

making the most of equity release:

perspectives from key players

Edited by Lord German





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Safe Home Income Plans

Safe Home Income Plans (SHIP) is the UK's trade body for equity release product providers. Launched in 1991 to promote safe plans, SHIP is dedicated to the protection of the planholder and the safe growth of the industry. SHIP represents approximately 90% of the providers in the UK.

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Contents

Preface

Baroness Wheatcroft of Blackheath 3

Introduction

Lord German of Llanfrechfa 5

Chapter 1: The state of the equity release market

Andrea Rozario, Director General of SHIP (Safe Home Income Plans) 12

Chapter 2: Asset-rich, income-poor

Rachel Terry, Independent Consultant and Co-author of the Joseph Rowntree Foundation's *Assessment of Equity Release Pilot Schemes* 18

Chapter 3: Social care reform – what's in store?

Paul Hackett, Director of the Smith Institute 28

Chapter 4: Paying for pensions

Joanne Segars, Chief Executive of the National Association of Pension Funds 36

Chapter 5: Debt and equity release

Keith Haggart, Director of Retirement Needs at Just Retirement, and Peter Couch, Executive Director for Retirement Solutions at Grainger 44

Chapter 6: Meeting social care needs

Ged Hosty, Managing Director of Equity Release at Partnership 52

Chapter 7: Regulation or red tape? The UK equity release market

Rob Sheldon and Liam Corrigan of DWF LLP, and Dermot Woolgar, Barrister, Crown Office Chambers 58

Chapter 8: Good legal advice

Claire Barker, Managing Partner at Equilaw 66

Chapter 9: Good financial advice

Tish Hanifan, Director of the Society of Later Life Advisers 74

Chapter 10: Equity release – attitudes and perceptions

Peter Williams, Director of the Cambridge Centre for Housing & Planning Research at the University of Cambridge 82

Preface

Baroness Wheatcroft of Blackheath

"Hope I die before I get old," yelled The Who in 1965. For many of those who grew up in the Sixties, the sentiment now is as likely to be "Hope I die before I get poor".

Growing old in a degree of comfort can, and should, be a largely enjoyable life stage. However, growing old when there is not enough money to provide even basic comforts is a prospect now faced by horrifyingly high numbers of people.

The issue of care and support for the elderly is high on the political agenda. This volume makes a valuable contribution to the debate about how this provision could be funded. In the chapters that follow, there is thorough analysis of the issues and, in particular, of how the elderly might make use of their property to provide a greater level of income. That money could ensure that they are able to live comfortably in their own homes for many years, perhaps paying for major adaptations to the property and then, as the need arises, providing for a level of help and nursing care in the home. This is a prospect that many would find far more appealing than having to move out of their home and into residential care.

As the government weighs up the recommendations of the Dilnot Commission on the Funding of Social Care and Support, the concept of equity release has to be considered as a potentially significant part of the solution to a problem that has been allowed to fester for decades.

There are a number of ways of helping the many asset-rich but income-poor out of their predicament and extracting cash from what is, for most people, their major asset must be one of them. Yet at the moment, equity release is not used to any great extent: last year, only £788.6 million of capital was released through such schemes. Bad publicity, rightfully earned by some firms many years ago, has left lingering doubts, which exacerbate some cultural qualms over the idea of effectively selling part of one's home.

Naturally, parents cherish the idea of being able to hand over a degree of wealth to the next generation but, as the clear trends of longer life expectancy and shrinking private pension provision impinge, the older generation will have to put its accumulated wealth to work. The younger generation will have to come to terms with the thought of their parents doing a bit of "skiing". Most offspring would surely agree that "spending the kids' inheritance" is a sensible thing to do if it ensures that ageing parents can enjoy an enhanced quality of life.

The number of people aged over 65 in the UK is soaring, from 10.5 million in 2012 to an estimated 16.9 million in 2035. The state cannot afford to provide what they will need to enjoy a long... potentially very long... old age. We need to find innovative ways of bridging the gap. For some, that may mean packing a suitcase or three and heading to the sun and the equivalent of *The Best Exotic Marigold Hotel*. For others, it may involve trading down in the property market but some will want to stay put for as long as possible and equity release could help them achieve that.

What is essential is that high quality, trustworthy advice should be available so that individuals can explore their options and make the right decisions to suit their needs.

Introduction

Lord German of Llanfrechfa

More than 20 years ago I encouraged my parents (then in their mid 70s) to release some of the equity in their property in order to pay for new double-glazed doors and windows. They were to pay nothing back to the lender, until they were no longer occupying the property. Now in their mid 90s – still living independently at the same property – they continually berate me at the level of rolled-up interest that the original loan has generated. In response I point out that the percentage of the loan to current property value is approximately the same as it was all those years ago. My mother responds: "But it is part of your inheritance!" Despite insistence that this is not a factor for either myself or my brother, I appear to be failing to win the argument – though at times I am able to subdue the debate!

My straightforward personal case study illustrates the fundamental attitudinal change needed in order to give equity release an opportunity to play its part in meeting the challenge of living and paying for older age. The dilemma is addressed in several of the contributions to this book.

Demographics

Our population is becoming older. The average (median) age is projected to rise from 39.7 in 2010 to 42.2 in 2035. And as we get older, the numbers in the oldest age groups increase the fastest. In 2010 we had 1.4 million people aged 85 and over. That is projected to be 3.5 million by 2035 – more than doubling over 25 years. At the other end of the age range, the number of those aged under 16 is expected to increase by only 1.4 million over the same period.¹

So, putting aside the increasing age of our population, the number of younger working-age people to support them will shrink. The Office for National Statistics projection is that the ratio of non-working-age population to working-age population will rise from 54% as it is today to 71% in 2050 – primarily as a result of the growth in the over-65s. Recent alterations to the state pension age will mitigate some of this economic change, but taken alone will not be able to deal with the increasing problem of funding lifestyles in older age.

Approximately 60% of the population – that is, those with incomes of up to £33,000 – will be reliant on the state pension for more than 50% of their retirement income.²

¹ Office for National Statistics, October 2011

² *Squeezed in Retirement* (Chatham House, March 2011)

Currently three factors compound the problem – low savings rates, a move from defined-benefit to defined-contribution pension schemes, and low annuity rates. So, many households are faced with a considerable drop in income. People may not have sufficient financial resources to support the lifestyle they were used to in their working lives and that they expect to continue into retirement. This savings or lifestyle deficit is likely to rise up the political agenda as the three factors begin to bite, with ever more households seeing their retirement income squeezed.

The use of home ownership as part of a personal savings regime, to be utilised when needed, such as when income falls, is where equity release can play a part.

Housing is the largest single asset held by UK households, accounting for around 40% of the UK's £6,875 billion net wealth.³ Not everyone has housing wealth, and those who do very often do not see it as a way of saving for retirement.

Equity release – a brief description

The main products available are lifetime mortgages and home reversion plans.

Lifetime mortgages

These are similar to conventional mortgages. The consumer retains ownership of their home but borrows against it, and the lender secures the sum borrowed by taking a first charge over the property. The borrowing can take the form of a lump sum, a regular income, a facility into which the borrower can tap, or a combination of all three. Although some lenders offer the option for the consumer to make regular interest-only payments, in the vast majority of cases the consumer does not make any payments. Instead, interest is rolled up and repaid along with the capital sum on the sale of the property following the death of the borrower or their moving out permanently, for example into long-term care.

Home reversion plans

Under a home reversion plan, the consumer sells their home to the provider. A home reversion can be either "full", where the consumer sells their entire interest in the property to the provider, or "partial", where the consumer retains a financial or "beneficial" interest in the property. In either case, the provider becomes the legal owner of the property. In return the consumer gets a lump sum or an income for life, or both, and the right to stay as a tenant of their former home, usually for a peppercorn (that is, very low) rent for life or until a specified event such as moving permanently into long-term care.⁴

³ Pensions Policy Institute *Retirement Income and Assets* (September 2009)

⁴ http://www.fsa.gov.uk/static/FsaWeb/Shared/Documents/pubs/cp/cp11_31.pdf

Both markets are small. The lifetime mortgage market has averaged around 22,000 sales and just under £1 billion of lending each year over the last five years, with an average of £45,500 per transaction. This is equivalent to less than 1% of the residential mortgage market over the same period. The home reversion market is even smaller, with less than 1,000 plans sold per year. Lifetime mortgages tend to be provided by a mixture of financial institutions, building societies and specialised non-deposit lenders. Home reversion plans come from financial service firms and specialist providers.

Lifetime mortgages became regulated in 2004 and home reversions in 2007; thus they are treated separated for regulatory purposes. The Financial Services Authority has also begun regulation of the sale-and-rent-back market.

Barriers for the sector

The principal barrier to change is public attitudes such as that I described in my first paragraph. A home is a family asset to be valued as a statement of personal freedom, and intended for passing on to other members of the family.

Emerging themes

I detect a number of recurring themes emerging from the contributions made by authors to this book. There is general agreement that equity release has poor public perception, that there is a lack of awareness of the role it can play, and that this in some way accounts for the low levels of take-up. UK pensioner households are reluctant to turn their housing wealth into income, or even to downsize in order to create more disposable income.

Another point of agreement is that the industry and government need to work more closely together, in order to provide a holistic response to funding retirement. I illustrate this later with some emerging thoughts on the role that government can play.

While there is agreement that equity release needs to become a mainstream retirement funding option, some of the authors believe that the "new dawn" for equity release may prove to be illusory.

There is consensus on the need for more advice to be provided by a wider range of firms, agencies and organisations. Training for advisers is essential, and – as pointed out by Rachel Terry – these can often be in the public and third sectors. There is a genuine lack of trust, both in the system itself and in those who provide advice. Overcoming this perception is crucial to developing the opportunities that equity release can provide.

A final thread across the chapters is a concern that the economic factors currently facing those of working age may diminish the appetite for pensions and savings. In turn, this may well affect people's perceptions of the role their home could play in saving for retirement.

An overview of this book

Claire Barker, in her chapter, argues for a wider provision of support to financial advisers in order to provide a trustworthy source of information for prospective customers. She states that the current provision is small, and without these advisers the body of expertise in the legal profession will also not grow. The Law Society needs to provide discrete and bespoke support to its members on the operation of equity release.

Andrea Rozario from SHIP (Safe Home Income Plans) tells us in her chapter that equity release has changed since the 1980s. Providers have developed new products that respond to individual and household needs. While funding social care is not currently a main use of equity release, with a £6 billion gap in care funding, private finance will have to provide a bridge.

Ged Hosty then lays out the issues surrounding the use of equity release in paying for social care. There are very complex rules surrounding care costs. This at times leads to anomalies, which principally occur with the current practice of home value disregards. The government has a crucial role to play, not only in ironing out anomalies, but also in shaping a new public attitude towards paying for care in retirement.

Keith Haggart and Peter Couch, in their chapter, illustrate the growing issue of debt, and in particular the annual £2.4 billion of debt arising from maturing interest-only mortgages for which the lenders have no specific means of repayment. For the future there are some fruitful signs, such as auto-enrolment and a growing recognition of the need to save for retirement throughout people's working lives. Equity release may need to be more actively considered as retirees try to fund a retirement lifestyle and also manage debt. Equity release is part of a solution, but it will not be appropriate for all.

In her chapter, Joanne Segars lays out the emerging problems for future retirees. She believes that, in relative terms, the present generation of pensioners are the "golden" generation. The same cannot be said of those who will follow them into retirement, and are now facing the pressure of the economic downturn. These people, she believes, may well relegate saving for a pension to the back burner. Hence her view that pensions will not be the only source of retirement income in the future.

Rachel Terry draws on her experience of the Joseph Rowntree Foundation-supported equity release pilot schemes. She finds that there is a need to restore trust in equity release as a product. Her experience of the Home Improvement Trust is that people – where they can afford it – prefer an interest-only loan rather than one with rolled-up interest. The development of trust is a key theme in her chapter, and she recommends that case studies are developed with a local connection in order to provide a further layer of confidence to those considering equity release.

In his chapter, Peter Williams then lays out the role that perceptions have in determining whether people chose to engage in knowing more about the potential of equity release. The most crucial element is that prospective customers must have trust in both the adviser and the provider. The Financial Services Authority is now treating all potential customers as “vulnerable”, and that places a requirement on all that they get advice.

Role for government

Government cannot be a bystander in the development of ways to enable homes to be viewed as a means of saving for retirement. The following list suggests a number of areas in which I believe they could take a role – either as an enabler, a leader or a facilitator:

- assisting banks to enter the equity release market;
- providing government support to the SHIP guarantee scheme to avoid potential difficulties such as negative equity;
- assisting lenders to develop a broader set of products to meet the diverse needs of borrowers;
- strengthening cross-government-departmental working to enable a more holistic response to the evolution of meeting the financial needs of retirement;
- working with providers to enable equity release of both smaller amounts and larger portions of the equity available;
- providing support to bodies and organisations to develop approaches to change perceptions on the value of equity release;
- following the Dilnot report, clarifying its position on the funding of long-term care for the elderly;
- providing better integration between financial products and the benefits system, for example by avoiding reducing entitlements to pension credit; and
- considering direct market stimulation in order to redress a lack of take up – this could be a time-limited interim measure, to begin to drive up the competition of product offers, including making interest rates more affordable.

Conclusions

I am grateful to SHIP (Safe Home Income Plans) and the Smith Institute for making this publication possible. The contributions are thought-provoking and provide steps for moving the debate forward.

The challenge is fundamentally one of changing attitudes and perceptions – and for government to take a lead. The levers for paying and living in retirement are dispersed throughout government. A single government department or minister should take ownership of the issue – possibly the Treasury, but there is a powerful case for the Cabinet Office to co-ordinate this cross-departmental work. The remit should be to examine the economic issues facing older people, and to co-ordinate the policy and approaches for an appropriate government response. Andrew Dilnot, in his impressive report on funding care and support, reported to the Department of Health – a department that only has a remit in England. This issue requires a whole-UK approach and response.

But attitudinal change needs more than government action alone. There is an urgent need to provoke debate. This book provides one of the needed incentives. But the time has come for action and debate. Debates in both houses of parliament might well be a starting point. Perhaps a simple but nonetheless controversial slogan might be "Using equity is better than paying inheritance tax".

People need to know where to get advice, and importantly who can be trusted to give help. I suspect many are currently paralysed by fear of the issue, and in the end – without help – will do nothing. Politicians, providers, advisers and groups representing older age groups must step up to the plate.

Chapter 1

The state of the equity release market

Andrea Rozario, Director General of SHIP (Safe Home Income Plans)

The state of the equity release market

Over the past 20 years, since the creation of SHIP (Safe Home Income Plans), the equity release market has undergone major change.

SHIP was set up in 1991 in response to an increasing need for consumer protection. Equity release products had for some time provided consumers with effective ways of releasing equity from their homes and supplementing their incomes in older age. However, in the late 1980s products began to appear which were unsafe. These products, such as investment bond plans and roll-up plans with variable interest rates, left many elderly people in financial difficulties. They were banned in 1990, but not before seriously damaging the image of equity release as a whole.

SHIP was set up in the aftermath of these developments to protect equity release consumers through a code of conduct for SHIP members and to increase education, awareness and understanding of the safeguards in place and how equity release works.

SHIP's code of conduct meant that consumers could be sure when they released equity from their homes, if they used a product from a SHIP member, that they would be able to live in their homes for the rest of their lives or until they moved into long-term care, and that they would never be left owing more than the value of their home.

In the 20 years since SHIP's inception, the equity release market has changed dramatically. Not only has the market grown significantly – with an increase from 570 people releasing £28.9 million from their homes in 1992 after SHIP's first year, to a peak of 29,293 people releasing £1.2 billion from their homes in 2007 – equity release has become an increasingly mainstream option for older people, giving ever more individuals access to the funds they need to support themselves and their loved ones, make home improvements or simply to make their retirement more comfortable.

Increasingly, we are seeing the power that equity release has to improve people's lives (see panel).

