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# Retirement income and assets: how can housing support retirement?

15 September 2009

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# Retirement income and assets: how can housing support retirement?

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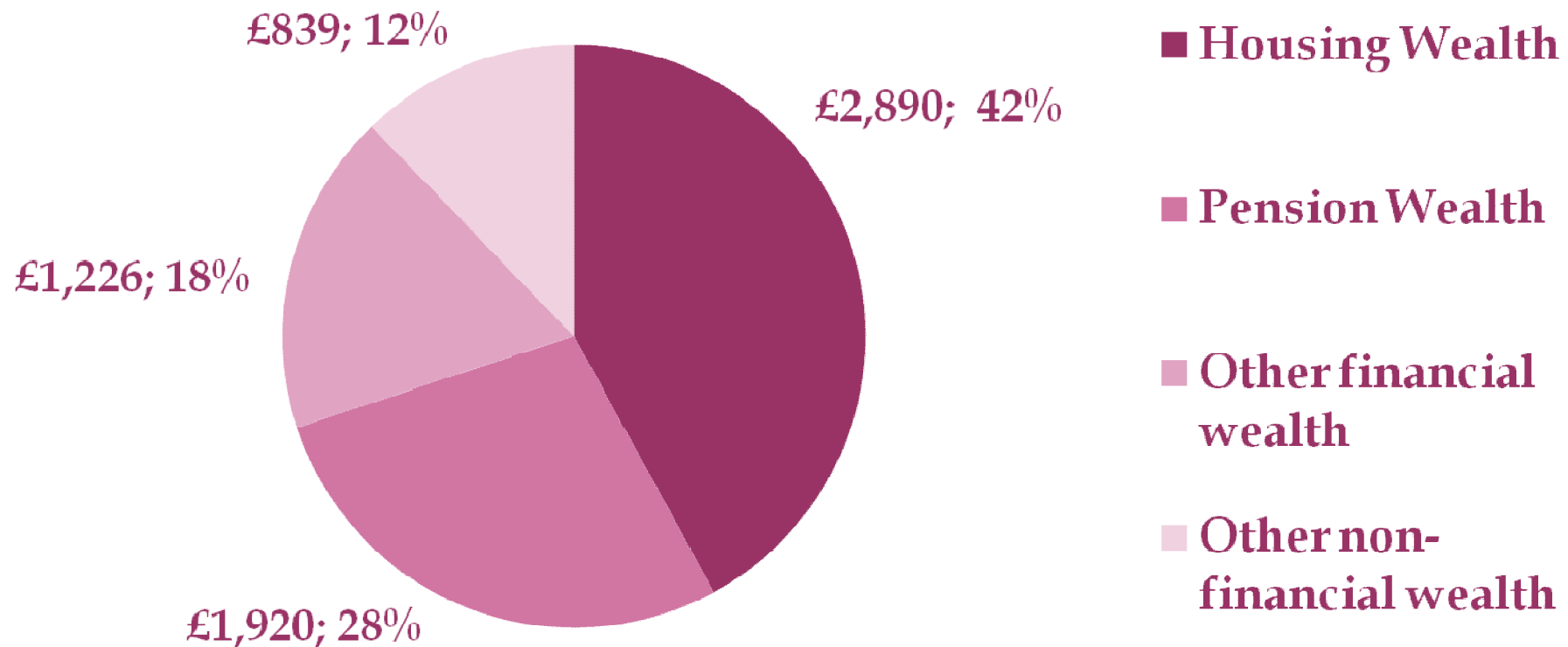
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# Retirement income and assets: how can housing support retirement?

- Current housing wealth
- Current use of housing
- Scope for future use of housing

