Later Life Lending: Great Expectations

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COMMISSIONED BY

Equity Release Council

The Equity Release Council is the representative trade body for the equity release sector. The not-for-profit organisation was first established in 1991 when it was known as Safe Home Income Plans (SHIP).

It acted as a 'independent voluntary regulator' prior to the regulation of the equity release market by the Financial Conduct Authority (FCA), in 2004.

The Council seeks to lead a consumer-focused market by setting authoritative standards and protections that enable customers to trust that equity release is reliable and safe. Last year the Council celebrates 30 years of standards evolution.

Customers of Council members receive three levels of protection, encompassing: a structured financial advice process; independent legal advice; and clear product safeguards which include secure tenure for life and a no negative equity guarantee. Combined with statutory FCA regulations this sets the highest standard of consumer protection for any property-based loan.

The Council uniquely represents the entire equity release value chain, including funders, providers, advisers, lawyers, surveyors and other professionals. Council membership has seen uninterrupted growth for over 10 years and at the start of 2021 the Council represented 1850 individuals and 750 firms, including many domestic and global household names.

This report was commissioned by the Council but it is independent from it. The views expressed are not necessarily shared by the Council.

Equity Release Council

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Introduction

“I have been working in the Financial Services sector for over 25 years now. I started out as a financial adviser in the late 1990s before moving on to senior technical roles for providers, both onshore and offshore. I've been a pensions specialist, a tax and trusts specialist and even a protection specialist. I've written and edited numerous textbooks across a range of subjects. In short – I'm a bit of a financial services geek.

It wasn't until I started running my own business full-time in 2011 that I first became engaged in the later life lending sector. It had always been something that was on the edge of my line of sight. I had the qualification, but it wasn't at the front of my mind. In truth, I didn't look too closely.

Since then, it has become a major part of my working life and a passion project. I've worked across the sector, from provider firms to advisory firms and the Equity Release Council. I was involved in the development of the Council's competency framework and recently wrote the LIBF accredited 'Air later life academy' training that backs it. I undertake technical checks for examining bodies before they issue textbooks and I've even been awarded a post-graduate degree for my research into equity release and vulnerable customers. In other words – today, I 'get it'. I've come to see the huge role housing wealth can have in addressing the needs of UK homeowners and I see massive potential.

To fulfil that potential, though, we need to have some open conversations. The truth is that the world of later life lending has been on quite a journey - from solution of last resort to the cusp of mainstream retirement planning, but not everyone knows about that journey. We need to talk more about it.

We also need to recognise that this hasn't always been a comfortable journey. The failings of the past continue to haunt the modern sector. Much effort has been concentrated on improving both product and advice standards and the current picture is far removed from the bad days of old, but perceptions among both consumers and some advisers remain tainted. Many advisers still hold the same views I once held of the product sitting on the periphery, but not 'central' to planning.

In the post-Covid world, there is the potential for housing wealth to offer many consumers a real solution to the contemporary issues of life. Whilst this obviously applies to older homeowners, increasingly it also offers a lifeline to their family members who can benefit from earlier inheritances. With the biggest cost of living crisis in a generation many minds are now being woken up to something that has been true for a long time – property has a role to play.

For this sector to truly fulfil its potential, though, the journey needs to continue – and it needs to pick up the pace.

This paper looks at the potential role of later life lending and considers some of the issues and challenges that face the sector if it is to develop safely and effectively. We set out some of the actions that we think can deliver safe growth and enhance consumer outcomes. It is important to say that these aren't quick fixes, and they're going to need multiple stakeholders to pull together, but if you know where you're starting from and where you want to get to, you can start to plan a journey.

> “Although this paper has been commissioned by the Equity Release Council, they haven't been involved in writing it – that's been down to me.”

What you read here based on my many years' experience on both sides of the fence, a comprehensive review of literature and, if you'll indulge me, a touch of common sense.”

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Executive Summary

The later life lending sector has had its issues. From the first product launches in the 1960s, to a major part of the financial landscape in 2022, there have been many changes along the way.

What started out as a 'product of last resort' has moved to stand on the edge of being a major part of mainstream financial planning but work still needs to be done. Many consumers, and financial advisers too, don't recognise the changes that have taken place. They still see the sector through an outdated lens. The truth is that the perception these people hold is so out of date now as to almost be caricature in nature.

Product innovation has brought significant flexibility to products and the protection afforded by the Equity Release Council product standards ensures significant consumer protection. The regulation of the sector by the FCA further strengthens this and brings the sector in line with other areas of financial planning.

At the same time, the opportunity has grown exponentially. In the UK, property wealth is estimated to now stand at £6.7 trillion - £5.2 trillion after mortgage debt. Much of this is in the hands of over-55's (Equity Release Council 2022a). In fact, with pension wealth in the UK estimated at £6.45 trillion (The Lang Cat 2022) we now stand at a point where many older people have greater wealth in property than pensions.

Today, spending funded by equity release supports, either directly or indirectly some 80,000 jobs. The contribution it makes to the economy is clearly significant. But it could be greater. Property wealth has the potential to play a major role in addressing some of the challenges that face the older generation and, in some cases, the younger generation too:

- **Income shortfalls** – with defined benefit pension schemes becoming harder to find, those reaching pension age are beginning to find that their pensions aren't sufficient to meet their needs. For every £1000 the average employee earns in their final salary before retirement, they can expect just £150 in annual pension from a defined contribution scheme compared with £670 for defined benefits. Many are looking to their property to bridge the gap.

"What started out as a 'product of last resort' has moved to stand on the edge of being a major part of mainstream financial planning but work still needs to be done. Many consumers, and financial advisers too, don't recognise the changes that have taken place."

- **Care** – social care is a topic of huge importance to many. Whilst governmental reforms are starting to address the issue, property wealth can introduce an element of choice for care recipients, for example allowing many to 'age in place' with released equity helping to fund the cost.
- **Inheritance** – with greater longevity in the population, the point at which inheritance is passed down the generations becomes later. At the same time, younger people are struggling to get onto the property ladder. The use of released equity to fund 'living inheritance' is becoming increasingly popular.
- **Divorce** – as the number of older couples getting divorced rises (Office for National Statistics, 2017, 2022f) equity release used for purchase is allowing both parties to remain on the property ladder at a point much closer to their marital home than might otherwise be possible.
- **Gender inequality** – the much-publicised issues associated with the increase in the state pension age have brought financial pressure to many older women. The issue, however, goes far beyond this with women having, on average, significantly smaller private pension benefits. Today, nearly half of working women aged 55+ are anxious about running out of money in retirement and property wealth offers one potential solution.

- **Green equity release** – in the UK, buildings are responsible for around 23% of total greenhouse gas emissions. If we're to meet the net-zero target, we need to act to make property more energy efficient. Modern 'green equity release' contracts offer the potential for a higher release or lower interest rate to those who use funds to improve the energy efficiency of their property.

"At present, even if a consumer did approach a financial adviser, there is no guarantee that property wealth would form part of the conversation. Too many advisers work in silos – either looking at mortgages, equity release, or broader financial planning, but too seldom all areas at once."

Although the potential uses for housing wealth are myriad, roadblocks currently prevent the sector from achieving its full potential. These roadblocks will need to be overcome.

Perhaps the biggest roadblock is a lack of trust – both in the products and in financial advice more broadly. Many consumers still regard later life lending products as a last resort, and many have no idea of the features and benefits associated with modern products. Furthermore, too many consumers don't currently have a relationship with a financial adviser and don't feel they can trust the financial advice profession to always do right by them. This is an area where communication is vital – but we've work to do before that communication will land effectively.

At present, even if a consumer did approach a financial adviser, there is no guarantee that property wealth would form part of the conversation. Too many advisers work in silos – either looking at mortgages, equity release, or broader financial planning, but too seldom all areas at once. Whilst some advisers form referral relationships, these aren't as widespread as they should be.

The current regulatory framework does little to break down these silos. Mortgages and equity release are subject to a different regulatory framework to broader financial advice, often known as 'wealth' advice. There is little regulatory imperative for a 'wealth' adviser to even consider property wealth in their discussions with clients. The qualification regime for advisers in both camps would benefit from a refresh and update – not least to bring more understanding of broader needs into both sides. Furthermore, the regulator still appears to see equity release as a 'backstop product' to help those with needs rather than a product to facilitate aspirations.

Finally, we don't currently have a clear enough idea of the role government sees property wealth playing in the future. Whilst the idea of 'forcing' people to use property wealth to meet their later life needs has become politically toxic, there is significant room for government to usefully help consumers see how they could choose to use that wealth to enjoy a more comfortable later life.

This paper proposes a simple roadmap to try to overcome some of these challenges:

1. **Set the path from the top** – this means asking the government to review its approach to housing wealth and set out a new, empowering, narrative for the role housing wealth can play in later life. In doing so, they should work with the sector to look at the legislative and regulatory barriers currently in place and play an active role in addressing these. By also looking at integrating housing wealth into the guidance provided by the Money and Pensions Service and considering a cross party commission for older people, backed by a Minister for the Elderly, the government can set a clear direction.
2. **Revisit regulation** – the regulator needs to actively engage with the sector to look at the current blockers. By reconsidering the current divide between mortgage

(including equity release) and broader advice, refreshing exam standards, and enhancing continuing professional development requirements, the regulator can help to break down silos and bring about a general enhancement in outcomes. At the same time, an open conversation around the way advisers are remunerated, and the services they provide can help to reduce potential consumer pushback.

3. **Create the experience** – this element falls to the later life lending sector – adviser, providers, trade bodies, examining bodies and stakeholder third parties. All have a role to play in moving the sector forward through enhanced CPD, revised examinations, product innovation, improved referral pathways, promoting standards, enhancing the use of technology and considering how the needs of consumers can be best served after the initial advice has been given.

4. **Raise awareness and challenge misconceptions** – this is the final stage. The public don't currently know about the modern later life lending sector and the benefits it can bring to their later life. As important as addressing this is, however, it won't achieve full success unless the earlier steps are implemented first. There is little point in persuading a consumer to talk to a financial adviser if that adviser is operating in a silo that doesn't include advice on property wealth.

By taking these steps we can ensure the direction is clear and all participants understand the nature of the journey. With clear direction from the government, backed up by consistent regulation and implemented by providers, advisers and bodies like the Equity Release Council, the message we can communicate to consumers will be clear – property wealth has a role to play in later life financial planning.

The journey so far

The Journey so far

Later life lending – and equity release in particular – is not a new concept. The first plans were launched in the 1960's, allowing homeowners to unlock equity by selling all or part of their property to a provider for a discounted value, but with benefit of being able to continue living there – usually rent free.

Since then, the market has developed significantly through home income plans, lump sum lifetime mortgages, drawdown lifetime mortgages and now a broad range of other later life lending options.