Over the past 20 years the equity release market has changed for the better. Thanks to SHIP's code of conduct, and more recently regulation by the Financial Services Authority, consumers have more assurances and can have confidence in the products

Three case studies of life improvement from equity release

Living life to the full

After a busy life running his own company and following the death of his wife, Tom* realised that he needed to do something to keep him mentally and physically active in retirement. While others might simply have joined a social club, Tom chose wing walking, and over the last 10 years he has raised £1.25 million for charity and snagged several Guinness world records. However, he funds his aerobatic stunts himself; when this became more financially difficult, he chose to take out a LV= flexible lifetime mortgage to allow him to continue doing what he loves.

Funding a retirement: property shortfall

Martin* had been living on his own in a bungalow he inherited from his mother, but as he grew older he found that it was harder to maintain and he had to take on part-time work to make ends meet. He decided that he wanted to move into sheltered accommodation by the coast to return to the many friends he had made during his career as a camp performer. Having spoken to an adviser, he chose to use part-exchange and a lifetime mortgage from LV= to purchase an apartment. His lifetime mortgage was completed in just 11 working days, allowing him to take advantage of a developer discount and move even sooner than he hoped.

Repaying debt

After the death of her husband, Patricia* bought her house using an interest-only mortgage which was not due to finish until she turned 90. In her late 70s, she became concerned because the interest was increasing. Patricia contacted specialist equity release adviser Cavendish, which recommended a Bridgewater home reversion plan. Following her discussion with her five children, she took out the plan, which allowed her to repay not only her mortgage but also credit cards and a bank loan.

* Names may have been changed to maintain anonymity

they use. Providers are working more closely with advisers to ensure that they are offering the products people need. And people have access to more information about the options available.

Alongside better working relationships with the regulator, the industry has also seen more sustained and positive engagement from politicians, civil servants and the third sector. There has also been a substantial increase in the number of journalists recognising the role equity release has to play and its benefits, which has led to more

informed and balanced reporting; all of which is crucial to strengthening consumer awareness, confidence and trust.

However, there is much more change to come. The UK population is getting older: by 2034, some 23% of the population, or 16 million people, will be aged over 65. This older generation are increasingly relying on low incomes to fund their retirements. If trends continue, 93% of pensioners, or 15 million people, will depend on state benefits to support their retirement.

This growing older population and the strained economic climate mean that government is decreasingly able to pay for older people's retirement and care. With consistently low interest rates meaning that people's savings and pensions do not stretch as far as they once might have, older people are looking for new solutions to their financial challenges, and for financial products designed specifically for the needs of those in later life. Equity release is one such product, which caters specifically for the older generation. However, the overall trend shows that equity release consumers are getting younger, falling to an average age of 72, according to latest figures.

Property is the biggest asset held by people aged over 65. Before the current downturn, the UK enjoyed a sustained period of significantly high house-price inflation. The proportion of owner-occupiers rose from around one in four in 1950 to two-thirds by the mid 1980s. Thus the older generation has on the whole benefited from unprecedented growth in unmortgaged asset ownership, which has held water despite recent dips in housing value. Analysis from the Pensions Policy Institute estimates that £250 billion of equity could be released into the UK economy immediately, with currently around £900 billion tied up in home equity in the UK as a whole.

Housing wealth is a significant opportunity for the baby boomer generation, unlike younger generations who are struggling to pay off student debts and get a foot on the housing ladder. This generational phenomenon has been accompanied by a change in attitudes towards retirement and housing assets among baby boomers, who are increasingly open to using the assets in their homes to improve standards of living.

Downsizing is often put forward as the solution for people wanting to bolster insufficient retirement saving with housing wealth. However, this is not always the best financial option if all costs and fees associated with moving are taken into account. Moreover, the current state of the housing market around the UK is making it more difficult for people to find appropriate properties at the right prices within the same geographical area, in order to make such a move. Moreover, while downsizing and equity release are

often viewed as mutually exclusive, they can work very well in conjunction, especially given the range and flexibility of available equity release products.

Harnessing the potential of housing wealth is showing strongly on the government's radar. As the UK struggles through difficult economic times and the ageing demographic means that supporting older people in their retirement is increasingly difficult, more attention is being paid to how government can work with industry to ensure that people have access to the resources they need.

Currently, the typical equity release customer releases £48,952 from their home. These funds are used for a whole range of reasons, stretching from home or garden improvements, debt repayment and holidays, to treating or helping family and friends, or clearing outstanding mortgages.

However, it is envisaged that in the future there will be more scope for people using their released equity to fund social care and support. The most recent estimate of the funding gap for social care is approximately £6 billion, and it is clear that private finance solutions will need to be found to help plug that shortfall.

In light of buoyant levels of housing wealth in the older generations, equity release has an increasingly important part to play in helping people to support themselves in their retirement and to fund their social care. Indeed, Andrew Dilnot in his independent review of the funding of care and support recognised that housing wealth has a part to play in the funding of people's social care and that equity release can help people to access that wealth.

It is through innovation that the equity release industry will be able to play its part in meeting these challenges. This is part of the next step for the equity release market.

Already we are seeing new types of products enter the market to support people who want to use their equity to fund care and support. New drawdown plans allow people to access small amounts of equity at first while giving them the option to expand that in the future as their needs require. This is very helpful for people who have low-level care needs but recognise that those needs may increase in the future.

These flexible drawdown plans are now the most popular type of equity release products as they give people the peace of mind of knowing that, should they need to increase their care and support or want to make a change to the way they live, there will be funding available. It also saves them from having to access their full equity

early on. In terms of what this means for the market, this shows that not only is there huge potential for new equity release customers, but also there is also a large amount of equity to be drawn down by existing customers.

While drawdown plans are certainly the most popular equity release product on the market, there are also a range of other innovations being introduced which have the potential to provide solutions for a broader spectrum of individuals by responding to their particular needs and circumstances: for instance, products that take into account reduced life expectancy, such as impaired health plans. These options allow the customer to release greater sums of money as their needs dictate while still allowing interest to be rolled up.

Another innovative product which responds to changing customer need is one that allows monthly repayments to be made, thereby reducing the effects of compound interest, but maintaining the option to convert to rolled-up interest in the future if the monthly payments are no longer affordable.

Home reversions plans allow customers to sell all or a portion of their property with the right to live there rent-free until they either die or move into long-term care, while offering the potential for a percentage of the property to be left as an inheritance or for future use.

It is through such products, by meeting the changing needs of an ageing population, that the equity release market will develop in the future.

To do this, the equity release sector has to work more closely with government – and government has to be willing to work more closely with the industry. Where there are gaps in public policy or public funding, equity release has to be ready to innovate and provide the solution that people require. Government has to recognise where policy stops financial services from doing this and has to work with providers to find a way around that.

But as well as working more closely with government, the equity release sector has to work more co-operatively as a whole. SHIP's members are currently limited to providers of equity release, but this is set to change. In the coming year SHIP will be expanding its membership to include all sections of the equity release sector, including financial advisers, lawyers and distributors. Through this expanded membership, SHIP aims to bring the industry together so that greater co-operation can lead to more innovation, providing better information and support for consumers.

Chapter 2

Asset-rich, income-poor

Rachel Terry, Independent Consultant and Co-author of the Joseph Rowntree Foundation's *Assessment of Equity Release Pilot Schemes*

Asset-rich, income-poor

This essay looks at the usefulness of equity release for older home owners who are asset-rich but income-poor. There are about a million older home owners in England whose incomes are so low that they are eligible for pension credit (whether or not they actually claim it), yet they have equity in their home in excess of £100,000.¹

In 2011/12, the pension credit standard minimum guarantee was £209.70 a week for couples and £137.35 for single people. These amounts are similar to the "minimum income standard" in the UK for such people.² They leave no margin for buying additional help at home, or meeting larger one-off costs such as the replacement of household equipment, or the carrying out of works on the home.

But older home owners on low incomes could buy such things readily, if they could draw relatively modest amounts from the considerable value tied up in their homes. Such purchases could make a great difference to their quality of life, and their ability to remain in their own home.

For many years, it has been possible for older home owners to draw on the value in their home, using commercial equity release. With such products, no payments need be made until after the home owner has died, or moved permanently into residential care. But the minimum initial drawdown was at least £10,000. This can be very expensive if some of it is not spent for several years, since the rate of interest charged on an equity release drawing is much more than could be earned on the unspent balance.

Ways of raising money

For an older home owner on a low income, there are several possible ways to raise money to pay for additional help at home, household equipment and/or works which would make it easier to continue living in their own home. Some people will have adequate savings. For others, family or friends may come to the rescue.

Claiming missing benefits is likely to be very relevant among older home owners. Analysis³ by the Department for Work & Pensions indicates that home owners are much more likely than tenants to fail to take up their entitlement to pension

1 Sodha, S *Housing-rich, Income-poor: The Potential of Housing Wealth in Old Age* (Institute for Public Policy Research, October 2005)

2 Hirsch, D A *Minimum Income Standard for the UK in 2011* (Joseph Rowntree Foundation, July 2011) (www.jrf.org.uk/sites/files/jrf/minimum-income-standard-2011-full.pdf)

3 DWP Information Directorate *Income Related Benefits: Estimates of Take-up in 2008-09* (Department for Work & Pensions, 2010), para 3.4.14

credit. Its estimates indicate that only about 50%–60% of the home owners entitled to pension credit claim it. Local authorities and Citizens' Advice bureaux can check benefit entitlements, and help people claim those benefits they are missing.

Older home owners who decide to investigate their options through a regulated financial adviser will have their entitlement to benefits checked,⁴ to ensure that they are claiming all those to which they are entitled. Financial advice firm Just Retirement Solutions found that, among the customers it advised in 2010, nearly one in five (18%) were eligible to claim state benefits where nothing had previously been claimed, and a further 26% were identified as not claiming enough.⁵

Some older home owners may have scope for trading down to a less valuable home – selling a larger home, or one in an expensive area, to move to a smaller home, or one in a less expensive area.⁶ Indeed, *Which?* has recommended this approach as far preferable to equity release.⁷

But for home owners in lower-value properties, the scope for trading down is minimal. In the present situation of falling house prices and lack of mortgage finance, differentials in house prices are reducing and selling a property is often extremely difficult. If the home owner in a lower-value property outside the South East of England wishes to stay within the same area, the narrow differences between the prices of homes of differing sizes would enable them to release little, if any, equity, especially after meeting the substantial costs of moving home.⁸

Such financial considerations may reinforce a strong preference among many to remain in their present home rather than move, and anxiety about the practical and emotional issues that a move might entail.⁹ Such preferences and anxieties mean that equity release may be an appropriate and realistic solution for some. Yet equity release is little used.

4 Such a check is a requirement of the Financial Services Authority, if the sale of an equity release product is under consideration.

5 Just Retirement Solutions "Unclaimed Benefits to Beat the Budget", press release, April 2011

6 Maxwell, D and Sodha, S *Housing Wealth: First Timers to Old Timers* (Institute for Public Policy Research, May 2006)

7 "Unlocking Equity in Your Home" in *Which?*, January 2006

8 Croucher, K, Holmans, A and Wilcox, S *An Examination of the Housing Needs and Supply for an Ageing Society* (Royal Institution of Chartered Surveyors, April 2009) (www.rics.org/site/download_feed.aspx?fileID=4559&fileExtension=PDF)

9 Hill, K, Sutton, L and Cox, L *Managing Resources in Later Life: Older People's Experience of Change and Continuity* (Joseph Rowntree Foundation, February 2009) (<http://www.jrf.org.uk/sites/files/jrf/older-people-resourcesFULL.pdf>)

Why is equity release so little used?

The limited use of equity release cannot be attributed to unawareness of its existence. A study for the Department for Work & Pensions¹⁰ in 2006 found that more than 90% of those aged over 55 knew that equity release products were available.¹¹ A Joseph Rowntree Foundation report¹² recorded a high level of public awareness (78%) of the possibility of concluding an equity release deal. It also indicated that many people would not rule out such a deal, in principle. The report showed there may be growing acceptance that it is reasonable for older people to use the value of their home to enable them to live more comfortably, since two-thirds thought that older people should not forgo comforts in order to leave more for inheritance.

But equity release is often dismissed out of hand. Research for JRF¹³ explains this by suggesting that equity release products and providers are still not trusted by many people and are not seen as good value for money. The industry itself recognises that there is "poor public understanding".¹⁴

Those concerned about their financial options may be unsure how to find a trustworthy intermediary who could help them understand all their options, including the cost and risks of equity release. Those concerned with the finances of older people have improved the availability of such help: independent regulated financial advice is now accessible through Age UK Enterprises¹⁵ and FirstStop Advice;¹⁶ and the Society of Later Life Advisers aims to help people find trusted, accredited financial advisers who understand financial needs in later life.¹⁷

Options available to older people

The first step for the financial adviser is to understand the person's financial circumstances and to check that they are claiming all the welfare benefits to which they

10 Clery, E, McKay, S, Phillips, M and Robinson, C *Attitudes to Pensions: the 2006 Survey*, DWP research report no 434 (Department for Work & Pensions, 2007) (<http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep434.pdf>)

11 A survey in 2005 by YouGov for Scottish Widows Bank, reported in the bank's paper, *A 2005 Guide to the Equity Release Market*, found that 97% of those aged between 55 and 75 were aware that equity release was available.

12 Rowlingson, K and McKay, S *Attitudes to Inheritance in Britain* (Policy Press for Joseph Rowntree Foundation, July 2005) (www.jrf.org.uk/publications/attitudes-inheritance-britain)

13 Terry, R and Gibson, R *Obstacles to Equity Release* (Joseph Rowntree Foundation, October 2006); downloadable at www.jrf.org.uk/publications/overcoming-obstacles-equity-release

14 SHIP *Facing the Future* (July 2009) (www.ship-ltd.org/uploads/shipdocfinal3.pdf)

15 Further information available at: www.ageuk.org.uk/products/products/financial-products--services/equity-release/

16 Further information available at: www.firststopcareadvice.org.uk/about-us.aspx

17 Further information available at: www.societyoflaterlifeadvisers.co.uk/index.php?option=com_content&view=article&id=47&Itemid=125

are entitled. To help advisers fulfil this requirement, the Council of Mortgage Lenders worked with Ferret Information Systems to provide a software solution (FINTAL) for the industry. FINTAL calculates the effects of taking an equity release loan on the individual's benefit entitlement. However, advising people who do not currently receive means-tested benefits, but might become entitled to them in the future, is particularly difficult.

If the home owner wants a lump sum of at least £10,000, they are likely to have a choice of possible equity release providers. But if they want less, their choice will be very limited. Moreover, the very full consumer protection now required by the Financial Services Authority before an equity release product is sold cannot be provided cheaply. So, for smaller sums, the fees of advisers, valuers and solicitors are very significant relative to the amount borrowed, and are likely to lead the home owner to rule out equity release. It is for such potential borrowers that JRF has supported pilot schemes, described later, to seek a more realistic way for small loans to be arranged.

Many low-income home owners need to invest in their home to make it damp-free, warm and energy-efficient. Individual guidance and support throughout the process is often needed to increase confidence in achieving a successful outcome. This is in addition to the requirement for financial advice. In the past, local authorities provided grants and would supervise the works. However, grants for repairs and improvements have been greatly curtailed since 2003.

In response, many local authorities have joined the Houseproud scheme¹⁸ run by the Home Improvement Trust,¹⁹ which involves councils subsidising the costs to customers of home improvement agencies. The agency specifies the work needed, gets tenders from reputable builders, and project manages the complete job. Funding for the works is arranged by the trust. In arranging mortgage loans for older people, the Home Improvement Trust has found a preference for loans on an interest-only basis.

The Home Improvement Trust's experience is important. Where people can afford it, they prefer an interest-only loan to one with rolled-up interest. This is clearly better value for money, if the interest payment can be afforded each month. A gap in the market for older home owners would appear to be for the provision of an interest-only loan product targeted at older people that can be spent on anything; loans arranged by the Home Improvement Trust are confined to works to the home.

