Equity Release Council response to Communities and Local Government and Health Committees joint inquiry on the long-term funding and provision of adult social care published January 2018

About us

- The Equity Release Council is the industry body for the equity release sector. The Council represents over 700 members including providers, qualified financial advisers, solicitors, surveyors, intermediaries and other industry professionals. Every member is committed to the Council's Statement of Principles that aims to ensure consumer protections and safeguards.

- In addition, the Equity Release Council works to boost consumer knowledge and increase awareness of equity release as a solution to financial challenges facing people over the age of 55 across the UK.

Introduction

- We welcome this opportunity to respond to this joint inquiry into long-term funding of adult social care. In our response, we have specifically addressed the issue of how equity release is one of a range of options for addressing financial challenges during later life, including funding social care or paying for home adaptations to enable people to live independently for longer.

- While not everyone will need to fund significant social care costs in later life, and equity release will not be suited to all people with this need, the Council believes that equity release products should be considered as one of the options for finding a solution to meet the challenges outlined in the inquiry.

Response

The Council would like to make the following points in its response to the Inquiry:

How should social care be funded sustainably for the long term (beyond 2020), bearing in mind in particular the interdependence of the health and social care systems?

1. Social care funding is a complex issue that will likely require different solutions for different people. Equity release products are one option to enable people to either pay for social care or fund home adaptations which can enable older people to live in their homes independently for longer, thereby reducing the need for domiciliary and residential care. A recent report by Legal & General highlighted that 36% of people releasing equity from their

homes do so to fund home refurbishments and renovations, which could include accessibility options, such as installing wheelchair ramps, accessible bathroom suites and lowered kitchen units.[1]

2. The potential for housing equity to be utilised for funding social care is particularly significant for the current generation of over-55s; almost two thirds of those over 55 years of age own their home outright in the UK.[2] It is estimated that this equates to £1.5 trillion in housing wealth being possessed by this age group.[3] At the time of this research, the average cost of a house in England was £229,383.Whilst house prices will vary in different regions, and the costs of care will vary for individuals, the use of housing wealth can evidently go some way to supporting older people in paying for their social care.

3. The recent growth of the equity release industry also indicates the significant potential behind using housing wealth for a variety of purposes, with annual lending surpassing £3 billion for the first time during 2017. The Council's Autumn 2017 Equity Release Market Report demonstrated continued growth in the sector; the average amount lent under an equity release policy in H1 2017 was £95,386 for lump sum plans, and £59,958 through drawdown plans, with an additional £33,949 reserved for future use.

4. Whilst the introduction of deferred payment agreements (DPAs) with local authorities in the Care Act 2014 has given some assistance in utilising housing wealth to assist with care costs, there are limitations to DPAs, which do not apply to equity release products.[4] DPAs may only be used if the homeowner is moving into a care home for the long-term and if nobody else remains living in the property, whereas housing wealth released through equity release can be used to pay for temporary periods of residential care and domiciliary care and allows the policyholder and any other residents to remain in their home.

5. Equity release products also contain a number of safeguards to ensure that they are only taken out by homeowners when it is the most appropriate option for them. FCA regulations stipulate that all customers buying equity release plans must receive financial advice from a qualified adviser, and independent legal advice. The Equity Release Council's product standards also require products to have a "no negative equity guarantee", meaning that neither the policyholder nor their estate will be liable to pay any charges greater than the value of the house.[5]

6. One of the key issues to ensuring that social care can be funded sustainably beyond 2020 is to prompt people to examine their finances, how much social care could cost if they needed it in the future, and to suggest what provisions should be made to support people's social care needs in the future. Ideally, this would be one of the functions of the new Single

[1] Legal & General, 'Silver Spenders', available at: http://www.legalandgeneral.com/adviser/files/retirement/literature-and-forms/miscellaneous/silver-spenders-report-2018.pdf, p. 9.
[2] Legal & General, 'Silver Spenders', p.3.
[3] 'Over 55s in England have more wealth locked away in their homes than the entire annual GDP of Italy', available at http://www.thisismoney.co.uk/money/news/article-3829791/Over-55-UK-homeowners-wealth-locked-away-homes-entire-annual-GDP-Italy.html.
[4] Information on deferred payment agreements is provided by the Money Advice Service at https://www.moneyadviceservice.org.uk/en/articles/deferred-payment-agreements-for-long-term-care.
[5] Equity Release Council Statement of Principles, available at http://www.equityreleasecouncil.com/standards/statement-of-principles/.

Financial Guidance Body, which the Financial Guidance and Claims Bill is currently legislating to create, and which is hoped to be in place by autumn 2018.

