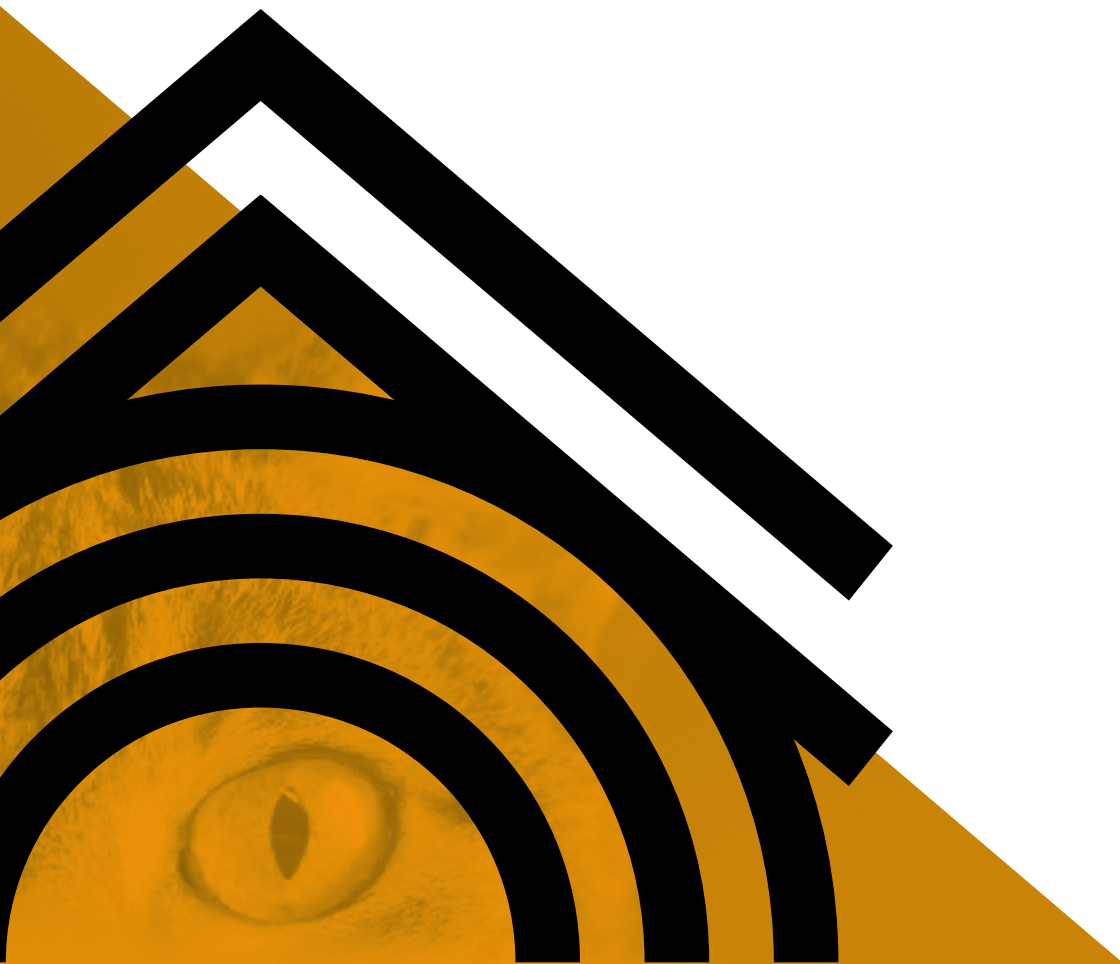




# HOUSE RULES

How housing equity can help with retirement living standards and the challenge of getting on the housing ladder. And why it doesn't.

JUNE 2022



## This is a sponsored paper

**Royal London and Responsible Life asked the lang cat to look at how British adults make use of housing wealth in later life. It's a subject in need of balanced, reasoned and informed discussion. We're happy to play our part in that.**

### Coming in from the cold

Equity release has long been viewed with disdain, or at least suspicion. We're not here to rehash the past; we all know it was no-one's finest hour. People who should have been able to rely on the industry were badly hurt.

While negative perceptions have persisted, the sector itself has learned from its mistakes and has been quietly pulling itself up by the bootstraps. A huge amount of work has gone into raising equity release to the standard it should always have operated at. There's more to do but we'll get to that.