¹⁸ Details available at: www.houseproud.org.uk

¹⁹ A specialist not-for-profit organisation operating nationally, which arranges loans and equity release products specifically to finance repairs and improvements

Meeting the need for limited help early on

There have been similar cut-backs in local authority finance to help pay for care at home. The JRF's Older People's Inquiry into "That Bit of Help",²⁰ reporting in 2006, found that:

... three decades ago it was much easier for older people to find a home help than it is today. Although the number of hours of help provided in people's homes has doubled, the number of people helped has declined from 550,000 to 350,000. If you go back to the early 1980s, the number of people helped by a typical local council has more than halved – from 6,500 to 2,500 clients. What began as a low-level support service has become a high-dependency service to keep people out of residential care.

An important conclusion of this inquiry was that, with a little bit more help early on, the need for high-dependency help later can be reduced or delayed. Older people wish to be supported to stay at home, but are often unable to obtain the type of help they want with such tasks as gardening, pet care, shopping and window washing, which could make such a difference to the quality of their lives. If these older home owners could draw on some of the equity in their homes, they could afford the relatively modest extra cost of this additional help, making it possible for them to remain for longer in their own home. They may need only an extra £20 to £30 a week, but cannot afford this out of their very limited income from pension credit.

However, the JRF found that there was no suitable product available to help with the cost of low-level support at home where the costs are not met by the local authority, or for domiciliary care. It was thought that an equity release loan, paid in monthly instalments, should be suitable for either situation. Unfortunately, such prearranged drawdown deals would involve a loss of benefits, so Richard Gibson and I were commissioned to investigate obstacles to equity release for low-income home owners, with a focus on loans to pay for "that little bit of help" (as older people involved in the JRF inquiry described such support), and ways of avoiding the obstacles identified.

The report for JRF, *Obstacles to Equity Release*,²¹ showed that older home owners on low incomes faced four major deterrents to drawing on the value in their home:

- reluctance to reduce the amount they can leave to their family – there was

20 Raynes, N, Clark, H and Beecham, J *The Report of the Older People's Inquiry into 'That Bit of Help'* (Joseph Rowntree Foundation, July 2006) (www.jrf.org.uk/publications/report-older-peoples-inquiry-bit-help)

21 Terry, R and Gibson, R *Obstacles to Equity Release* (Joseph Rowntree Foundation, October 2006) (www.jrf.org.uk/publications/overcoming-obstacles-equity-release)

evidence that concern about inheritance is greatest amongst the "oldest-old", with the "younger-old" showing noticeably less concern;²²

- anxiety that drawing on their housing equity is risky, not good value for money, and complicated;
- that the minimum size of deal was likely to mean borrowing considerably more than they needed; and
- concern that it may reduce their entitlement to means-tested benefits, thus making it not worthwhile.

With help from the Department for Work & Pensions, it was established that an equity release product could be designed that would be safe for those on benefit. With a new product, a smaller minimum initial drawing could be investigated. Other obstacles, such as lack of trust in the products and high set-up costs, were more difficult to resolve. It was found that improved consumer protection introduced over the last few years was not widely known about.

The sale of equity release products is now governed by detailed requirements of the Financial Services Authority. These are significantly more extensive than those applied by the authority to the sale of mortgage loans for house purchase. Additional consumer protection is provided by the code of conduct required of equity release firms that are members of SHIP (Safe Home Income Plans)²³ (which account for about 90% of the equity release market).

In April 2008, the JRF set up an Equity Release Task Group to achieve progress on the areas of concern. Three aspects to be tackled were identified:

- providing people with reliable individual advice on options;
- having a safe way for people on benefits to draw small amounts from the value of their home; and
- giving people confidence to investigate such options.

The aim was for an individual older home owner to be able to find a sound solution to their financial needs. This would be one or more measures that together appear to meet the financial need of the enquirer. Significantly, such a solution would not necessarily involve equity release.

22 Rowlingson, K and McKay, S *Attitudes to Inheritance in Britain* (Policy Press for Joseph Rowntree Foundation, July 2005) (www.jrf.org.uk/publications/attitudes-inheritance-britain)

23 SHIP (Safe Home Income Plans) is the trade body for the equity release industry (details at www.ship-ltd.org; code of conduct at www.ship-ltd.org/shipguarantee.aspx)

These issues were developed through discussions in groups brought together by JRF, drawn from local government, voluntary bodies involved with older people, and SHIP. The equity release firm, Just Retirement, agreed to develop a pilot product meeting the specification that arose from the discussions led by the JRF. This was the Home Cash Plan, a brand-new equity release product safe from loss of benefits and with a minimum initial drawing of £5,000.

Pilot schemes

“Signposting” the Home Cash Plan to older home owners was piloted by three local authorities over 18 months, and involved the provision of training to around 250 local authority staff and others from partner organisations who were in contact with older people in the locality. A regulated financial adviser, Just Retirement Solutions, agreed to provide objective financial advice at a lower cost than usual to enquirers involved in the pilots.

In January 2012, JRF published its assessment of these pilot equity release schemes.²⁴ This reported that the main legacy of the pilot schemes is the availability throughout the UK of the new product (Home Cash Plan) that had been devised specifically for the pilots. Points learnt from the pilots are as follows:

- It is difficult to bring equity release to the attention of older home owners on low incomes in a way that encourages them to consider it, even though it may be a useful option for them.
- The perception of equity release as risky and of poor value appears still widely held, and the extensive consumer protection now provided seems little known.
- People in some kinds of property, such as former local authority flats, and leasehold properties with less than 70 years remaining on the lease, face difficulty in securing a deal.
- Some front-line staff in local authorities were reluctant to suggest consideration of equity release – despite feeling more positive about equity release as a possible option for some older people following training sessions on equity release. Reluctance may also reflect uncertainties about the appropriate role of local authority staff in relation to financial matters. (As noted above, the expected and appropriate role was of *signposting* and not *advising* or *promoting*.)

²⁴ Terry, R and Gibson, R *Assessment of Equity Release Pilot Schemes* (Policy Press for Joseph Rowntree Foundation, January 2012) (www.jrf.org.uk/sites/files/jrf/equity-release-schemes-full.pdf)

Conclusions

The current focus of government on finding a sustained basis for helping to support care and independence will necessarily include consideration of drawing on the value in an older person's home. Our assessment suggests that the main task continues to be that of achieving relevant, independent and trusted financial advice for older home owners – including those on low incomes. Alongside this, it remains vital to alter perceptions of drawing on the value of one's home.

How can older people be encouraged to consider seeking information and advice? One way is for local authorities and voluntary bodies to urge any older person with financial difficulties or hardship to go and talk to agencies such as Age UK Enterprises²⁵ or FirstStop Advice.²⁶ These agencies can provide holistic information and advice, including signposting to equity release where that might be an option.

Age UK's Equity Release Advice Service and FirstStop Advice are offering access to regulated financial advice from Just Retirement Solutions. Both these services provide expert, personal financial advice, and if equity release is right for the customer then they will recommend the most suitable product for their circumstances from a range of major providers, including Just Retirement's Home Cash Plan. If they feel it is not right for the customer, then they will tell them and the reasons why. Over 2,500 people have telephoned the Age UK Equity Release Advice Service since its launch 15 months ago.

Another way is to generate and share – locally – case studies with a local connection. The local authorities in the pilots all judged that such local illustrations would have made their publicity more influential (there were no local case studies to share). Age UK Enterprises will soon start to provide examples of where equity release has helped older home owners on low incomes. With publicity given to such case studies, and with the potential implementation of the Dilnot Commission's recommendations on care funding, we may begin to see changing attitudes among older home owners to drawing on the value of one's home to improve one's quality of life.

²⁵ Further information available at: www.ageuk.org.uk/products/products/financial-products--services/equity-release/

²⁶ Further information available at: www.firststopcareadvice.org.uk/downloads/resources/3097.pdf

Chapter 3

Social care reform – what's in store?

Paul Hackett, Director of the Smith Institute

Social care reform – what's in store?

The adult social care system is in crisis and no one seriously believes that we can carry on as we are. The consensus among social care and healthcare professionals, experts, politicians, user groups and campaigners is that after 40 years of patch-and-mend something more radical must be done. The current system is fragmented, inefficient, unfair and underfunded. Or as Andrew Dilnot, chair of the recent commission on funding care, so bluntly put it, "completely broken", and so much so that "people can't protect themselves against the risk of very high care costs and risk losing all their assets, including their house".

Given current demographic trends, the health and social care system in England will clearly not be able to support the growing number of people who will need help. This is a disaster waiting to happen, but hopes of major long-term reform hang in the balance. The cross-party consensus at local and national level on the need for urgent and bold reform is fragile, and there are major obstacles to overcome, including differences of view within and between the main political parties over the way in which any new system is funded.

Politics of social care

New Labour's forlorn effort in 2010 to forge a political consensus on a national care service and a compulsory levy ended in acrimony over pre-election claims of Gordon Brown's £20,000 "death tax". The Conservatives at the time were adamant that people should not be forced to pay and backed the idea of a voluntary insurance scheme. After the election, the Coalition pledged to establish a commission on long-term care which would consider both a voluntary insurance scheme and a partnership scheme as proposed by Derek Wanless. The new government also promised to break down barriers between health and social care funding; to incentivise preventative action; to extend the roll-out of personal budgets; and to use direct payments to carers and community-based providers.

While Labour has opposed the Health & Social Care Bill and accused the government of starving councils of the funds for adult social care (claiming that, of the 2 million people with care needs, 800,000 were not receiving any support), it has recently offered to participate in cross-party talks on the future funding of social care. Andy Burnham, Labour's health shadow and former health secretary, stated that "the issue transcends party politics". However, the political warfare over the government's NHS reforms and the squeeze on council spending will make negotiations difficult.

The government has committed to publishing a progress report on funding reforms and a social care white paper this spring, with legislation to follow in the 2012/13 session. Paul Burstow, care services minister, recently claimed no final decisions had been made and that the government was still in listening mode but was determined to change a system "under stress and too focused on crisis management". The prime minister meanwhile has stated that long-term reform can be implemented only by raising taxes or cutting spending.

Time is running out for the Department of Health to put forward its proposals to ministers, and for them to secure a robust cross-party agreement. Ultimately, though, the decision to opt for major or minor reform will be political. The government is still struggling to win over public opinion on its NHS reforms, and ministers know that any serious move towards creating joined-up services will lead to further reorganisation. There will also be tensions as cuts in adult social care funding push more elderly people into hospitals for acute care at a time when the NHS is trying to shift towards a much more preventative system. There are also growing concerns in the local government world about the present level of domiciliary care, which is heavily rationed and vulnerable to cutback.

An ageing society

While ministers may harbour different views on how to reform and fund adult social care, there is a broad agreement on the scale of the challenge. The number of people aged over 65 is predicted to rise from 10.5 million to 16.9 million by 2035. By then the social care system will have to provide for nearly 2 million more elderly people. A growing number of those people will be over 85, and despite advances in medical science many will suffer from long-term chronic conditions such as dementia. This will inevitably demand more from the NHS, which is already struggling to cope (those over 65 now account for 70% of bed days in hospitals).

The government hopes that family members, who provide the majority of care, will play a bigger role. However, family kinship trends (such as rising mobility and increasing family dissolution) suggest otherwise. The voluntary sector can also play a greater part, but on all measures resources will fall ever further behind need. The question then of who pays, and where the funding settlement between state and citizen should begin and end, becomes even more complicated as the ratio of working people to pensioners reduces.

Place matters

The ageing population and thus the cost of social care are also likely to become more unevenly spread across England, with poorer, inner-city areas having the lowest

proportion of people aged 65 and over and many of the wealthier, more rural and semi-rural areas containing a much older population. For example, while those aged over 65 are forecast to account for 45% of the population in south Shropshire and west Dorset by 2033, they will account for only 11% in the London boroughs of Islington and Lambeth and 13% in Manchester.

These regional differences will place extra pressures on a social care system that is already being criticised for unfair local variations. Research by Age UK,¹ for example, showed that the amount of care older people can buy in varies by a multiple of seven across the country. According to Age UK's charity director, Michelle Mitchell, "Some of this variation is because councils provide support at different levels of need, which means that people living in different parts of the country are entitled to different levels of support. This results in a postcode lottery, which is widely deemed to be unfair. By the time older people need to buy care services, they are less able to move area to access better services."

What's on offer?

Officials at the Department of Health are not short of evidence and proposals. Following the 2010 election there has been: A Vision for Adult Social Care, in November 2010; the Law Commission's review of adult social care law, in May 2011; the palliative care funding review, in July 2011; the Dilnot Commission on funding of care and support, the same month; the departmental consultation *Caring for our Future* in the autumn of 2011; and most recently the parliamentary health committee report on social care this February. Previous reviews have flagged up the same set of issues. The King's Fund *Wanless social care review* in 2006, for example, found "serious shortcomings" in care provision and called for funding to treble by 2026.

Who pays?

Politically, the white paper will probably be judged by how far it embraces the recommendations of the Dilnot Commission, which received broad support from charities and professional groups. In particular, will the government accept a cap on the lifetime costs of care at £35,000 and an increase in the upper means-tested threshold for state support from £23,250 to £100,000?

These proposals, together with a national eligibility criteria and portable assessments, would cost an extra £1.7 billion-£2 billion. Another £2 billion-£3 billion is probably necessary to close the current funding gap, which leaves the total reform bill at around £4 billion-£5 billion. This is close to a third of the total funding allocated by government

for adult social care spending by English councils and follows the transfer of an extra £2 billion from health to social care by 2014/15.

Justifying that funding (which is in effect a transfer from the taxpayer to the elderly) could be politically difficult, given that many people mistakenly think that social care (in England) is free. It is also complicated by the politics of an ageing electorate, with the powerful "grey vote" in effect lobbying for a redirection of scarce government resources from the young to the old (the 10 million over-65s already account for a fifth of registered voters, and the older voter is twice as likely to vote as the younger voter). However, as Dilnot points out: the costs keep rising and the problem will only get worse if left unaddressed.

According to Dilnot, capping care costs would open up the market for a range of financial products, including equity release. In the Smith Institute report on older people and social care,² the Association of British Insurers argued that "the private sector (through equity release and care and protection insurance) could play a significant role in helping fund the long-term care needs of consumers in the years ahead".

How far the government is willing to stimulate the market for such products is still unclear. As Nick Pearce of the IPPR has commented, Dilnot's reforms give no guarantee that everybody will save or self-insure costs not met by the state, and for those with assets below £100,000 there will be no incentive to do so unless an individual wants better care than state-funded services.

However, the industry should benefit from the Law Commission proposals to strengthen the rights of carers and provide councils with a statutory duty to inform. According to the industry's self-regulatory body, SHIP (Safe Home Income Plans), "It is of paramount importance that all people have access to financial advice as they are approaching or in retirement. The local authority, and potentially care providers, should be obliged to recommend to self-funders that they obtain financial advice from appropriate qualified advisers."

Opinion polls suggest many people think that older home owners, having benefited from massive capital gains in house prices, should use some of the uplift to pay for their care, albeit with the state guaranteeing a maximum cost in order to stimulate market entry. But trust and confidence (rather than demand) are still a major concern, because in the past providers lost money and withdrew from the market.

2 Churchill, N (ed) *Advancing Opportunity: Older People and Social Care* (Smith Institute, 2008)

The devil of course will be in the detail, and capping care costs could exacerbate local variations in access and charges and disadvantage people who live in places where property prices are low. It is also more than likely that "unpaid care" will be excluded. However, MPs are concerned that the technical details of funding may dominate the debate. The parliamentary health committee's latest report on social care stated that "although the Committee support the implementation of the main recommendations of Dilnot, it believes the narrow terms of reference given to the Committee meant that the more fundamental issues about the need for a more integrated care model were only addressed in passing by Dilnot".

Integration – the holy grail?

Indeed, for many in the health and social care sector, the final judgment on the white paper will be about how far it delivers a fit-for-purpose and cost-efficient integrated service. This drive for a joined-up NHS and social care system to replace multiple commissioning and multiple funding streams has become the holy grail among social care and healthcare policy makers. It not only encompasses the case for a single gateway for users and a single commissioning process (and a single outcomes framework for both health and social care), but also offers the potential of significant efficiency savings.