# Housing assets are larger than pension fund assets

Net wealth of UK households by asset type,  
£billion 2007

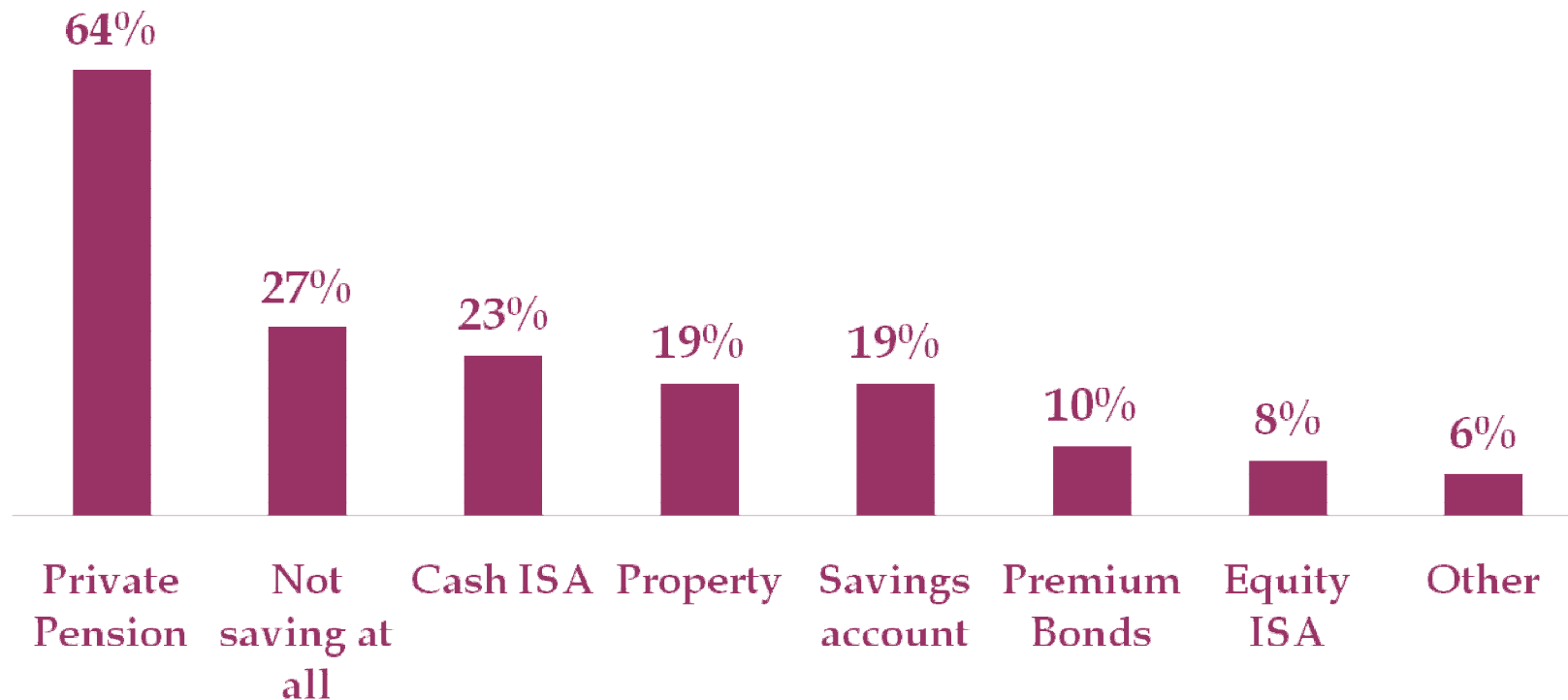


Base: £6,875bn

Sources: ONS (2008) Blue Book, ABI (2008) Research Update:  
Money in funded pensions 2007

# Private pensions remain the most popular way of saving for retirement

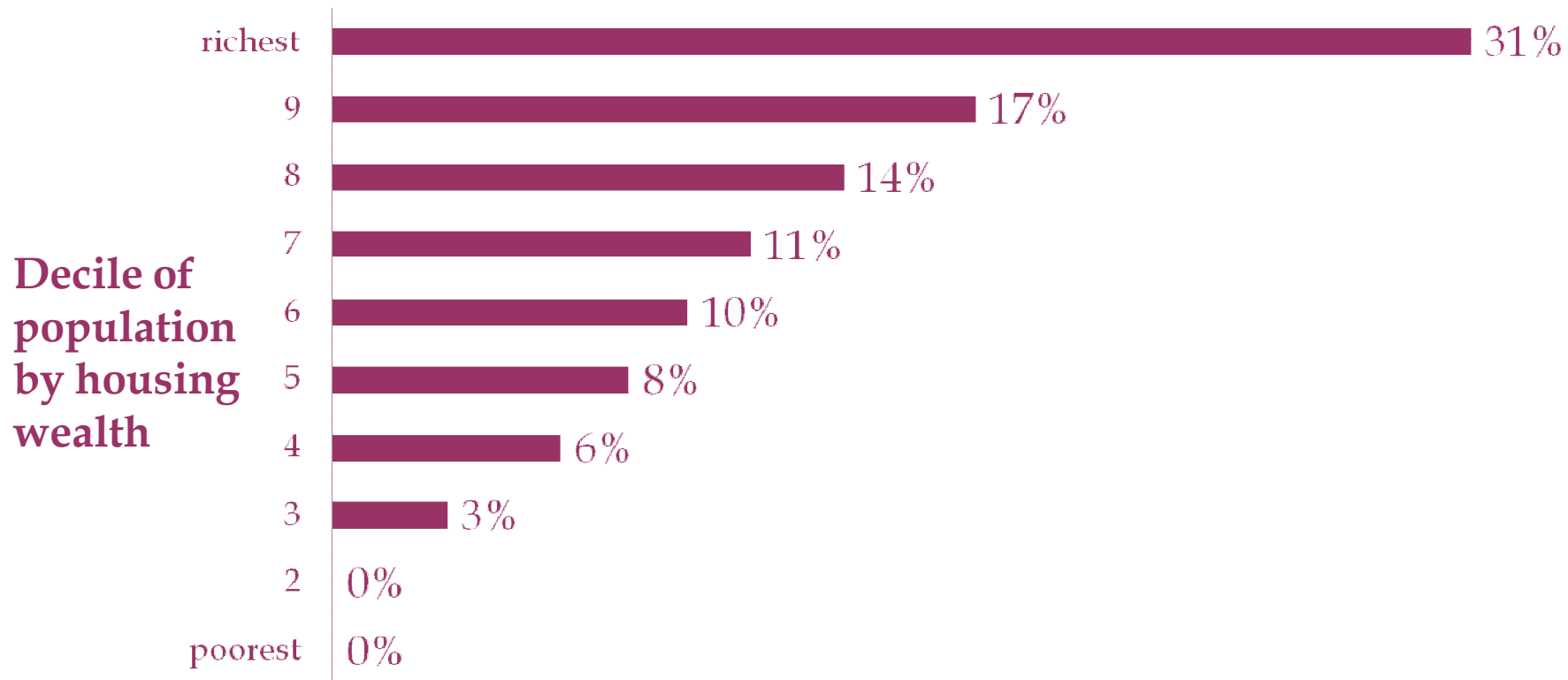
Type of saving used to provide for retirement by people in work 2008



