. If someone has more than a certain level of assets which normally includes the value of housing assets, (in England this is currently £23,000) they will not receive any financial support from the local authority. A former home is not taken into account in some circumstances, for example, if it is still the home of a partner of the person requiring care.[45]

Where necessary the house may be sold in order to raise capital to pay for residential care. The local authority may enter into a deferred payment agreement with the person needing care. Under this arrangement the local authority agrees to fund the care as a loan which is to be repaid when the property is sold at a later date. This enables people who cannot, or do not wish to, sell their house immediately to get help with their fees. The authority has discretion to enter into deferred payment agreements but must consider each case on its merit.

Although basic residential care needs would be met even if there are no housing assets, housing wealth could increase the quality and choice of

[44] Kellard *et al* (2006)

[45] There are a number of situations where the value of the main home would not be taken into account in the means test. See Age Concern (2009a) and Age Concern (2009b) for further information on how the local authority awards means tested funding

residential care – for example choosing a care home which is close to the relatives of the patient.

Housing may be used for bequest
If housing assets are not used in retirement, then on death they will pass to the estate of the homeowner. This use of housing assets may be intentionally planned or it may simply be that death occurred before any other plans to use the housing assets were realised. 11% of people say they have received property or a share in a property as an inheritance.[46]

Attitudes toward leaving an inheritance are in some ways contradictory. When asked in general terms, 85% of people say they would like to be able to leave a bequest to their loved ones.[47] However this may just reflect the desire to be financially secure enough to have something left over when they die. Of those who think themselves likely to be in a financial position that would enable them to leave a bequest,[48] only 15% of people consider it 'very important', while a further 50% consider leaving an inheritance as 'fairly important'. 67% of those who believed themselves likely to be able to bequeath want to enjoy life rather than worry about bequests.

Inheritance tax is paid on bequests greater than the inheritance tax threshold (£325,000 in 2009/10).[49] Tax is paid at 40% on the value of the estate above the threshold. A person's house is often their highest value asset and therefore may be the reason that the inheritance tax threshold is breached. Equity release can be used to enable people to reduce the inheritance tax paid by passing on housing wealth before they die. The value of the house can be released before death and gifted to the intended recipients without incurring inheritance tax. However, there is a seven year rule: any gifts within seven years prior to death may be subject to inheritance tax.

Conclusions
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.

[46] Rowlingson and McKay (2005) based on a survey of 2008 interviews representative of people over 18 in Great Britain.
[47] Rowlingson and McKay (2005)
[48] Around 90% of those surveyed thought they would be in a position to leave something as a bequest when they die
[49] HMRC website

- **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 support 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.

However, there are a number of barriers to 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.

Chapter three: how could housing support retirement for hypothetical pensioner households?

The first report in the Retirement income and assets series[50] considered what determines pensioners' needs for income in retirement. In that report hypothetical individuals were used to consider whether they were likely to have sufficient income to meet their needs. This chapter considers how the hypothetical current pensioners of the first report might be able to use their housing wealth to address the shortfalls in their retirement income identified in the first report.

Accessing housing wealth can boost income or help meet additional needs
The first report modelled the future income and the needs for four hypothetical pensioners. Of those considered two were homeowners, Amit and Grace; this report considers the difference that accessing housing wealth can make toward Grace and Amit meeting their needs and expectations for income in retirement. These examples are illustrative rather than representative (see Appendix).

Grace is a high earning woman with a defined benefit occupational pension and retires at age 60 in 2008. Amit is a median earning man with a defined contribution occupational pension scheme and retires aged 65 in 2008.

Target income measures
One measure of adequacy of retirement income used in the first report was a comparison with the income that is received immediately before retirement. The aim is to target a level of income which enables people to maintain a similar standard of living as the individual or household were accustomed to before retirement – this is often referred to as a replacement rate.

Pensioners may not need 100% replacement income in order to maintain similar pre-retirement consumption levels, as for many pensioners expenses are often lower in retirement than they were during working life, partly due to lower taxes and National Insurance. Retired people also tend to save less of their income (in pensions for example), and are less likely to be paying off mortgages, accumulating assets/investments or supporting dependents. Some pensioners also spend less on goods related to employment, like transportation.

In its analysis the Pension Commission used desired replacement rates[51] which vary depending on an individual's earning level. Table 5 sets out the corresponding replacement rates for Amit and Grace.

[50] PPI (2009)
[51] Pension Commission (2004) p143

Table 5:[52] Desired replacement rates for hypothetical individuals

Individual	Income in working life per week	Percentile of earnings[53]	Required Replacement rate	Target Replacement income per week
Amit	£377	50th	70%	£264
Grace	£735	90th	60%	£441

Amit would require an income of £264 a week to meet his target replacement rate (£377 x 70%) and Grace would require an income of £441 a week to meet her target replacement rate (£735 x 60%).

Modelling from the first report showed that Amit is expected to have an income of £252 per week at SPA (Table 6). He therefore faces a shortfall of £12 per week. (£264 - £252.) Grace is expected to have an income of £364 per week at SPA and faces a shortfall of £77 per week. (£441 - £364.)

Table 6:[54] Required level of equity to release in order to achieve Pension Commission replacement rate at State Pension Age 60 (F), 65 (M)

Individual	Total pension income at SPA	Required replacement rate	Shortfall	House value in 2008	Equity required
Amit: a 65 year-old median-earning man	£252 pw	£264 pw	£12 pw	Owner occupier worth £200,000	£10,600 5% of house value
Grace: a 60 year-old high-earning woman	£364 pw	£441 pw	£77 pw	Owner occupier worth £250,000	£100,100 40% of house value

Both Amit and Grace are homeowners and may be able to use the value of their home to help them to meet their shortfall in retirement income (Table 6).

Amit is able to fund his shortfall of £12 per week by drawing down a total of £10,600 during his retirement. This is 5% of the value of his property at retirement of £200,000.[55] This would be available under the terms of commercial equity release products.

[52] Pensions Commission (2004)
[53] Labour Force Survey July – September 2008 data
[54] Income figures in table rounded to nearest pound, for further details on each individual see PPI (2009)
[55] The first report presented results in 2008 earnings terms. The results in this report are in 2009 earnings terms. Amit and Grace had houses worth £200,000 and £250,000 respectively in 2008 terms. If it is assumed that they suffer the average house price fall for England and Wales of 16.2% as set out in table 1, then the value in 2009 would be £168,000 and £210,000 respectively in 2009 earnings terms. This fall occurs after they retire in 2008 so does not affect the amount they would be able to release at retirement.

If he were to draw down £10,600 over the course of his retirement then at the time of his death[56] in 2025 he would owe approximately £12,000 on his mortgage in 2009 earnings terms which would reduce his house value to £156,000 in 2009 earnings terms and which could be used as a bequest.