The prime minister has made integration one of his five "personal NHS guarantees" and supports the idea of duties and patient guarantees to support joined-up health and social care. However, progress on joint working has been slow, and some councils facing financial pressures may be reluctant to co-operate without extra funding. As David Brindle of *The Guardian* has said, "quite apart from fierce tribal rivalries between the NHS and local government, there is the fundamental problem that while healthcare is essentially free at the point of need, social care is means-tested. And the means test is now so punitive that, in much of the country, only a small and shrinking minority of people are eligible."

Nick Goodwin, co-founder of the International Foundation for Integrated Care, says that where integrated care is done well it can significantly improve the quality of care, but "history tells us just how difficult it is to turn the concept of integrated care into an operational reality: most of the schemes that promoted integrated care in the past have perished, and only a few very good examples have stood the test of time". It is also noteworthy that the government's health reforms will abolish the remaining care trust, Torbay, which is a well-regarded integrated commissioner of health and social care.

The jury is still out on whether the NHS reforms will simplify or complicate the process

of integrating health, social care and other services. As the King's Fund observes, there is no evidence that clinical and service integration is any more or any less likely to succeed in England than in countries without a purchaser-provider split, such as Scotland or New Zealand. Despite changes to the Health & Social Care Bill to give the NHS regulator, Monitor, a duty to support the integration of services, there are many who believe that increasing choice and competition in healthcare may impede the development of integrated care. What seems clear is that removing the barriers to integration will require not just strong political leadership and extra resources, but also a commitment from leaders in local government and across the health and social care community.

Conclusion

Opinion among the health and social professions on the future of adult social care is arguably much less divided that it was, and most politicians accept the scale of the challenge and the case for integration. There are also signs of a cross-party consensus emerging on the Dilnot proposals, although there is confusion over where charging begins and ends. Despite divisions over the NHS reforms, the prospects of a new settlement on social care may be within reach.

The health secretary has said he is positive about the case for reform and believes the status quo is not an option, but continues to give mixed messages about how far the government is willing to go in funding the reforms. However, after over a decade of debate on overhauling the social care system, it is abundantly self-evident that there can be no major change without extra resources. Whether the prime minister and Chancellor agree, and whether the Coalition believes that social care is a high enough priority, will be revealed in the long-awaited white paper.

Chapter 4

Paying for pensions

Joanne Segars, Chief Executive of the National Association of Pension Funds

Paying for pensions

One of the biggest issues facing society today is paying for retirement and ensuring that all our citizens can enjoy security and dignity in old age.

The problem is a pressing one.

Over the next 40 years, the proportion of people aged 65 and over is projected to increase from 17% to 24%, while the proportion aged 85 and over is projected to more than triple. That we are all living longer is something to be celebrated. But the impact on paying for pensions – and state pensions in particular – is not to be underestimated. In 2010, there were 3.2 people of working age for each person of state pension age. But by 2051 this is projected to fall to 2.9 (and would be projected to fall to just 2.0 were it not for increases to the state pension age already in train).¹

Among pensioner couples, median income after housing costs in 2009/10 was £367 a week (or around £20,200 a year), up from £259 in 1998/99, and the latest *Pensioners' Incomes Series* publication² reports that since 1998-99, incomes for pensioners have risen three times faster than average earnings.

Today's cohorts of pensioners have higher incomes, for every age group, than their predecessors 10 years before. This is being driven by increases in income from state benefits, and from occupational pensions, personal pensions and earnings.

They are, relatively speaking at least, the "golden generation" of pensioners.

The same cannot be said for the generations that will follow them into retirement.

Over 30% of those aged 35 to 64 still have no private pension wealth – true of every age group (35-44, 45-54 and 55-64). Women are less likely than men to have adequate pensions.³ Twelve million people are either not saving or not saving enough for retirement.

With the continuing withdrawal of employers from pension provision, a significant decline in the numbers saving in pensions (overall employee membership of workplace pension schemes fell from 46% in 1997 to just 34% in 2010⁴) and one of the lowest

1 Office for National Statistics *Pensions Trends* (February 2012), Chapter 2

2 Department for Work & Pensions *Pensioners' Incomes Series 2009-10* (2011)

3 Office for National Statistics *Wealth in Great Britain* (2009)

4 Office for National Statistics *Annual Survey of Hours and Earnings* (2010)

state pensions in the OECD, the target two-thirds replacement rate for people on median earnings set by the Pensions Commission⁵ could be a pipe dream for many.

To avert a future pensions crisis, the government is starting to put in place the building blocks for a new pensions system built on the principles of personal responsibility, using a heavy dose of "nudge", and underpinned by a more generous state pension that should ensure everyone will retire with some pension income.

- From 2012 employees aged 22 or more and earning over £7,475 a year will be automatically enrolled in a workplace pension, with a minimum contribution of 4% of qualifying earnings from the employee and 3% from the employer. A further 1% in tax relief brings the total to 8%. The scheme will be phased in between 2012 and 2018. Employees will have the right to opt out.
- The National Employment Savings Trust has been established to provide a low-cost pension scheme particularly for those employers who do not have access to a suitable pension scheme for auto-enrolment.

These reforms are designed to extend workplace pension provision to between 5 million and 8 million people.

- To underpin workplace reform, and to ensure that it pays to save (and that private pension income is not simply means-tested away in later years) the government is considering radical – and much-needed – reform to the state pension system. This would involve replacing the current multi-tiered state pension with a single-tier state pension set at around £140 a week in today's prices.
- Plans are also being made to ensure that more of people's money works for them, with proposals to ensure people can consolidate small pension pots into bigger pension pots to derive better value for money; that there is greater transparency in pension charges so people can see how much they are being charged and where the money is going; and that the annuity market functions better in the interests of consumers.

These are all good and important reforms, and they have been strongly supported by the NAPF. Yet there are some nagging doubts over whether they will deliver the desired

⁵ Pensions Commission *A New Settlement for the Twenty-First Century* (2005)

outcomes. This is not because the reforms are not the right ones – they are, and there is agreement across the political spectrum on this point – but because of the collision of a range of external factors.

When auto-enrolment first made its way onto the public policy agenda, the country was enjoying full employment, equity markets were booming, real wages were rising and even the most prescient of economists had yet to predict a banking crisis, let alone the longest and deepest economic downturn since the 1920s.

Since 1961, median real incomes have risen each year by 1.6% on average. However, it is estimated that real incomes are now seeing their biggest fall in 30 years,⁶ and they are unlikely to recover for some time to come.⁷ Faced with tighter household budgets, saving in a pension today for spending tomorrow may get relegated in people's priorities in favour of more immediate consumption needs – people may be more prone to take a "here and now" approach to spending. In other words, it is more likely that people will opt out of their pension scheme.

This point seems to be borne out by NAPF research published in September 2011. It showed that 60% of people would remain opted into their employer's pension scheme. Good news, perhaps, but a fall of 25% since the Department for Work & Pensions conducted a similar survey in 2007. Of the 40% who said in the NAPF survey that they would opt out, 30% said they would be likely or very likely to opt out – 30% of these because they cannot afford to save.⁸

It is not just the current economic crisis that is constraining people's willingness and ability to join a pension scheme.

With growing numbers of school leavers now going to university, a large proportion of the population will begin their working life in debt. Following the government's reforms to student loans, debts will be repaid at 9% of income above £21,000 a year.⁹ For some this may represent a reason not to begin saving for retirement until the debt is cleared, possibly well into their thirties and forties. For those earning £30,000–£35,000 a year, a 9% repayment on income above £21,000 is equivalent to a 4% contribution on income above the auto-enrolment threshold. While auto-enrolment from age 22 is intended to

6 Institute for Fiscal Studies *Living Standards during the Recession*, briefing note (2011) (figure refers to median income before housing costs)

7 Ibid

8 National Association of Pension Funds' Workplace Pensions Survey, September 2011

9 Direct Gov

encourage people to “get the pension saving habit” while young, significant amounts of student debt may, in reality, mean higher-than-anticipated opt-out rates among younger people.

Failure to save at younger ages will mean that people will need to save harder when they are older if they are to have an adequate retirement income. On the one hand, this may be a rational decision – disposable incomes are likely to be higher at older ages and once children have flown the nest. But on the other hand, making up for lost time to build up a reasonable pension may prove unaffordable for many (see table).

Table 1: Required contribution rates for a £100,000 pension pot at age 65¹⁰

Age when starting to save	Required contribution rate
25 (40 years' saving)	4%
45 (20 years' saving)	15%
55 (10 years' saving)	38%

Source: NAPF calculations

For many younger people, getting on the housing ladder may be a more pressing and attractive priority for any disposable income. Especially with the era of easy credit for house purchases coming to an end and the need for larger deposits, this too may push retirement saving further down people's list of priorities.

At the other end of the age spectrum, there is increased pressure on individuals to finance their own long-term care needs. This pressure will grow as the population ages. Some people are able to live independently with modest incomes, while others may need expensive care – on average, someone reaching 65 can expect to need care costing £20,000 (median), but one in 10 can expect costs over £100,000, and some individuals could spend hundreds of thousands of pounds.¹¹

Even when individuals do save, minimum contributions into a pension scheme are unlikely to generate a decent income in retirement. Taken together with a reformed state pension, minimum contributions into a pension over a 40-year working life will generate a replacement rate of only around 45%, with around 30% derived from the state pension.

10 Average earnings £21,024; investment growth 3.5% per year; earnings growth 2%; charges 0.5% AMC

11 Commission on Funding of Care and Support *Fairer Care Funding* (2011)

Over the long term – or, more likely, the medium term – it is clear that the 8% statutory minimum contribution will need to rise, whether from employers, employees or both.

It is likely therefore that people will need to look for other sources of income to fund their retirement. Pensions will not be the only source of people's retirement income in future. Housing wealth – and equity release – may be part of that answer.

The Pensions Policy Institute estimates that if current trends of home ownership among older people continue, around 80% of people over state pension age could be owner-occupiers within the next few decades. It suggests that the value of housing wealth owned by people over state pension age could increase by 40.5% from around £900 billion to £1,274 billion in 2030 (in 2009 terms).¹²

The effects of translating this aggregate wealth into retirement income could be significant. The number of pensioner households with medium- or high-value property who could release some or all of the value of that property to support their retirement could increase from 3.9 million households in 2009 to 5.2 million households in 2030. And there could be a 40% increase in the value of housing wealth that pensioners could release to support their retirement, rising from £251 billion of housing wealth in 2009 to £359 billion in 2030 (2009 earnings terms).

So the prospects for property as a boost to retirement income would appear to be substantial.

However, in the shorter term at least, the ability of people to use housing equity to augment or supplement their pension income faces some constraints, not least of which is that levels of housing wealth have also been adversely affected by the downturn.

Research by the Institute of Fiscal Studies¹³ showed that the first half of this decade was characterised by strong growth in housing equity fuelled by house price increases, which dwarfed the very low levels of active saving into liquid assets. Those in possession of the most housing assets to start with gained most – typically those on higher incomes and older households approaching retirement. These are also most likely to be the households with high levels of pension saving and/or access to company pension schemes. Nonetheless, more than one in five households (22%) that own their own home are not saving in a pension.

¹² Pensions Policy Institute *Retirement Income & Assets: Outlook for the Future* (2010)

¹³ Institute of Fiscal Studies *The Wealth and Savings of UK Families on the Eve of the Crisis* (2011)

Recent DWP analysis¹⁴ predicts that the downturn will have caused significant losses in wealth due to falling asset and housing prices. While the losses are greatest among higher-income households, the highest *relative* losses in housing wealth are expected among low- to middle-income groups. Some people are experiencing losses of between 5% and 6%, driven largely by house price changes. This will be more significant for those nearing the end of their working lives. So there may be a further constraint to the extent to which housing wealth can substitute or even augment pension income – and may suggest that those who could benefit most from using housing wealth to supplement their retirement income may have the least access to it.

Yet despite its potential, leveraging housing wealth, including equity release, remains relatively underused.

Perhaps, then, the biggest barrier to using housing wealth to boost retirement income is an attitudinal rather than economic one. Most research concludes that households in the UK remain reluctant in practice to turn their housing wealth into income or to downsize. There may be many reasons for this – the desire to pass property on to the next generation through bequests, ties to the local community, poor perceptions of equity release products, and poor understanding of the products on offer.

Changing attitudes to using housing wealth to fund retirement may be every bit as challenging as getting people to save in a pension in the first place. One thing is for sure: when it comes to resolving the nation's pensions crisis, there is no silver bullet.

Cracking the pensions conundrum means that policy makers must see the problems in context. Part of the longer-term solution is the development of a new economic model that is neither debt-fuelled nor built on the shifting sands of financial engineering, as was the case during the pre-Lehman Brothers boom. Moreover, people will save only if they have adequate resources to meet their current needs and put something by for their old age. Ensuring that all citizens have access to decent incomes from work and that rising productivity is reflected in wage increases are prerequisites for the transformation of the UK's savings culture. The same might be said of student finance and the resourcing of long-term care.

All too often pensions are seen in isolation, disconnected from the broad sweep of social and economic policy. Developing a holistic approach is essential if we are to

¹⁴ Department for Work & Pensions *What Does the Distribution of Wealth Tell Us about Future Retirement Resources?* (2010)

avoid a crisis in the future; the risks are significant and politicians must recognise that unless the situation changes soon then today's thirty-somethings are more likely to retire in poverty than their parents.

Chapter 5

Debt and equity release

Keith Haggart, Director of Retirement Needs at Just Retirement, and
Peter Couch, Executive Director for Retirement Solutions at Grainger

Debt and equity release

The retirement journey

Keith Haggart

Some debts are fun when you are acquiring them, but none are fun when you set about retiring them

Ogden Nash

The word "retirement" means many things to many people; for most it should mean the start of a well-earned break from full-time work and the chance to enjoy life at the end of many years toiling in the workforce. However, increasingly, "retirement" is a word laden with worries for those who are planning for it, those who are nearing it, and those who are already retired. How we fund our retirement living in the UK is a serious consideration and potential problem for many individuals, and this is not an issue that will become any easier to solve as time goes by.

In an ideal world, everyone would have a retirement savings target that would enable them to afford the lifestyle in retirement to which they aspire. Unfortunately, exploring the cost of providing guaranteed income throughout retirement can provide depressing reading. To provide a modest annual income of £10,000, accumulated savings have to be around £200,000 – a figure approximately eight times the current average pension pot at retirement.

Therefore, many retirees are now reaching retirement age without the funds they need to meet their retirement income aspirations – the £200,000 required savings pot is simply unachievable. Even for those who can meet their current cost of living, there may be serious issues to consider in the future that will have an impact on their domestic budgets. Individuals may feel able to afford their general household expenditure, but, over time, what about the impact of inflation, the need to meet one-off large expenditures, and the cost of providing care? How will these be funded? The answer is "not comfortably", and we are likely to see even more retired people driven into debt.

Accumulating debt during retirement is only one part of the "debt problem" for those of retirement age; some retirees have not yet paid off the debt they accumulated during their working lifetime. This adds considerably to the individual's burden, hampering their ability to meet their general expenditure needs. Retirement income is already low, and the number of calls on that income is growing. However, throw substantial sums of debt into the mix and one can see the increasing pressure on retired people.

Consider these figures from the Consumer Credit Counselling Service, which reveal the depth of the problem. Not only are debts much more difficult for older people – the over-55s – to pay off, but these individuals have lower incomes and are much more likely to have larger debts than those in other age groups. Among the Consumer Credit Counselling Service's clients, the average annual income of those aged over 55 was £12,920; the average corresponding debt of those clients was £25,826.

We therefore have an age group who are having to get by on significantly reduced incomes in later life, which means everyday expenses and monthly bills are more difficult to service. At the same time they are having to use whatever little money is left at the end of the month to put towards debt repayments. Research completed by Aviva last year concluded that a staggering one in seven over-55s will never be debt-free, with 23% not being debt-free by the time they get to the age of 75.¹

It is a troubling situation. Carrying debt into retirement is about not just unsecured debt in the form of credit cards and loans, but also sizeable undertakings such as mortgages. Theoretically these commitments should have been timed to be repaid at or before the point of retirement, but are now being serviced by pensioners well into their retirement journey.