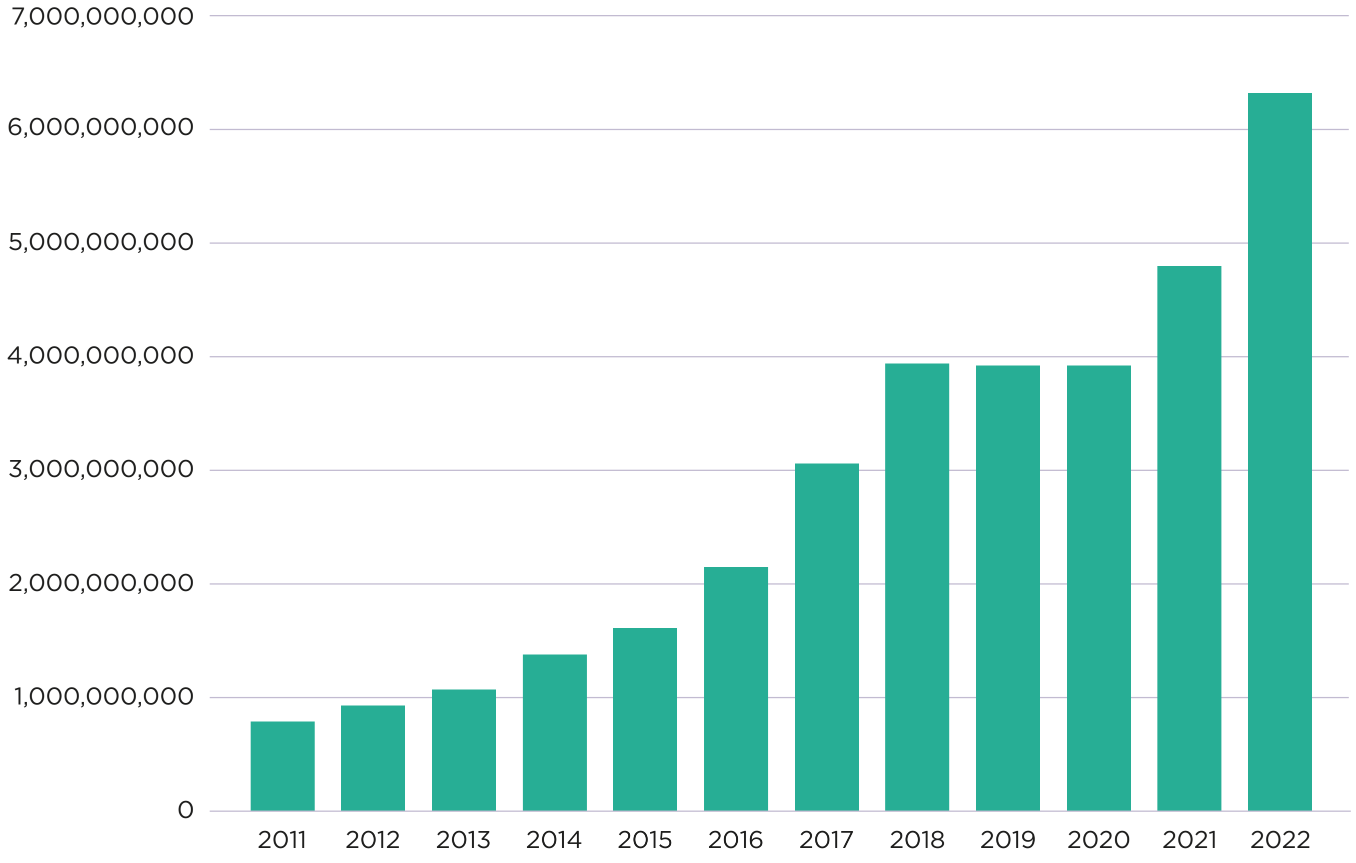
What started out very much as a product of 'last resort' has evolved to now stand on the cusp of mainstream financial planning.

The journey hasn't been free of bumps and many of those bumps continue to create a significant perception lag that dogs the sector, preventing it from breaking free and achieving its potential. This is something we'll come back to in great detail later...

Despite these perception issues, the market has increased six-fold since 2011 – serving over 300,000 customers in the last decade. Overall releases are expected to top £6bn in 2022 and may reach £12bn in 2030 (Legal and general 2022).

This graph shows that the equity release market today is thriving, but it hasn't always got things right. Far from it. What's worth noting, though, is that perhaps more than any other sector it has learned the lessons of its past and taken positive action to improve as a result. The journey isn't over, and some of the actions set out in this paper can help to push it on to the next stage. To date, the history has been a story of equity release. As we move forward the world is expanding to a much broader range of later life lending options. This will play an important role in the future.

Growth in released equity



A brief history of equity release

1965	First Home Reversion Plan launched
1980s	Some products sold with limited safeguards in place – exposed customers to additional risks relating to changing interest rate and property valuations
1991	Safe Home Income Plans formed – the forerunner to the Equity Release Council. A provider led initiative to improve standards, information, and both financial and legal advice for consumers.
1999	First roll-up lifetime mortgage launched
2001	First drawdown lifetime mortgage launched
2004	Lifetime Mortgages become formally regulated by the Financial Services Authority (FSA)
2007	Home Reversion Plans become formally regulated by the FSA
2012	Equity Release Council is formed, expanding SHIP's representative and standard-setting remit to encompass all equity release professionals.
2013	Independent legal advice required to be given face-to-face
2014	Mortgage market review – in the wake of the global financial crisis, tighter rules on mortgages introduced, including affordability checks on repayment and interest only mortgages.
2020	FCA review of equity release sales and advice
2023	Implementation of the FCA new consumer duty

The legacy of the past

There's no point in pretending - the later life lending sector hasn't always been the golden child of the financial services world. If we're honest, for much of its history it has been the problem child that the wider sector didn't like to talk about. In fact, many of the problems set out in this paper stem from the failings of the past.

In its infancy, there's little doubt that equity release was seen as a place to turn when all other avenues had been exhausted, 'the last resort of the desperate' as one adviser described it. High rates, lack of portability and general inflexibility all made for unattractive products to be fallen back on in times of need, or not to be used for enjoyment, just necessity. (Overton, 2010; Jones et al, 2010; Brennan and Ritch, 2010, Rowlingson, 2006)

Looking back now, it is hard to believe that until relatively recently, both standard residential mortgages and equity release fell largely outside formal / statutory control of financial regulators. It wasn't until 2004 that lifetime mortgages and the residential market became regulated, with home reversion plans following on in 2007. The notion of unscrupulous and unregulated advisers wantonly selling high-risk, high-cost products to vulnerable people isn't an optic that plays well with the general public – and for good reason.

The problem now is that this picture bears so little resemblance to the current market as to be caricature in nature. The sector has taken great strides to move away from the past and has developed significantly, but consumers (and many financial advisers alike) don't realise that their view of equity release arrangements is outdated and based on facts that no longer hold true.

Perceptions lag, and the 'horror stories' of the past remain a current threat to the development of the market. The woes of equity release even made it to the most quintessentially British bastion of media – Coronation Street. Emily Bishop found herself ripped off by an unscrupulous adviser, recommending a dodgy equity release scheme. (He later went on to try to kill Gail, as if things weren't bad enough already). Whilst almost laughable in its portrayal, we know that things shown on the most watched TV shows have an impact on public perception, and for many this simply added to the confirmation bias of their existing views of the product.

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If you ask a cross section of older people to describe equity release today, a significant proportion will describe home reversion plans. They believe that they need to sell their property to a provider, and many have concerns about doing so. In today's market, though, home reversion plans make up less than 1% of equity release sales and an even smaller percentage of overall later life lending. They are now more of a niche product that can offer a solution to consumers in the right circumstances but no longer make up the 'mainstream' of the sector. This confusion and lack of awareness needs to be addressed.

The problems of the past still cast a long shadow. The following two products, no longer on the market still impact on consumer and adviser perception.	
Shared appreciation mortgages	These were offered in the 1990s by a small number of banks. The bank advanced a loan, in return for a share of the growth in the property value between then and the end of the contract. As house prices increased significantly, so the debt owed to the providers also increased rapidly, with some consumers finding they owed much more than they'd anticipated. This resulted in significant negative publicity, bad feeling, and court action that, in some cases, remains unresolved today.
Investment backed home income plans	Home income plans were a major part of the evolution of the sector. A combination of a lifetime mortgage and a purchased life annuity, to provide ongoing income in retirement. As annuity rates started to fall, and with the government abolishing tax relief on mortgage interest (MIRAS) these plans became less attractive. Some providers attempted to breathe new life into them by pairing the loan with an insurance bond instead of an annuity. Investment values and house prices fell, and clients found themselves out of pocket. This type of plan is now outlawed by the regulator, but the legacy still has impact.

The sector today

The sector today has moved on leaps and bounds. With regulation now formalised we see comparatively low levels of complaints being upheld by the Financial Ombudsman Service. In 2021, just 6% of complaints relating to equity release were upheld, compared to 23% for mainstream residential mortgages. (Equity Release Council 2022a) Whilst not a definitive measure, it certainly implies that the checks and balances on equity release are effective in protecting consumers.

As well as the introduction of regulatory control we have product innovation that continually strives to increase flexibility – and it has made a difference. In fact, in a recent study by academics at Birmingham University, the equity release sector was highlighted as somewhere the pensions sector might look for insight. (Overton and Smith, 2022).

Product innovation	
Drawdown	One of the first major innovations – allowing people to secure an overall agreed facility and then take this in tranches as and when it is required rather than all at once. Interest is only charged on the amounts withdrawn, not the agreed facility.
Fixed early repayment charges	Several providers traditionally operated variable early repayment charges linked to the yield on government borrowing. These proved complex for consumers to understand, prompting a move toward either exclusively fixed early repayment charges or a choice.
'Grieving windows'	Many plans now offer a window, often three years from the first death, whereby a surviving partner can repay the loan without any early repayment charges applying. This gives the flexibility for a grieving partner to make plans and then execute those plans without being faced with a charge.
Downsizing protection	One criticism often levelled at the plans of the past was that they weren't sufficiently portable. Whilst one of the Equity Release Council product standards requires plans to be portable to another property, this relies on the property being acceptable to the lender. Where this isn't the case, many plans now offer a feature that allows the customer to repay the loan without penalty and move to another provider that will accept their chosen property.
Inheritance guarantees	As we'll see later, inheritance is a major concern for many consumers. Many modern equity release plans now have a feature that allows the customer to protect a percentage of their equity to be passed on death.

The socio-economic picture also lends itself to further growth in the sector.

In 2021, UK property wealth increased at a staggering rate of £1m per minute – to stand at £6.7 trillion, £5.2 trillion after mortgage debt. (Equity Release Council 2022al). That's average equity for UK homeowners of 76.9% - much in the hands in the over 55s. With average house prices increasing during the pandemic from £233,000 to almost £274,000, average equity increased to over £200,000. (ERC 2022a) Back in 2018, over 55s held more than 65% of all property wealth and made up 51% of owner-occupiers – creating a huge potential market for later life lending. (Equity Release Council 2019) This position is likely to be substantially similar today.

To put it another way, total pension wealth in the UK amounts to £6.45 trillion (Lang Cat 2022), putting the two on a similar level, and for many older people property wealth actually exceeds pension wealth.

These aren't just numbers – they point toward an important truth – that home ownership not only gives someone a place to call home, it gives them an asset that can form a major part of their personal financial wealth. Nationwide, property assets make up 35p in every £1 household wealth overall increasing to 40p among over 65s and 47p for over 75s. (ERC 2019).

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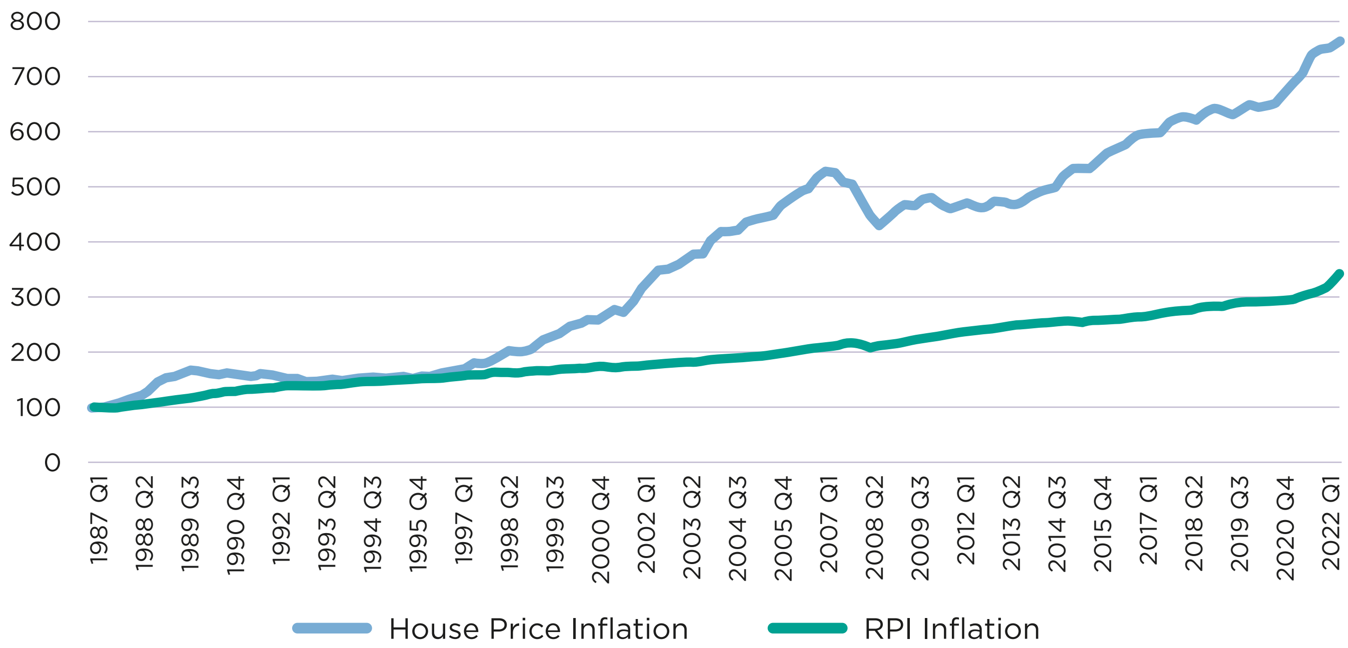
What's really interesting, though, is that much of this wealth is essentially 'windfall wealth' – it hasn't been paid for, it's been created by exponential increases in property prices. Over the past 35 years, average house prices have increased from a figure of £35,946 in January 1987 to £273,457 in January 2022. An interesting comparison is that of the house price inflation over this period and retail price inflation over the same period. Had house prices only risen with inflation as measured by RPI, the figure for January 2022 would have been £114,200 (ONS 2022b). The remainder is effectively an 'unearned' additional creation of almost £160,000 additional inflation adjusted wealth.