Source: ABI, State of the Nations Savings 2008

# Housing wealth is not equally distributed

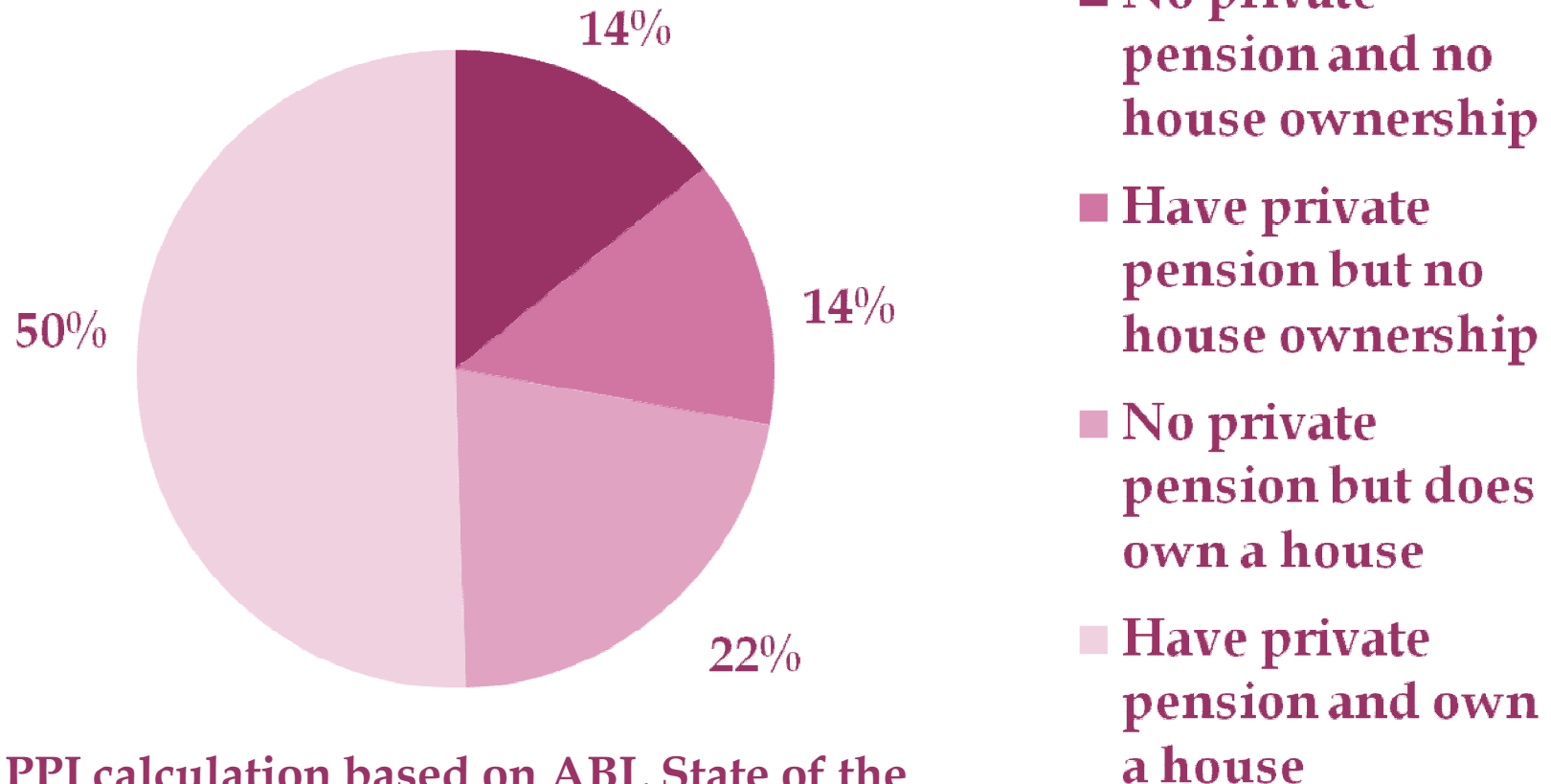
The percentage of total housing wealth owned by each housing wealth decile of the population aged 50 and older.



Source: ELSA wave 3, England 2006

# Housing wealth is correlated with other pension saving

Working people's house ownership and pension scheme membership status



Source: PPI calculation based on ABI, State of the Nations Savings 2008



# Housing wealth is a major savings asset for many people

- Around 40% of the total wealth of UK households is housing wealth
- Many people do not see housing as a way to save for retirement
- Housing wealth is unevenly distributed
- Housing wealth is likely only to be a complement to other pension saving

# Retirement income and assets: how can housing support retirement?

- Current housing wealth
- Current use of housing
- Scope for future use housing

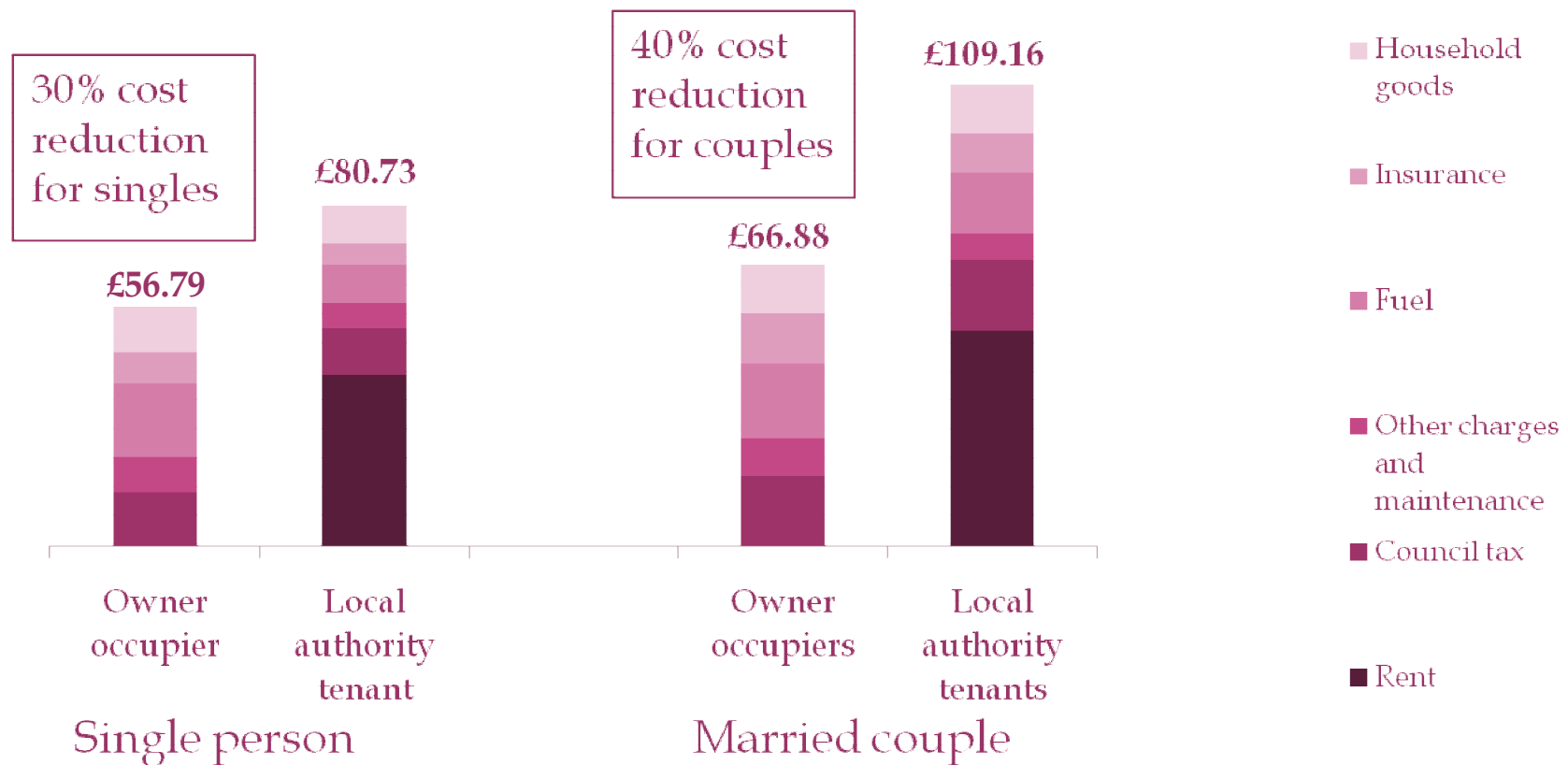
# Housing wealth can help support retirement in old age