You cannot truly look at the "debt in retirement" story without considering the huge impact that mortgage payments are having on the retired. Over the past six years, around 26% of all regulated mortgages (approximately 250,000 each year) have been sold with an expectation that the borrower would continue repayments after the age of 65. One hopes there was a strong consideration of how the individual was going to keep paying the mortgage post-retirement; however, we already know that in the pre-credit crunch days, strenuous testing of affordability in this area was not overly apparent.

Data from the Department for Work & Pensions reveals that a large number of these retired borrowers are struggling with their mortgages, whether they be repayment or interest-only. The data says that 52% of people claiming support for mortgage interest (SMI) benefit are retired. This is becoming a growing problem, so much so that the department has recently proposed that, after a two-year period, the cost of providing SMI should be charged against the individual's property, accruing a commercial rate of interest, and be repaid when the property is sold.

¹ *Real Retirement Report* (March 2011) (<http://www.aviva.co.uk/media-centre/story/9886/aviva-real-retirement-report-reveals-debt-is-a-gro/>)

The mortgage problem is brought into sharper focus if we look at the numbers of retired borrowers who are currently on interest-only arrangements. Recent data produced by the Financial Services Authority² indicates that 16% of all interest-only mortgages reaching the end of their term are held by people over the age of 65. The average balance to be repaid was approximately £113,000. Not surprisingly, 87% of this group had no specified repayment strategy, and one wonders how most are expecting to pay off the capital.

The news is worrying when we consider what may be on the horizon. There is a continued and growing reluctance for traditional, high-street lenders to keep allowing pensioners to roll over debt, because they are no longer able to provide proof of on-going mortgage affordability. The Financial Services Authority forecasts that 150,000 interest-only mortgages will mature each year between now and 2020. Extrapolating the findings of its detailed research into expected maturity generates the vision of a maturing pool of mortgages held by people over 65, without a specific means of repayment, of £2.4 billion per annum.

Unfortunately, this conclusion has been drawn far too late for many individuals who are reaching, or already in, retirement. And we should not forget that these problems are being faced by a group who are supposedly the ones that have benefited the most economically and financially over the past four decades – the baby boomer generation. As can be seen here, the plight of these baby boomers is a stark wake-up call to those currently in work about the need to rethink their approach to making provisions for their retirement income. Many of those approaching retirement have benefited from generous pension provision and a world without tuition fees. At present much of the working population are struggling even to qualify for a mortgage. Repaying it before they retire is becoming a fantasy.

What is pleasing, however, is that these types of issues have now been recognised and new legislation is beginning to address them so that future generations will be better educated and can plan more appropriately for their retirement. For instance, we now have:

- the creation of auto-enrolment – later this year, employers will start to auto-enrol employees without a pension into the National Employment Savings Trust, with minimum contributions starting at 2% and increasing to 8% by 2017; an initiative that will reduce the pensions saving gap for future generations;
- recognition of the need for individuals to save more in order to provide the required income they need throughout the whole of their retirement; and

² Financial Services Authority *Mortgage Market Review* (December 2011)

- an understanding of the importance of financial advice, particularly when it comes to mortgage provision. The Financial Services Authority proposes that from 2013 all customers, other than those transacting business execution-only, must receive advice when taking out a mortgage or extending their mortgage term. The core principle behind the changes to mortgage regulation is that there should be a realistic expectation that the mortgage will be repaid at the end of the term and that the customer can realistically afford to meet the monthly commitments as and when they fall due for payment.

While the formation of the National Employment Savings Trust or NEST and the changes to mortgage regulation will reduce the pensions saving gap and the potential for retirees to have considerable debt at the point of retirement, there still needs to be recognition that, for many individuals, these initiatives will not go far enough. It may be relatively good news for future generations of retirees, but these developments do not help the large numbers of baby boomers reaching retirement today, nor do they alleviate the debt burden of those that have already retired. In addition, it is likely that an increasing number of those currently working will not be able to save the necessary funds in order to fund their retirement, and they will be left in much the same predicament as those above.

This is why it is vitally important we recognise the need to look at alternative solutions to this problem for all those who are struggling with their retirement income and those who are trying to service their retirement debts. There are, of course, options available in order to help relieve the strain, including:

- working for longer and retiring later than planned;
- working part-time to supplement retirement income; or
- unlocking the value of homes, either by downsizing to a cheaper property or opting to use equity release products.

The equity release solution has been available and on the table for some time. With the perfect storm engulfing many retirees – trying to fund a retirement lifestyle and repay debts – now may be the time when it needs to be considered far more actively.

The equity release solution

Peter Couch

As a society we clearly have to confront the fact that a rising number of retirees will be dealing with debt in retirement. Engaging with these individuals to plan their finances, savings and retirement needs far earlier in life may be one way to help decrease their burden when they do finally retire, but this would need a cultural shift both by consumers and, possibly, advisers. As has been noted above, the days of lending into retirement without serious affordability questions being asked are likely to be in the past, and with initiatives like auto-enrolment being introduced one would hope we will start to see a much more pension-savvy public truly engaging with their own requirements in retirement and later life. Although the initiatives already mentioned may help, rising debt levels and the issue of how we fund our retirement are not problems to be solved overnight.

The debate around the solutions to these issues is not just about equity release; there will be many over-55s for whom equity release products are not suitable. However, equity release provides a viable option for property-owning individuals who may reach retirement and require funds for whatever reason: to pay off their debts, increase their retirement income, or to do something else, such as offering money to their children or grandchildren to fund a house deposit.

Advice is absolutely crucial when it comes to utilising equity release correctly and having it there as a potential solution in the first place. For too long, many of those involved in providing any form of retirement planning advice have shied away from equity release, and one might suggest that the relatively low take-up of equity release is in part due to a lack of engagement by some in the financial advice profession.

This lack of engagement has to some extent been caused by media commentators and many non-specialist advisers taking an over-simplistic view of the use of equity release products as an option to clear debt in retirement. This is because the debt is typically viewed in isolation. So the concept of switching from one loan to another (or selling a proportion of the home at a discount to vacant possession value) is seen as poor value for money and indeed potentially putting the customer in a worse-off position financially.

This one-dimensional view fails to recognise the key issue for the consumer, which is lack of income in retirement. By replacing the debt with an equity release solution that requires no repayments, it is possible to significantly increase customers' monthly

disposable income as the original debt no longer needs to be serviced. For many retired borrowers on fixed incomes the cost of their debt can be as high as between 30% and 50% of their monthly income. By effectively swapping debt for housing equity, retired borrowers can make life-changing increases in their net income.

So the ability of advisers to help individuals in the future achieve their retirement ambitions is absolutely and fundamentally tied up with the ability to consider equity release in the provision of advice. Advisers should include equity release as a possible retirement planning product in pre-retirement planning, and this type of planning has to cover all manner of areas, including asset wealth, pension provision, debt levels and the lifestyle of the individual. To ignore what is most likely to be a client's biggest asset, their home, within this advice is fundamentally wrong.

The huge challenge for the industry is to educate customers and their advisers about this potential option. It is vital that financial advisers, retirement planners and wealth managers engage with equity release in order for them not to ignore or overlook this important consideration for their clients. As with virtually any other product, equity release will not be right for everyone – far from it – but it will be right for some. Those advisers who rule out the equity release option without any consideration, for all clients, not only are limiting their client's choices but also may be limiting their retirement future. Advisers should also bear in mind that all mis-selling issues have arisen from the basic omission to put all the options in front of clients in a matter-of-fact way.

Of course, this issue cannot be laid at the door of advisers alone. There is much to be done from a UK societal point of view before we get to a point where equity release is genuinely understood and utilised correctly. It is up to all stakeholders – advisers, providers, government, trade bodies, think tanks, charities, and many more – to push the message that we should have moved from a time where the prevailing attitude is "my house is my family's inheritance" to one where, potentially, "my house is my retirement income".

Certainly, there should be an active consideration of the home and how it can support an individual's retirement living throughout the advice process. Introducing the equity release option to a client cannot happen too early, particularly when looking at retirement provision and the likelihood of dealing with specific income drains such as on-going debt, long-term care provision and lifestyle choices. Helping a client understand that, at current levels, they will not be able to fund such commitments could go a long way towards shaping how they provide for their retirement and how

they might pay for these things when they get to retirement age. If equity release has never been ruled out, then it can be ruled in or out, as appropriate, when that time is reached.

To get to a point where the public are willing to look favourably on an equity release solution, we are likely to see some shifts in equity release products themselves, particularly in terms of how adaptable they are for a growing number of individuals. We have already seen an increased focus on flexibility, over the past few years, with drawdown products much more prevalent. Going forward, providers are going to have to weigh up the flexibility they can offer customers with the growing level of certainty they are likely to want while being active in the sector.

Therefore, the big picture tells us equity release is not just a product solution that can be utilised for one type of client; indeed, clients of all circumstances should be considering equity release. This is also not just an option of last resort for those who have to pay off debt, or those who have to pay long-term fees for care in their own home; instead it should be actively considered as a mainstream retirement funding option – one that advisers have to ensure is part of their overall financial planning toolkit in order to deliver this potentially vital option and solution to their clients.

Chapter 6

Meeting social care needs

Ged Hosty, Managing Director of Equity Release at Partnership

Meeting social care needs

On the face of it, using equity release to meet the cost of social care needs makes a lot of sense. People have an asset in the shape of their home, which can be used to meet the cost of providing care for them in their old age. By using their own resources to pay for their own care costs, they will be empowered to choose which care services they require and from which provider, and they will reduce the pressure on stretched local authority budgets. Indeed, given the vast wealth that is held in pensioners' properties, it is easy to drift away with a notion that these older people will collectively have tremendous buying power, and can demand an improved range and quality of services from an increasingly competitive care sector. More money will be spent in the economy – and this is new money that does not come out of the public purse or through the disposal of other investments – creating jobs and stimulating growth.

However, the reality is some way removed from this vision. At present, equity release is seldom used to fund care costs, and even with the equity release market in the underdeveloped state it is in today, meeting care needs failed to get a mention in the list of "popular uses for equity release" shown in SHIP's 20th-anniversary report based on data from Key Retirement Solutions.

So, why have more older people not taken the initiative and used equity release to provide for their care needs? Why have providers not developed products specifically targeting care needs? Where is the marketplace for the care services driven by the vast demand from this wealthy sector of the population?

There are two related issues. The first is social attitudes: many people believe that the state already funds social care in a similar way to the NHS providing healthcare; and many people also view their property as an asset that must be left intact for the next generation. The second issue is the complexity of the social care system, which treats property assets differently from most other assets. This over-complexity of rules surrounding the payment of care costs often results either in care not being provided at all by the state or in it being paid for by the local authority.

The current situation

Firstly let us consider when equity release will be appropriate and when it will not. The underlying principle in the following situations is that where the local authority will meet a customer's care costs then the customer will not take out a loan on their house to meet those costs – that is just commonsense. Likewise, where an asset limit is in place and the home is disregarded in assessing the customer's assets, then the

customer will deplete their non-housing assets to the limit at which they cease being liable for costs, and then the local authority will be liable for all future costs. So let us consider some specific situations:

Residential care costs

Equity release is unlikely to be suitable for meeting residential care costs. This is for the following reasons:

- Single people will move out of their property when they move into the residential care home. The property will count towards their assets, and they will be liable for the care home fees until their assets have depleted to £23,250. The most likely scenario is that the property will be sold or rented out and the proceeds put towards the cost of care. These customers would not in any event qualify for equity release, because their property is not occupied. They should, however, seek qualified financial advice on what other options may be available to help them fund their care and preserve their assets.
- For couples where one partner moves into residential care and the other remains resident in the home, the value of the home is disregarded when considering liability for the care costs. Subject to meeting the authority's eligibility criteria, these costs will be funded by the state up to that local authority's limit.
- For couples where both partners are in residential care, the situation is the same as for single people.

Domiciliary care costs

On the face of it, equity release is not going to be suitable to meet domiciliary care costs, because the home is disregarded in the asset assessment to determine liability for fees. The situation is that the customer will be liable for their care costs to the extent that their non-housing assets exceed £23,250. It will nearly always be the case that these non-housing assets should be used first, prior to considering equity release. Once the customer's assets have depleted to £23,250 then the local authority will meet the costs.

However, in practice the situation is not quite so straightforward. An individual's care needs are assessed by a local authority and categorised as being low, moderate, substantial or critical. Some 80% of councils now cover care costs only where the need is assessed as substantial or critical. For people with low or moderate needs, the choice will be either to pay for the care themselves or to do without. Where the individual has

insufficient resources to meet the care costs then equity release may well be a good option.

Of the £7.8 billion spent annually on homecare services, private spending accounts for an estimated £1.1 billion. The majority of domiciliary care costs sit with the public sector, with £4 billion spent annually by local authorities and a further £2.6 billion by the NHS. Of the £4 billion spent by local authorities, £500 million is recovered from private individuals via direct payments.¹ Clearly, equity release could enable private individuals to make a greater contribution to the cost and provide them with a greater say in what services are provided; it could also increase the total amount being spent by enabling people to purchase services that go beyond the basic level of care currently being provided, both at lower levels of care need (where previously nothing was being provided), and at higher levels of need.

An example

The government is spending a great deal of energy considering the future care funding model for the UK. It is almost universally accepted that a fundamental change is needed, and many now believe that equity release should have its place. Recent articles have also suggested that the practice of disregarding property assets for domiciliary care costs may be under review.

A fundamental question is one of fairness. Consider what happens in two different situations facing a hypothetical pair of twins who face the need for domiciliary care at the same time. Both are assessed as "critical":

- Twin A has £20,000 of savings and owns his house, valued at £200,000.
- Twin B has £20,000 of savings and a further £200,000 in other qualifying investments.

Twin A has non-housing assets below the £23,250 threshold and so his care needs, which cost, say, £2,000 per month, are paid for by the local authority. Twin B has significant non-housing assets and must meet the care costs himself. Let us suppose that this situation continues for three years, after which time both twins die. All things being equal, Twin A's estate will inherit £72,000 more than Twin B's estate.

In the author's opinion, this is wrong. Twin A has the means to pay for his own care, but does not because his home has been disregarded from the asset test. But note that

¹ Laing, *W Care of Elderly People UK Market Survey 2011/12* (Laing & Buisson, 2012)

ultimately it is not Twin A but Twin A's estate that benefits from this anomaly.

This is a highly contrived case, but it does demonstrate the point. Consider also the situation where someone lives in a £1 million house; is it really right that the local authority might have to pay for their care needs, merely to protect someone's inheritance?

Why is the home excluded from the asset test? One reason must be political: property is the most emotive of assets, and has often been given preferential treatment by governments. The second must be the concern that it is difficult for people to access the value accrued in their property without jeopardising their security of tenure. Obviously SHIP-approved equity release schemes overcome this concern.

What needs to change?

The most important thing that must be changed is people's attitudes. The government, supported by third-sector organisations active in the care arena, is best placed to achieve this. People should start to consider the use of their own resources in providing for their own needs as the right way to do things. If they do, then this wealthy sector really can start using its buying power to demand a better range and quality of services. A marketplace can develop to provide for these needs and give people as much comfort as possible after they reach the point of needing care. The change in attitudes needs to recognise that it is wrong for the local authority to have to pay for someone's care needs when they are capable of paying for themselves, and when the ultimate beneficiary is the individual's estate.

As attitudes begin to change, the government can then modify the rules so that people's properties are treated the same as any other asset – recognising that security of tenure should always be provided. Where people's properties are adequate to provide for their domiciliary care needs, one obvious solution is the deferred payment scheme, whereby local authorities provide services but put a charge on the individual's property to recover the cost when the property is sold. However, this would leave the authority having to pay to provide services now but only able to recover the cash perhaps in several years' time. This is where equity release could play an important part: either equity release providers could work with local authorities to convert their charges into cash; or equity release providers could operate directly with the householders in private arrangements.

The vision of improved services to older people, paid for from their own resources and provided by an increasingly active care marketplace, is an appealing one. It sounds

idealistic, but it is achievable, and the government has a great opportunity with the current review of care provision to bring about the changes that can make it happen.