RPI Inflation v House Price Inflation 1987 to 2022



Despite the opportunity this wealth presents, there is evidence that older homeowners don't necessarily appreciate the wealth they're sitting on (or in, as the case can more accurately be described). The majority of over 45-year-old homeowners haven't had their property valued since they bought it (66%) and one in three have had it for more than 25 years! (ERC 2019).

All of this adds up to the possibility of property wealth becoming a more mainstream part of the financial planning landscape and offering much more than the product of last resort people might imagine. Perhaps the growth we've seen is just the tip of the iceberg.

Today, the reasons people release equity are far more diverse than was once the case, with aspirational releases now joining more 'needs-based' reasons. In other words, it isn't only those who need solutions to pressing problems that release equity now – it is also those who want to make more of their later life and enjoy the wealth they've accumulated or pass on money while they are still alive to see their loved ones enjoy it.

Plenty of research has been published by the different providers in the sector and, as you might expect, the results do show differences, but there are some common themes. Repaying debt continues to be a major reason for releases with Key Group suggesting more than half of their customers cite repayment of either unsecured debt (28%) or mortgages (25%) during Q1 of 2021. (Key 2021). This is not surprising given the number of interest-only mortgages coming up for repayment and the ongoing cost of living crisis. (FCA 2018).

Work on the home is another major reason for releasing equity, with Key Group suggesting more than half of their customers (53%) were releasing equity at least in part for this purpose. Legal & General cite a lower but still significant percentage of their customers looking to improve their home (23%) and a further 16% using funds to adapt the home to make it easier to live in.

> "It isn't only those who need solutions to pressing problems that release equity now – it is also those who want to make more of their later life and enjoy the wealth they've accumulated."

Outside this, though, both Key Group (13%) and Legal & General (14%) list funding holidays as one of the major release reasons.

More than a quarter of Key Group's customers (26%) were intending to use at least part of the money to make gifts to family. We'll come back to this in more detail later on.

As the reasons for releasing equity expand, and the value of housing as a major asset has grown, so the amount being released is increasing. In 2021, for the first time the average amount released under new lump sum plans topped £100,000, with further increases expected in coming years. (Legal and General 2022). According to figures from the Equity Release Council, the average new plan lump sum release in Q2 of 2022 was around £135,000, with similar figures having been seen in Q1 2022.

Of course, the job isn't done. There are issues that need to be resolved if the sector is to achieve its full potential – and that's the point of this paper, but we've made good ground.

Despite these areas of potential improvement, it does seem that later life lending has found its time to shine – it just needs some help.

Products still need development...

Value for money	There is the potential for rates to be lowered in some cases. As valuable as the various product safeguards are, they come at a price. As the sector becomes more mainstream there is a conversation to be had around elements like the no negative equity guarantee which protects the consumer from being left with negative equity at the end of the contract. This needs to be charged for and for more wealthy, aspirational customers, this is a cost that could potentially be removed. Under the new Consumer Duty, being introduced by the FCA, price and value will need to be scrutinised. This will require consideration of both manufacturing and distribution. With commission rates remaining relatively high, value will need to consider the work being done by the adviser for the remuneration received.
Early repayment charges	Although product innovation has now seen most providers moving to fixed early repayment charges (or a choice) this remains a concern for some observers. Consumers find these difficult to understand and they can be extremely expensive – maximum rates being up to 25% of the amount borrowed. Again, Consumer Duty will require due consideration of the reasonableness of such charges.
Lending criteria	The lending criteria for later life products is more stringent than for conventional residential mortgages. This is largely because the property more than the individual is the security in this space – it isn't the individual's income that will repay the loan but the property value. This does still lead to frustrations for consumers when properties that would comfortably meet the standard for residential mortgage loans are rejected for later life products. Factors like the percentage of flat roof or proximity to commercial premises can bring an application down. Certain 'green construction' factors, which would be acceptable for a standard mortgage fall foul of stricter underwriting for equity release.
Product innovation	There is still room for product innovation with ideas like a hybrid retirement interest only (RIO) / lifetime mortgage potentially offering consumers the ability to benefit from lower rates whilst both partners in a couple are alive but switching to a lifetime mortgage on a roll-up basis on first death if affordability becomes an issue. An optional payment facility would then give the customer the ability but not the obligation to make further payments if they should become affordable. Income products remain another area where innovation could be focused, though as we'll see later, legislation is unhelpful here.

The role of the Council

One of the major positive features that distinguishes the equity release sector from other areas of financial services today is the role of the Equity Release Council. Now, of course they are sponsoring this paper and you might expect the paper to therefore be positive, but nonetheless, it is a truism worth acknowledging (and there are areas for improvement too, so this isn't entirely biased commentary...)

The mission of the Equity Release Council to act as a trusted consumer guardian is vitally important, and the inclusive nature of the membership allows for broad cross-sectional coverage. With over 750 firms and 1850 individual members covering providers, funders, advisers, solicitors, surveyors, and other professionals involved in the later life lending sector, the Council is well positioned to represent the diversity of sector participants.

> "Since 1991, over 640,000 homeowners have accessed almost £45bn of property wealth via Council members to support their finances."

One of the most positive contributions of the Council to the equity release market is the product standards that continue to provide protection for members. These product standards go above and beyond formal regulation which is aligned to the objectives underpinning the new Consumer Duty and this supports the research from Birmingham University that suggested the pensions world could benefit from looking to equity release for innovation in products. Today, most products sold comply with the product standards. In fact, since 1991, over 640,000 homeowners have accessed almost £45bn of property wealth via Council members to support their finances. (ERC 2022b).

"Equity release is no longer a niche proposition and is now rightly considered part of the mainstream, which opens it up to the scrutiny that entails. The safeguards and standards the Council has worked tirelessly to uphold over the years will stand consumers in good stead as socio-economic factors give rise to a further increase in demand." David Burrowes – Chairman of the Equity Release Council (ERC 2022b)

The role of the Council has been enhanced recently with the launch of the new risk, policy, and compliance team in January 2021, strengthening its ability to provide what it describes as "progressive stewardship and a wholehearted commitment to safeguarding". (ERC 2022b)

Education also lies at the heart of the Council's work. It recently developed and launched a 'competency framework' for advisers to benchmark themselves against, setting out the knowledge and skill requirements to be a fully effective adviser in the equity release space. This has been taken on by the Air later life academy, with its training for advisers being built specifically to help them hit this standard. This is a great example of joined up thinking and something that we're going to be calling for more of later in this paper. Equally, the adviser tools offered by the Council to members – such as the adviser checklist - help to ensure business that will stand the test of time.

So, there's lots of positives coming from the Council's work, but the work isn't yet done. If the sector is to develop, there is still much to do and a major role for the Council to help drive this change as we'll show later.

Equity Release Council product standards
For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a 'cap' (upper limit) which is fixed for the life of the loan.
The right to remain in the property for life or until moving into long-term care, provided the property remains the main residence and the terms of the contract are adhered to. During this time, there is no requirement to make capital repayments.
The product must have a "no negative equity guarantee". This means that when the property is sold, and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to the provider, neither the client nor their estate will be liable to pay any more – provided the terms of the contract have been adhered to.
The right to move to another property subject to the new property being acceptable to the product provider as continuing security for the equity release loan.
Since 28 March 2022, all customers taking out new plans which meet the Council's standards must have the right to make penalty-free payments, subject to lending criteria.

Contribution to the economy

Before we move away from the journey so far and start looking at where we might go in the future, it is worth pausing to look beyond the impact of equity release on the individual consumers to the tremendous financial impact the sector has on the UK economy as a whole.

Some fascinating research by Legal & General looked at the use of released funds and how this fed into the wider economy. This research estimated equity release to have funded approximately £3.1bn of retiree spending within the UK during 2021, accounting for £1 in every £90 spent by retired people. Winding the clock forward, they estimate this could reach £5bn in 2025.

Only 7% of the £4.3bn released in 2021 is estimated to have left the economy in overseas holiday spending and of the remaining almost £4bn released, an estimated £757m went to retail sector and £517m to health and social work sector.

Spending funded directly by equity release supports more than 45,000 jobs and with supply chain and wider induced effects of that spending L&G suggests another 35,000 jobs are more indirectly supported by equity release.

These are not inconsequential numbers.

With a one-third increase in the number of people taking equity release expected over the next 10 years (even without the changes outlined in this paper) these numbers can be expected to increase further.

"Spending funded directly by equity release supports more than 45,000 jobs and with supply chain and wider induced effects of that spending L&G suggests another 35,000 jobs are more indirectly supported by equity release."

What is possible

What is possible

Property wealth has the potential to offer solutions to some of the great social problems facing the UK in the 21st century.

We have an ageing population. By 2050, it is expected that one in four people in the UK will be aged 65 years or over, up from one in five in 2019 (ONS 2021). The baby boomers of the 1960s are already starting to enter their seventh decade. At the same time, the proportion of younger people is falling, with under 16s representing 20.4% of the population in 1999, 19% in 2019 and projected to fall to 16.9% by 2024.

Today, a 65-year-old man has a life expectancy of 85, with a one in ten chance of reaching 96. For a woman the figures are higher at 87 and 98 respectively. That's an increasing number of years of 'old age' that need to be funded. We know we've got a social care crisis. The governments reforms of social care funding in England are a step forward, but they aren't enough to fill the void – more action is going to be needed.

Against this extending later life, it is worrying to note that fewer than half of over 45s expect to have a 'healthy' financial situation when they reach state pension age (ERC 2019).

In the current economic climate, it is hard to see these perceptions becoming more positive in the short term. We're undergoing a cost-of-living crisis and households are feeling the squeeze. Research by Hodge found that across age groups and financial status 73% of respondents in their survey said they'd forego meals out and other social activities to make sure they can afford to pay increased bills. 54% said that increased financial pressure has had a negative effect on their financial health and 56% expect to use their current savings to help them survive the current economic environment. (Hodge 2022).

> "Fewer than half of over 45s expect to have a 'healthy' financial situation when they reach state pension age."

In recent research, Canada Life looked at the financial impact of the pandemic with their findings suggesting seven million people had altered their living situation – some returning to family homes and others welcoming back family members. Whilst this brings families closer together, it also increases the costs associated with running the family home, potentially furthering the cost-of-living issues faced by these people. (Canada Life 2020a)

Excellent research by The Lang Cat (2022) highlighted the problems associated with the costs of providing for the older generation and raised three possible solutions. To paraphrase slightly, our options are:

1. Load a greater weight on the shoulders of the younger generation
2. Accept that people will live longer in poverty
3. Find another way

One of the major opportunities to take that 'other way' is to reconsider how property wealth might help us and the various social issues to which it might contribute...

Income shortfalls

The age of the defined benefit pension scheme is ending. The gold standard of pension provision has been moving inexorably toward being the preserve of the public sector. According to the Office for National Statistics, in 2020 only 7% of employees in the private sector were active members of defined benefit schemes, compared to 82% in the public sector. This contributed to a difference in average pension fund value between the public and private sector – with average pension wealth for private sector just £10,300 and public sector £65,400 (ONS 2022d)

This move from defined benefit to defined contribution is going to have significant financial consequences for the retirees of the future. For every £1000 the average employee earns in their final salary before retirement, they can expect just £150 in annual pension from a defined contribution scheme compared with £670 for defined benefits. That shortfall is going to need to be funded somehow, so it is hardly surprising that 1 in 6 want to access equity to boost retirement income. (ibid)

While it is easy to think of this as a problem for the future, the increased number of job-moves and declining availability of permanent employment have made it harder for many of today's 60–69-year-olds to build adequate pension provision over their working lives, so the impact is already being felt. (ERC 2021)

Perhaps even more worryingly, figures from the Office for National Statistics suggest that in the two years to March 2020, 55% of those aged 16 plus were not actively contributing to a pension (ONS2022e). This takes a further turn when we look at gender differences with women far more likely (58%) not to be contributing than men (52%). We're going to come back to this issue of gender inequality later.