As Amit does not release all his available equity he may be able to release more at a later point in his life, for example if he needs to pay for care.

Grace would need to draw down 40% of the value of her house during her retirement to make up her shortfall of £77 per week. She may not be able to do this using the drawdown facility in a lifetime mortgage. Providers may only allow her up to a maximum of 35% of the value of her home in total throughout her retirement.

If she did take the required £77 per week then she would have taken 35% of the value of her house by the time she was aged 82. At which point she could ask her equity release provider to revalue her house. If the house has increased in value sufficiently she may be able to draw down further equity.

Instead of using the drawdown facility in a lifetime mortgage, Grace could downsize her house to one which cost around £150k, including moving costs to release the £100k that she needs to meet her target replacement rate.

Funding disability costs in retirement

The first report in this series suggested that some pensioners may find it difficult to cover all of their needs from pension income and state benefits alone. This is especially the case for single pensioners and those who suffer from disabilities. For these people, using an alternative asset such as housing, to meet these additional needs or to boost income in retirement could be important.

In the first report the effects of disability costs were considered on Keisha, a 60 year old with a low earning employment record and no private pension provision. A scenario was considered where she retired at age 60 acquired a low severity disability at age 75 and a high severity disability when she reached age 90.[57]

[56] Under the life course scenario Amit dies at age 82, Grace at age 85; see PPI (2009)
[57] See Appendix for details

Chart 8[58]

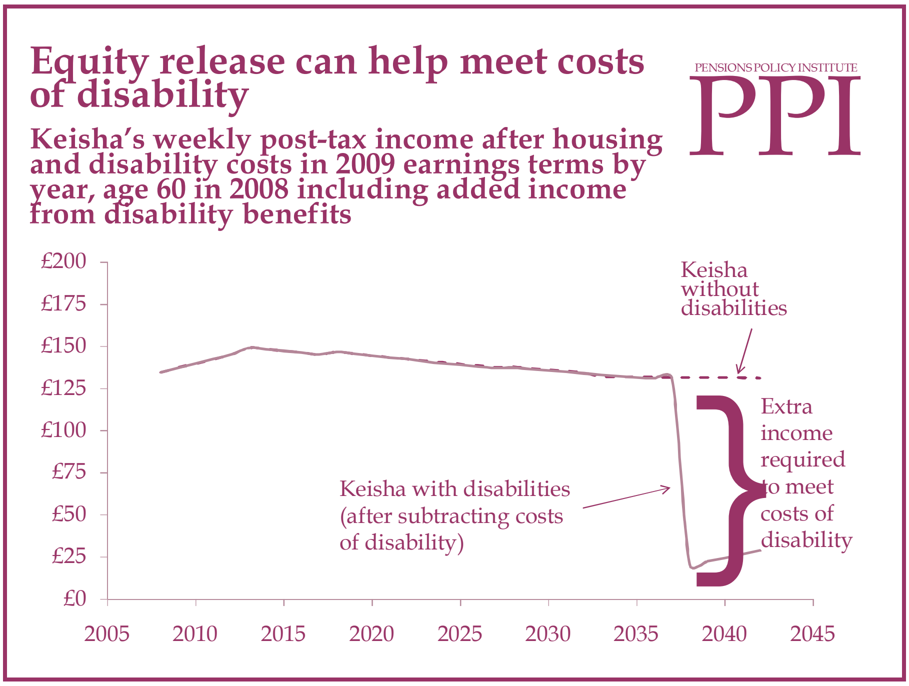


Chart 8 shows Keisha's income and before and after the costs associated with her disability. Keisha did not own a house in the original report, but for the purposes of this report it is assumed that she does own a house and can use it to support the extra costs incurred as a result of her disability.

When Keisha suffers her first disability at age 75 she receives attendance allowance which covers the cost of the disability. Her income net of disability costs is largely unaffected. However, her net income falls from £131 to £21 when she suffers a high severity disability at age 90 in 2038.

Keisha requires an extra source of income of £151 a week in 2009 earnings terms in order to maintain her income level.[59]

The cost of care is assumed to increase in line with inflation. In order to obtain an extra weekly income from age 90 of £151, which increases each year in line with inflation, Keisha would have to release equity of around £38,000 (in 2009 earnings terms) from her house during her retirement. This would require a house worth around £120,000 in 2009 earnings terms.

Keisha may be able to use her housing in other ways in order to support her disability. She may be able to adapt the house to reduce the extra costs of disability, covering the cost of the adaptations by accessing housing wealth.

[58] PPI (2009)
[59] This consists of £124 to cover the extra cost of the disability, plus £40 to replace Pension Credit and Council Tax Benefit forfeited, less £13 of additional Attendance Allowance. Equity drawn down is received tax free so she does not suffer an increase in tax

These examples illustrate how accessing housing wealth can support the retirement income of current pensioners. The potential for future pensioners to use housing wealth to help support retirement will depend on:

- The number of older people with housing wealth in the future
- The value of future housing wealth owned by the over 50s.

Chapter four: how could housing support retirement in the future?

Chapter four considers the extent to which housing assets could play a role in supporting retirement for future generations of older people. It examines how home ownership might change in the future and what scope there is for growth in the use of housing wealth to support retirement, for example through pensioner households accessing housing wealth or using housing as an investment or insurance.

The projections in this chapter are an indication of the order of magnitude of potential changes. They are not a detailed forecast, but are useful to gauge future potential for the use of housing to support retirement.

In particular the estimates in this chapter are purely scenarios for estimating the potential housing wealth that could be used. This chapter does not consider how any of the barriers to the wider use of housing equity could be overcome or the potential implications of other developments in the wider housing market.

One potential development that could influence the future use of housing wealth in supporting retirement is Government policy on social and long term care. Although this chapter does not consider the impact of the proposals made in the recent Government green paper on social and long term care,[60] this is likely to be covered in the final report of this project.[61]

There is scope for growth in the use of housing wealth to support retirement
The use of housing wealth to support retirement may be expected to increase in significance in the future, as the number of older households and the proportion of pensioners with housing equity increases (Chart 9).