For the record, Royal London and Responsible Life had no editorial control over this paper. Also for the record, they didn't seek any. What you read here is all lang cat, independent and objective.



### New beginnings

We don't discuss specific products or providers in this report; that's not why we're here. We're here to examine the potential role of home equity primarily in later life income, but also in freeing up family wealth to benefit younger generations.

That is, we think, a huge issue and one which could potentially change how people approach retirement income. For that reason this paper is aimed at a broad audience – advisers, home equity providers, the Financial Conduct Authority (FCA) and the government – each with a role to play.

Nothing will happen quickly, but for anything to happen at all will take the heft of both the regulator and government. Adviser and provider engagement is essential but it's going to take a giant (or two) to wake a giant.

This paper is the start of a dialogue and we want to hear your views, whether or not you agree. Especially if you don't agree. From challenge comes change, hopefully for the better.



**Tom McPhail**  
Director of public affairs,  
the lang cat

## Executive Summary

**The UK's population faces significant financial challenges. The resources available to meet the retirement income needs of an ageing population are already stretched and this problem is set to get worse.**

We have passed 'peak DB' and many retirees are already struggling to enjoy even a moderate standard of living in retirement. At the same time, the financial penalty of youth means today's twenty-somethings are struggling to pay off student debt, build a house deposit and get on in life. After two years of Covid, available state resources to alleviate these pressures are limited; taxes are already rising just to ease NHS waiting lists and there is an escalating cost of living crisis.

### **Significant challenges exist at either end of the age scale**

Median pensioner incomes don't even reach the 'Moderate' standard of living defined by the Pensions and Lifetime Savings Association (PLSA). Using this benchmark, pensioners already suffer a retirement income deficit of over £48 billion a year. The majority of pensioners are also fortunate enough to own their own home and to have an average of around £250,000 housing equity at their disposal. Yet very few are accessing this wealth to supplement their retirement income.

The average age of first-time buyers is now over 30; for many the difficulty of getting together a deposit is a key factor. However, a consequence of increased longevity is that the inheritances which could alleviate the financial struggles of young adults typically don't reach beneficiaries until they are already well into middle age; too late to help them in early adult life.

### **Housing wealth could be an answer, but obstacles persist**

Housing wealth is an obvious solution to these twin challenges of a need to increase retirement income while also helping younger generations. Perhaps the most remarkable aspect is the relative underutilisation of this resource to date.

People's perception of the unsuitability of housing wealth to meet their financial needs, either for retirement income or to help their children and grandchildren, is shaped in no small part by the industry's misdeeds of the past. Such reservations are understandable. However they do not reflect the reality of today's products, standards and regulatory controls. In spite of years of painstaking efforts on the part of the industry to improve the quality of advice and the financial products recommended to customers, equity release is still not widely considered as a solution.

The building blocks of substance to deliver a well-functioning equity release solution to those who might need it are largely in place: the existence of available housing equity; the regulatory and industry-led safeguards; the availability of suitable products and advisers. The barriers inhibiting take-up are less substantial, though understandable and relevant: a lack of trust and knowledge; the perception of high costs; the absence of public policy support; the unfamiliarity of usage for individuals and many advisers and the understandable (but as it turns out sometimes misplaced) desire to leave an inheritance for family members. The challenge if this is to change, lies in finding answers to these barriers of perception and in normalising new attitudes and behaviours.

### The whole industry has a role to play in normalising the use of housing wealth

The whole financial ecosystem, financial advisers, regulators and politicians all have a role to play, as does the industry in further improving standards. For various reasons, these gatekeepers have until now chosen not to step up and play an active role in helping to deliver a solution to people's needs. This has to change.

It is not the responsibility of politicians or regulators to create a market for commercial advisers and product manufacturers. However, it is the responsibility of these policymakers to influence and oversee markets to meet the needs of the people they are there to serve. In this respect, they are failing.

There have been recent attempts to broaden the solution set for retirement lending. The retirement interest only mortgage for example, launched in 2018, was championed by the regulator as a lower cost way to extend secured lending into later life. Unfortunately strict regulatory guidelines on affordability have meant very low take-up.

This is no one's problem and it is everyone's problem. It is only going to be resolved through collective recognition of the potential benefits and collective action to bring about those positive outcomes for people right across the population. Without a change in policy or actions, it's unrealistic to expect a change in outcomes. It is time to make a change; this paper sets out some proposals for how it might be possible to help improve people's retirement incomes and to help today's young adults get on in life.