"For every £1000 the average employee earns in their final salary before retirement, they can expect just £150 in annual pension from a defined contribution scheme compared with £670 for defined benefits."

The introduction of auto enrolment was designed to address concerns about falling pension provision, and it has made a difference to participation. The problem is the amounts involved. The required contributions are very low – in fact work by the Equity Release Council in 2021 suggested that based on neutral assumptions an auto enrolment pot will provide a guaranteed income of just 15% final salary after 40 years of work. (ERC 2021)

To look at it another way, if annuity rates don't improve, a single 35-year-old wanting to retire with a guaranteed index-linked pension of £10,000 in 30 years would need a pot of £360,000. Added to the full new state pension, this would bring them close to the £20,800 needed for a 'moderate lifestyle' according to the Retirement Living Standards published by the Pensions and Lifetime Saving Association (PLSA) (ERC 2021)

PLSA retirement living standards

	Minimum	Moderate	Comfortable
Couple	£16,700	£30,600	£49,700
Single	£10,900	£20,800	£33,600

We know that already one in five (20%) of people in their 60s are using pension savings to pay off their mortgages, despite concerns over exhausting their pots too rapidly (ERC 2021). If this continues, that required pot of £360,000 could be much higher, or a shortfall is created.

It isn't surprising, then, that 34% of those aged over 55 said they were worried about running out of money in retirement (ERC 2020). Property wealth offers a solution.

The median income of pensioners after housing costs in 2022 is £511 per week (£26,572 per annum) for couples and £246 per week (£12,792 per annum) for single people. (Gov.uk 2022). With the average new lifetime mortgage now releasing over £130,000 (ERC 2022), this equates to more than ten-years the median single person's income and almost five years based on the median income for couples.

This could prove a major lifeline for the many older people who have found themselves out of work since the pandemic. The Office for National Statistics reports that the number of people moving into financial inactivity has increased steadily, with the net flow of 50–70-year-olds becoming inactive topping 300,000 between quarter two and three in 2021. (Net flow is those moving from work to inactivity, less those going the other way). (ONS 2022a)

According to Legal & General, currently one in twenty older people use equity release to help fund their retirement. This could increase to more like one in ten, with 36% of those considering equity release in the future being motivated by a desire for a comfortable retirement (L&G 2022). Although a large proportion of those who are contemplating equity release, it still amounts to a small proportion of those who could do so. Younger age groups more likely to plan to use housing wealth to fund retirement – 17% of 30-39-year-olds, compared to 11% of 40-49-year-olds and only 6% of those aged 60-69. (L&G 2022).

> "34% of those aged over 55 said they were worried about running out of money in retirement."

With the median income in retirement of £26,572 for a couple and £12,792 for single person falling short of the PSLA 'moderate' standard by around £4000 per person and over 12m retired people, this equates to a current shortfall of nearly £50bn (Lang Cat 2022)

With major income shortfalls across older groups, something needs to give.

Seeking to bridge the gap from government funding can't be the answer. The equalisation of state pension age for men and women has already been followed by an increase for both to 66, with further planned increases to 67 and 68 in the future as cost realities bite. Today, the cost of the pension is more than £100bn annually (Statista 2022), more than half of the cost of the NHS. (Kingsfund 2022). Finding more from government pockets to help bridge income shortfalls would mean loading more burden on the shoulders of the young. This is something the government has ruled out: "younger people…bear a greater share of the cost of the pensions system…would be unfair and undermine the principle of inter-generational fairness that is integral to our state pension reforms." (Commons Library 2021)

Care

We face a social care crisis in the UK. With an ageing population, Age UK has estimated that 1.6m people aged over 65 already don't receive the care and support they need with essential living activities. Add in cuts in local authority care service, a post-covid employment crisis and chronic underfunding and the picture isn't pretty. (Age UK 2022)

With care already representing a major use of property wealth, the potential for it to offer ongoing solutions is clear.

The House of Lords recognised this in 2013 when they described the current generation of older people as having benefitted from an unprecedented growth in the value of their properties. As we saw earlier, the exponential growth in property value over and above the rate of inflation has put significant resources at the fingertips of the older generation without them having to work for this additional money.

Local authorities delivering social care face a multi-billion-pound black hole; a shortfall that a government already straining to reset the economy following the pandemic will need help addressing.

Property wealth can not only fund additional care services for those who value the independence of living in their own homes but can also finance the adaptations that make this lifestyle choice more practical on a day-to-day basis.

We know that the issues of the pandemic have focused minds on remaining in the home for as long as possible. 67% of over 50s said they are determined to stay in their own homes if they ever need care in the future – (ERC 2021b)

"With care already representing a major use of property wealth, the potential for it to offer ongoing solutions is clear."

Jim Boyd, Chief Executive of the Equity Release Council summed up the issue:

"Care is one of the major issues of our time. People want to live longer lives independently in their homes and equity release can support that. The practicality of equity release is often overlooked, but property wealth can fund adaptations to homes to make them more functional for older homeowners; new supportive technologies; and address unmet need by funding additional care support. As ever, expert qualified financial advice is critical." (ERC 2022b)

Whilst the now further delayed care reforms in England have been billed as the solution to the problem, the reality is slightly different. When implemented, even those with modest wealth you might have to spend a significant portion of that wealth providing for care in the last few years of life. The care cap won't fully address this. Those who reach the 'cap' on care costs will have to continue to pay a significant price for their ongoing care and will have paid even more in the meantime. Of course, all of this assumes that the cap eventually comes into force – given the delay until after the next general election, this must be in doubt.

The care cap in practice – an example...

The proposed care cap of £86,000 is based not on the actual price paid for the home but the figure the local authority has assessed as reasonable for the care needed, the so-called ‘personal budget’. Imagine a care home costing £750 per week, but with a local authority figure of £600 per week. It is the £600 that forms the start of the calculation.

From this, we need to deduct so-called ‘hotel costs’ – costs that don’t relate to care specifically – of around £200 per week (based on 2021/22 prices, so higher in reality). This leaves only £400 per week counting toward the care cap, even though the actual cost is significantly more.

It seems, therefore, that it would take more than four years to reach the care cap, during which time you’d have paid more than £160,000 and even when the care cap is reached, it is only our £400 that would be met by the local authority – the remaining £350 would still fall to the care recipient, for as long as they have sufficient assets to exceed the capital threshold.

(Metro, 2022) (Gov.UK 2022b)

Hardly surprising then that this remains a concern for older people. Falling ill and needing to pay for care is the biggest financial concern in retirement for 37% of homeowners over the age of 55 (ERC 2020).

So, what’s the solution? Where is the money coming from? Well, property wealth offers one opportunity.

Research has previously shown that older people don’t object to the use of property wealth per se when funding their care, it is the perceived comparative unfairness of being forced to sell properties or use property wealth to provide the same level of care as that provided free of charge to those who don’t make the sacrifices needed to become a homeowner (Overton and O’Mahony). Politically, this has played out in the dialogue over the so-called ‘dementia tax’ (Alzheimer’s Society 2017), with the perceived injustice of those who need care through dementia being forced to fund that care whilst those who need hospital care being given it for free.

This area of comparative injustice needs to be addressed before later life lending can fulfil its potential in this area.

Inheritance

Inheritance is a long-term issue that potentially stands in the way of later life lending, but increasingly it is also an opportunity. Research by Standard Life (lightbulb moment) found that 44% of customers who went ahead with equity release and 51% of those who didn't were concerned about the inheritance they could leave their children. It seems that people become too hung-up on the role of property in inheritance to think about the wider implications of property wealth. (ERC 2019) Research in the past has suggested some older people either avoid releasing equity entirely or later regret releasing it because they feel guilty 'spending the kids' inheritance'. A new narrative is needed.

A survey by YouGov, referenced in recent work by The Lang Cat suggested 61% of people with parents said they'd be happy for parents to use property wealth to improve their own quality of life, while only 11% objected. There was actually greater enthusiasm (73%) among those who expected an inheritance – part of which might come from that property – compared to 56% for those who don't expect one. Almost half said they'd be willing to give up more than 90% of their inheritance.

This points to one logical conclusion – families aren't talking!

But there's another way to look at this. We've already said life expectancy is rising. Someone reaching 65 today can expect to live another 20 years (men) or 22 years (women) and has a good chance of living much longer – a one-in-20 chance of reaching 100 in the case of a woman!

This is pushing the point of inheritance further down the line.

41% of people in their 30s have received or expect to receive an inheritance in the form of property or wealth from property but many don't expect to receive this until their mid-40s to 60s. (ERC 2021 p 35)

Meanwhile, the point at which first time buyers are making onto the property ladder is also sliding back and becoming later. The average age of first-time buyers is now 32. Not only is it taking longer to get onto the property ladder, but with the income to average house price ratio now having slid from 2.6 in the mid-1990s to 4.5 today, the length of mortgage for first time buyers has stretched out to an average of more than 29 years – pushing the average first-time buyer into their 60s by the time they clear their mortgage. (ERC 2021) Among thirtysomethings who are not yet homeowners, 49% already feel this goal is unrealistic (ibid). That tells us something needs to be done.

> "Evidence suggests that minds have begun to shift since the Covid-19 pandemic, with opportunities to pass on wealth at an earlier point – while the recipient is best placed to benefit from it – now being well received."

Evidence suggests that minds have begun to shift since the Covid-19 pandemic, with opportunities to pass on wealth at an earlier point – while the recipient is best placed to benefit from it – now being well received. Almost 1 in 4 (24%) of over 45 homeowners now plan to use money invested in property to help family members while they are still alive (ERC 2019). This puts a new emphasis on the inheritance discussion – far from being something to be avoided for fear of impacting inheritance, the use of property wealth can now offer the possibility of facilitating that transfer of wealth at an earlier point.

With first-time buyer numbers estimated to be 2.7 million below expectations since 2008, nearly half (46%) of homeowners in their thirties have relied on financial help from family or friends. With many not expecting to receive an inheritance until their mid40s to 60s, the option of gifting a living legacy by accessing property wealth through equity release or a later life mortgage looks set to grow in importance.

Attitudes to inheritance continue to evolve and it is no longer a transactional process once a family member dies. People living longer lives and greater need for financial support among younger generations means an increasing percentage of homeowners are opting for living legacies where the young can access inheritances at an age when they can achieve their financial objectives. Jim Boyd (ERC 2022b)

Releasing equity for legacy planning

Releasing for early inheritance	Interesting work by Key Group suggests that by releasing equity to help fund a larger deposit, the overall financial position of a family could be improved, even considering the cost of interest on the equity release. They suggest this could cut as much as five years from a first-time buyer's mortgage. This is because a higher deposit in the hands of the first-time buyer allows them to benefit from substantially lower interest rates on their mortgage which, even if they serviced the interest on the equity release, would still result in lower costs. (Key 2022)
Reducing inheritance tax	This is specialist planning, and, in most cases, it won't work. For most people the costs associated with releasing equity (including interest) will outweigh the saving in inheritance tax. For some, however, it is possible to achieve an overall reduction in inheritance tax by releasing equity and giving it away. With inheritance tax revenues having increased by £729m in 2021/22 to £6.1bn this is something that interests many consumers. This is a prime example of the need for specialist later life lending advisers and specialist 'wealth' advisers to work together – something we'll come back to. In any event, even if tax isn't reduced, the point of inheritance is still brought forward potentially allowing the recipient to achieve greater benefits than would be the case with later inheritance. For many people this is the key driver.

Divorcing couples

Divorce rates overall and those amongst the young have been steadily declining whilst those in the older groups have either remained static or risen over the last 20 years. (ONS 2017, 2022f) Since 1990 the so-called 'grey' divorce rates (over 50s) has doubled with some commentators expecting it to increase further with the impacts of the pandemic.

> "By using later life lending to facilitate purchase, often both parties can maintain a similar standard of home to that which they previously enjoyed."

With significant financial strains on income as a result of the divorce remaining on the housing ladder can become another major burden, but one that property wealth can once again help to address.

When couples divorce later in life, the division of assets often requires the sale of the home. In many cases this will have been home for many years and both parties will have grown accustomed to a certain standard of accommodation. With the realities of the divorce, many find themselves having to adapt to a new affordability, based on their share of the equity.

By using later life lending to facilitate purchase, often both parties can maintain a similar standard of home to that which they previously enjoyed.

Using later life lending to support property purchase after divorce

Take a 65-year-old couple living in a mortgage-free £300,000 property – slightly above the average property price for the UK.

Should they separate and decide to sell the property, ignoring costs of sale, each would find themselves walking away with £150,000 – significantly less than the average cost of a home. Whilst they may have other assets that will allow them to top-up their funds and buy a new property, for many this isn't an option, resulting in little choice but to downsize. This can contribute to the psychological stress of separation, as living standards are compromised.