[60] DH (2009)
[61] Due to be published in early 2010

Chart 9[62]

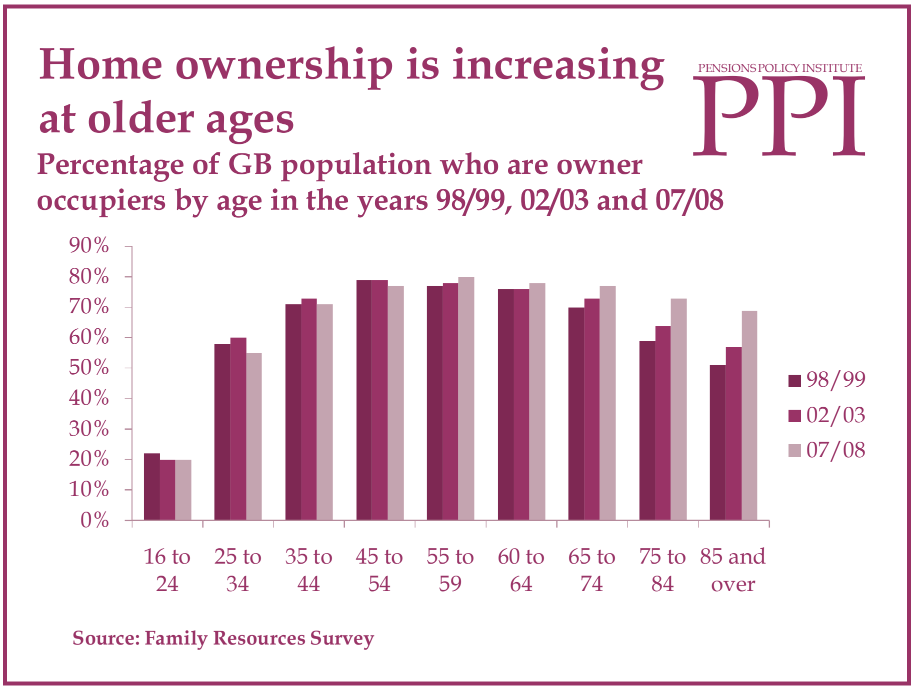


Chart 9 shows that the number of people over age 85 who own housing has grown from just over 50% in 1998/99 to just under 70% in 2007/08. There may be scope for further growth. Home ownership is currently highest amongst 55-59 year olds. As this generation gets older there may be higher levels of home ownership amongst people in their 60s, 70s and 80s. If this trend continues there may be home ownership levels of 80% amongst people over SPA.

The trend in future levels of home ownership among older people is uncertain. There is a slight reduction in home ownership levels at ages below 55. This could reflect the growth in house prices making houses unaffordable for young first time buyers. As this younger generation get older the graph of home ownership may flatten out to a lower long term level.

In addition there has been an increase in the number of divorced people at older ages. In 1996 around 4% of people over 65 were divorced; this figure had risen to 7% in 2006.[63] Divorce often leads to a splitting of the assets, with only one partner receiving the house in some cases. The effect of divorce on home ownership levels at older ages is unclear because it will depend on what new household structures the divorced couple form.

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

The role that housing will be able to play in supporting the retirement of future generations of pensioners will depend on how much housing wealth is owned by pensioners in the future. The PPI has modelled how the housing wealth owned by pensioner households may change in the future based on

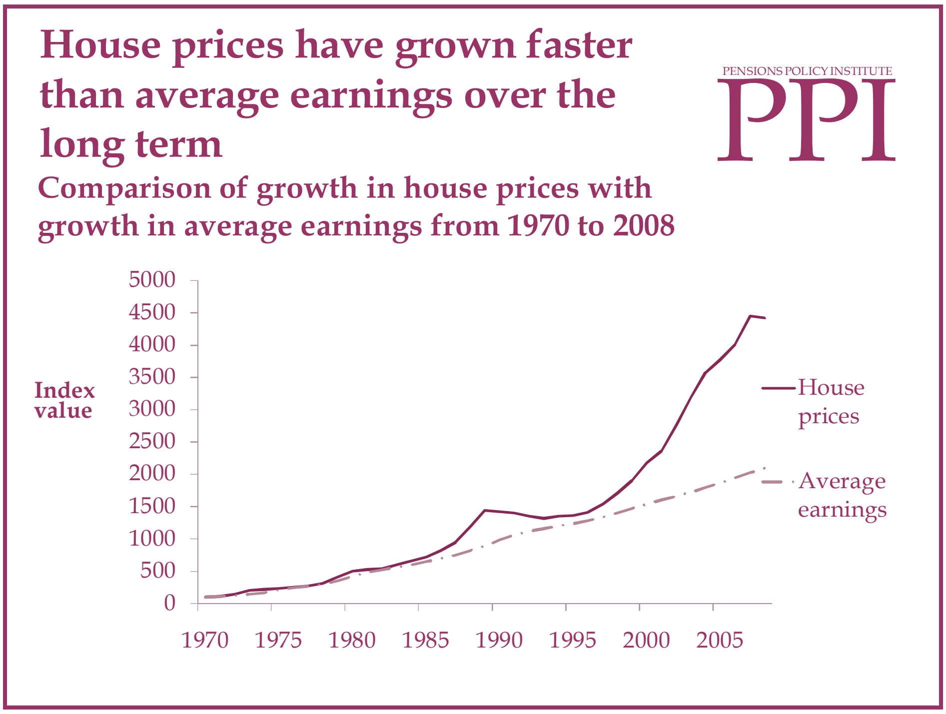
[62] Family Resources Survey 1998/99, 2002/03, 2007/08 in DWP(2000), DWP(2004) and DWP(2009)
[63] ONS (2009)

assumptions about future levels of home ownership at older ages and future growth in house prices.

For the central scenario it is assumed that home ownership levels for people over State Pension Age tend toward 80% in the long term, following the analysis from Chart 9, and that property prices will, in the long term, increase in line with the general level of increases in earnings.

Chart 10 shows the growth in house prices against the increase in average earnings from 1970 to 2008. The average annual increase in house prices over the period is 10%;[64] this compares to an average annual increase in earnings of 8%[65] over the same period.

Chart 10[66]



Up until 1997 house price growth and the increase in average earnings was quite close. The accelerated growth in house prices in the late 1990s to 2007 lead to a divergence. Following the credit crunch of 2008 house prices have fallen. It is difficult to predict the future relationship between rates of earnings growth and average house price growth.

For the purposes of this report it is assumed in the central scenario that, over the long term, future house prices rise on average in line with the long term assumption for increases in earnings of 4.6%. A range is given, representing a house price growth rate of ½% less than, and ½% greater than earnings growth in order to show the sensitivity of the results to the assumptions.