- Owning your own home reduces living costs in retirement by up to 40%
- Some housing wealth can be accessed to support retirement
- Housing assets can support disability or long term care needs
- Property can be used as an investment to provide additional income

# Owning a home reduces housing costs in retirement

Typical rent, maintenance and housing charges for pensioners in York, 2006, £ per week



# Accessing housing wealth can support retirement

- Some housing wealth can be accessed to support retirement
- 29% of working people report that they plan to support retirement by downsizing their home
- Commercial equity release products
  - Currently around £5-10 bn
  - Around 1% of all current mortgages
  - Around 1% of net housing wealth of people over SPA

# Housing can provide insurance against adverse events

- Housing can help support the costs of disability
- Having housing may enable people to avoid residential care
- Adaptations to the home may be paid for by releasing equity

# Property can be an investment

- Second homes can be rented to provide an income or sold to provide a lump sum
- 2% of pensioners (200,000 people) receive rental income from a second property
- Around 3% of people aged between 40 and SPA receive rental income from a second property
- Rooms can also be rented out to provide income

# Housing can be used in a number of ways to support retirement

- The main way housing will support retirement for most homeowners is to reduce living costs
- Some housing wealth can be accessed to support retirement
- Home ownership can help when meeting the costs of disability and long term care
- An extra income can be obtained by renting out a second home or renting out rooms

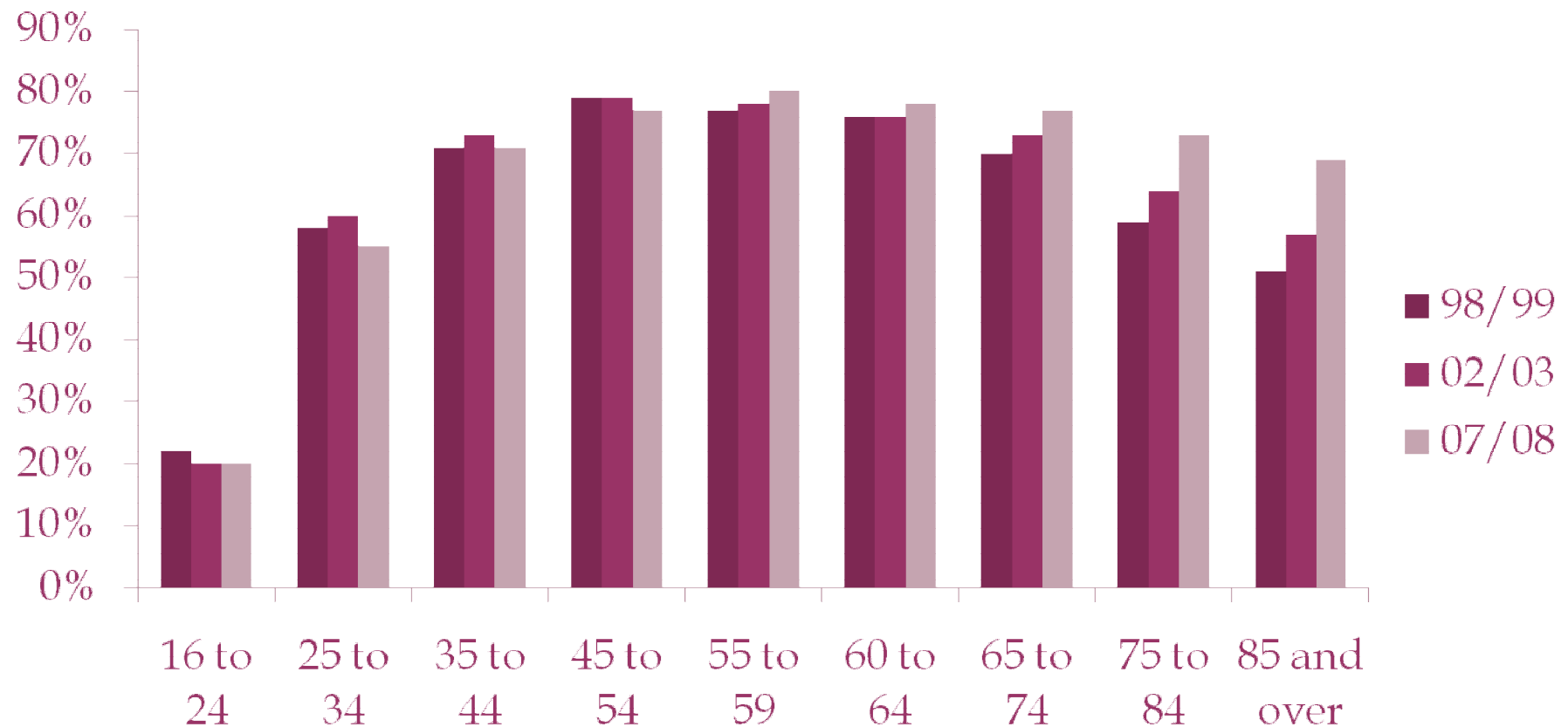


# Retirement income and assets: how can housing support retirement?

- Current housing wealth
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# Home ownership is increasing at older ages