Using later life lending for purchase, based on their age, each of them could potentially achieve a loan to value of around 40%, converting £150,000 into £250,000 and pushing them back toward the average purchase price in the country.

Whilst the highest loan to value loans are likely to be expensive, for some this is a price worth paying to maintain lifestyle, whilst for others there is a middle ground, allowing a cheaper loan based on a lower loan to value, but still permitting the purchase of a more expensive property than would otherwise be feasible.

Gender inequality

We know that there is a massive disconnect in the amount of pension wealth held by men and women. Property wealth offers a chance to redress the balance somewhat and to improve living standards for older women.

EU legislation required equalisation of pension ages for men and women. The government took the decision to equalise both at the older age, in line with overall policy for increasing pension ages and reducing costs, but this came at a price. There was a significant impact on women who had planned on retirement at age 60 and found this pushed to 65, 66 or later. This is an issue in respect of which successive court cases has failed to bring about change, with the government arguing that it simply brings about equality of outcome for men and women (Commons Library 2021). It does, however, leave a real problem to be addressed. In their Pensions Paradox 'revisited' paper looking at the retirement confidence gap, the Equity Release Council and Key Group, explored gender differences in retirement planning and the impact of the pandemic on financial confidence in later life. The research found nearly half of working women aged 55+ are anxious about running out of money in retirement.

The Office for National Statistics publishes figures for those who have private pension wealth. The median private pension wealth (active, preserved or in payment) for women stood at £43,000 compared to £75,000 for men (ONS 2022e). If we look at the whole population, considering those who have no private pension wealth, the median figures fall to just £8000 per woman and £24,700 per man.

This situation is compounded by the effects of unforeseen life events, which take a greater toll on women's financial position. According to Standard Life Home Finance more than three times as many women as men said that a life event such as divorce, redundancy, or illness derailed their existing plans. They also found that women are a third more likely to not have enough money to maintain their standard of living in retirement.

> "Property wealth offers a chance to redress the balance somewhat and to improve living standards for older women."

Property wealth offers a solution that is starting to be adopted.

Research by Legal & General found that whereas homeowners who've previously taken equity release are 28% female and 72% male, those who would consider it in the future are divided 60% female and 40% male. (Legal & General 2022)

Key Group's full year 2020 data suggests that 26% of equity release clients are single women compared to 14% of single men, highlighting the importance of property wealth as a source of later life funds for single women.

What is worrying, though, is that despite these figures, women are still less likely than men to consider later life lending products as an alternative source of retirement income (23% vs 31%).

To bridge the divide and help close the gender gap, we need to continue to explore the role that property wealth might play in retirement income – for all consumers but with a special spotlight on women.

Green equity release

We face a worldwide climate emergency, and, in the UK, buildings are responsible for around 23% of total greenhouse gas emissions.

Working toward making our housing stock net-zero ready will help to address this whilst also bringing economic benefits for homeowners. One of the major elements of the current cost of living crisis is the increase in domestic energy. Making homes more efficient can help to address this. Unfortunately, getting the UK housing stock fit for purpose isn't cheap.

The cost of bringing housing stock to meet UK climate target has been estimated by the Climate Change Committee (CCC) - the government's independent advisory body on climate change – at £360bn by 2050. (Green Finance Institute)

Nearly 40% of the UK's housing stock predates the 1950s, an unsustainable statistic that will need reversing, both from a modernisation and environmental perspective. The nation's properties account for a firth of the UK's greenhouse gas emissions; equity release is a potential way of improving properties and making them more energy efficient in order to comply with modern zero carbon targets. Jim Boyd (ERC 2022b)

We're already seeing this form part of the later life lending landscape. Legal & General research showed that 13% of people releasing equity said they were doing so to improve the energy efficiency of their property, (Legal & General 2022), but the sector is now going further. The new generation of green equity release plans offer either lower interest rate or higher loan to value ratios where the loan is being taken against a 'green' property encouraging homeowners to take action to improve the efficiency of their homes.

With leased solar panels still causing major problems for homeowners attempting to release equity, there is work to be done in product development, to reduce some of these underwriting barriers that might prevent applications proceeding. At the same time there is an education piece for the sector to warn consumers of the potential dangers associated with spray foam insulation – marketed as a means of improving energy efficiency but often bringing about potential structural issues for properties.

The sector as a whole needs to consider how it can encourage people to think about the costs they face on a daily basis and how they can bring down those costs by improving the efficiency of their own homes. Products allowing the use of property wealth to fund this work clearly offer an important way forward, not least since taking out equity release for 'green improvements' can improve the value of the asset even after taking account of rolled up interest.

"The new generation of green equity release plans offer either lower interest rate or higher loan to value ratios where the loan is being taken against a 'green' property encouraging homeowners to take action to improve the efficiency of their homes."

The roadblocks in our way

The roadblocks in our way

The opportunities for later life lending are clear – there is significant wealth in the hands of those who might benefit from it and there is an entire sector geared up to provide them with the products to access that wealth. It ought to be simple.

Unfortunately, the road is blocked by a series of potentially significant hurdles that need to be overcome if the sector is to achieve its potential.

Trust is missing

Let's cut straight to the chase – the general public have a trust problem when it comes to financial advisers. When a client talks to a financial adviser, they make themselves vulnerable. They are required to divulge their most personal financial affairs, as well as their dreams and aspirations and then put those same things in the hands of an outside party who has the potential to bring about detriment. Unfortunately, the evidence suggests they simply aren't happy doing so.

This isn't unique to later life lending. Researchers at Birmingham University looking at the pension world found that many consumers didn't know where to turn and were instinctively suspicious given the number of 'horror stories' about people who'd been led astray by irresponsible advisers. (Overton and Smith 2022)

Canada Life put some numbers to this trust issue in relation to equity release, suggesting that 77% of homeowners have been influenced by negative stories around ER in the press

In past research, questions were raised over whether less financially secure customers were in a position to know good financial advice from bad financial advice – potentially exposing them to risk when working with the latter. (O'Mahony and Overton 2014) Of course this paints a worrying picture of the advice sector.

A consumer should be able to trust any advice from a regulated adviser – this clearly isn't happening across multiple areas of financial planning. The research from Birmingham University talks of a lack of 'categorical trust' – i.e. lack of `trust in advisers as a category. Interestingly, before fingers start pointing, consumers also expressed lack of faith in regulation, so there are questions to be answered there too.

Research for the Financial Services Consumer Panel, although extremely limited in its scope, supported this notion of a trust shortfall. Participants spoke of 'not fully trusting experts to act in their best interests or finding the paperwork hard to digest'. (Savanta 2022)

According to research from Standard Life Home Finance, there's also a gender related factor at play. Women are 21% more likely to be concerned about seeking financial advice due to a lack of familiarity of what to expect.

So, if consumers don't trust financial advisers, where do they get their advice?

Research from Birmingham University suggests that where consumers don't have a past relationship with a financial adviser and don't trust unknown financial advisers to 'do right' by them, they are left to rely on 'broader networks'. (Overton and Smith, 2022). This is consistent with past research that has consistently said people will take guidance from friends and family in relation to later life lending. The problem is that not everybody has access to this kind of network – what the researchers describe as an 'inequity of network resources.'

> "We know that later life lending isn't 'one-size-fits-all' and we need consumers to be taking this bespoke advice to ensure the right outcomes for their unique circumstances."

Those who don't trust financial advisers and lack the broader support networks to ask, often turn to the press, and 'influencers' to fill in the gaps. The Guardian described Martin Lewis, for instance, as 'Britain's most trusted man' (Guardian 2019). He has dismissed this label but admits, 'I have more influence than most people should have' (Express 2022). That he hasn't always been an advocate of equity release has had an impact on the sector. Whilst many of the concerns he's expressed in the past may have been valid, many in the sector would also have challenged some of the views he has expressed. Whatever the rights and wrongs, clearly there is a risk that consumers might base their own financial decisions on a generic statement rather than individualised advice from a qualified, authorised, and regulated adviser. We know that later life lending isn't 'one-size-fits-all' and we need consumers to be taking this bespoke advice to ensure the right outcomes for their unique circumstances.

Of course, many thousands of happy customers have seen the impact it can have on their life, and they know the good it can do. Whilst not an objective source, a major survey of equity release customers conducted by Key Group found that 9 out of 10 people who take equity release go on to have positive view of it – 43% would recommend to family / friends, 47% have recommended it to family and friends (Key 2021).

This seems to suggest that the lack of trust concerns those who might otherwise benefit from equity release but are prevented from making it that far. Many of them are basing their mistrust on an out-of-date perception of the product, built on the stories of the past. In short, the term has become associated with the failings of the past.

This tanker of consumer protection has been building up steam for decades and clearly doesn't have a small turning circle but turn it must if housing wealth is to play the role that it clearly can.

There's also another side to advice on equity release and later life lending – an important one that seems to be missed in much of the discussion. Many people who contact an adviser to discuss equity release will be advised not to proceed and will be given better alternatives to consider. Key Group says that less than half of people who meet a Key adviser take out an equity release plan – instead choosing other avenues like downsizing or delaying (Key 2021). This is mirrored by Just Group's in-house advisers, HUB Financial Solutions. Moreover, many consumers have discovered an entitlement to State benefits as a result of these meetings, with advisers conducting entitlement checks on their behalf. Research by Just found that in 2018 almost half of those who were entitled to benefits weren't claiming. (Actuarial post 2018). All of this points to a hidden benefit associated with advice – putting consumers in touch with potentially better solutions – including downsizing, but where it is the best option.

Ultimately, improved education and advice standards for advisers is only one side of the coin. The other is educating consumers of the potential benefits of property wealth for retirement. The product standards have been singled out in the pensions world as offering a blueprint to follow – this is something that consumers need to know about. The other problem is that there's no point in getting people to a financial adviser if that adviser won't advise on property wealth and that comes down to narrow fields of advice, or silos...

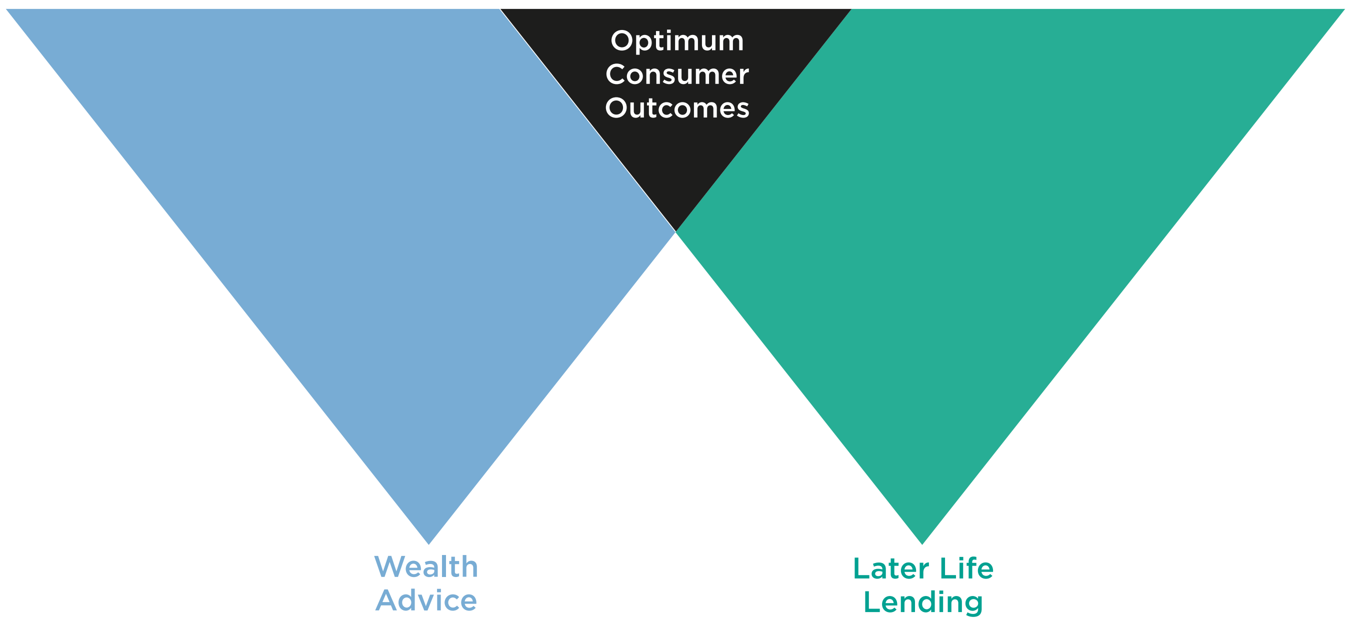
Narrow fields of advice

Financial advice is a world of silos. We have high-level silos of 'lending' and 'wealth' and then silos within silos, with some later life lending advisers specialising in only lifetime mortgages, some looking at broader equity release and others considering both equity release and more mainstream products, including retirement interest only mortgages (RIO).

