Equity Release Council response to *Hitting the Target: Delivering Better Retirement Outcomes* published by the Pensions and Lifetime Savings Association, October 2017

About the Council

- The Equity Release Council is the industry body for the equity release sector. The Council represents over 650 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.

- We welcome this opportunity to comment on the consultation paper *Hitting the Target: Delivering Better Retirement Options*. In our response, we have specifically addressed the issue of how equity release can best support retirement income.

Consultation response

Q14. How can equity release products used to support retirement income be improved?

Equity release allows individuals aged 55 and over to release money from the property they live in, as a lump sum or in regular smaller sums, without having to make any monthly repayments. Customers retain the right to live in the property rent free until the end of the mortgage term, namely death or moving into long-term care. There are two types of equity release products – lifetime mortgages and home reversion plans – which are both regulated by the Financial Conduct Authority (FCA).

The potential of equity release to fund retirement

The consultation document recognises that for most people, their home is their only substantial source of wealth, other than their pension. Indeed, for many people their housing wealth will vastly outweigh their pension entitlement – and may even be their preferred method of saving for retirement, particularly with the increasing shift from defined benefit to defined contribution pensions. Almost 80% of people aged 65-74 own their own homes. Estimates for the total level of equity in older people's housing are as high as £1.8 trillion, which means that housing wealth could act as a significant source of income in later life. By contrast, the Council's white paper, *Equity Release Rebooted*, estimates that the average value of a defined contribution pension in 2012-14 was £30,200, further emphasising that housing is many people's greatest asset.

The equity release market has experienced significant growth over the last five years, with greater product innovation, competition and flexibility. In terms of customer numbers, equity release is the fastest growing mortgage market in the UK. The market is in a healthy position for this growth to continue.

Hitting the Target acknowledges that the use of equity release products is increasing. The Council's Equity Release Market Report Autumn 2017 highlighted that 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. Overall lending in H1 was in excess of £1.3 billion. At the time of writing, The Equity Release Council expects to report on annual lending having exceeded £3 billion for the first time in 2017 – a significant increase on the £29 million annual lending in 1992.

Interest rates for equity release products are also at an historic low. On an annual basis, there has been a fall of 66 bps from 5.96% in July 2016, with the average rate at 5.30% as of July 2017 – a greater drop than that seen in most other personal borrowing products. As of today, the lowest rate available is around 3.76%, demonstrating how the market is becoming more competitive, buoyed by new entrants responding to increased demand.

There is an increasingly wide range of providers, which includes large insurers and retirement providers alongside specialist providers. In the last year, Santander and Co-operative Bank both announced partnerships to make equity release products available to their existing customers. Nationwide has also come into the market. There are also more than three times as many products available as there were just three years ago. This is an indication of the significant potential behind using housing wealth to supplement retirement income.

The consultation paper suggests that reasons why uptake isn't high includes concerns about product flexibility, taking on debt, and a desire to pass on an inheritance to children.

In the Council's view, the key challenges to increasing uptake of equity release are as follows:

- As a society, we don't like talking about ageing and death and as such, we are not taking action to prepare for these eventualities. An estimated 44 per cent of UK adults are not saving adequately for retirement; 29 per cent of over 65-year olds have no pension provision at all.[1] Similarly, around 60% of adults have not made a will.[2]
- We live in a homeowner culture, where people value their house as something to pass onto their children – they do not necessarily want to start using this resource while they are still alive.
- Many people want to avoid equity release as they value not being in debt – even though equity release could help them better manage their finances and have a more comfortable retirement.
- Outdated social norms and attitudes towards equity release persist – highlighting a need to raise awareness of the potential of housing wealth, the product options available, and the level of consumer protection.
- Greater awareness and understanding of equity release is required to show how it could meet people's needs. The industry's efforts to raise awareness could be complemented by public organisations such as the forthcoming Single Public Financial Guidance Body.

[1] http://reference.scottishwidows.co.uk/docs/2017-Retirement-Report1.pdf
[2] http://www.thisismoney.co.uk/money/news/article-3807497/Nearly-60-Britons-not-written-will.html

Addressing the barriers to greater use of housing equity

Over the last few years, the equity release industry has built a **greater understanding of equity release consumers**, including the fact that people choose equity release for a variety of reasons and there is not one single type of customer. Further research may provide segmentation models that can help tailor products.

As we have highlighted above, the industry has been responsive and innovative, with an increasing range of products – including products which allow customers to ring-fence an inheritance or to switch between interest roll-up and paying off the interest.

The Equity Release Council product standards, contained within its Statement of Principles, state that customers have the right to move their plan to another suitable property without financial penalty. This has been the case for products sold by Council members since the standards were first introduced in 1991 and remains a particularly important safeguard in the current retirement landscape, where the ability to anticipate future changes in needs and circumstances over a long period of time will grow increasingly difficult.

There are 86 different schemes currently available from ERC members, with a number of providers offering lower minimum initial amounts to lower ages with additional product features able to accommodate many customer needs. A full explanation of the range of different product features can be found in Appendix 1.

The industry will need to continue to be flexible to best meet customer need, while taking into account the realities of the housing market – for example that many specialist retirement properties do not offer the same level of investment returns as conventional property. However, increased innovation and flexibility shouldn't come at the expense of consumer protection – robust standards to safeguard consumers have played a role in the significant growth in the market over recent years and should continue to do so.

There is a need to be flexible in how providers and advisers link with consumers. Technology can be used to speed up processes, but there is also a need to devote time to interacting with customers in the way which suits them best, ensuring that we fully understand their needs.