Percentage of GB population who are owner occupiers by age in the years 98/99, 02/03 and 07/08



Source: Family Resources Survey

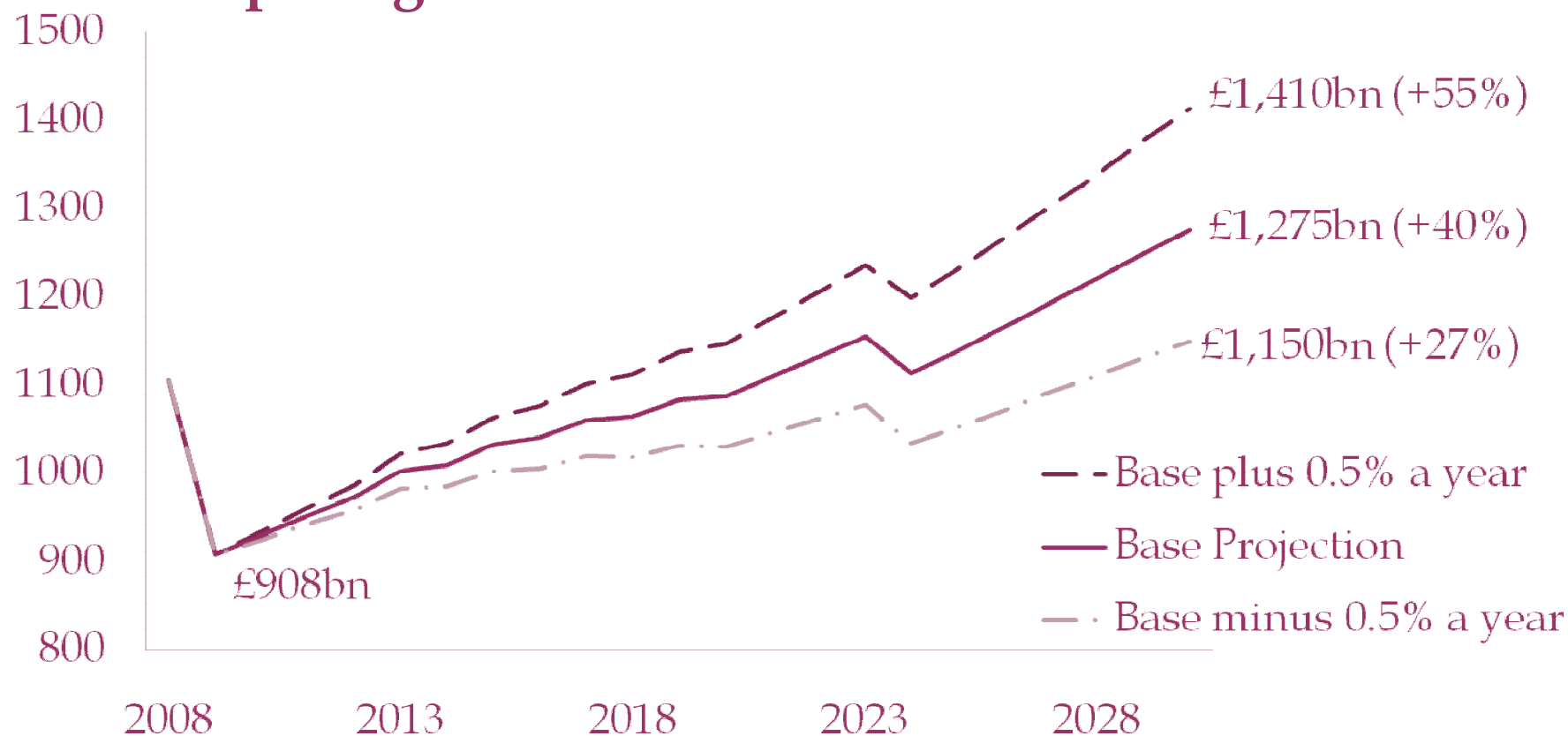
# Pensioner housing wealth is projected to increase by 40%