A significant proportion of the 'wealth' advisory market (as we will refer to broader financial planning advisers) isn't qualified to give advice on any later life lending and many of those who are still don't fully understand the role it can play.

Research by The Lang Cat suggested that only around one in ten advisers actively use equity release. Most aren't qualified and don't see it as part of daily activity. Instead, it is considered a specialist activity, or worse still seen as something to be avoided entirely.

In a nutshell, advisers are operating from a limited field of vision, which potentially results in sub-optimal outcomes for consumers, only thinking about solutions that lie within their own wheelhouse and not those that might be better for the consumer and could be accessed through other professionals.



It seems there are potentially three reasons for this:

1. Lack of awareness of the 'other-side' – many advisers are what the four-stages of competence learning model would call 'unconsciously incompetent' about the work that other advisers do, and the benefits it can bring. Put another way, they don't know what they don't know.
2. Lack of interest – often based on the outdated perceptions we've highlighted elsewhere.
3. Lack of trust between different advisory populations – leading to fear in sharing the client.

The silos in later life lending risk being exacerbated by an increase in the number of firms moving toward a single-tied advice model – offering the products of only a single company. Whilst it is often argued that being single tied allows the adviser to develop a deeper expertise in the products of that one company and the provider to directly maintain the highest standards of business, it is vital that consumers enter single-tied advice with a full awareness of the nature of the service. Existing safeguards protect consumers – an adviser can't recommend a product that is unsuitable simply because they have no suitable product. However, it is important that the consumer understands the benefits and the limitations associated with advice on the products of a single company.

In 2020, the FCA reviewed equity release sales. It found that the market was working well for many consumers but also raised some challenges for the sector. Whilst this study itself raised questions as to the regulator's perception of equity release in a general sense, it did reveal concerns around siloed advice, with younger consumers not being told of their other borrowing options (FCA 2020).

This same issue of failure to consider broader lending options was cited in the Financial Services Consumer Panel report which found people who'd taken equity release said securing finance from a bank was 'rarely considered, due to a perception that they were too old for the banks products' – though in this study, most respondents were less financially secure and may also have had issues of funding repayment. This was picked up in another statement that 'loans or re-mortgages were overlooked for fear of the eligibility criteria and a lack of appeal for monthly payments.' (Savanta 2022)

"The silos in later life lending risk being exacerbated by an increase in the number of firms moving toward a single-tied advice model – offering the products of only a single company."

These are worrying findings and they will need to be addressed if consumer trust is to be fully won back.

One knee jerk reaction would be to suggest that all later life lending advisers need to be qualified to the same extent as their 'wealth' colleagues. This isn't necessary though, and it isn't practical either. Requiring existing later life advisers to retrain en masse would risk a mass exodus from the sector – a sector that already needs more not fewer people giving advice. This would create a vacuum to the detriment of consumers.

We need another option. We need a way to expand the fields of vision for both later life lending and wider advisers. Helping (or indeed requiring) each to understand the work of the other at a deeper level and creating referral pathways might be sufficient.

Later life lending needs to be seen properly as part of later life planning in a broader sense. If the later life lending adviser lacks the broader knowledge of later life matters, they need to develop symbiotic relationships – working together to create a whole that's more than the sum of its parts. This means developing a mechanism to facilitate this – something that appears to be difficult to achieve for many later life lending advisers right now, with anecdotal advice suggesting that many wealth advisers are unwilling to engage.

Entrenched consumer views

The siloed mentality also moves across into consumer perceptions.

Many consumers view their property as a place to live and their other assets as provision for retirement. In some cases, the 'other asset' pot is empty while in other cases, using assets in a different way could bring about better results – for example by allowing assets to be more tax-efficiently passed to the next generation. This has come into sharp focus with recent changes in pensions legislation that allow pension wealth to be passed down generations tax free where death occurs before the age of 75 and with only income tax charged at the recipient's rate on withdrawals thereafter. For many, this lends itself to leaving pensions untouched and instead funding retirement income from other sources – one of which might be property wealth. For more sophisticated planning this can even bring about inheritance tax efficiency.

Research has shown that people view property differently to other assets. This view of property as being somehow different potentially reduces the opportunities for property to provide later life benefits. The 20th Century rhetoric as home ownership being the 'goal of life' (O'Mahony and Overton 2015) clashes sharply with the 21st Century opportunities that property wealth present.

The shift of mindset required to fully embrace property wealth might be difficult for the older generation to embrace. We know from psychology that older people find newer concepts more difficult to embrace, but rather draw on their past experiences to make later life decisions (Li et al. 2015, O'Mahony and Overton 2014) Research has suggested older people have psychological difficulties in switching from an accumulation mindset to a decumulation mindset, whereby equity in the property is an asset for later-life provision.

More recently, Standard Life's research 'the light bulb moment' has supported this notion of the home as a somehow different asset. In their research, 37% of customers who completed equity release and 43% of those who considered it and didn't complete said 'my home is my security and I didn't want to risk losing it'.

We know that consumers are proud of their homes. We also know that for some, the notion of the 'family home' creates a perception of the home as being somehow a 'family asset' while other assets are more personal to the owner. (Savanta 2022).

Whilst the preference for the regulator and the government appears to be the freeing up of equity through downsizing, this comes at a cost – both financial and psychological for those who have emotional attachment to this 'family' home.

> "Downsizing and equity release aren't binary choices. Some will release equity and later downsize while others will downsize and later release equity on their new property."

Saga estimates that total costs involved in downsizing could run to £25,000. (Saga 2017) At the same time, the wealth released by downsizing is often relatively small, with a median amount of £13,800 – 8.5% of property value. This is smallest in the younger age groups (£3600 or 3% for homeowners aged 50-59) and higher for older homeowners (£49,100, or 25% for over 80s). (Lang Cat 2022).

Of course, downsizing and equity release aren't binary choices. Some will release equity and later downsize while others will downsize and later release equity on their new property. Those taking for the former option are protected by the Equity Release Council product standard on portability and the recent innovation introducing 'downsizing protection'.

Whilst the IFS suggests that 40% of homeowners over 50 will move house during their remaining lifetime, the financial implications suggest that this isn't always with the intention of freeing up equity, but rather to be nearer to family or in a more desirable location (Lang Cat 2022). This supports the findings of the Financial Services Consumer Panel that downsizing was seen as unappealing to their respondents and by Canada Life that 46% of people surveyed felt they were in their forever home (Savanta, 2022, Canada Life 2020c).

How might things change if consumer perceptions of later life lending were improved? Government, regulators and powerful 'influencers' have a role to play here.

Regulatory anomalies

The siloed mentality of both advisers and consumers is compounded by the way the market is regulated.

What we've called 'wealth' planning – pensions, savings, and investments – is regulated by the FCA under the Conduct of Business Sourcebook (COBS). Advisers offering financial advice in this area need a level four qualification (broadly akin to the first year of a degree), commission is effectively banned, and ongoing professionalism is enforced through the requirement to obtain a Statement of Professional Standing (SPS) from a professional body on an annual basis and to complete a minimum of 35 hours' Continuing Professional Development (CPD).

Later life lending, and conventional mortgage lending, however, is regulated under the Mortgages and Home Finance Conduct of Business Sourcebook (MCOB), with different requirements. Here, a level three qualification is required (broadly akin to an A/S level), commission is still permitted (and standard), often alongside a fee, no SPS is required and there is no mandatory CPD requirement.

It isn't difficult to see that this represents a disconnect.

Things are made worse by the fact that there is no requirement for 'wealth' advisers to consider property wealth in their discussions with consumers, nor to explicitly state that they don't intend to. This could mean that many consumers who would be well served by using property wealth aren't doing so and don't realise that the subject isn't even being considered by their adviser.

At the same time, the examination standards set out by the FCA for both wealth and later life lending advisers are outdated and therefore inadequate. The role of property wealth features only in passing for 'wealth' advisers while the 'ApEx standard' (approved examination) standard for equity release is out of date and labours the role of home reversion plans which today make up less than 1% of all sales.

"Many consumers who would be well served by using property wealth aren't doing so and don't realise that the subject isn't even being considered by their adviser."

To be blunt, the whole area needs to be revisited!

At present, examining bodies are forced to examine out of date concepts whilst trainers must bridge the gap by constantly informing students that 'for the exam you need to know this, but in the real world you need to know this…'. That can't be an acceptable situation.

With the evolution of later life lending to move beyond 'last resort' to form a more sophisticated part of the later life planning landscape, arguably some of the times that later life lending might be most appropriate are in the most sophisticated of cases, yet most advisers working on these cases aren't authorised to advise on equity release and aren't required to consider property wealth. Later life lending specialists aren't authorised to advise on the more sophisticated financial planning needs of consumers either – silos that result in narrow vision to the detriment of the consumer.

The regulator doesn't seem to have a particularly positive view of later life lending, either. In a review of equity release sales in 2020, it said: 'Where customers were suitably advised, we have seen some good outcomes where consumers ended up with an equity release product that met their long term needs…allowed customers to: 1. Repay their existing mortgage, 2. Carry out home improvements, essential household repairs and adaptations, 3. Consolidate burdensome debts, 4. Reduce their working hours or fund earlier retirement (FCA, 2020). All of these might be considered 'need based' releases. No reference was made to the more aspirational reasons that consumers released equity, nor of the benefits this might bring.

In simple terms, the FCA still seems to see equity release and wider late life lending as a solution of last resort. As well as the review of sales, the recent report by the Financial Services Consumer Panel painted an entirely erroneous view of the customer journey with several important areas not properly addressed. (Savanta 2022)

This perception of housing wealth seems to cloud the way the regulator operates. The recent report by The Lang Cat makes the point excellent point that focus of regulation is on making sure people don't do wrong – not on looking at whether they're doing right. We know that many consumers might benefit from a consideration of property wealth, but it is unlikely an adviser will be sanctioned for failing to do so. The FCA, as the Lang Cat points out is not held accountable for the good outcomes its regulation fails to encourage, only for the bad outcomes it fails to prevent. With the introduction of the Consumer Duty, and the focus on ensuring firms achieve good outcomes for consumers, the FCA needs to consider its own role in regulating for these wider positive outcomes – looking for wider conversations and bringing property wealth into the spotlight.

It is interesting to note that the Lang Cat report suggests advisers should have a meaningful conversation about the potential for house prices to increase and offset interest (Lang Cat 2022). This very thing is called out in the Financial Services Consumer Panel consumer panel report as being an example of a 'persuasive sales technique'. (Savanta 2022, p40) It is also interesting that once again this research focused on the more financially insecure consumers rather than on those who use it for more aspirational reasons.

Another anomaly between equity release and broader financial planning is the unavailability of guidance. Equity release is an advised only transaction. This potentially serves to reduce take up when consumers don't have existing advisers and, as we've seen, often lack trust in the profession.

By including property wealth into the guidance offered by the Money and Pensions Service under the MoneyHelper brand for retirees, more could be alerted to the potential benefits of property wealth and might, as a result, seek support from an adviser.

Governmental direction

"Perhaps there's a useful distinction to be drawn between 'forcing' people to pay for their needs by using their property wealth and empowering them to do so."

None of the roadblocks we've identified are helped by the lack of direction from the government. Despite the obvious potential for housing wealth to contribute to solving the social issues facing the country, we still lack a coherent sense of direction from the top as to the role that property should play.

Until now, it seems that successive governments have failed to develop a clear picture of the role they'd like property wealth to play in our future financial fortunes.

As we've already seen, the older generation are sitting on unprecedented levels of housing wealth, at the same time the country faces myriad social challenges.

Whilst it is clearly a very media-friendly soundbite for Boris Johnson to promise that "Nobody should have to sell their house to pay for social care", it doesn't alter the fact that the cost needs to be met somehow. To paraphrase the work of the Lang Cat once again, we either need to load increasingly large burdens of taxation on the younger generation – accepting that the declining birth rate means we're potentially rolling a bigger problem down the hill – or we need another approach if we're not going to embed poverty. We're already loading the cost of social care on the younger generation with the 1.25% increase in National Insurance introduced in 2022/23, ahead of the health and social care levy to follow. This raises significant issues of fairness.