Chapter 7

Regulation or red tape? The UK equity release market

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Regulation or red tape? The UK equity release market

We argue in this paper that the equity release market in the UK is insufficiently regulated, and that the Financial Services Authority's most recent proposals to improve its regulation are too timid. We contend that more regulation of the market could bring real benefits, for both consumers and providers. All regulation must, however, be balanced and sensitive. The minimum interference necessary is all that is ever required.

We suggest that regulation should have three broad objectives: to protect potential purchasers of equity release products because of their particular vulnerabilities, to ensure that potential purchasers have equal access to the full range of equity release products, and to ensure that potential purchasers receive appropriate professional and financial advice. Vestiges of the stigma that the equity release market acquired in the late 1980s linger on, unreasonably, in our view, for these are products of real social value and should be benefiting a greater number of people. Better regulation will promote greater confidence in equity release products.

The current regulatory regimes

The sale of equity release products is regulated both by the industry – by making membership of the providers' trade body, SHIP (Safe Home Income Plans), conditional on compliance with a strict code of conduct – and by law, by the Financial Services & Markets Act 2000 in conjunction with the FSA. The degree of consumer protection provided by the industry amply exceeds that provided by law, but membership of SHIP is entirely voluntary.

Self-regulation: SHIP

Equity release products acquired an unfavourable reputation following the collapse of UK house prices in 1989. The crash left many purchasers of the products with borrowings well in excess of the value of their property, and there was a widespread sentiment that a product which had promised to make retirement less financially difficult had achieved precisely the opposite. Several leading providers recognised that, if the reputation of the products was to be restored, a proper degree of consumer protection had to be provided. Accordingly, in 1991, they founded SHIP and through it adopted a code of conduct which is binding on its members.

SHIP and its code of conduct have been a considerable success. Although membership of SHIP is not compulsory, all the leading providers are members and the SHIP code governs the majority of product sales in the UK.

The SHIP code contains six minimum safeguards for consumers:

- Consumers are guaranteed the right to live in their homes until they die or move into long-term care.
- Consumers are guaranteed that they will never owe more than the value of their property; no debt will pass to their estate.
- Consumers must be provided with fair, simple and full information about products, including information about the products' limitations, implications and costs.
- Products must be portable without penalty: consumers must have the right to move home and to take the product with them.
- Consumers must be advised by a qualified independent solicitor of their choice.
- Solicitors must provide properly comprehensive advice, satisfy themselves that their advice is properly understood, and certify compliance with these requirements.

External regulation: FSMA and the FSA

There are two principal equity release products: lifetime mortgages and home reversion plans.

Lifetime mortgages have long been treated for regulatory purposes in common with other residential mortgage products, and thus they have been regulated by the FSA since 2004. Home reversion plans, however, were not regulated by the FSA until 2007. Since then, consumers have had the benefit of FSA regulation of both principal products.

Entering into, arranging, advising on and administering lifetime mortgages and home reversion plans are all "regulated activities" for the purposes of the Financial Services & Markets Act 2000, which means that advisers, intermediaries and providers must be either authorised or exempt if they wish to carry out such activities. However, authorisation in respect of one product type does not confer authorisation in respect of the other: to be able to advise, for example, a potential purchaser in relation to both product types, an adviser needs to obtain and maintain separate permissions for lifetime mortgages and home reversion plans.

Undertaking financial promotions relating to these products is prohibited unless the promotion is approved by an authorised person.

A failure to fulfil these requirements constitutes the commission of a criminal offence, which is punishable by up to two years in prison and/or a fine. Defaulters are also likely to face FSA disciplinary action. The FSA has the power to levy unlimited fines.

The FSA sets out its understanding of these requirements, and greatly supplements them, by detailed guidance and rules which are contained in its handbook and in related publications. By virtue of the Financial Services & Markets Act 2000, the rules in the handbook have legal effect.

The first section of the handbook sets out certain "high-level standards", within which are 11 "principles for businesses" that broadly apply to all firms within the FSMA regulatory system, including those that provide equity release products and those that advise in connection with such products. These principles include:

- *integrity* – firms must act with integrity;
- *skill, care and diligence* – firms must act with all due skill, care and diligence;
- *customers' interests* – firms must pay due regard to the interests of their customers and treat them fairly;
- *communications with clients* – due regard must be had to the information needs of customers, and information must be given in a way that is clear, fair and not misleading.

Within the third section of the handbook is the "Mortgages and Home Finance: Conduct of Business Sourcebook" or MCOB. This contains detailed rules that apply to all firms carrying on home finance activities or related financial promotions. Both lifetime mortgages and home reversion plans fall expressly within its scope.

It is not possible to do justice here to the detailed provisions of the MCOB, but it is worth pointing out that there are two sets of provisions within it which are uniquely concerned with equity release products – MCOB 8 and 9. The purpose of MCOB 8 is twofold: firstly, to ensure that customers are adequately informed about the nature of the service they are to receive – in particular, they must be made aware of the scope of transactions available from the firm that is going to provide the service to them; and, secondly, to ensure that customers get suitable advice, appropriate for their needs and appropriate for the product. The purpose of MCOB 9 is to ensure that customers receive

clear information about a product's features and price, accompanied by a suitable illustration as to how the product works in practice.

Issues with the current regulatory regimes

The equity release market is separate from the ordinary mortgage market

We think that equity release products are distinctively different from ordinary mortgage products, both in terms of their technical legal characteristics and because of the particular social circumstances of most purchasers of these products. Accordingly, we think they warrant distinctively different regulatory treatment, in law.

- A home reversion plan bears little resemblance to a mortgage: it is a sale-and-leaseback arrangement, with some or all of the consumer's interest in the relevant property being transferred to the provider, in consideration of the payment of either a single lump sum or an annual sum, or both, and the grant of a lease that entitles the consumer to continue to occupy the property, broadly, for life. This is very different from a mortgage, where a loan is advanced and secured against a property by way of a legal charge.
- The purchaser of an ordinary residential mortgage is at real risk of losing his home if he defaults. The purchaser of a home reversion plan or a lifetime mortgage does not face comparable risks – particularly if the product is compliant with the SHIP code.
- Equity release products involve transactions with a potentially vulnerable consumer community: they concern the consumer's most valuable capital asset, and they are usually sold at a critical point in the consumer's life (usually when the consumer is already retired and approaching old age, when sensible estate planning is essential, and when health issues and mental capacity concerns are increasingly manifest).
- They are usually sold to address particular problems and needs – for example, inadequate income from pensions, private medical and nursing costs, and the funding of retirement homes.
- They give rise to a set of socioeconomic issues that are either absent from or at least much less prevalent in the ordinary mortgage market. For example:
 - o There is frequently a risk that a member of the consumer's family may

subsequently claim that the consumer did not fully understand the implications of the transaction.

- o Many consumers want to consider the implications that the transaction may have not just for themselves but also for their families.
- o Consumers should receive advice on the full range of available solutions to their funding requirements in retirement, but too frequently do not.
- o It can be a difficult value judgment as to whether a product represents fair value and is sufficient to meet the needs of the consumer.

One size does not fit all

In our view the current regulatory regimes are fragmented and lacking cohesion.

The fact that someone offering advice about equity release products need only be authorised in respect of lifetime mortgages and not in respect of home reversion plans, and vice versa, is a significant weakness, for in practice most advisers are not dual authorised, and most consumers receive advice in respect of one product type only.

Duly authorised advisers may legitimately promote themselves as independent, though they tender advice only in relation to one kind of equity release product. Advisers are required to point out this restriction, but we do not think this is good enough. At least some consumers are confused and misled, for they can unintentionally get the impression that, since the FSA has authorised their adviser and since he or she is independent, the restriction must be an unimportant technicality of no real practical consequence.

This state of affairs is not easily reconciled with the FSA's own principles and standards as summarised above – and when judged from the consumer's perspective, it is difficult to see what justification there is for permitting this state of affairs to continue.

The FSA published its *Mortgage Market Review* consultation paper in December 2011, in which it set out various proposed reforms. In relation to the equity release market, it proposed that consumers should no longer be able to buy equity release products without having first received appropriate advice, that the equity release market should be treated henceforth as a single "relevant market" but that advisers should not have to extend their authorisations to cover the whole market, and that, in consequence, advisers should have to disclose more clearly to potential consumers the limited nature of their authorisation. Given the potential vulnerabilities of consumers and the socioeconomic issues identified above, we do not think this goes far enough.

Although in practice only a small number of equity release products are sold each year which are not compliant with the SHIP code, we do not believe that the current FSMA/FSA regulatory regime does enough to guard consumers against the serious risks such products pose. The *Mortgage Market Review* proposals, if implemented, will not make the SHIP code redundant. We question the adequacy of a statutory regulatory regime that, in practice, depends materially on voluntary self-regulation.

The FSA (or its statutory successor) needs to consider whether the current conduct of business regulation is inhibiting the growth of the equity release market by imposing a disproportionate regulatory burden on equity release providers. Before the start of the current financial crisis, the FSA said that it was moving towards what it called "principles-based regulation", which would enable it to pare down the detailed rules in the handbook:

*The balance of the FSA Handbook and our approach to supervision will rely increasingly on principles and outcome-focused rules rather than detailed rules prescribing how outcomes must be achieved.*¹

We think the FSA has yet to achieve this objective: the handbook continues to have a high degree of detail and prescriptive rules to which regulated businesses must adhere, particularly in MCOB.

We also feel that, because many of the regulations that form part of the current FSMA/FSA regulatory regime were developed for the ordinary residential mortgage market, questions concerning their proper interpretation and application in the context of the equity release market too frequently arise. In particular, equity release issues are reviewed and dealt with by FSA personnel whose experience is predominantly in the residential mortgage market as opposed to equity release.

We appreciate that the annual volume of equity release sales is still, objectively, comparatively small, but given the increasing financial pressures on retirees and the significant growth potential of the market, in our view the time has now come for a thorough review of the regulation of the market, focusing properly on its products, its practices, and its consumers' needs.

Conclusion

There is no doubt that the equity release market should be regulated, for all the reasons

¹ Financial Services Authority *Principles Based Regulation* (April 2007)

set out in this paper. The legitimate question that remains is whether the current regimes are appropriate and fulfilling their necessary functions.

In our view, the present regulatory regime needs to be critically reviewed in order to meet the unique requirements of the equity release market and to satisfy the key objective of financial services regulation – to protect the rights and interests of consumers.

The fundamental issue with current regulation is that it is based heavily on rules that were developed to deal with a residential mortgage market which has very different risks and issues from those of the equity release market. The regulators and government therefore need to listen more attentively to the equity release market in order to develop and apply regulation that is fit for purpose.

There are some positive signs in the form of the *Mortgage Market Review* and the desire to implement principles-based regulation, but even the positive signs leave unwelcome gaps for the equity release market and consumers of equity release products.

We would recommend closer collaboration between SHIP and the FSA. We know from experience in other jurisdictions that collaboration between equity release industry bodies, government and regulatory authorities can help to result in regulation which is focused on key risks and issues (in particular, protecting consumer interests) and ensuring that the regulatory burden on the equity release sector is appropriate.

Recent overseas examples include collaborative initiatives between SEQUAL, the industry body for equity release in Australia, and the Australian government in 2011. In Australia, government has elected to build on the codes of practice and standards that have evolved under the stewardship of financial services institutions involved in the provision of equity release products and advice, and a key consideration has been the desire to avoid an unnecessary or disproportionate regulatory burden. We see the SHIP code of conduct as playing a key role in the development of appropriate equity release regulation.

Chapter 8

Good legal advice

Claire Barker, Managing Partner at Equilaw

Good legal advice

Background

For a number of years now, law firms have shied away from equity release, following the so-called "scandal" schemes of the 1980s. There is clearly a reluctance among practices to provide legal advice in this area. The exception to this was during the conveyancing downturn of 2008 where, like financial advisers, solicitors sought to diversify and to redeploy their conveyancing staff into an area that would appear, on the face of it, to be broadly similar to a remortgage process. However, to compare equity release with remortgage would be a disservice to the equity release sector.

Equity release deserves and requires far greater consideration than simple remortgage before solicitors decide to embark on providing legal advice on the products. The reason behind this is relatively straightforward: equity release clients have, if the natural order of life prevails, fewer years to buy themselves out of the wrong product. In addition, strict early-repayment penalties on many products make switching to a new provider unrealistic in many instances.

Consequently, it is important that solicitors are familiar with the foibles of the specific equity release products in the marketplace at any one time and are capable of providing reasonably priced, easy-to-understand legal advice. That established, if it is given due consideration and care, equity release is an extremely rewarding area of work, which raises the question: why aren't more solicitors involved?

The current market

The market is currently dominated by a small number of large IFA distributors, as well as some multi-tied advisers and direct-to-consumer offerings via product providers. There is a distinct lack of reasonably sized financial adviser firms that have taken the plunge into this market, which is relatively tiny compared with the overall mortgage market, accounting for less than £1 billion of annual lending. In 2011 the number of plans sold were valued at just £788.6 million.¹

Certainly, in past years, the mainstream mortgage market has offered richer and easier pickings for most financial advisers, with 2011 lending worth approximately £138 billion.² However, with increasing paucity of lending for house purchases or remortgages, financial advisers have either left the market entirely or have considered

1 Source: Safe Home Income Plans

2 Source: Council of Mortgage Lenders

widening their armoury by advising in new sectors or developing referral relationships with other financial advisers, accountants, solicitors and fellow professionals.

It has become clear that financial advisers are keen to enter the equity release market and will make every effort to pass the required exams in order to advise. The difficulty appears to stem from the question of what happens next; how can they generate leads without the marketing budget of some of the bigger players? Consequently, the market has stagnated, with broadly the same set of advisers dealing with upwards of 50%³ of the available market.

For solicitors, this has a direct effect. Equity release work is generated for the legal profession by financial advisers and, without new entrants, it is difficult to see how the market will grow. Currently, those advisers with a significant presence have created bespoke panels of solicitors whom they can recommend to act for home owners who do not already have a preference or a solicitor of their own. If a law firm is not on such a panel, there is little incentive to enter the market.

Regulatory environment

Solicitor practices are authorised and regulated by the Solicitors Regulation Authority.⁴ Equity release is not, in itself, a recognised area of law for the purposes of regulation; rather, it falls within the remit of residential conveyancing, with consideration to be given to elder client issues, such as mental capacity, duress (or undue influence) and welfare benefits. For professional indemnity insurance purposes, equity release most certainly falls into its own category. Insurers regard equity release as a high-risk area and, accordingly, firms may be reluctant to add it to their list of insured specialities due to the increased cost of the annual premium.

Equilaw is unique in that it is the only law firm in the country that only deals with legal advice within the equity release sector.⁵ Most law firms bolt equity release on to their residential property teams, and this is potentially where the future of claims may lie. If firms do not develop bespoke equity release workflows within their case management systems, there is a high risk that the detail will be missed and clients will suffer as a result. Firms should not take on work that they do not have the skill to deal with, and more effort is required by the regulator to outline the pitfalls of dabbling, as well as in providing support where firms are serious about entering the market.

3 Estimated combined market share of Key Retirement Solutions, Age Partnership, Cavendish Equity Release and Bower Retirement Solutions

4 www.sra.org.uk

5 www.equilaw.uk.com

Consideration should also be given to whether equity release should, in fact, be recognised as a separate and distinct area of law. The Law Society⁶ issued a practice note to solicitors some years ago but there is nothing currently on its website, and equity release is now only mentioned in conjunction with possible mortgage fraud. This is perhaps short-sighted, as the Law Society is the obvious portal where solicitors can seek guidance in complex practice areas, and some solicitors may not be aware of where the retainer begins and ends. Some stray into the realms of financial advice by advising against a particular product or plan, or simply stating that the client should not release equity at all; an assertion which can only be made by a financial adviser who has carried out a full financial fact find.⁷

Solicitors should not comment on the suitability of products, as they are neither authorised nor regulated to do so in most circumstances. In fact, the solicitor's role is simply to break down the terms and conditions of the plan for the benefit of the client, outlining the risks and rewards of the chosen product. It is then up to the client, having duly considered the financial and legal advice given, to decide whether or not to proceed. In the event that the client does wish to proceed, the solicitor must then deal with the associated conveyancing.

