

PPI Seminar: Retirement income and assets: how can housing support retirement?

The Pensions Policy Institute (PPI) held a seminar on 15 September 2009 to launch its latest report: *Retirement income and assets: how can housing support retirement?* The report is the second in a series of four reports that consider the role of income and assets in supporting retirement. The *Retirement income and assets* series is sponsored by Prudential, J. P. Morgan Asset Management, the Department for Work and Pensions, the Association of British Insurers, the Investment Management Association, and Age Concern and Help the Aged. This seminar was hosted by Prudential who were the sole sponsors of this report.

The seminar was chaired by Laurie Edmans, PPI Council member and chair of Safe Home Income Plans (SHIP) and was attended by 60 people representing a range of interests across the pensions and housing sector.

Niki Cleal (Director of the PPI) and **John Adams (Senior Policy Analyst at the PPI)** gave an overview of the key findings from the report. This included:

- Many people have housing wealth, but many people do not necessarily consider their house as a potential source of retirement income.
- Housing wealth can help support retirement by reducing living costs for home owners, as a source of rental or investment income, or by providing income through equity release or downsizing.
- Income released from housing wealth can often complement other forms of income in retirement, though most people will not be able to access enough income from their housing wealth to take the place of other forms of saving.
- PPI modelling indicates that in the future housing wealth amongst pensioners could increase by 40% and the number of pensioners who could release equity from their home may grow by a third.

Hugh Pullinger (Head of the Older People & Ageing Society Division at DWP) gave the Government's perspective on the use of housing wealth to support retirement. He highlighted the Government's recently published Strategy for an Ageing Society and outlined the Governments plans and proposals for supporting older people in the future in light of increases in longevity.

He indicated that he was interested in further developments in terms of advice and accessibility issues around equity release and the use of housing wealth as part of a larger package designed to ensure older people are able to have healthy, active retirements. He said that the research showed the growing potential for housing wealth to play a role in supporting retirement and the Government was making changes which would make accessing housing wealth easier by, for example, increasing capital limit disregards for means-tested benefits and by changing the rules around the 'Assessed Income Period' for people over 75.

Keith Haggart (Director of Lifetime Mortgages at Prudential) gave the industry perspective on the use of housing wealth to support retirement. He referred to the first report in the Retirement income and assets series which identified that not all pensioners were able to meet their income needs at all stages of retirement and suggested that using housing wealth could be a way for some pensioners to fill gaps in income need. He pointed out that housing wealth is the largest single asset people have in retirement. He leant support to SHIP proposals that the Government should: set out a clear, positive position on the role that equity release could play in supporting retirement, recognise that SHIP/FSA regulation have improved safeguards, clarify the interactions between means-tested benefits and equity release, explore the possibility of a state funded equity release programme (especially for small sums) and explore further the possibility for using equity release to fund care provision in the home rather than residential care.

Dominic Lindley (Principal Policy Adviser at Which?) gave the consumer perspective on the use of housing wealth to support retirement. He suggested that there is a need for better insurance products to be made available to meet the evolving pattern of needs in retirement as the current products could be expensive and inflexible. There was also a question about whether the market would ever be able to serve those needing to release small amounts of equity. He felt that housing wealth was a useful source of income in retirement but cautioned that people should be encouraged to consider all of their available options before using equity release. He stressed the importance of comprehensive, regulated, independent financial advice for ensuring that people make the right decisions regarding equity release. He discussed a survey that Which? had conducted which indicated that many financial advisers did not provide advice on equity release which took into account all the relevant issues people faced such as equity release interaction with means-tested benefit entitlement and the potential use of other assets and income to support retirement. He stressed the importance of the advice industry being enabled to provide appropriate and comprehensive advice to consumers regarding equity release.

Questions and discussion

There followed a question and answer session. The following points were raised by speakers or members of the audience in the discussion. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

- PPI modelling assumes that house prices will continue to rise in line with earnings in the future. There was a question regarding whether it should be assumed that pensioner expenditure would also grow in line with earnings and, therefore, would this indicate that there may not be an increase in the real value of housing wealth for pensioners? It was acknowledged that the cost of living for pensioners has risen faster than for the general population. The availability of housing wealth at older ages does not necessarily mean that the wealth would be able to meet all of pensioners' needs in retirement.
- There was some concern that equity release should not affect benefit entitlement, as current interactions between equity release and means tested benefits meant that equity release is less accessible to some people on low incomes.
- There was general agreement that housing wealth represents untapped potential for supporting retirement, but that there were cultural, social and structural barriers to use. There was a feeling that stakeholders must work together to engender a culture in which equity release is seen as a viable (and socially acceptable) option. It was felt that in order to engender such a culture, barriers to take-up, such as the size of transaction costs, must be addressed. However, there was a concern that encouraging people to view housing as a potential source of retirement income may discourage saving in pensions and other savings vehicles.
- It was suggested that it would be useful to explore how the passing on of housing wealth as inheritance may affect the levels of housing wealth experienced by future pensioners. It was also suggested pensioners should be supported and encouraged to use their assets and income to provide for their own needs in retirement, whilst younger people should be encouraged to save more to fund their own retirements and not expect to rely on inherited wealth. It was pointed out that people are starting to use their income and assets in retirement to support grand-children as well as children and that this may impact the ways that people view and use housing wealth in the future.

- It was felt by some audience members that pensioners should be enabled to make their own decisions regarding their lifestyles and should not be discouraged from using equity release for purposes that might seem frivolous (such as holidays). There was some concern that media and stakeholder groups might pigeon-hole pensioners by assuming that equity release is only appropriate in certain circumstances and should only be used as a last resort.
- There was some sense that socio-economic and structural factors (for example, changes in the economy, people's savings habits and longevity) will result in a very different housing and income landscape for tomorrow's pensioners. It was suggested that there may be unforeseen changes such as a shift in the proportion of housing wealth people have relative to other wealth in retirement.
- It was suggested that many current users of equity release are younger than the traditional equity release user's profile of pensioners over 70. It was also suggested that many people currently use equity release to pay off outstanding mortgage debt. There was some feeling that if these trends continue to grow then there may be less housing wealth available to provide income for needs in later retirement.
- It was pointed out that equity release is used by people with varied and distinct personal circumstances and it was suggested that therefore equity release should not be a template product, but must allow for flexibility and diversity of needs. It was pointed out, as an example, that many people may wish to use their housing wealth to fund the move from independent living into a sheltered accommodation when people's care needs increase. Current equity release products are not able to facilitate such a move and it was felt that options for more flexible products that would fit this type of situation should be explored.
- It was pointed out that it ought not to be assumed that equity release will always be available in its current form as economic changes could threaten the security of income from equity release or discourage providers from continuing to offer the service.