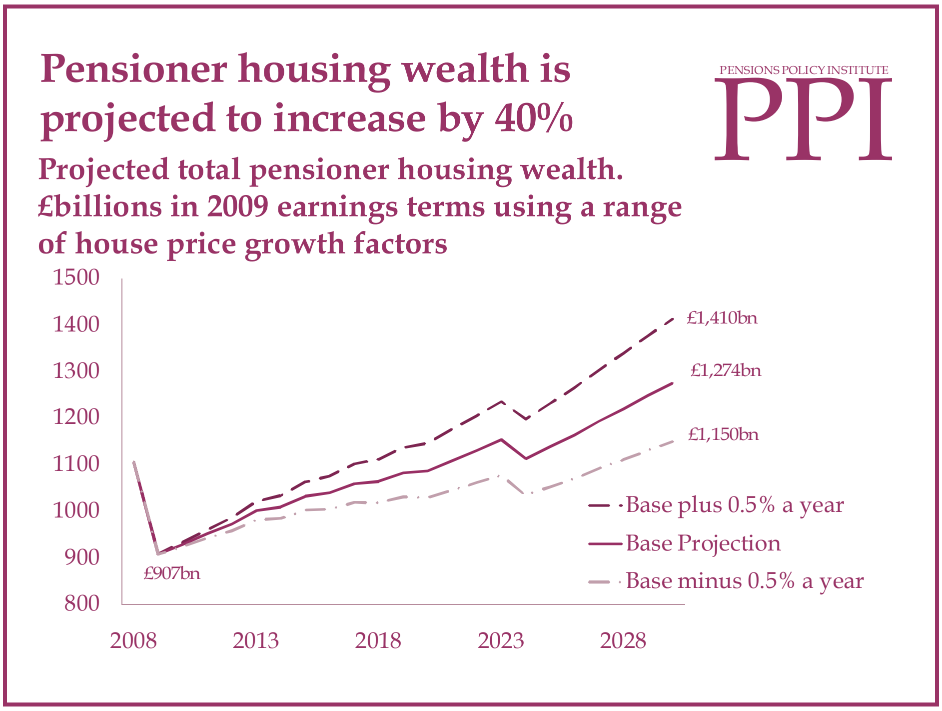
[64] CLG (2009)
[65] ONS (2008)
[66] CLG (2009)

Different levels of regional house price growth noted have been allowed for by considering historical regional variability around the average (see Appendix for further information).

Projected future housing wealth

Chart 11 shows the projected value of total housing wealth owned by people over SPA under this central scenario. In 2008 there was just over £1,105bn of housing wealth held by people over SPA in 2009 earnings terms. As a result of falls in the housing market this fell to around £907bn in 2009. Under PPI long term assumptions, pensioner housing wealth is projected to increases by around 40% to £1,274bn in 2030 (all figures in 2009 earnings terms). In the central scenario the increase in housing wealth will lead to an increase in the potential for use of housing to support retirement.

Chart 11[67]



The general trend of an increase in housing wealth is because of both the increase in the size of the population of people over SPA and the increasing level of home ownership at older ages.[68]

The figures are sensitive to the assumptions. If future house price growth is not in line with growth in average earnings then future housing wealth could be very different. In order to illustrate this sensitivity Chart 11 also contains results based on house prices increasing at ½% per year greater than growth in earnings and ½% per year less than growth in earnings.

[67] PPI Modelling, see Appendix for information on modelling and assumptions
[68] There is a slight fall in 2024/25 this is due to the change in the State Pension Age from 65 to 66 leading to a smaller number of pensioners. There are similar effects from 2010 to 2020 which are due to the phased increase of the female State Pension Age from 60 to 65.

If the average future growth in house prices were to be ½% a year more than earnings, then total pensioner housing wealth in 2030 would be around 10% higher than the central scenario at around £1,410bn (in 2009 earnings terms), an increase of 55% above 2009 levels.

Similarly if house prices grow at a rate ½% a year less than the growth in earnings then total pensioner housing wealth in 2030 would be around 10% lower than the central scenario at around £1,150bn (in 2009 earnings terms) an increase of 27% above 2009 levels.

How might housing wealth be distributed in the future?
Although total housing wealth is projected to increase in the future, it is important to consider the distribution of the future housing wealth in order identify how that housing wealth may be used to support retirement. The distribution of projected housing wealth can be considered in terms of the income levels of people who are home owners and the amount of housing wealth that they have.

In order to construct groups of pensioners who may be expected to display similar behaviour, pensioner households have been categorised according to whether their income and property value are low, medium or high (Table 7).

Table 7: Definitions of property and income level used to group pensioner households in the analysis[69]

	Definition		
	Low	**Medium**	**High**
Income	Less than 30th percentile of pensioner income for the year[70]	30th to 70th percentile of pensioner income for the year[71]	Higher than 70th percentile of pensioner income for the year
Property value[72]	Property worth less than £100,000 in 2009 earnings terms[73]	Property between £100,000 and £500,000 in 2009 earnings terms	Property worth more than £500,000 in 2009 earnings terms

Pensioners may use housing to support retirement in different ways depending on their situation. Using the definitions above it is possible to construct approximate groups of pensioners depending on how they could use housing wealth to support retirement.

These groups are broad brush; individuals in any group may act in very different ways when they take account of all of their personal circumstances.

69 In this analysis income comes from private pensions, state pensions, Pension Credit, earnings, investment income and other government benefits. People over SPA are assumed to have no outstanding mortgage
70 30th percentile income for households is around £200 per week in 2009 (PPI modelling)
71 70th percentile income for households is around £425 per week in 2009 (PPI modelling)
72 It is assumed that properties have no existing mortgages on them. i.e.that all mortgages are paid off before State Pension Age.
73 Low property values includes households with no housing wealth.

Unlikely to access housing wealth: People with low value properties are assumed in this analysis to be unlikely to be able to access housing wealth from their property in order to support retirement. Nevertheless, home ownership may still play a role in supporting the retirement of these people, for example, by reducing living costs or providing rental income if rooms are rented out.

People with medium or high property values may use that property to support retirement in different ways depending on their income level.

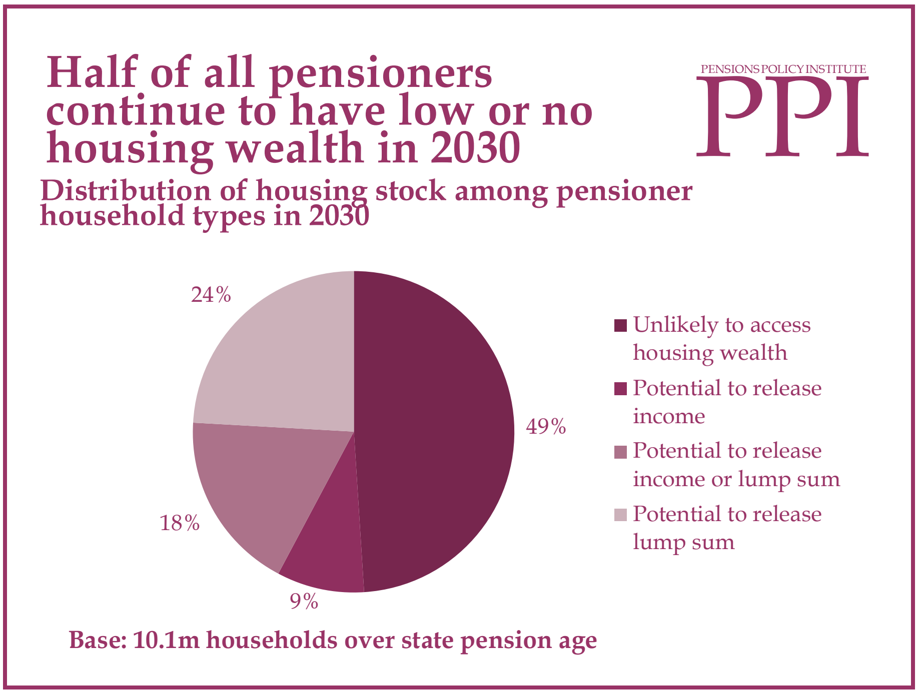
Potential to release income: Low income pensioners with a medium to high value property may be most in need of income and therefore may prefer to access housing wealth in their property to use in order to boost income.