This isn't a new issue for the government to consider. Back in 2013, the House of Lords had already identified that the equity windfall that benefits the older generation could usefully be employed in helping to fund social care. Whilst politically sensitive, it is also arguably the only equitable solution.

In considering the so-called 'Dilnot report' suggestions for long term care (these underpin the new government reforms), the House of Lords report pointed out that those who immediately gain will be the generation who have benefited from increases in housing wealth on an unprecedented scale. This coming at the expense of a younger generation already financially stretched. They went on to conclude that 'those who have benefited most from the housing boom should make a fair contribution to the rising costs of their own care. We consider that enabling people to access the value locked up in their homes through equity release will be crucial to helping older people to fund the care costs they may face.' (House of Lords, 2013)

Perhaps there's a useful distinction to be drawn between 'forcing' people to pay for their needs by using their property wealth and empowering them to do so. A more positive tone on the use of housing wealth, set from the top, might help to begin the shift in perceptions and encourage people to look again at how their own wealth might deliver better outcomes for them, under their own control.

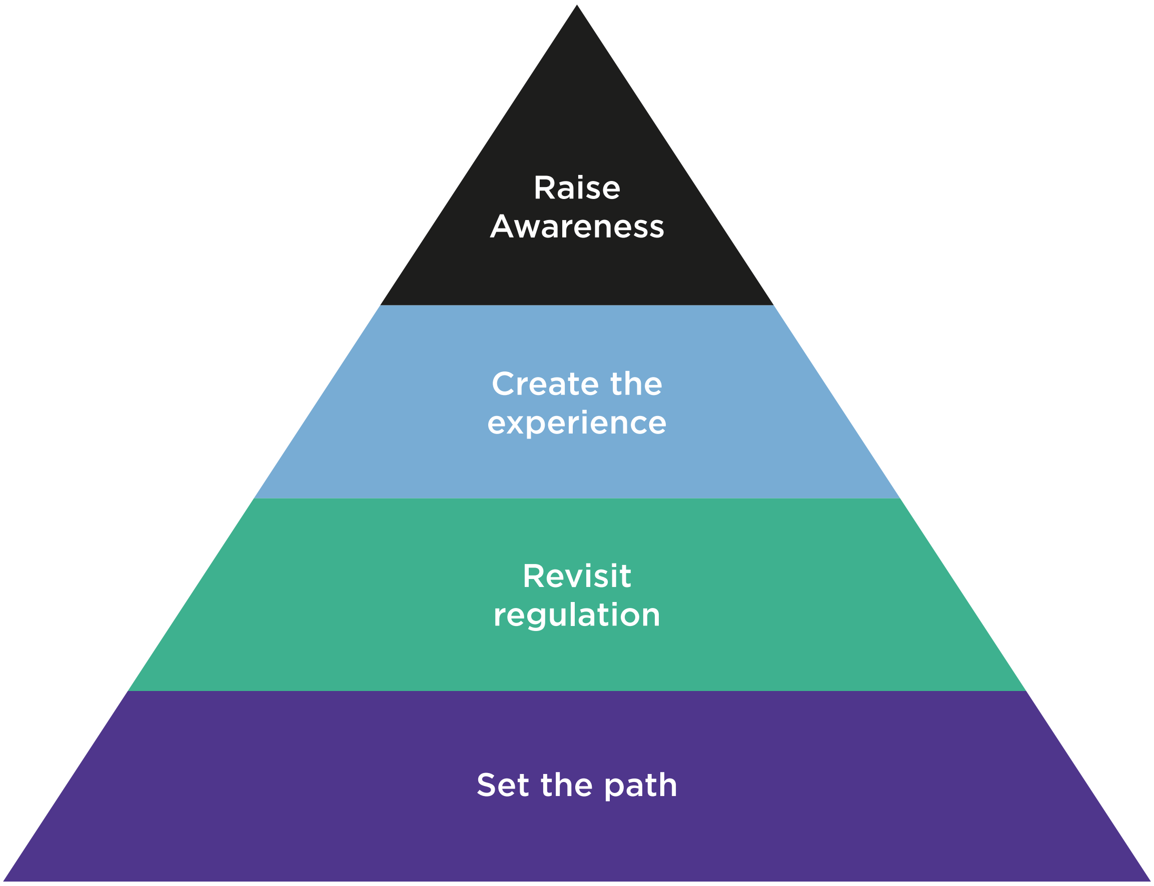
If there is a preference within government, it appears to be for older homeowners to downsize – perhaps in order to free up larger properties for growing families, but with a lack of suitable properties and the costs involved in downsizing outlined earlier in this report, this doesn't necessarily chime with the consumer. Add to this the general reluctance to uproot from the 'forever home' found by Canada Life and perhaps this needs to be re-examined as a strategy.

A roadmap for the future

A roadmap for the future

If we're going to achieve a successful development of the later life lending sector, we need to overcome those roadblocks, and this requires concerted and joined-up action from all stakeholders. This isn't a matter of one group fixing things – it is about forming a strategy for the use of property wealth and then implementing that strategy with a single voice.

Overcoming those issues means turning the roadblocks identified above upside down… by starting with the role of government we can create a solid foundation upon which to build a renewed approach to regulation, which in turn will allow the sector to design the consumer experience that will deliver the most positive outcomes. Finally, we can turn this into trust by a concerted effort to raise awareness.



Set the path from the top

A coherent roadmap needs to start with a clear direction of travel – and that needs to be driven from the top by the government and the regulator. Without this agreed direction, those who sit below run the risk of disappearing down tangents and being constantly pulled back by short-term shifts in policy. Develop a clear strategy – then let the sector deliver it. That seems like a pretty clear and sensible approach.

Let's start with the government, then. We'll come back to the regulator shortly – there's plenty to say there, but what can the government do? Well, there are a few things:

1. Revisit the potential for property wealth and agree a consistent, empowering, narrative

We need to look again at the role property wealth can play in meeting the needs of later life consumers. As the House of Lords report correctly identified, it has the potential to meet some of the financial needs of the current generation of older people, without passing ever larger financial burdens to the young.

For this to happen, the government needs to engage with the sector, to look at the opportunities for property wealth and begin to shift the narrative toward property as an opportunity – empowering people to take advantage of their wealth rather than being forced to do so. This also requires addressing the stigma that can be associated with needing money in later life. A property is a store of wealth, if a consumer either wishes to, or needs to, access this in their later life, this should be no cause for embarrassment.

The current narrative of 'levelling up' is an important one and many of the older generation were able to do this in the past in becoming homeowners. These same homeowners, many of whom took advantage of the right to buy schemes should now be encouraged to take advantage of the opportunities this wealth gives them to enjoy more fulfilling retirements.

2. Work with the regulator and the later life lending sector to review and address blockages

As well as creating a more positive narrative around the potential for property wealth, the government should work with representatives from the sector to consider potential legislative blockages that currently prevent people from doing so.

The recent report by The Lang Cat highlighted this, giving the example of the Residence Nil Rate Band for Inheritance Tax. Introduced as part of the Conservative manifesto to raise the nil rate band for a couple to £1m, the residence nil rate band currently allows for a couple to pass an additional £350,000 from property wealth to their direct lineal descendants. The Lang Cat argues that this allowance should be removed, representing a potential barrier to unlocking property wealth by encouraging people to pass the value of their property on death instead. Whilst this has some element of truth, rather than removing it entirely and bringing more 'ordinary' people into the inheritance tax net, this allowance could be separated from the property, allowing for passing of wealth in a more general sense up to this threshold.

A second potential blocker relates to 'income' products. A couple of providers attempted to innovate by launching products that paid out a drawdown facility as a series of regular, monthly, payments over an agreed time period. For example, a facility of £24,000 could be paid out as £200 per month over 10 years. Whilst appealing as a concept for those struggling with bills, from a State benefit perspective, these payments were treated as income, potentially resulting in the loss of means tested benefits where an equivalent capital withdrawal (for someone with no savings) would not have done.

3. Revisit the role of guidance from the Money and Pensions service

Multiple researchers have cited the important role for formal guidance in later life planning. We know that consumers currently don't seek out financial advice as often as they should and fill the gap instead with informal guidance from friends or influencers.

In the world of pensions, the government offers a 'guidance guarantee', facilitated by the Money and Pensions Service, giving access to guidance on retirement options. Integrating property wealth into this guidance and considering the role that property wealth can play (remembering that for many people property wealth will exceed pension wealth) we can give a more joined up picture and encourage more people to seek financial advice from authorised and regulated professionals where property wealth might offer a solution.

The potential role for more guidance was referenced in the Financial Services Consumer Panel report with respondents suggesting that the consumer experience could be improved if more guidance were provided as appropriate. (Savanta 2022).

4. Consider the Equity Release Council call to go further

In 2019, the Equity Release Council called for the government to introduce a more joined up approach by setting up a cross-party later-life commission to look at the needs of older people – including the potential role for property in later life finance. The cross-party nature of this commission is vitally important – this issue requires a joined-up cross-party consensus and cannot be subject to the ebb-and-flow of party politics.

To support the commission, the Council also called for the government to appoint a Minister for the Elderly. (ERC 2019). With diverse government departments across health and social care, housing and benefits, a minister with a portfolio dedicated to looking at the needs of the elderly seems like an entirely sensible way forward. This would give a point of focus for government policy across old-age issues and allow someone to develop a greater insight across the myriad issues facing the older population – one of which is the use of housing wealth.

5. Take an active role in communication

The final piece of the jigsaw is for the government to participate in communicating the message to consumers. Having set the direction, when the time comes to tell people about it, this needs to be joined up and consistent – and that means the government backing it. We'll come back to this.

Revisit regulation

Arguably the most important driver for change needs to be the regulator. Earlier in this report we identified many areas in which regulation is currently contributing to the issues that face the sector – and these need to be addressed.

Once again, there are several actions:

1. Commit to an open dialogue with the sector to look at the positive role property wealth can play in later life finance

With the implementation of the Consumer Duty from 2023, the focus is clearly on achieving good outcomes for consumers. For this to truly happen, however, the FCA needs to shift its own focus. The current negative approach to the use of property wealth reinforces outdated views of equity release and later life lending in a more general sense being products of last resort. This clearly isn't the case anymore.

The regulator needs to engage with the sector to look again at the positive role property wealth can play in achieving desirable consumer outcomes and the societal benefits to be derived from it.

In this way, the regulator can start to shift its own perception and, in so doing, recognise that consumers are potentially being disadvantaged by a failure to consider property wealth in advice conversations.

2. Revisit the current regulatory split between MCOB and COBS

The current split between COBS and MCOB regulation creates a number of anomalies as outlined earlier. By reviewing the way later life lending is regulated and seeking greater integration between COBS and MCOB for areas that share so much commonality, the regulator can bring about meaningful change very quickly.

This doesn't mean restricting property wealth to advice from level 4 advisers. Quite the opposite. It means requiring those level 4 advisers to consider the client's property wealth in the broader later life conversation – or explicitly state why they aren't. COBS needs to specifically reference consideration of the role of property wealth and when needs are identified, advisers need to work with later life lending specialists where appropriate to facilitate the use of that wealth. Many level 4 advisers are not mortgage qualified and already have strong referrals links for conventional residential mortgages – this just needs to be extended.

Equally, MCOB advisers need a greater understanding of broader financial planning issues and when referrals need to be made to those with broader qualification and permission. Whilst a lifetime mortgage is a form of mortgage, the use of it as a vehicle for broader financial planning arguably brings it into a different space. It is not the same as a mortgage for home purchase where rate is the major factor and the end goal is to pay down the debt, rather it is a 'reverse mortgage' which for many will get bigger over time, with consequences.

Currently, there is no requirement for advisers recommending an equity release arrangement to issue the consumer with a suitability report. This is completely at odds with the requirements in the wealth space and since the FCA review of equity release sales found that advisers were issuing these as standard, there seems little reason not to make it mandatory.

Furthermore, there is currently a major anomaly within MCOB, with Retirement Interest Only mortgages falling under conventional mortgages while lifetime mortgages fall under the more tightly regulated equity release – with additional qualification requirements. This needs to be addressed to ensure consumers are receiving appropriate advice across all relevant product options.

"To grow the later life market safely with good practice embedded requires a rounded advice proposition which encompasses a range of later life products including lifetime mortgages. To ensure we can offer the rounded conversations

which enable consumers to get the best outcomes, the industry will have to engage with Government and regulators to remove regulatory silos; and with qualification boards to embrace this exciting and growing market." Jim Boyd (ERC 2022b)

3. Look again at Continuing Professional Development requirements for both MCOB and COBS advisers

Continuing professional development (CPD) should be a vital part of any adviser's role. For both the 'wealth' and 'later life lending' sectors, the regulator needs to revisit its approach.