Outcomes-focused regulation

Since 6 October 2011, the regulation of law firms has been overhauled to encompass outcomes-focused regulation, seemingly to follow the lead of the Financial Services Authority. Rather than consisting of a set of prescriptive rules, outcomes-focused regulation comprises 10 principles with mandatory outcomes. The way in which the outcomes are achieved will be for each law firm to decide but, to offer guidance, the Solicitors Regulation Authority has also published a set of indicative behaviours.

The principles are:

- to uphold the law and the proper administration of justice;
- to act with integrity;
- not to allow independence to be compromised;
- to act in the best interests of every client;
- to provide a proper standard of service to every client;
- to behave in a way that maintains the trust the public places in solicitors and the provision of legal services;

⁶ www.lawsociety.org.uk

⁷ Assuming full mental capacity and no undue influence from a third party

- to comply with legal and regulatory obligations and deal with regulators and ombudsmen in an open, timely and co-operative manner;
- to run the business/carry out a role in the business effectively and in accordance with proper governance and sound financial and risk management principles;
- to run the business/carry out a role in the business in a way that promotes equality and diversity and does not discriminate unlawfully in connection with provision of legal services; and
- to protect client money and assets.

This is a sea change for solicitors in the way that their regulation will work. The 2007 Professional Code of Conduct contained a set of extremely detailed rules that solicitors could follow to the letter. The new principles are designed to be interpreted more freely, with the aid of the indicative behaviours. This in itself could be risky for the industry, as interpretation will differ widely between firms.

Potentially contentious areas are likely to be the payment of referral fees and possible conflicts of interest. Solicitors are currently permitted by the regulator to pay referral fees, provided that these are fully disclosed to the client. Rules of the SHIP (Safe Home Income Plans) trade body, however, prevent payment of referral fees on a case-by-case basis, as these are widely regarded as being capable of compromising independence. Payment of a marketing contribution, which is not linked to case numbers, is permitted, provided that it is disclosed in accordance with the Professional Code of Conduct 2011 and that the adviser does not influence the advice which is given by the solicitor. Clearly, it remains imperative in any event for the solicitor to act in the best interests of the client at all times.

Money laundering

Equity release is not immune to would-be money launderers simply because those who are eligible to take up the plans are older. Instances of benefit fraud and identity theft have been recorded. As such, Equilaw and a number of other key players in the industry insist that every client must have at least one face-to-face meeting during the course of the transaction, although this is currently not a mandatory rule. Other firms are prepared to deal with clients solely by post, email and telephone, which could lead to serious issues with identity fraud. If a solicitor is signing off on an equity release case, having spoken to the client only on the telephone, it must be extremely difficult to verify that the person on the telephone is, in fact, the client. This is without factoring in the equally important requirement to be able to verify that the client has mental capacity to enter into the contract in the first place and that they are not under duress from a third party to do so.

Solicitors have an absolute duty to carry out full due diligence on the identity of their clients. This goes beyond simply verifying their identity via an electronic system. Due diligence implies that solicitors must go further. Signatures can be checked against bank cards or other ID, such as passports and driving licences. It is also vital to verify that any photographic ID bears a good likeness to the bearer. If the financial adviser has never met the client and the solicitor doesn't meet them either, how can such verification take place? A face-to-face meeting at the point where the client has received their equity release offer provides a robust solution to this issue.

The client does not necessarily need to call in to the advising solicitor's office. Where a firm deals with clients remotely, it can instruct an agent solicitor to act on its behalf to carry out certain, limited tasks, one of which will be to verify identity documents and to sign them off as bearing a good likeness of the individual. The advising firm may rely on this signing-off process and, by taking the documents personally to an office, there is no requirement for the client to post them and to risk losing documents such as passports and driving licences in the post.

Mental capacity and undue influence

The Mental Capacity Act⁸ comprises five core principles, the first of which is the assumption that every adult has the right to make his or her own decisions and must be assumed to have the capacity to make them unless it is proven otherwise. Mental capacity is the ability to make decisions in one's own right, which can be an extremely grey area. It may well be that a client is perfectly lucid at certain times of the day, but struggles with memory at other times. It would be arrogant, ill-advised and incorrect to suggest that all equity release clients have capacity issues or must have been forced into making a decision about their finances by a family member or other third party.

Home owners over the age of 55 are eligible to take out equity release, and the average age is 69.⁹ In every walk of life, people's ability to cope with paperwork, decision making and dealing with financial and legal professionals varies tremendously and, in this sector, age is an additional factor. There can be a great deal of difference between the savvy sixty-something who may well have only recently retired and a frail octogenarian who requires more hand-holding through the process. For a solicitor, every case must be judged on its merits and due diligence must be carried out.

In order to safeguard clients' best interests, which is the overriding duty of every solicitor, it is vital to ensure that the client understands what they are signing and

⁸ Mental Capacity Act 2005 as amended by Mental Capacity Act 2007

⁹ According to research carried out by Key Retirement Solutions in 2010 and 2011

the long-term nature of the contract. The way in which the solicitor goes about this will vary from firm to firm and will largely depend on the firm's view and style of risk management. There is nothing in the SHIP rules requiring solicitors to see every client on a face-to-face basis or to ensure that they are seen by an agent. Nonetheless, it is the strong view of the writer that anything less would be insufficient to be able to adequately assert that each client is mentally capable and able to comprehend the equity release contract. If the client is dealt with only by post, email and telephone, they will never meet a solicitor through the course of the transaction.

It is unlikely that a raft of claims will become apparent immediately, but consideration should be given as to what will happen on the death of the client. In any given case, the beneficiaries of the client may query why the client took out an equity release plan (particularly in the event that there is little left in the estate on death). If the client never saw a solicitor during the process, the possibility of the heirs and beneficiaries succeeding in a claim for mis-selling or negligent advice must be significantly higher. This could be compounded still further in the event that the product was sold over the telephone by the financial adviser. Again, there are no rules preventing this (and, indeed, calls can be recorded) but it is difficult to see how a claim for undue influence could be easily defeated. It would be impossible to know who was in the room at the time of the telephone call.

Claims are most likely to emerge as the equity release market moves on over the coming years, given the rise in availability and visibility of products since the advent of the Safe Home Income Plans (SHIP) trade body¹⁰ in 1991 and particularly over the past 10 years, as more providers entered the market. Clients are often extremely satisfied with what equity release allows them to achieve, but there is currently little data on what happens when such clients move into long-term care (or die) and the attitude of those left behind. As such, robust policies ought to be strongly encouraged in law firms to avoid misunderstanding, claims and reputational damage to the industry as a whole.

Equity Release Solicitors' Alliance¹¹

ERSA, the Equity Release Solicitors' Alliance, was founded in 2008 by the writer and launched in January 2009 at the Law Society. The alliance incorporates a group of (currently) seven law firms throughout England, Wales and Scotland, all of which specialise in equity release. The need for such a portal was established due to the inactivity of the Law Society in setting out where specialist lawyers could be located. Clients and financial

¹⁰ www.ship-ltd.org

¹¹ www.ersalaw.co.uk

advisers alike were struggling to source solicitors that they could work with and who would deal with cases in an expeditious and cost-effective manner.

ERSA will continue to work with SHIP and other interested bodies within the equity release sector to ensure that standards and the reputation of the industry are upheld and that would-be clients have a choice of firms, each of which can act in a nationwide capacity. ERSA firms all sign up to a charter offering certain guarantees to their clients and referring advisers, including no-completion, no fee and an agreement to adhere to certain service standards.

Summary

Opportunities are rife for equity release to expand. However, each and every component of the industry needs to come together in order to pool resources and to raise awareness among home owners. There is still a perception among retirees that equity release is somehow unpalatable and should not be discussed. This perception needs to be altered, and all of the components that make up the process, including solicitors, must evolve with the products. Only then will the industry expand as commentators have been predicting for many years, to allow home owners to freely utilise the equity in their homes to improve their retirement years.

Chapter 9

Good financial advice

Tish Hanifan, Director of the Society of Later Life Advisers

Good Financial Advice

When it comes to equity release (ER) the best advice may be not to take a product solution at all. The negative perception of ER was originally brought about by inappropriate (and often non-existent) financial advice. Good financial advice, however, is what makes the difference to consumers and helps them to make effective financial decisions.

Satisfaction with, and therefore wider acceptance and uptake of, ER as a solution in later-life planning will only increase when the public feels confidence in this product as a mainstream option. A key component of achieving consumer confidence is through quality-assured financial advice from advisers with specialist knowledge and the ability to holistically look at the consumer's overall situation.

Essentially, good financial advice starts by *identifying* where ER is the most appropriate solution for the consumer and discounting it where it is not and where the facts make it clear that ER will not achieve the desired outcome. While the flexibility of a product is a benefit, this is only the case once the advice process has established whether ER is the most appropriate option.

Older homeowners are strangely grouped together as if they are a homogenous group, whereas, in reality, they are a varied group of people with extremely different financial and individual needs. For those who own a high-value property and a reasonable income, releasing some of their property wealth could make a huge difference to their lifestyle. Low-income property owners however, may find that ER may not help them as much as it might first appear, as they could lose their entitlement to benefits and grants.

Usually, a consumer reads or hears about ER products and wonders whether it is right for them. They may carry out further research and this will affect what they know about the product when they approach an adviser. Alternatively, advisers may raise the matter of whether or not ER is potentially a solution for the consumer when they are giving financial advice on other later-life matters where the consumer may not have considered ER at all.

ER involves significant setting-up costs, particularly if the amount to be raised is relatively small and there is still a deep-seated perception among potential consumers that ER products are risky despite the extensive consumer protection now in place.

The introduction of regulation of the advice and a widening of the range of flexible products has resulted in the ER sector developing faster than the public and media's perception, which still edges nervously around this area of advice.

Impact of Equity Release Regulation on Advice

Since 31 October 2004, the Financial Services Authority (FSA) has regulated the sale of lifetime mortgages and from 6 April 2007 the sale of home reversion (HR) plans also became regulated.

Regulating ER has meant consumers have had better access to qualified financial advisers who have gained the appropriate examinations. Furthermore, the advisers need to consider both whether ER could adversely affect their entitlement (if any) to means-tested benefits, and their tax position. Advisers also need to be able to work collaboratively with those who give the legal advice surrounding ER, as there will be some areas where both professionals will be providing advice and information on aspects of the product, such as in the case of HR schemes.

Good advisers must have a clear understanding of any surrounding issues on which ER may impact and will need to have processes in place for the overall delivery of a sound advice proposition. Effective gathering of consumer information, clarification of property type, consumer's income details, purpose of loan and checking for alternative and more appropriate sources of funds are all part of the process. Finally, the advisers must assess the consumer risk and any product factors relating to making a recommendation of the most suitable course.

Impact of Equity Release on Welfare Benefits

An important area where good financial advice can make all the difference to the decision as to the suitability of using ER is with regard to its interaction with entitlement to welfare benefits. Some benefits are means-tested and so it may be counterproductive to release capital and lose a commensurate amount in entitlement to benefits.

Non-means-tested benefits are, by contrast, often overlooked as they are not affected by the income and/or capital generated by ER but may result in a lower amount being required if they are claimed for. Means-tested benefits may be affected by ER and an adviser will need to be aware of the likelihood of their client being eligible for some of these benefits as there is a significant gap between the number of older people who receive means-tested benefits and those who are potentially eligible. Therefore, an adviser should make sure their client is claiming all the benefits to which he or she is entitled.

Getting this wrong could have a wider impact as some benefits act as a gateway to entitlement for others. For example, if someone receives the Guarantee Credit element of Pensions Credit, then they are also entitled to Housing and Council Tax Benefits.

All sums realised by any form of equity release mechanism will be either considered for benefit purposes as being either capital or income. Usually, it will be clear into which category the sum or sums realised fall. A product that produces a single cash lump sum is clearly capital whereas a product that produces a regular income into the future is usually income. However, some products can produce a series of lump sums or instalments. Within Pension Credit and Council Tax Benefit, there is a specific provision where a lender is making payments at regular intervals under an ER scheme, then such amounts shall be treated as income, not capital.

Tax is also a factor to consider as income generated from a scheme may move the consumer into another tax bracket or they may lose entitlement to their age allowance. Either of these situations will result in an increase in the consumer's tax liability.

Many people looking to take out an ER scheme use the funds for home improvements or adaptations. A good adviser must have sufficient understanding of both the benefits system and the provision of local authority grants in order to be able to advise on both the potential impact on benefits of releasing capital and/or producing income and the provision of grants as an alternative to releasing equity. Time spent considering the relevance of these provisions to the consumer could make the difference between the consumer benefiting from ER or suffering a detriment.

Local authorities also have "disabled facilities grants", which provide means-tested assistance with the cost of adaptations required because of disability. They also have discretionary home improvement grants or loan schemes, which may provide assistance with the cost of some housing repairs. If the consumer indicates that ER is required for these purposes, the potential eligibility for such help from local authorities should be explained and they should be advised to check with their local authority before proceeding.

Understanding the Impact of Advice on Consumers' Future Options

A good adviser needs to explain not only the costs, but also the alternatives, the impact of the interest roll-up and the exit penalties. Looking ahead is also important as ER is a long-term plan and therefore it is critical that consumers understand the potential impact it may have on their future financial option choices. These can include:

- Releasing further cash from the plan.
- Moving home.
- Adapting or changing the home.
- Adding or removing a party to the plan.
- Care provision and funding.
- Leaving an inheritance.
- Ending the plan.

Releasing Further Cash is a Real Future Need

In order to properly advise consumers, it is critical that consideration is given to the consumer's views on future house price inflation and the importance to them of being able to access further cash in the long term. It is vital to make consumers who wish to raise the maximum capital available from the plan aware at the outset that they may be unable to access further cash should circumstances necessitate this in the future.

The faster the property value increases, the more likely it is that there is sufficient equity remaining to draw upon. However, the risk within a "lifetime mortgage" is that the accumulation of interest increases faster than the increase in the property value. This could result in no remaining equity in the property and therefore no further cash being available.

The likelihood of going into care or receiving domiciliary care with perhaps the need for home adaptations should be considered in some depth as the funding available from the local authority may be impacted upon by the type of ER options chosen. The availability of a local authority deferred payments scheme (where the local authority will loan at a rate of 0% interest, the care homes fees against a first charge on the home) should be factored into the advice with the reminder that it will not be available where an ER company has the first charge.

Trusts

An adviser should also take into account the possibility that their client may wish to enter into some inter vivos planning, perhaps using trusts as the appropriate vehicle to do so. The interaction of this potential strategy with the restrictions that ER may place upon trust arrangements should be considered. Even with trusts that are frequently used as a way of reducing the overall impact on an estate of care funding may preclude an ER arrangement.

As such, good advice is clearly dependent not only on knowing the range of products available, but also on being able to take an holistic view of the complexity of later-life choices that a client may wish to dovetail into a financial planning strategy.

Where do Consumers Find Good Advice?

In reality, most people may never know how good the advice was they received. In fact, many do not even bother to seek advice as they do not feel they can trust financial services, so instead they turn to the press and internet sites for guidance and information. In some cases, it may be that there is no need for full independent financial advice at that stage and good information and guidance will suffice, with signposting to the availability of independent financial advice when necessary.

The coalition government has become very interested in how we can encourage consumers to make better financial choices and to make themselves financially secure through behavioural economics called "nudging". Nudging can be an effective way of persuading consumers to take advice and acting on it. There are plenty of organisations offering advice about finances but how do consumers choose who they can trust and, above all, how can it be as painless as possible to take that advice? Consumers want to ensure that they are carefully choosing from whom to take advice and what action they will need to take on the advice they receive.

The Money Advice Service, as well as charities such as AgeUK and Counsel + Care, provide excellent information about the products on offer and the right type of questions to ask an adviser. Guiding, as in the case of the Money Advice Service's Money Guidance takes the consumer further, offering face-to-face options as well as face-to-face advice through agencies such as the Citizens Advice Bureau.

In order for full independent financial advice to be effective, consumers need to understand what is being offered and the implications of the advice they receive. As such, underpinning all good financial advice is the importance of increasing the financial literacy of the consumer.