Potential to release lump sum: High income pensioners with a medium to high value property may have less need to use equity in order to boost their income. They may prefer to use it to pay for lump sum expenditures, such as paying for care, contributing to paying off a grandchild's university debts or financial planning to avoid inheritance tax.

Potential to release income or lump sum: Pensioners with medium income levels and medium to high value property may wish to release money for income, for a lump sum or both. The first report demonstrated that as pensioners grow older they may be less likely to be able to meet their needs, so people who start out with what they consider to be adequate income may wish to access housing wealth for additional income later in life.

In 2030 nearly half of people over SPA will have low or no housing wealth.
Chart 12 shows the projected number of people over SPA with housing wealth in 2030. In 2030 around half of pensioners have low or no housing wealth. This distribution is similar to the distribution in 2009. This is because the modelled growth in the level of home ownership is at all levels of the market, thus not greatly affecting the distribution.

Chart 12[74]



More pensioners will have the potential to use housing wealth to support retirement in the future

The number of households[75] 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. (Table 8).

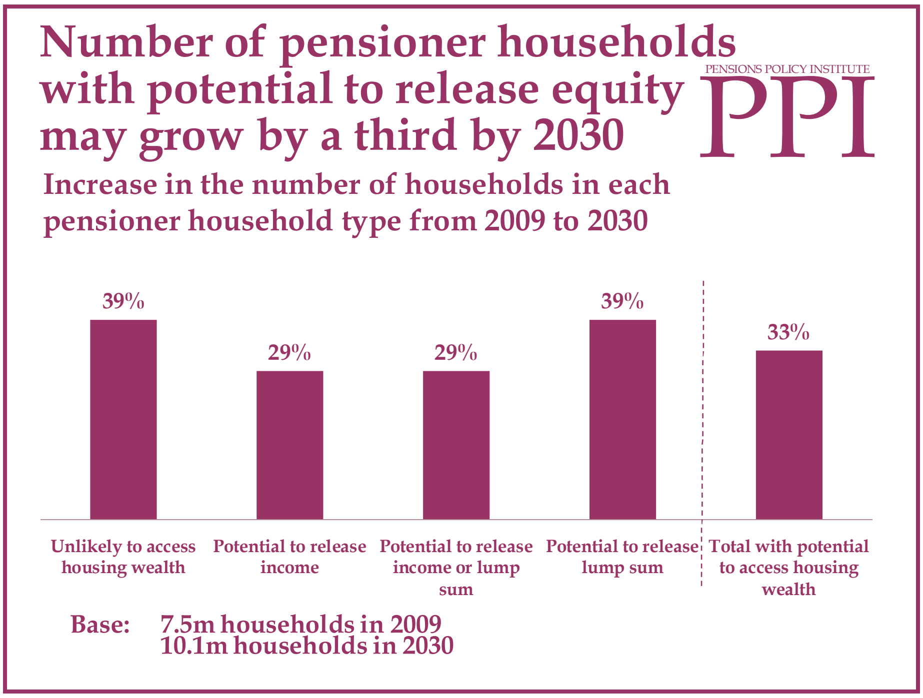
Table 8: Number of households in each equity release group in 2009 and 2030 (million households)[76]

Access to housing wealth group	**2009**	**2030**	**% change**
Unlikely to access housing wealth	3.6	5.0	39%
Potential to release income	0.7	0.9	29%
Potential to release income or lump sum	1.4	1.8	29%
Potential to release lump sum	1.8	2.4	39%
Total with potential to access housing wealth	**3.9**	**5.2**	**33%**

[74] PPI modelling
[75] One household may consist of two people if they are married pensioners or a single person in the case of an unmarried or widowed pensioner.
[76] PPI modelling

Chart 13 shows the percentage increase in the number of pensioner households in each group between 2009 and 2030.

Chart 13[77]



An important factor in the growth in the number of pensioner households with the potential to access housing wealth is the number of pensioner households aged over 75. There were 1.7m households where the head was aged over 75 in 2009, rising to 2.9m households in 2030.

This has occurred for two reasons. People are living longer so there are more people over 75, and, as Chart 9 demonstrated, those over 75 currently tend to have a lower proportion of home ownership than those aged between SPA and 75. This means that the projected increase in home ownership levels to 80% has a greater effect on people over age 75 than those under age 75.

Chapter two demonstrated that older pensioners can generally release more equity under the terms of commercial products than younger pensioners. The first report demonstrated that as pensioners age it can become more difficult to meet all of their needs in retirement.[78] Therefore, the impact of the higher proportion of over 75 year old pensioners may offer a greater scope in the future to make use of equity release.

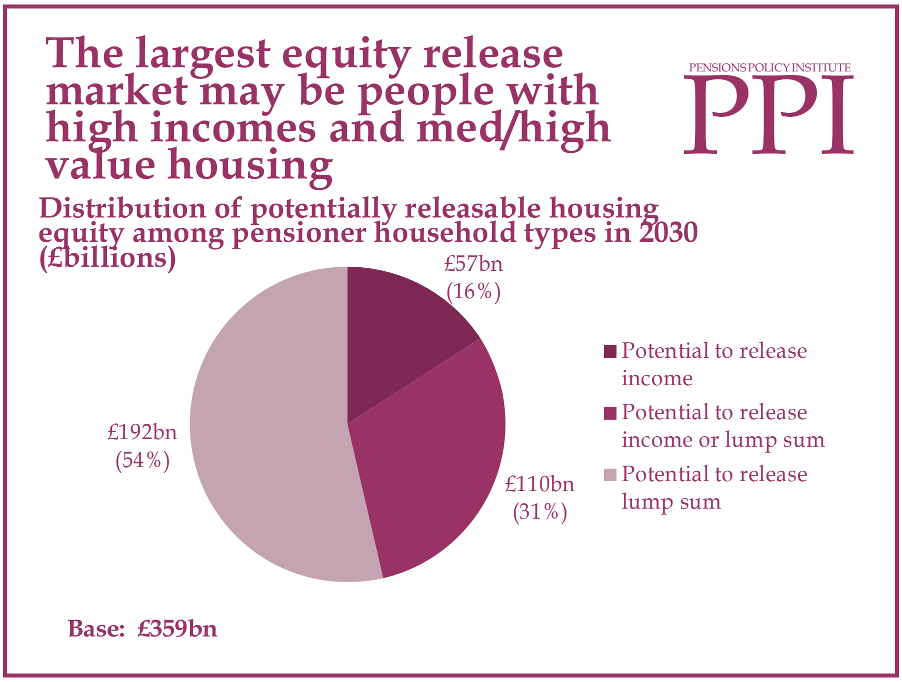
More housing wealth may be available to support retirement