The CPD requirement for level 4 'wealth' advisers is 35 hours a year, of which 21 must be structured. Whilst this should be relevant to the role, there is no requirement for advisers to cover specific topics. This means that wealth advisers currently unfamiliar with the benefits of using property wealth are not required to undertake any specific CPD on later life lending. This rolls through to the misunderstandings we see on a regular basis, with advisers like many consumers still labouring under misapprehensions based on out-of-date information.

On the other side, the 35-hour requirement doesn't apply to the level 3 later life lending advisers, who often lack the wider focus that they need to identify when they should be involving wealth advisers. In other words, the silos are being maintained through lack of knowledge.

By creating specific mandatory CPD requirements, the regulator can break down some of the silos and create wider fields of vision. This has been done in the pension transfer world, where an additional CPD requirement for pension transfer specialists was introduced, requiring specific CPD in relation to their role. A similar requirement for those working with later life consumers could be beneficial.

4. Revise and update the Approved Examinations (ApEx) standards

The ApEx standards are out of date and need to be revised – both for wealth and later life lending advice. This will embed knowledge requirements going forward and allow the examining bodies to create exams that better reflect the realities of working with later life consumers.

This means adding more elements of property knowledge in the 'level 4' modules, whilst totally overhauling and updating the equity release standard. The current standard's focus on home reversion plans as equal partners to lifetime mortgages creates a benchmark for exams that is totally unreflective of the current world, whilst the interactions between property wealth and wider wealth (and therefore needs for equity release advisers to refer the other way) are not fully addressed.

The main examining bodies are currently held back by the standard the regulator sets – this is the exact opposite situation to that which we'd expect.

5. Facilitate a dialogue on fees and commissions

One of the criticisms often levelled at the sector is that it attracts 'dabblers' by virtue of attractive remuneration. Along with mortgages, it is one of the few remaining commission-paying products and advice fees are set on top.

Upskilling will remove some of the 'dabblers' who don't regard later life lending as 'core' to their business and reward those who offer better consumer outcomes, but there needs to be an open and realistic dialogue about commissions and charges as later life lending becomes more mainstream to ensure value for money is maintained. This likely to be brought into sharp focus with the introduction of the FCA's consumer duty in 2023.

In the pension world, researchers at Birmingham University cited a consumer concern that advisers would have their own short-term interests at heart. (Overton and Smith 2022). The continued payment of commission on equity release (and on 'conventional' mortgage products) potentially opens the sector to criticism and does little to improve trust unless given appropriate context.

Although this has been cited as potentially damaging to professionalism (Ring, 2016), the alternative would be to increase upfront costs which could prevent access for those who lack the savings to meet the cost. With commission paid for from the interest rate, it could be argued that in this market that is so sensitive to upfront costs (French et al, 2018) this represents a better consumer outcome, giving access without the need for higher upfront costs. The issue of commission was also addressed during the post-financial-crisis mortgage market review, which found that commission didn't lead to product bias.

All of this suggests commission might well have a continued role in this sector. What does seem appropriate, though, is to consider what is provided for the commissions received – with a strong argument for a movement away from transactional business to a more enduring relationship with advisers providing ongoing support – for example when the customer seeks further sums from their arrangement – potentially with differentiated commission levels funding differentiated levels of service.

Finally, the regulator should consider the best way to ensure consumers are entering into the advice process fully cognizant of the nature of the service – be it whole of market or tied – and the relative advantages and drawbacks associated.

Create the experience

Once the lead has been set from the top, the sector can then work together to create the right experience for consumers. Once again there are several steps here, but each is important if the sector is to develop to its potential.

1. Establish cross disciplinary conversations for advice

If the regulator needs to take action to create an environment for advice to flourish, the advice sector needs to take significant action to embrace this – and this inevitably means developing more cross-disciplinary relationships.

We've known this for a long time – but it is easier said than done at the moment. There's plenty of evidence that later life lending advisers have tried to develop these working relationships with their 'wealth' colleagues but been unable to find advisers willing to engage. At the moment, of course, there's no regulatory imperative for them to change. The wealth sector doesn't need to consider property wealth – and many don't.

"Consumers must get the information they need to weigh up increasingly complex financial decisions and balance their current and future needs across a longer period of time. Advisers from a range of backgrounds must be equipped in increasing numbers to identify scenarios where property wealth may play a positive role and the many factors that ultimately influence that decision." Jim Boyd – Equity Release Council 2021.

Trade bodies work together to facilitate better referral processes.

Trade bodies like the Equity Release Council can play a pivotal role in helping to facilitate the referral process, backed by other bodies like Air and SOLLA.

Driven by regulatory change, referral links need to be more norm – moving both wealth and later life lending advisers to a broader world view – from being unconsciously incompetent of each other's world to at least consciously incompetent and on to consciously competent.

Working together, trade bodies can create a framework where this becomes the norm.

2. Exam bodies review and update exams based on revised ApEx standards

With revised and updated ApEx standards, exam bodies will be free to work with industry specialists to create more meaningful examinations that better reflect the modern advice sector. Reducing the focus on home reversion plans and increasing focus on wider later life lending options, as well as looking at key areas of broader planning where referrals might be needed, will all build toward a much more meaningful standard.

The LIBF has already made some independent strides toward this by updating its CeRER exam, but the necessity of the current ApEx standard still prevents them from fully achieving the potential of this exam. The CII lags with a significant amount of very dated content mandated by the examiners in order to meet their perception of ApEx requirements.

As well as updating the specific equity release exams, a broader review of ApEx will bring more property wealth considerations into broader financial planning examinations. Rather than appearing as a footnote for awareness purposes, it needs a more central role in wealth exams so that newly qualified advisers know the role of property wealth and the potential for working with specialist advisers from the outset – in much the same way as inheritance tax planning currently features.

3. Advisers to engage in enhanced CPD – and the sector to facilitate this

Later life advisers need to recognise that there's a competitive advantage for them in improving their own knowledge – by becoming a trusted partner of wealth advisers with a broader knowledge base, later life advisers can enhance the wealth sector's coverage without the need for those wealth advisers (who may otherwise become 'dabblers') to upskill beyond awareness. Programmes like Air group's later life lending academy are designed to do exactly this.

Driven by regulatory change, wealth advisers also need to expand the scope of their CPD to understand the potential role for property wealth for their clients.

The sector can assist both groups by providing CPD material through bodies like the Equity Release Council, via providers or from bodies like Air and SOLLA.

4. Sector to review the transactional nature of later life lending

Advisers are currently well remunerated for the advice they give in the later life lending space. Often, this advice covers both an initial advance and an ongoing facility to be drawn if required in the future. This often stands out as an anomaly, with significant work going into the initial advice but with the client then left to access significant further sums without further advice later, even if circumstances change.

Research has shown in the past that older consumers were less satisfied with one-off transactions, whereby there was no opportunity to develop a relationship, than longer-term continuing relationships. Cameron et al. (2016)

Whilst potentially impractical to develop regular review relationships with equity release clients, there is scope for some consideration of how advisers might better support their customers in the future – for example with drawdown, or potential rebroking of more expensive loans - and how the commission paid on contracts might cover this. The Financial Services Consumer Panel report suggested that consumers believe a review approximately every one to five years would be sensible and popular. Savanta (2022) In the context of the implementation of the consumer duty, this area deserves detailed and thoughtful consideration.

Providers might usefully play a role here by using their annual communications with consumers to remind them of the potential benefits of ongoing advice and to offer appropriate 'nudges' toward further advice – for example when additional funds are drawn-down.

5. The Equity Release Council to take lead role in promoting standards

The Council has a key role to play in the development of the customer experience. By continuing to promote standards and ensuring the benefit of these standards is adequately communicated, as well as providing advisers with a means of demonstrating their professionalism to consumers.

The competency framework already creates a standard for advisers to aspire to. This framework already underpins the training under the Air later life academy, leading to an LIBF accreditation, and can encourage other training providers to follow, creating more consistent standards.

6. Providers continue to develop product flexibility

We've already identified the significant improvements made by providers over recent years. The drive toward increasing flexibility has seen a raft of product improvements becoming mainstream, to the benefit of consumers. But there is still room for more.

At present, early repayment charges – even where fixed – can act as a significant deterrent to alteration of loans. Consumers locked into higher rates can find themselves with little choice but to continue to pay above current rates as early repayment charges are prohibitive. Whilst the lifetime fixed nature of these rates makes some form of early repayment charge inevitable (and familiar to those who've previously had fixed-rate mortgages), this remains an area where product innovation would be well received.

At the same time, there remains a need for income paying products. Whilst the home income plans of old are no longer practical in times of low annuity rates, with legislative development to remove the State benefit implications of 'income-based drawdown' this could become more popular – especially if additional flexibility (to vary the drawdown, for instance) could be introduced.

7. Consider the use of technology

The use of technology is on a one-way journey. Increasingly, even in older age groups, technology has a role to play. The sector needs to work together to find new and innovative ways of using technology to help meet consumer needs – from sourcing information, through implementation of advice to post-implementation servicing. As online banking has become the norm, many consumers expect to be able to fully service their arrangements online or via apps. This should be standard.

In the wealth sector, technology providers can play a role by building property wealth into technology – cashflow modelling, inheritance tax planning being just two potential areas for development work.

Raise awareness and challenge misconceptions

Ask later life advisers what needs to change for the sector to fulfil its potential, and inevitably awareness will be raised as a key theme – and rightly so. We know the sector suffers from the failings of the past and these need to be addressed in the minds of the consumer, so why not start there?

Well, in a nutshell, there's no point in raising awareness until some of the other areas have been addressed. Raising awareness of the potential for using property wealth and driving people toward a financial adviser isn't going to achieve anything if the adviser doesn't consider property wealth. That's why the pyramid is topped off with raising awareness – this is the last stage in the process of normalising equity release and later life lending.

1. Develop a joined-up communications strategy for the sector

The final piece of the jigsaw. With a narrative set from the top in the form of government policy, changes to regulation creating a more joined-up environment and a concerted effort from the sector to create a more coherent and unified customer experience, all that remains is to tell consumers – and this means committing resources.

To unashamedly summon the spirit of Nietzsche – there are no facts, only interpretations. At present consumers are interpreting later life lending in a negative sense. We need to help them change the lens and see it through a different filter.

Evidence suggests that people who undergo the advice process feel better for it – Standard Life found that 82% of customers who completed equity release said they were happy with their experience, while 79% of customers who felt equity release wasn't right for them said they could see how it would be right for others. Only 1% of completers and 7% of non-completers said they wouldn't recommend it to other people. The sector just needs to help them see this, encourage them to seek guidance and advice and then create the framework that ensures they receive a quality service when they do – whether coming through a 'wealth' or later life lending adviser.

2. Engage with influencers

Whilst influencers like Martin Lewis are undoubtedly like Marmite, they have an important role to play – after all, the clue is in the title.

The sector needs to engage with them and actively demonstrate the ways in which property wealth can play a major role in later life finance. If the changes outlined in this paper are to be implemented, engaging with influencers to shift the narrative can ensure the wider communications plan isn't working against them but rather involves them in a positive and proactive manner.

Of course there is no guarantee influencers will be willing to engage, but there needs to be a concerted attempt to do bring them onboard.

3. Encourage consumers to look again – break down the old narrative

The ultimate aim is clear – to encourage consumers to look again. To break down their perceptions and challenge them to reconsider what they think they know about property wealth.

If the measures outlined in this report are implemented, we have a real opportunity to change the narrative and give consumers a reason to look again.

Pulling it all together

Pulling it all together

The later life lending sector stands at an important crossroads. It has the potential to offer solutions to many of the major socio-economic issues confronting the UK, but to truly achieve what it is capable of achieving, action needs to be taken.

The positive benefits of housing wealth are obscured by perceptions created in past failings. The sector today has done much to address these failings without the message fully landing. This hasn't been helped by the lack of direction from successive governments, nor by a regulatory system that still seems to perceive housing wealth as a solution of last resort.

Change needs to be driven from the top with clear government direction and a regulatory approach that reflects the modern reality. This needs to combine with an improved and more joined-up approach from the advice sector, whilst providers need to consider the role they can play in continuing to improve consumer outcomes. All of this needs to be wrapped up in a communication exercise that moves us away from the past.

This cannot fall on the shoulders of any one group of participants. This needs to be a coherent and joined up strategy which asks the difficult questions and accepts that answers won't always be comfortable. But nothing good ever came from sitting back comfortably...

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