This is a key factor in helping them to assimilate the options available and truly understand the possible outcomes of their decisions. Often, the consumer does not truly understand the way in which, for example, compound interest works. Understanding the cumulative effect of the interest rate rolling up on a lifetime mortgage is a critical factor in the overall management of the consumer's expectations.

Generic financial information ahead of taking independent financial advice can transform the ability of the consumer to interact effectively with their financial adviser. This is particularly the case where they are "guided" through a generic advice process that is specifically tailored to their situation, as is the case with some of the MAS services referred to above.

Management of expectations also raises the issue of who, if anybody, will potentially be disappointed if they fail to fully understand the scheme. Very often it is not the person taking out the plan who is unhappy with the loss of value in the home when the plan has to be repaid but the beneficiaries.

A good adviser will try to include the family in the decision-making wherever possible. They will, however, always have to be able to factor into this the importance of recognising that the client has the right to make these decisions for themselves and that their autonomy of decision-making is paramount. The Equalities Act 2010 mitigates against the imposition of different rules as to client confidentiality etc where these are derived from age-related factors (however well intended). The Mental Capacity Act 2005 is also a consideration.

In reality, educating older people and validating their concerns is crucial at a time when they will have the most money and assets they may ever have. Which?, the independent reviewer, maintains that for those people who do decide ER is the correct route, then independent financial advice from a specialist adviser should be taken.

Quality Advice is Key to ER Success

The quality of the advice available to consumers however needs to be more consistent if the consumer is to feel the confidence they need in order to truly consider the possibilities offered by ER. In 2005 and 2006, the FSA conducted two "mystery shopping" tests and provider visits. The results, although based on a small sample of mystery shops, were discouraging in terms of adviser performance, both in terms of relevant information sought from the consumer and subsequent product recommendations.¹

Although it is undoubtedly the case that the financial services sector has increased both training and guidance for advisers around the sale of ER, there remains some evidence of poor advice. As recently as January 2012, Which? carried out a mystery shopping exercise in which only two of the 22 advisers were found to be excellent, with four advisers failing the tests that Which? applied. Worryingly, 10 of the advisers failed to adequately provide alternatives to ER, despite this being an important area for discussion before considering the relative merits of available products in any detail.

Notwithstanding the evident need for improvement, the quality of financial advice is improving, with more and more advisers realising that ER is just a part of an overall

¹ Williams, P *Please Release Me! A Review of the Equity Release Market in the UK, Its Potential and Customer Expectations* (CML Research, 2007)

holistic financial planning process sitting together with pension, care and inheritance tax planning. Many advisers are seeking ever-higher qualifications and accreditation in the area of later-life advice as it relates to ER.

Good financial advice will ultimately underpin any transition of ER into a mainstream financial planning consideration. With so much acknowledged wealth of the older person tied up in their home, the availability of this option to release capital is an essential area for consideration.

Chapter 10

Equity release – attitudes and perceptions

Peter Williams, Director of the Cambridge Centre for Housing & Planning Research at the University of Cambridge

Equity release – attitudes and perceptions

Equity release remains one of the enigmas of contemporary social and economic policy. As a mechanism, it has long been held out as one of the most promising ways available to households to release extra resources, yet the take-up of equity release products has, at least measured in formal terms, never approached the volume many would anticipate. In essence, as a market it has always been promising to break through as a major route for the extraction of the accumulated value of homes, but this take-off has yet to happen. Indeed, some would question whether it ever will.

The purpose of this chapter is to explore underlying attitudes and perceptions of equity release in order to try to unpack what has been happening and to take a view on how this market might develop in the future, not least as a consequence of a tighter regulatory framework coming into force in the UK over the next few years and the possibility that we will see more stable house prices over the medium term.

Background

Earlier in this volume we have had a detailed account of the home equity holdings of older households and the importance of property equity as a possible income and capital supplement in the light of weaker pension provision.¹ Outright-owning households (which, of course, tend to be older households) had an estimated £1,430 billion of housing wealth in 2010,² a figure that has been diminished by the downturn and is being further eroded as house prices fail to keep pace with inflation. Price trends are highly regionalised and localised; although aggregate data might suggest falls, the reality is that many older people will have seen the value of their home fall little if at all. This is partly because of the types of homes they occupy. However, the recent Wealth in Great Britain survey³ shows very clearly how, regardless of market reality, some households have been taking a slightly negative view of the value of their home, especially in the higher-value bands.⁴

In terms of the market for equity release, the report noted that in both waves of the survey (2006/08 and 2008/10) fewer than 2% of households were involved in equity release schemes. The Financial Services Authority suggested that, in the first half of 20011, some 2.1% of mortgage sales and 0.7% by value of total mortgages sales were

1 Appleyard, L and Rowlingson, K *Home Ownership and the Distribution of Personal Wealth: A Review of the Evidence* (Joseph Rowntree Foundation, 2010)

2 Council of Mortgage Lenders "Housing Equity: A Market Update" in *CML Housing Finance* no 01 (2011), pp1-11

3 Office of National Statistics *Wealth in Great Britain* (2011)

4 *Ibid*, p16

equity release products. Only around 2% of equity release sales were home reversion plans, down from 5% in 2008.⁵ This repeats the evidence accumulated over a number of years about the surprisingly low take-up of equity release products, whether based on mortgages or home reversions.⁶ This is discussed elsewhere in this publication.⁷ Given the external environment of high inflation, rising costs, reduced incomes and constrained pensions, property assets remain one of the enduring under-exploited features of many household balance sheets. The question now, as always, is: why is this the case?

The role of property

For most people, residential property is held as a consumption good: a place to live, whose investment status is only a secondary effect. However, that balance has shifted over the years. The housing market has become more transparent and information flows have increased, and as more aspects of life reflect markets so the interaction between and importance of home, location and quality of life increase. This duality between consumption and investment poses real challenges, not least around equity release, where the tension between the two is heightened. Many older householders have spent much of their working lives paying off a mortgage. Becoming mortgage-free is a milestone, and equity release brings the household back into a mortgaged relationship – albeit one with considerable safeguards built into the process, such as the guarantees of no negative equity and of lifetime occupation and the no-interest or interest-only payments.

Nonetheless, it is possible that the value of the home is extinguished, with the rolled-up cost of the loan exceeding the value of the home. In the mainstream mortgage market we have the example of shared appreciation mortgages (SAMs), a product launched by both Barclays and HBOS in the 1980s, whereby rapid house price appreciation resulted in the borrower having to repay a very much bigger sum of money than had been loaned (and thus a very high effective rate of interest). This prompted the formation of the SAM Action Group (which is now part of the wider Struggle Against Financial Exploitation). This example points up the tension around the difficulty of anticipating what the future might hold.

5 Financial Services Authority *Mortgage Market Review*, CP11/31 (2011)

6 Williams, P *Please Release Me! A Review of the Equity Release Market in the UK, Its Potential and Customer Expectations* (CML Research, 2007); Terry, R and Gibson, R *Can Equity Release Help Older Home Owners Improve their Quality of Life?* (Joseph Rowntree Foundation, 2010)

7 And see: Overton, L *Housing and Finance in Later Life: A Study of UK Equity Release Customers* (Age UK/University of Birmingham, 2010)

As the pressure on household budgets has increased, there has been an expansion in the appetite to use the value of the home as part of the solution.⁸ We have seen moves to charge education and social care costs, court costs and support for mortgage interest payments against the value of the home. The recent Dilnot Commission⁹ into funding care costs set out a capped lifetime contribution to the costs of care (set at £35,000 per individual), with the government picking up any further costs. The commission took the view that some will decide to use part of their housing wealth to meet their private contribution component, and that this might come from trading down or equity release. There has been no final policy decision around this, but clearly such a step might give further impetus to the equity release market.

As noted above, the value of a home can go up and down over the cycle, and at present on average the price is falling in both nominal and real terms. This ebb and flow is captured to a degree by the Bank of England's statistics on housing equity withdrawal, which peaked at around £16 billion in the third quarter of 2003 and dropped to minus £8.6 billion in the third quarter of 2011 (in other words, more value was being put in than taken out – the collapse of housing transactions being an important factor here¹⁰). This argues for caution, and not least in the light of improved health and increased longevity.

Taking out a mortgage is just one way of buying a home. Cash purchase is at present commonplace – around 25% of sales – and there are a number of investment companies prepared to take equity stakes rather than offer mortgages. As Islamic home finance makes very clear, purchase can be structured in myriad ways. The same is true of extracting value. Within the equity release market we have two contrasting products: lifetime mortgages and reversion schemes. The former dominate, but the latter have their advantages, not least in capping liabilities at the outset. Beyond these structures, we have trading down, last-time sales, remortgaging and equity withdrawal.¹¹ Reinold discusses these in detail for 2010. The evidence overall supports the view that last-time sales and trading down account for the biggest flows, dwarfing remortgaging and the formal equity release market.

8 Department for Communities & Local Government *Lifetime Homes, Lifetime Neighbourhoods: A National Strategy for Housing in an Ageing Society* (2008)

9 Dilnot Commission on Fairer Care Funding *The Report of the Commission on Funding of Care and Support* (Department of Health, 2011)

10 Reinold, K "Housing Equity Withdrawal Since the Financial Crisis" in *Bank of England Quarterly Bulletin* Q2 (2011), pp127-133

11 Benito, A "Housing Equity and Consumption: Insights from the Survey of English Housing" in *Bank of England Quarterly* Q3 (2004), pp302-309; Williams, P *Home Equity: Accumulation and Decumulation through the Life Cycle* (Resolution Foundation, 2010)

Attitudes towards and perceptions of equity release

Disentangling attitudes towards and perceptions of equity release is difficult, not least because what emerges in relation to these two domains is framed in the variety of settings that drive this market – the home, the family, health and wealth, financial services, the economy and the future. Perceptions of all of these help frame a set of attitudes to drawing down on the value of a home.¹²

There are different ways households can draw upon the value of their homes, and formal equity release is only a relatively minor player among these, albeit one of vital importance for the households concerned. Trading down requires moving home, potentially away from the area where a household is living. Such disadvantages are offset by the clarity of the transaction – homes are sold and bought and probably no mortgage is involved (such purchasers would fall into the cash-buyer category). No new liabilities are taken on, and cash may be released on which interest is paid rather than due. The household retains control, and the process is familiar.

A reversion scheme has the attraction of the household staying in situ and that no mortgage is taken out, while lifetime rights of occupancy are retained. Again, this has clarity, though much turns on the subsequent experience of working with the reversion company, and there will be some uncertainty and tension around the arrangement as it will be unfamiliar, and experienced only as it happens.

As noted earlier, lifetime loans dominate the formal market for equity release. These are viewed as mortgages and as such get caught up in general views about mortgages and financial services. Given that it is likely to be a lifetime commitment and perhaps comes with a diminishing capacity to terminate the arrangement, the issue of trust becomes very important. This is trust both in the provider over the long term and in the advice given in terms of making the purchase.

It is quite clear that, from both a provider and a consumer perspective, considerable time has to be devoted to understanding equity release and exploring all the implications of signing up to a product. This has considerable implications for costs both in terms of training and compliance and in the time spent with customers. These factors, alongside the general view that the market has suffered because of the absence for some years of mainstream and trusted financial services providers as well as the continued reluctance of government to back this market, has meant it has struggled to gain momentum.

12 Overton, op cit; Sixsmith, A and Sixsmith, J "Ageing in Place in the United Kingdom" in *Ageing International* vol 32, no 3 (September 2008), pp219-235

Reflecting this, the industry itself has tried to move forward. SHIP (Safe Home Income Plans) was set up in 1991 to promote better standards in the sale of home reversion plans through a code of conduct. Lifetime mortgage providers subsequently became members. In 2004 mortgages (including lifetime) became subject to regulation by the Financial Services Authority, and in 2007 home reversion plans were brought into the regime.¹³ FSA reviews of the market in 2004 and then again in 2006 highlighted the poor quality of advice being given by financial advisers, with 60% of mystery shoppers stating that the adviser had not explained the downsides of equity release.¹⁴ The situation had improved to some degree in the second survey in 2006,¹⁵ but gaps were still identified around the impact on means-tested benefits and future options.

Most recently, in the Mortgage Market Review,¹⁶ the FSA has explored in some detail the equity release market. In summary, most borrowers are between 60 and 81 years old, and typically between £40,000 and £50,000 was raised. Some 86% of lifetime loans and 96% of reversions were sold by brokers, and almost all were advised sales. The FSA now proposes to treat all equity release clients as "vulnerable consumers" and to require that all get advice – a stance strongly supported by the industry.

It is not evident that regulation from 2004 onwards did much to change perceptions and generate new confidence in this market, and the question now is whether further regulatory tightening will help anymore. Clearly, the downturn itself has had an impact, with a number of providers having exited the market – underlining the point that providers were taking house price risk and falling prices left them more exposed, as well as of course potential borrowers having less equity to borrow against. The cyclical effect has thus to be considered, but it is far from clear that perceptions and underlying attitudes have changed a great deal. Survey evidence continues to highlight the number that think they will use equity release, but only a minority move forward to become customers in reality. This suggests that perceptions might be positive but when decisions are to be taken then harder – and perhaps more realistic – attitudes prevail.

This is supported by the evidence from the Joseph Rowntree Foundation equity release pilots aimed at lower-income households.¹⁷ After extensive staff training and external

13 Financial Services Authority *Home Reversions and Islamic Mortgages Get New Consumer Protections*, press release PN 041 (2006)

14 Financial Services Authority *FSA Work Discovers Consumers Are Not Being Properly Advised on Equity Release*, press release PN 054 (2005)

15 Financial Services Authority *Lifetime Mortgage Sales and Advice: Improvements Made and Further to Go*, press release PN 071 (2006)

16 Financial Services Authority, op cit (2011)

17 Terry, R and Gibson, R *Assessment of Equity Release Pilot Schemes* (Joseph Rowntree Foundation, 2012)

publicity in three local authorities over 18 months, only 20 enquiries were generated, leading to "sound solutions" for 10 of the clients (which may or may not have involved equity release). More positively, Age UK's equity release service, which includes the Home Cash Plan as one of its products, has now been launched nationally and attracted 2,500 enquiries. The question as always is subsequent take-up. Partly what this experiment revealed was the need for a flexible solution, tailored to the household in question. In a typical market situation, although a broker might have a range of products to sell, commission comes from delivering a client to a single product provider. This works against multi-dimensional solutions. It also raises a question as to how far the FSA's move to require all sales to be advised deals with the problem.

Going forward

Although everyone perceives that making use of housing assets is a good idea, especially in a world where state support might be limited, it is quite clear that there is a large gulf between those perceptions and reality. That reality is conditioned by attitudes related to the provider delivering what is promised, what might happen to house prices, and what might happen at an individual household level to health and income. Many of those issues unfold over time, and because equity release is perceived by many to be a final solution it is often held in reserve. Deciding when that final decision needs to be taken is extremely difficult.

On the other hand, there is a challenge to providers and government to ease this process. Over time, products have become more flexible, and that process has to continue. There needs to be a better integration with state benefits so that these work alongside rather than against the equity release market. Indeed, if properly structured it might be possible to incentivise the leverage of private assets, albeit in a controlled environment. For customers on lower or middle incomes some form of state backing might be seen as a positive, though that proposition needs careful testing. The fact that equity release features on agendas across Whitehall but without there being a co-ordinated stance on it does not help matters; any state backing, in whatever form, may be a long way off.

The industry continues to talk of the new dawn, with ever more studies that highlight why and when the "surge" in equity release will begin.¹⁸ Objectively it is difficult to disagree with the analyses that advance this case, but this prediction has been expressed over many years. What seems likely is that equity release will remain a niche market, and, subject to further product innovation, one that will grow steadily because of the

18 NRF Consulting "Lifetime Mortgage Market Developments and Trends" in *Quarterly Newsletter* (December 2011)

ageing of the population and the peak of home ownership still coming through among older households. Set against that probable growth is the caution and conservatism built up through perceptions and attitudes that are hard to see changing quickly. In addition, the impact of the downturn and increased regulation will also make providers more conservative. Taking all these factors together it is clear that, despite the logic of equity release, we will not see a transformed market for some years yet.

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