The total housing value in 2009 for people over SPA who may have potential to release housing wealth (i.e. people with housing worth more than £100,000) is £803bn in 2009, increasing to £1,100bn in 2030, in 2009 earnings terms. However as described in Chapter two not all housing wealth can be released.

[77] PPI modelling
[78] PPI (2009)

Chart 14 gives broad estimates of the maximum amount of equity that could be released in 2030, based on the amount that could be released on the limits in current lifetime mortgage products. It allows for the different proportions of housing wealth that can be released according to the age of homeowners.

Chart 14[79]



Pensioners who may have potential to access housing wealth could release up to £251bn of housing wealth in 2009, rising to £359bn in 2030, in 2009 earnings terms. This is an increase of 43% over the period (Table 9).

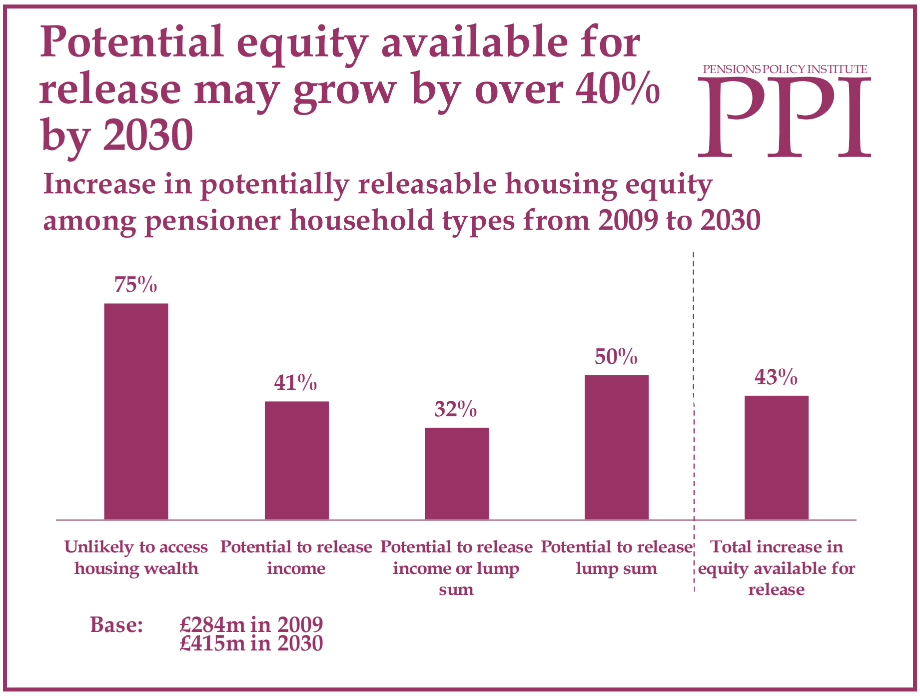
Table 9: Amount of equity that could be released by each equity release group in 2009 and 2030 (£billions)[80]

Access to housing wealth group	2009	2030	% change
Unlikely to access housing wealth	32	57	75%
Potential to release for income	40	57	41%
Potential to release for income/lump sum	83	110	32%
Potential to release for lump sum	128	192	50%
Total with potential to access housing wealth	**251**	**359**	**43%**

The largest growth among the groups who have potential to access housing wealth is amongst pensioner households with a medium/high value house and a high income, those who may wish to access housing wealth to provide a lump sum. Housing value that could be released as a lump sum under a commercial equity release product in this group has increased by 50% (Chart 15).

[79] PPI modelling
[80] PPI modelling

Chart 15[81]



The amount of housing wealth that is currently accessed through equity release products is small compared to the potential amount of releasable housing wealth. The current size of the equity release market in 2009 is around £5-10bn,[82] in terms of loans outstanding, compared with the estimated £251bn of housing wealth that could potentially be released in 2009. Equity release products currently make up around 1% of the mortgage market.[83]

There are barriers to the growth in equity release

The modelling shows that there may be more housing wealth that could be accessed through equity release products in the future, however there are barriers to the use of equity release.

The growth of the equity release market is constrained, as not all of the equity in housing can be released. Most products will only release a portion of the equity, to ensure that the interest can be repaid by the value of the house when it is sold. The amount of equity that can be released depends on the age at which it is taken. Taking equity earlier reduces the amount that can be taken, as the interest is expected to accrue over a longer period of time. For example:

- Lifetime mortgage lenders will typically offer equity release of between 15% and 20% of the value of the property to someone aged 65. By age 75, this often increases to 30%. The maximum that most lenders will offer is 50% of the property value, for those aged in their 90s.[84]

[81] PPI modelling
[82] PPI calculation based on SHIP statistics
[83] FSA (2008)
[84] PPI internet search

- Although home reversion schemes offer to buy all of a property, the amount received for the property is considerably lower than the full market value. At best, a 65-year-old could expect 35% of the market value, and the maximum amount paid to older pensioners is around 60% of the market value.[85]

Equity release products require providers to tie up capital in an investment with an unknown and possibly far off payback date. Under the current economic conditions providers may be unhappy in taking such a risk. This could reduce or constrain the supply of equity release products.