There is a need to link equity release with **policy challenges such as retirement planning and social care** in the minds of politicians. The Council has had some success with this – for example, we lobbied for the Pensions Advice Allowance to include reference to equity release – but there is more that could be done.

There is an important role for **financial guidance and advice** in ensuring that people a) know where they can turn to for guidance and advice and b) are aware of the potential of equity release and how it could be used to help fund their retirement. The Council's own standards stipulate the requirement for any customer taking out an equity release product with a Council member to seek independent financial and legal advice - on 100% of transactions - before entering the agreement. However, there is room for broader financial guidance which allows people to fully consider their options for retirement and later life.

Anecdotal feedback suggests that, generally, consumers would prefer to receive advice on products and services from one source, rather than a number of advisers across different areas,

so they can consider all options together. Due to complexities and changing legislation for example, this might not be practicable, however, at the very least advisers should develop their business models and strengthen links with specialists to provide consumers with an advice process that is as seamless and cost-effective as possible, resulting in the best consumer outcomes.

There is also a need to grow the number of practising advisers and ensure that they are appropriately qualified, knowledgeable and experienced, so they can to best advise consumers and support them to make the right choices.

Guidance on housing wealth should also be incorporated into the pensions advice function of the new Single Financial Guidance Body, following the principle set by the Pensions Advice Allowance – the fact that this is not currently included within Pension Wise means that people may not be aware that it is an option, or how it might work in practice and suit their specific circumstances.

We would support the recommendation on p67 for a 'mid-life MOT' "to encourage people to take stock, and make realistic choices about work, health and retirement.[3]" However, to ensure that this achieves its objectives, there needs to be thought given on how to make it accessible so that as many people as possible take advantage of the opportunity. As well as pensions providers, government and employers also have a role to play in raising awareness and encouraging take-up, for example through the pensions dashboard, providing information in the workplace, etc.

We also hope that the new **social care green paper** planned for 2018 will give full consideration as to how equity release can be utilised to help fund social care. The think tank Demos recently published a report entitled "A Good Retirement"[4] which was based on research on public attitudes to the role of the state and the individual in achieving financial security in later life, with a particular focus on paying for social care. This found that while most people viewed funding for social care as an individual issue, few had made concrete provisions to pay for it should they need to.

The report suggested that the Government should invest more in advice and encouraging product development to meet the financial aspect of people's care needs. It highlighted both the potential of equity release products to fund people's social care needs, and the need to tackle negative attitudes to equity release before this becomes a more viable option. It also highlighted that by spending money on preventative measures, such as home adaptations, people could reduce the amount of money which needs to be spent on social care later in life.

There are also **specific regulatory challenges** which could prevent equity release from reaching its full potential. For example, we have been raising concerns about the impact of Solvency II on the sector for many years now. In October, the Treasury Select Committee's final report on EU Insurance Regulations concluded that the Prudential Regulation Authority was applying an "excessively strict interpretation" of the Solvency II rules, to the detriment of the UK insurance sector. We look forward to further dialogue to help resolve this situation and avoid a detrimental impact on the sector.

Conclusion

[3] Independent Review of the State Pension Age: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf
[4] https://www.demos.co.uk/project/a-good-retirement/

Equity release, while not suitable for all circumstances, needs to be considered as part of the whole suite of retirement options – it has great potential to enhance retirement and later life by providing an additional source of income. The social care green paper provides an excellent opportunity to consider the specific role of equity release in funding social care, but there are wider opportunities to enhance later life, and the Council is keen to work with government, regulators, and the industry to identify how we make the most of these.

As noted above, we would support a mid-life MOT, as well as efforts to ensure that wide-ranging advice is available at different points in life – including before and after retirement – so that people are able to consider the full range of options and make informed decisions on how to achieve a comfortable and secure retirement.

Submitted by the Equity Release Council
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Appendix 1: product features explained

- Voluntary/partial repayments – allows ad hoc or regular repayments to be made, typically up to 10% of the initial loan per year, with no early repayment charge (ERC). Helps customers to minimise the build-up of interest and even reduce the loan over time.

- Drawdown facilities – allows customers to withdraw money in stages rather than taking a single amount all in one go. Interest is only app lied when it is withdrawn – keeping costs down.

- Inheritance guarantee – reduces the maximum loan amount but enables a fixed percentage of the property value to be ring-fenced as a minimum inheritance, regardless of the total interest accrued by the loan.

- Fixed ERC – early repayment charges which are a fixed percentage of the initial loan during a set period of time. Typically, they decrease on a sliding scale. Once the fixed period has ended the customer can repay the loan in full without an ERC.

- Downsizing protection – allows customers to downsize to a smaller property and repay the loan – either voluntarily or if the new property does not fit providers' criteria – without incurring an ERC. Typically, there is a qualifying period of five years before this feature applies.

- Sheltered/age restricted accommodation – some plans can be secured against sheltered or age restricted properties, subject to the provider 's specific criteria at the time

- Interest payments – allows for either full or partial interest repayments to be made each month, which either stops or reduces the interest being rolled up on to the loan. There is no risk of repossession if payments are missed as customers can stop monthly interest payments and revert to interest roll-up at any time.

Lifetime mortgage rates reflect the additional features and protections offered above and beyond typical homeowner mortgages. For products offered by members of The Council, this involves a guaranteed fixed or capped rate of interest for an indefinite term until the plan is repaid, typically when the customer passes away or moves into permanent care; the continuing right to tenure without regular repayments being required; and protection for the customer against negative equity with the provider absorbing this risk.