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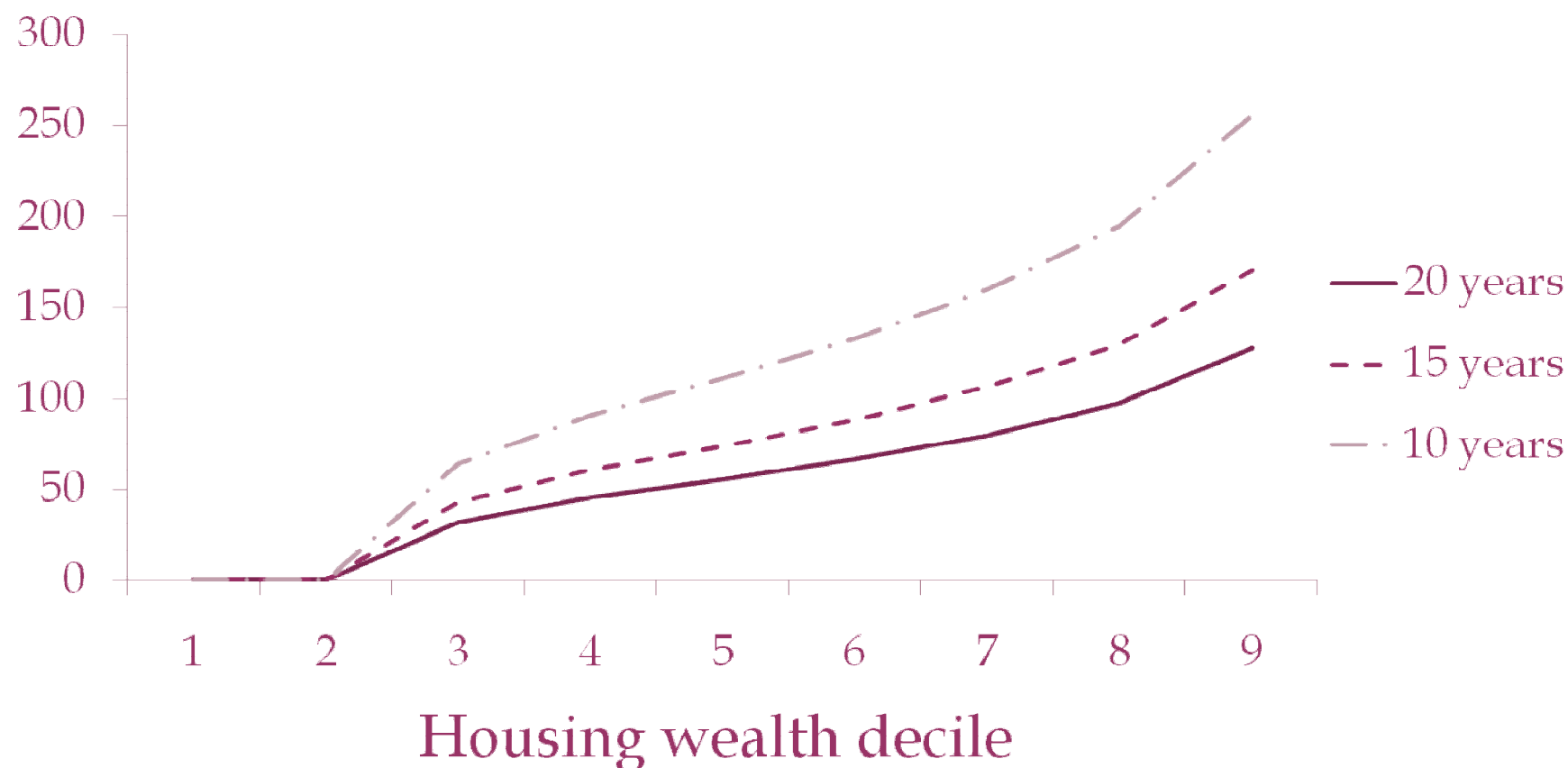
Projected total pensioner housing wealth.

£billions in 2009 earnings terms using a range of house price growth factors



# Income available from equity release depends on life expectancy

Income available if equity is drawn down by housing wealth decile for a range of life expectancies (£ per week)

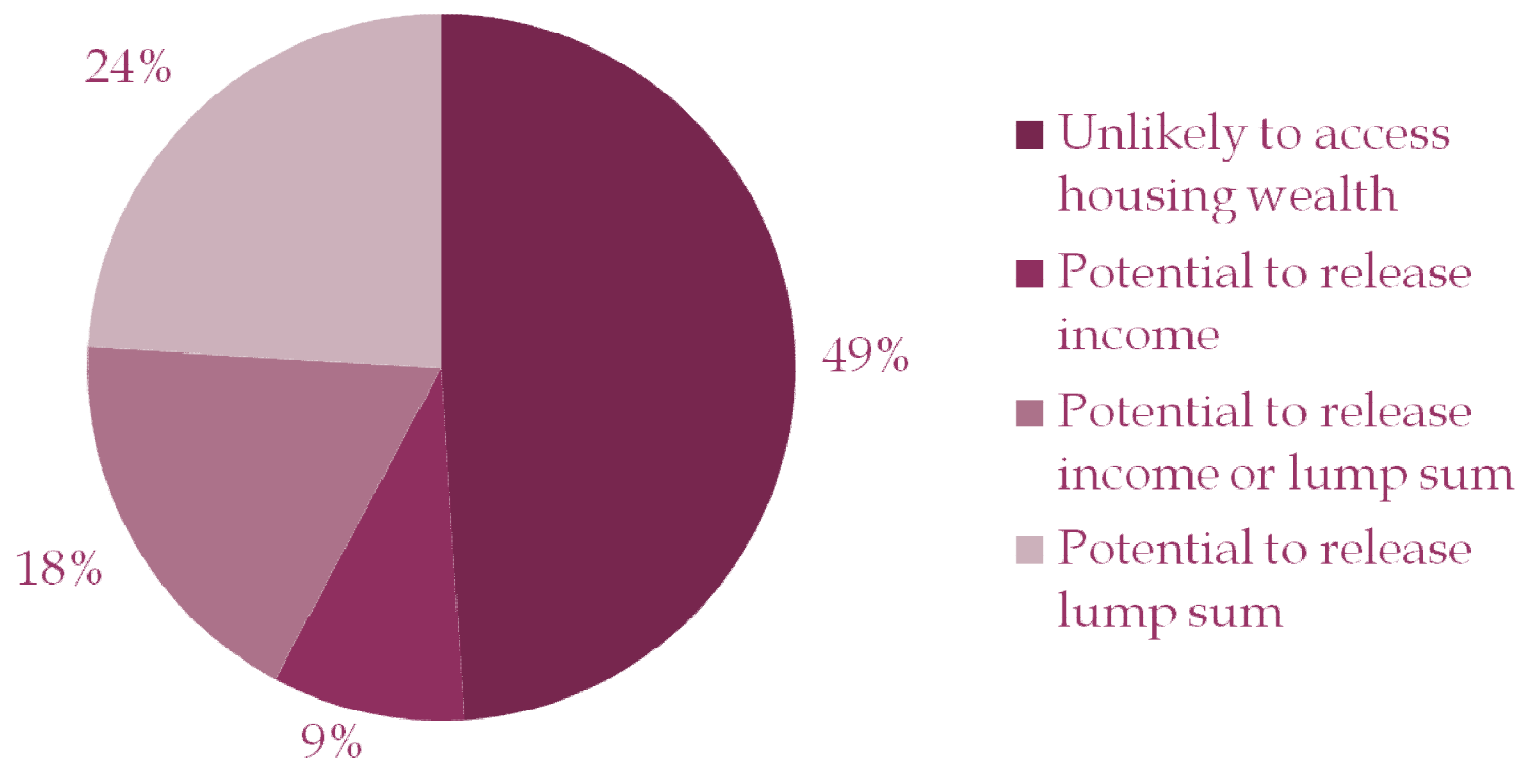


# Definition of groups who may be able to release equity

- Unlikely to access housing wealth: house value less than £100,000
- Potential to release income: weekly income less than 30<sup>th</sup> percentile for the year, house value more than £100,000
- Potential to release income or lump sum: weekly income between 30<sup>th</sup> and 70<sup>th</sup> percentiles for the year, house value more than £100,000
- Potential to release lump sum: weekly income more than 70<sup>th</sup> percentile for the year, house value more than £100,000