There are a number of reasons why pensioners may choose not to use equity release products:

- The interest rates charged by equity release providers often appear high, relative to other mortgage products. This is because providers have to cover both the longevity risk of a homeowner living for a long period of time, and the investment risk that the property will be worth less than the outstanding loan when the homeowner dies. Interest rates are set at higher levels to cover these uncertainties, and to compensate for the fact that the provider does not receive any payments for a long time after making the loan. These higher interest rates can make equity release products appear to be unattractive to consumers.
- Equity release products still have an image problem after mis-selling and bad product design in the late 1980s that left many pensioners in debt. This may be helped by the regulation of lifetime mortgages and home reversion schemes by the FSA and the no negative equity guarantee offered in some products.
- Sale and rent back contracts are not currently fully regulated.[86] Any bad practice under these contracts may cast a shadow over the whole industry.
- 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.
- It can be difficult to move house under equity release plans, if for example one partner in a couple dies and the remaining partner wishes to move to a new house of lower value, part of the loan may need to be repaid.
- Money that is released from housing could reduce entitlement to Pension Credit (PC) and Council Tax Benefit (CTB) in some circumstances. If equity is released, it could increase the amount of income and/or capital taken account for benefits. It is not counted as capital or income if it is not released (see Box 3).

[85] PPI internet search
[86] The FSA put in place interim regulations in July 2009, with full regulation anticipated in 2010

Box 3: Equity Release and means tested benefits[87]
When Equity is released either as income or as capital it can affect entitlement to Pension Credit and Council Tax Benefit. A change in financial circumstances will lead to benefits being reassessed.

Pension Credit
An increased income may reduce the amount of Pension Credit to which a person is entitled. An increase in capital will similarly reduce entitlement if their total capital is above the level of the capital disregard (currently £6,000 but increasing to £10,000 in November 2009), below that level there is no effect.

Many people who receive Pension Credit are subject to an Assessed Income Period ('AIP'), which means that they need not inform the Pension Service of any changes to their retirement provision (which includes income from an equity release scheme) until the end of that period (usually up to 5 years).[88] An increase in the level of regular income will reduce Pension Credit entitlement when the benefit is reassessed. However, if capital has been spent in a reasonable way before the end of the AIP it might not impact on the level of Pension Credit awarded. There are rules against deliberately setting out to spend capital in order to increase Pension Credit. If such deprivation of capital is judged to have taken place then the capital spent may be included in the calculations and lead to a reduction in Pension Credit.

Council Tax Benefit
Entitlement to Council Tax Benefit (CTB) is also subject to the level of income and capital savings. The capital disregard for CTB is £6,000 and is also due to increase to £10,000 in November 2009. If capital held is over £16,000 then CTB ceases, unless the Guarantee Credit part of the Pension Credit is payable.

There is no AIP for CTB, but the effect of the AIP may trickle through if the claimant is also receiving Pension Credit. Changes to Pension Credit that may change entitlement to Council Tax Benefits are not reported until the end of the Pension Credit AIP.

[87] For more information see Age Concern (2007)
[88] An AIP normally lasts for 5 years but since April 2009 people aged 75 and over will normally be given an indefinite AIP. This means a pensioner over age 75 will not have to report changes in retirement provisions such as increased income from equity release. AIP may be cut short under certain circumstances such as being widowed leading to the benefit being reassessed.

Property as an Inheritance
While a desire to preserve a family home as an asset to be passed on to future generations may limit the scope for equity release for the current generation of retired homeowners, it may increase the potential for equity release for future generations. But the impact of inherited housing wealth will depend on a number of different factors:

- If inherited property is retained, the number of people with more than one property would increase.
- If inherited property is sold, and the proceeds re-invested in a family house, there may be more equity in the new family home, but similar reasons to today not to release it.
- If property is inherited by people who do not already own their own home, inheritance could become a more common way of getting on to the housing ladder. Recent trends suggest that increased prices have made it difficult for first-time buyers to enter the market, and the average age of first-time buyers has been increasing.

It is likely that there will be some combination of these different outcomes, leaving the overall impact uncertain.

Conclusions
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 commercial equity release products to support retirement:

- **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.

Appendix: modelling housing growth

This appendix describes modelling assumptions and methodology used in this report. The modelling uses two models – the PPI's Individual Model and the Distributional Model. These models were developed by the PPI with a grant from the Nuffield Foundation.

Throughout, the modelling assumes:

- Future annual price inflation of 2.5%.
- Future annual earnings growth of 2% in excess of prices.
- Expected investment returns of 3.5% in excess of prices, before charges, corresponding to a mixed equity/bond fund.[89]
- Annual management charges of 0.5% of assets under management.
- House prices are assumed to grow in line with earnings
- Interest charged on equity release loan is assumed to be 7%
- Long term home ownership level among people over State Pension Age of 80%.

Distributional modelling

The Distributional Model is a static microsimulation model. In the projection, the income received by the individuals is adjusted over time, to take account of future changes in benefit rates and rules around qualification for benefits (for example the increase in State Pension Age and the reduction in the number of required qualifying years for full basic state pension).

In order to project housing wealth in this model, individual housing asset values at 1991 house prices were allocated to households in the distributional model through the use of council tax bands reported in the Family Resources Survey (FRS), (in a similar way to that used by CARESIM). Housing prices were uprated to current levels by applying historic increases to the housing asset values which varied by geographical region.

House price growth

Growth factors were applied to the initial house prices based on the long term assumption that house prices will increase at the same rate as the growth in average earnings.

Regional differences were allowed for by creating regional growth weighting factors based on past performance data from the Nationwide regional house price indices. Regional weightings are calibrated to ensure the average increase is in line with the house price growth assumption.

Allow for changes in pensioner population

The distributional model uses a representative data sample of around 8,000 pensioner households which is scaled up to the population by applying weights to each household in the sample.

[89] This corresponds to assumed equity returns of 7.5% a year, assumed bond returns of 4.5% a year, and a portfolio of 55% equities and 45% bonds

These weightings are adjusted to keep the distribution of the scaled up population consistent with population projections made by the Government Actuary's Department.

Adjust for changes in home ownership over time
The starting point is the actual distribution of home ownership by age. A long term home ownership rate was set according to the assumption being used. Home ownership rates were adjusted for people between 60 and 65 up to the long term home ownership rate over an assumed period. These home ownership levels were then assumed to feed through into the rest of the pensioner population as the population ages.

For example the assumed home ownership levels of 70 year olds in 2012 feeds forward to be the home ownership levels of 71 year olds in 2013. This implicitly assumes that as existing pensioners age they do not purchase new housing (if they do not already own any) and that they do not sell housing either.

A baseline scenario has been constructed for housing wealth assuming that housing asset values increase by geographical region from a base of growth of 2% in excess of prices.

The scenarios should be taken as illustrative, since there is limited evidence for how housing asset values will grow in the future and there is limited evidence for how housing home ownership among pensioners will change in the future.

Individual modelling

The modelling of the pension pot sizes of hypothetical individuals uses the PPI Individual Model.[90] Detailed assumptions have been made about the individuals' working and saving behaviours and these are described in the main report.

