PENSIONS POLICY INSTITUTE

PPI

PRESS RELEASE
EMBARGOED TO
00.01 TUESDAY 25 MAY 2004

"Property cannot replace pensions" says Pensions Policy Institute

Most people will not be able to rely solely on the equity they have in their home to sustain them throughout their retirement, a report published today by the Pensions Policy Institute suggests.

Property or Pensions? investigates recent trends in property and pension wealth, and analyses the ways in which property can be used to provide an income in retirement. Despite the recent surge in property prices, the report concludes that the majority of people will not have enough housing equity to allow them to retire without saving in other assets.

Although more wealth is held in housing than in private pensions, not all housing wealth can be converted into an income. Equity release products typically allow only 20% of the house value to be realised at age 65.

Housing wealth – like other forms of wealth – is not evenly spread. Most houses are worth less than £130,000. Only 10% of homes are worth more than £330,000, which is how much is needed for equity release to provide an income of £100 a week.

Director of the PPI Alison O'Connell said:

"Saving in property is often proposed as an alternative to saving in pensions. But only a (wealthy) minority will be able to invest in property other than their own home.

For most people, owning a home contributes to retirement by reducing the cost of living compared to renting.

Not everyone wants to release housing equity – and it does have risks – but it could be used to reduce the amount of pension saving needed to meet a target retirement income.

Even so, today's average levels of pension saving (around 7-8% of salary a year) could only be enough to fund a two-thirds final salary retirement income for a forty year old <u>if</u> he or she can release equity from an average value house <u>and</u> retire at age 67.

For most people, property will be at best a complement to occupational or personal pensions, not a substitute."

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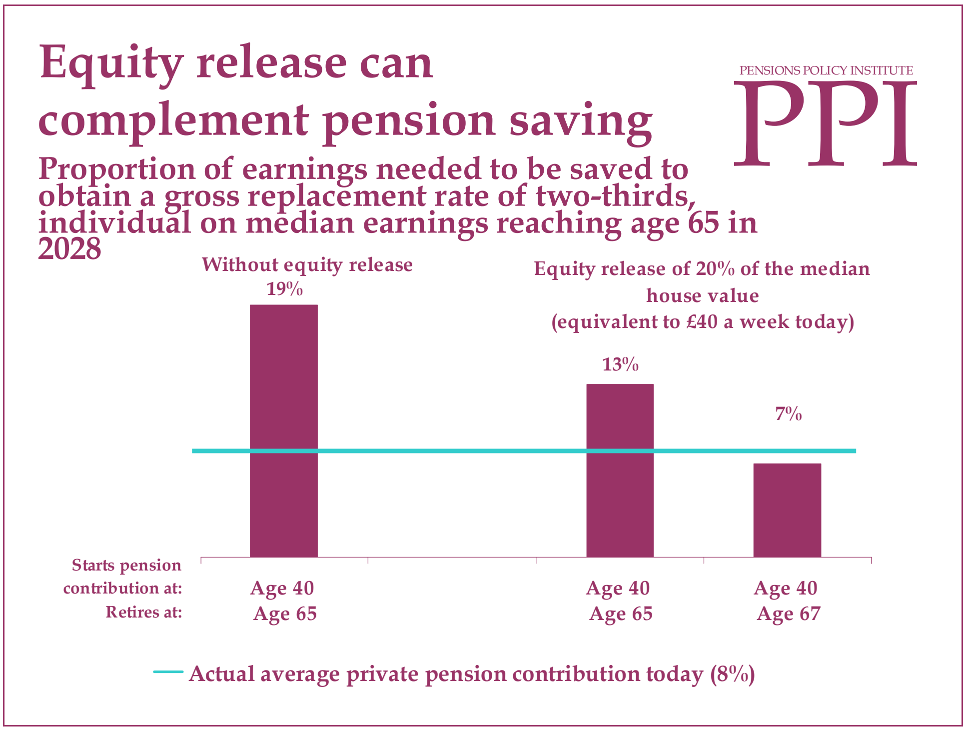
Notes for Editors

To illustrate: Someone starting pension contributions today at age 40 could need to save 19% of salary each year to achieve a total pension (from the state and private savings) at age 65 of two-thirds of final salary.

After taking account of possible equity release from an average value house, the required contribution rate falls to 13% of salary each year.

However, this is still above the average rate of pension saving of 7-8% of salary a year. With that level of private pension saving, as well as equity release from an average value house, he or she could reach a total pension of two-thirds final salary only by working to age 67.

This assumes the value of houses and pension funds increase at today's 'best estimates' of long-term future growth. Both property and pension saving have risks.



Property or Pensions? Summary of conclusions

The current level of private pension contributions – employer and individual - is not enough to provide most future pensioners with the levels of retirement income achieved by today's pensioners. Other sources of private income will be needed to fill the gap left by the relative decline in state pension income.

More money is invested in housing than is invested in private pensions, as house prices have recently increased by more than pension fund values. However, more people say they are not saving for retirement at all than say they are saving in property.

Property can help to fund retirement in three ways:

- Owning your own home can reduce day-to-day living costs in retirement
- Equity released by homeowners can be used to provide extra income
- Property can be used as part of an investment portfolio generating retirement income

More than half of people aged over 35 have property and pensions, but wealth (including housing wealth) is not evenly spread among everyone.

Most people have low levels of private pension saving and relatively small amounts of housing equity. For these people, the predominant benefit of home ownership will be to reduce living costs, rather than to provide a significant amount of income throughout retirement.

A minority of people will have sufficient housing equity to provide a reasonable stream of retirement income. These people are also likely to have private pension provision.

Very few people will have enough wealth to invest sufficient amounts in property to allow them to use investment income from property instead of private pension provision.

Rather than choosing property or pensions, most people will need both. Saving in property can supplement private pension saving, but by itself will not increase future retirement incomes up to the level of income enjoyed by people retiring today. For the vast majority of people, property will be at most a complement to private pension saving, rather than a substitute.

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The PPI is an independent research organisation, focused on pension provision. Its aim is to improve information and understanding about pensions (state and private) through research and analysis, discussion and publication.

A summary of the report's main conclusions are attached. The full report, *Property or Pensions?* can be found at www.pensionspolicyinstitute.org.uk or obtained from the PPI on 020 7848 3744; info@pensionspolicyinstitute.org.uk

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