# Half of all pensioners continue to have low or no housing wealth in 2030

## Distribution of housing stock among pensioner household types in 2030



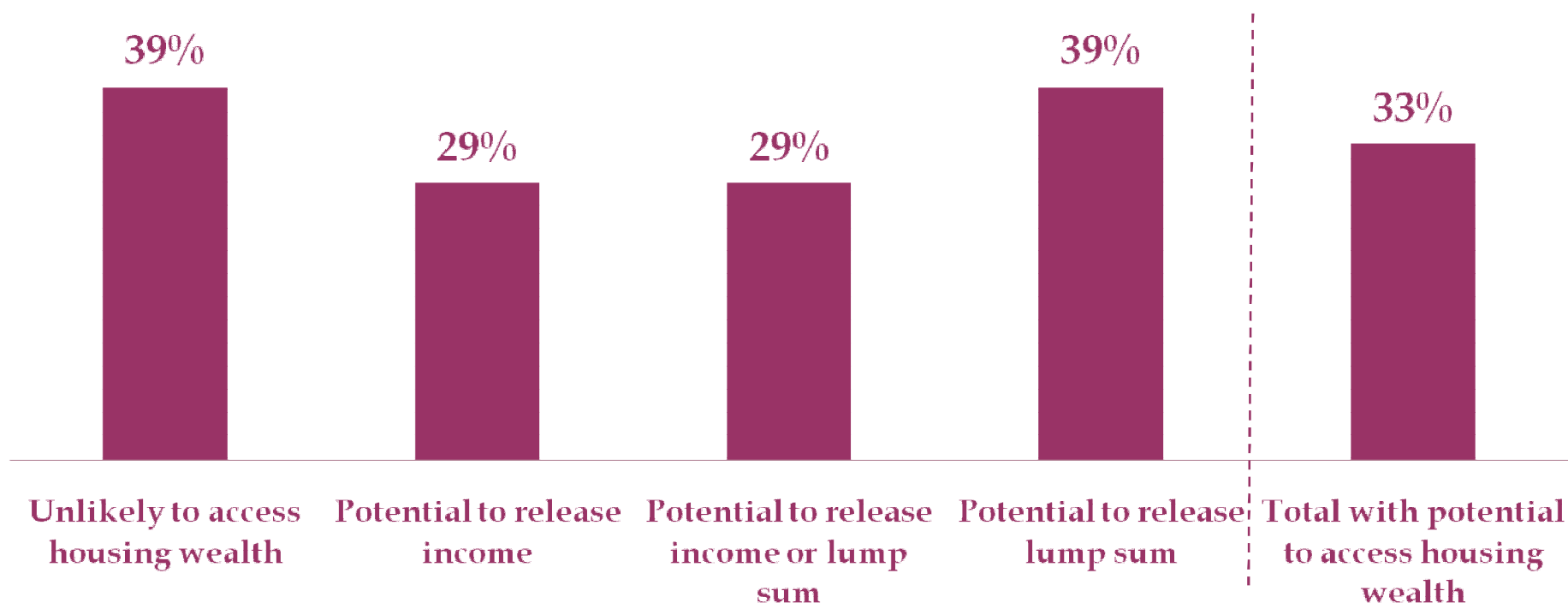
Base: 10.1m households over state pension age

# Number of pensioner households with potential to release equity may grow by a third by 2030

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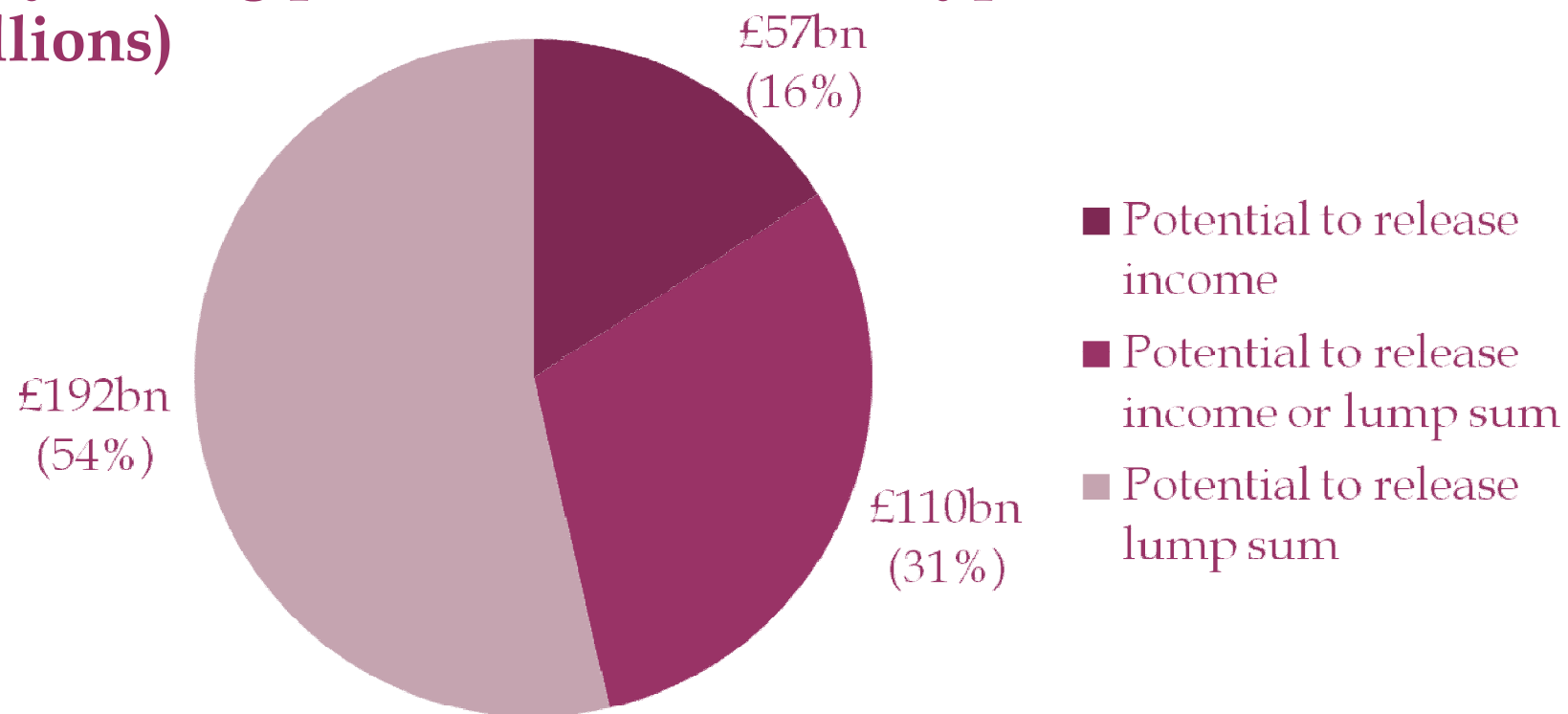
Increase in the number of households in each pensioner household type from 2009 to 2030