Hypothetical individuals and couples used in this report
This report uses three hypothetical individuals (Boxes A1 – A3) to examine the way that housing could be used to support need in retirement. The basket of assets and income which each of the hypothetical individuals and couples have at SPA are intended to represent some of the possible variations within the range of assets and income baskets that people may have. They are not intended to be representative of the average pensioner. Their working life earnings are within the 30th, 50th and 90th percentiles of earnings respectively.[91]

90 For more information on the Individual Model, see PPI (2003) *The Under-pensioned*
91 Labour Force Survey July - September 2008 data

Box A1: Keisha: a 60 year-old low-earning woman

Keisha is a low-earning woman, aged 60 in 2008.

- Keisha starts working full-time from the age of 18 in 1966.
- Between the ages of 22 and 32 Keisha takes time out of work to care for her children during which time she qualifies for two years of Home Responsibilities Protection (HRP).[92]
- Keisha returns to work full time for thirteen years till she is 45, then she takes two years out of work to care for her mother (and qualifies for two more years of HRP) Keisha returns to work at 47 and works for another thirteen years.
- During her 30 years of full-time work Keisha earns at low age-specific earnings for women.

At SPA (60 in 2008):

- Keisha's BSP entitlement is £77.74
- Keisha's SERPS/S2P entitlement is £45.71
- Keisha has £1,000[93] of non-pension savings from which she receives an income of £0.96[94] a week.
- Keisha rents a council flat with a rent of £70 per week.[95]
- At age 70 Keisha receives £10,000 in inheritance

Severe Disability Scenario:

- Keisha acquires a low severity disability at age 75[96]
- Keisha acquires a severe disability at age 90[97]
- Keisha dies at age 95 (high life expectancy)

[92] HRP was introduced in 1978, 2 years before Keisha stopped providing care
[93] 25th percentile of savings for pensioners (rounded) calculated by PPI based on data from FRS (06/07) in DWP (2008)
[94] Weekly income of 5% annual drawdown from savings
[95] Council house rent info: www.communities.gov.uk/housing/housingresearch /housingstatistics/ housingstatisticsby/rentslettings/
[96] Based on data from Kellard *et. al.* (2006). 55% of people age 75 have a moderate or severe disability
[97] Based on data from Kellard *et. al.* (2006). Around 50% of people age 87 -90 have a severe disability

Box A2: Amit: a 65 year-old median-earning man

Amit is a median-earning man, aged 65 in 2008.

- Amit starts working full-time from age 21 in 1964.
- Amit works until he is 65 in 2008.
- During his 44 years of full-time work Amit earns at median age-specific earnings for a man.
- Between the ages of 30 and 65, Amit and his employer contribute to a DC occupational pension scheme 5% and 3% of salary respectively.

At SPA (65 in 2008):

- Amit's income from his occupational pension is £71.55 per week which does not increase with RPI (level annuity).
- Amit takes a lump sum of £18,388 at age 65.
- Amit's BSP entitlement is £90.70
- Amit's SERPS/S2P entitlement is £91.92 and Amit receives £4.34 per week from the Graduated Pension Scheme
- Amit has £6,000[98] of non- pension savings from which he receives an income of £5.77[99] per week
- Amit is an owner-occupier. His house value is £200,000 in 2008.[100]

Amit has median life expectancy and dies at age 82[101]

[98] 50th percentile of savings for pensioners (rounded) calculated by PPI based on data from FRS (06/07) in DWP (2008)

[99] Weekly income of 5% annual drawdown from savings

[100] House prices: CLG (2008) 'The mix-adjusted average house price in the UK stood at £203,539 in October 2008 (not seasonally adjusted).'

[101] Median, high and low life expectancy calculated from the ONS interim Life Tables based on UK data from 2005 – 2007 based on a future life expectancy from current age: 60 for females, 65 for males.

Box A3: Grace: a 60 year-old high-earning woman

Grace is a high-earning woman, aged 60 in 2008.

- Grace starts working full-time from age 25 in 1973.
- Grace works until she is 60 in 2008.
- During her 35 years of full-time work Grace earns at high earnings for a woman.
- Between the ages of 25 and 60 Grace contributes to an occupational pension scheme with a 1/80th accrual rate.

At SPA (60 in 2008):

- Grace's income from her occupational pension is £303.61 per week.[102]
- Grace's BSP entitlement is £88.37.
- Grace receives no SERPS/S2P as she is contracted through her occupational pension
- Grace receives £2.47 per week from the Graduated Pension Scheme.
- Grace has £21,000[103] of non-pension savings from which she receives an income of £20.19[104] per week.
- Grace is an owner-occupier whose house value is £250,000 in 2008.[105]

Grace has median life expectancy and dies at age 85[106]

[102] Calculation made on the basis of Grace receiving entitlement 35 years of reckonable service that can count towards her DB civil service pension.

[103] 75th percentile of savings for pensioners (rounded) calculated by PPI based on data from FRS (06/07) in DWP (2008)

[104] Weekly income of 5% annual drawdown from savings

[105] House prices: www.communities.gov.uk/publications/corporate/statistics/hpi102008 CLG House price Index October 2008 - 'The mix-adjusted average house price in the UK stood at £203,539 in October 2008 (not seasonally adjusted).'

[106] Median, high and low life expectancy calculated from the ONS interim Life Tables based on UK data from 2005 – 2007 based on a future life expectancy from current age: 60 for females, 65 for males.

In all scenarios it is assumed that:

- Basic State Pension payments increase in line with earnings after 2012 as outlined in the Pensions Act 2007.
- The hypothetical individuals draw down 5% annually from their savings.
- The hypothetical individuals take their 25% tax-free lump sum from their pension savings at SPA and use the income on an immediate purchase (such as mortgage payments, house improvements or give it away).[107]
- The hypothetical individuals who own their own homes have fully paid off mortgages by SPA.
- The hypothetical individuals claim all the benefits that they are entitled to, including Pension Credit, Housing Benefit, Council Tax Benefit and Attendance Allowance.[108]
- None of the individuals are entitled to receive the Severe Disability Premium of Pension Credit when they are disabled because they either receive care from their partner or from a relative.[109]

[107] The majority of people (76%) take their lump sum at SPA and of those who take their lump sum, many spend the money soon after taking it (80%) or give it away to friends or relatives (17%) Prudential. YouGov. (2008)

[108] Many pensioners do not claim all of the benefits that they are entitled to and have lower incomes as a result, Age Concern (2008)

[109] Pensioners who receive Attendance Allowance may be entitled to a Severe Disability Premium (of £50.35 in 2008/09) if they receive Attendance Allowance, live alone, or live with someone who is also receiving Attendance Allowance or is registered blind, and no one is receiving Carers Allowance for providing care to them, http://www.ageconcern.org.uk/AgeConcern/Documents/FS48Pension_Credit(1).pdf

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