7. The Financial Guidance and Claims Bill does not, however, make specific reference to guidance on social care funding, merely stating that one of the objectives of the Body will be "to improve the ability of members of the public to make informed financial decisions" and "to support the provision of information, guidance and advice in areas where it is lacking." The Council would recommend that the Committees conducting this inquiry carefully consider the role Government should play at the outset of conversations regarding social care funding, in a similar manner to what has been achieved around auto-enrolment into pensions over the past few years. The Council also notes that the Care Act specifically requires local authorities to signpost carers to independent, regulated financial advice before a Deferred Payment Agreement is agreed and believes that this should be promoted, as it is also consistent with the Council's requirement for those seeking equity release to take independent financial advice which would provide consistency of approach with the Society of Later Life Advisers (SOLLA).

8. The Council is developing policy proposals on how equity release can help meet the challenges of funding later life, particularly social care. At this stage, the discussion points below are not formally agreed Council positions and we would welcome the opportunity to discuss further.

9. One proposal is that once people reach a certain age – 60, for example - they would be encouraged to make a pledge to ringfence a proportion of their housing equity to fund their future social care needs. This pledged amount could be designated to a savings or care account. As an example, a person with £500,000 of equity in their property could pledge to set aside 20% of this equity, or £100,000, which they could access once they needed to receive social care.

10. If said person did not need social care, this would remain as part of their estate, which we believe may overcome a reluctance of some consumers to pay into a fund for social care ahead of time. This pledge would allow people to pass on any money they have left as an inheritance, and to move property if they wished to, with a corresponding change to the amount pledged according to the value of the new property.

11. To incentivise consumers to set aside equity for social care, Government could introduce a policy of matching or 'topping-up' some of the individual funding provided. Equity release products require repayment when permanent residential care begins which makes it more difficult for independent financial advisers to recommend it is used as a source of funding for domiciliary care. The existence of the equity release loan also makes the person undertaking it ineligible for a deferred payment agreement, as local authorities require a first charge. We suggest that local authorities show a willingness to allow the equity release loan to remain as a second charge alongside a deferred payment agreement.

12. Funds could be accessed for social care via an equity release product, possibly through an equity release provider claiming a matching payment from the Government and paying the care provider directly.

13. We would be willing to facilitate discussions between Government and industry to examine these proposals in further detail.

What mechanism should be used to reach political and public consensus on finding a sustainable funding solution?

14. The challenges regarding an ageing population and social care are well-known so there is already broad consensus that these are issues that need to be tackled. Achieving political and public consensus on a sustainable funding solution is dependent on an open and constructive debate. We would hope that there is consensus and agreed action before the next Parliament given the lack of sustainable funding for social care.

15. There also needs to be a more transparent conversation with the public about the costs of social care and the need to plan and prepare for the possible costs that will not all be met by the state. The Government, public, private and voluntary sectors can all work to shift attitudes towards planning and preparing earlier for later life costs. There are mechanisms in the pipeline which will help: for example, the Government Financial Inclusion Minister has recently suggested a financial MOT for 50 year olds. The Single Financial Guidance Body can also help signpost the different options for funding retirement which can be aligned with an earlier understanding about social care.

16. Equity release can play its part in meeting social care challenges, but it remains one part of the solution. The mechanism described at paragraph 9 can help shift the culture towards earlier planning and preparation for potential social care costs. Government can incentivise this process, as described above.

17. We await the forthcoming social care green paper with keen interest and would urge that, following debate and agreement on a way forward, the appropriate mechanisms and processes should be put in place as soon as practically possible, to begin addressing social care funding challenges at the earliest opportunity.

18. Raising public awareness of the scale of the challenge, the remits of both the NHS and social services, the role Government will and will not play in providing provision for care, are all essential to fostering improved public understanding. Alongside that, Government, industry and consumer groups can all help to explain the support that other financial mechanisms, such as equity release, can provide.

19. Creating cultural change is necessary so that the public is encouraged to talk about ageing and plan accordingly. As part of that, people will need to think constructively about the possibility of needing social care at some stage, and for future planning to be promoted as a positive step, rather than discussed in a fearful or negative way.

20. For the equity release industry, the key to the recent growth in the sector has been working to overcome some of the stigmas and misconceptions surrounding equity release and to promote the safeguards which protect consumers from being adversely impacted by securing an equity release product. The industry has also endeavoured to respond to consumer needs by incorporating flexibility into products wherever possible.

21. Similar steps should be taken to encourage people to plan for the funding of their (potential) future social care needs, both in initiating conversations on the subject and creating solutions to suit different people's circumstances.

Submitted by the Equity Release Council
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