**Base:** 7.5m households in 2009  
10.1m households in 2030

# The largest equity release market may be people with high incomes and med/high value housing

Distribution of potentially releasable housing equity among pensioner household types in 2030 (£billions)



Base: £359bn

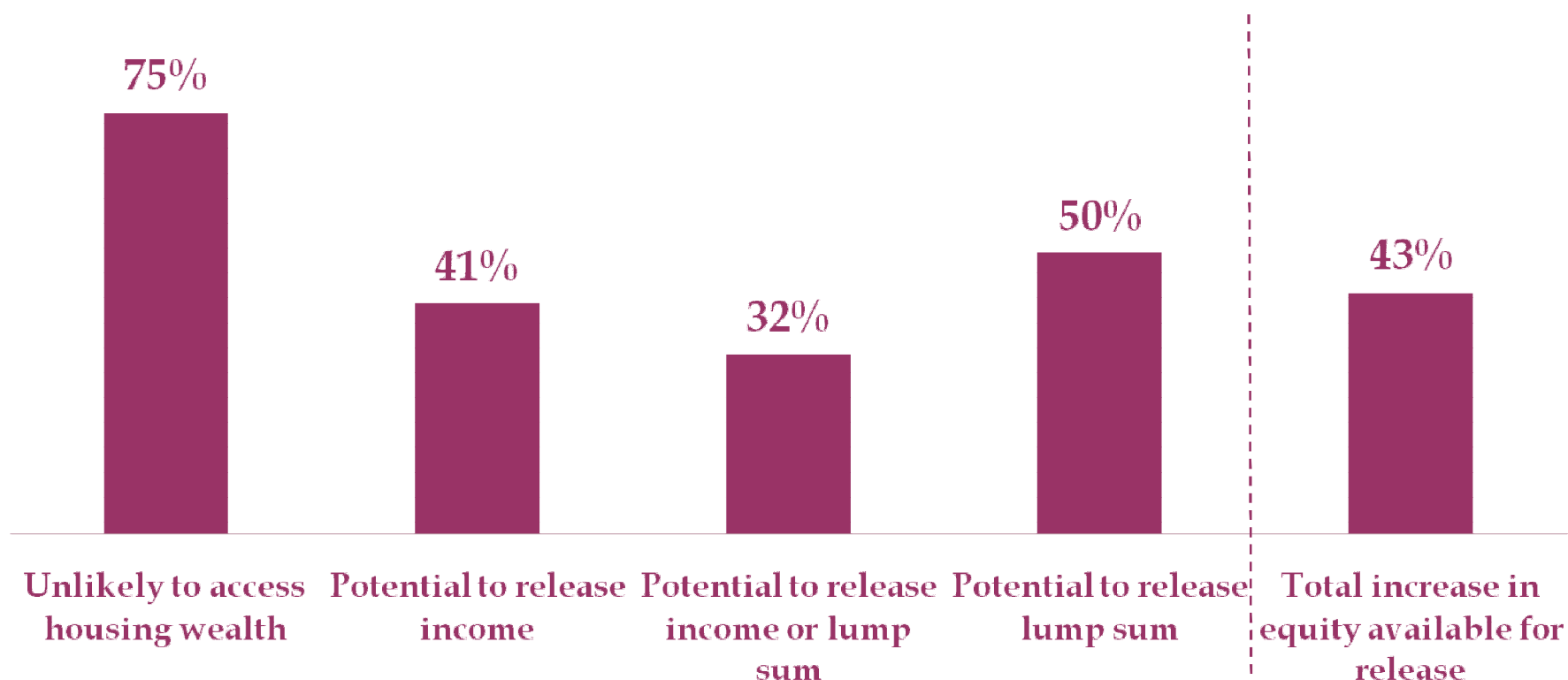


# Potential equity available for release may grow by over 40% by 2030

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Increase in potentially releasable housing equity among pensioner household types from 2009 to 2030



Base: £284m in 2009  
£415m in 2030

# There are barriers to accessing housing wealth

- Emotional issues can dissuade people from downsizing their house
- People may wish to pass on their house as a bequest
- Impact on some means tested benefits
- Image problem following mi-selling and bad product design in the 1980s
- Perception of commercial products as expensive
- No major banks offering equity release products

# In future there may be greater scope for housing to support retirement



- In future there may be greater scope for housing assets to support retirement
- The value of housing wealth owned by people over SPA could increase by 40%
- The number of households where the head is over SPA who could release equity could increase by a third
- There could be a 40% increase in the value of housing wealth that could be released
- There are barriers to accessing housing wealth