### Recommendations

The challenges to making use of housing wealth are real and won't be easily resolved, but they are not insurmountable. Here's how we think change can be brought about.

#### The government

- 1 Relevant government departments to meet with industry, regulatory and consumer representatives to collectively agree a blueprint for what the well-functioning use of housing wealth in later life might look like
- 2 Housing wealth to be incorporated into the Pension Wise guidance process
- 3 The Money and Pensions Service to encourage holistic wealth planning from mid-life onwards, including the option to consume housing wealth, when appropriate
- 4 Consider scrapping the £175,000 home allowance element of the IHT exemption
- 5 Encourage the FCA to actively regulate to deliver positive outcomes and not simply to prevent negative ones

#### The FCA

- 1 The regulation of equity release to be treated as more than simply a subset of mortgage regulation; it should also be regulated as an integral component of investment and income planning in later life
- 2 Conduct of Business rules (e.g., COBS 9.4) to be made more explicit in requiring advisers to actively take account of housing wealth as part of their suitability recommendations when advising clients in later life
- 3 Advisers required to complete equity release CPD training on an ongoing basis, where relevant to their advisory activities, to make sure they're better able to identify and act on situations where it is likely to be suitable
- 4 Where advisers are providing a client with an holistic financial plan in retirement, they explicitly state whether they are taking account of housing wealth in their recommendations

### The advice community

- ① Make sure back-office systems can accommodate housing wealth as an asset when advising clients
- ② Build housing wealth decumulation into cashflow recommendations where appropriate when advising clients about retirement income
- ③ Where appropriate, undertake CPD activity to ensure familiarity with equity release products and their uses
- ④ Advisory trade bodies take a lead in actively encouraging advisers to incorporate housing wealth and equity release into advice processes
- ③ Work with the FCA, the Treasury and other government departments to develop and articulate a coherent strategy on the consumption of housing wealth in later life
- ④ Produce guidance for advisers on equity release suitability across all relevant customer scenarios
- ⑤ Commission a detailed economic study to build out evidence of the fiscal and social benefits of a more developed approach to the consumption of housing wealth in later life
- ⑥ Work with suppliers, such as cashflow software providers and back-office systems to embed housing wealth and equity release products into advisory systems and processes

### The equity release sector

- ① Address remaining product shortcomings; be honest about the risks they could pose for customers
- ② Develop regular income products to meet the needs of customers looking to use equity release to supplement their retirement income
- ⑦ Develop a collective communications campaign, commit resources to it: address consumers' concerns and misunderstandings about equity release

## The numbers that count

**£48bn**

Annual shortfall in pensioners' income in the UK

(Based on PLSA Retirement Living Standards data and ONS Pensioners' income data 2020/21)

**£4.5bn**

Annual equity release market turnover

(ERC - Autumn Market Report, 2021)

**£5.4tn**

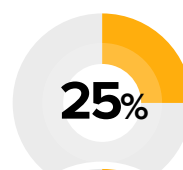
Aggregate housing wealth in the UK

(ONS - Household total wealth in GB: April 2018 to March 2020)

**£250,000**

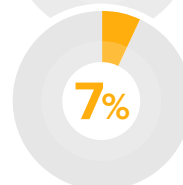
The median housing wealth owned by retirees in the UK

(ONS - Property wealth in main residences by HRP age: GB July 2010 to March 2018)



of the UK population expected to be over 65 by 2050

(ONS - Living longer: is age 70 the new 65?)



UK adults who paid for financial advice in past 2 years

(OpenMoney - The Advice Gap 2021)

**32**

The average age of first-time buyers in the UK

(The Guardian - Average UK first-time buyer is now older than 30, says Halifax, 22/01/22)

## Contents

<b>Introduction: the current state of play</b>	2
<b>For many, pensions aren't enough</b>	5
<b>Freeing the flow of intergenerational wealth</b>	11
<b>Accessing property wealth could be an answer</b>	13
<b>Consumer engagement requires a fundamental shift in attitudes</b>	17
<b>The advice sector is stuck in a perception loop</b>	23
<b>Government policy around housing wealth isn't clear</b>	26
<b>Conclusions and recommendations</b>	27



## Introduction: the current state of play

**The use of home equity for later life income has for many years been the Great Unmentionable of personal financial planning. And for good reason. The sector earned a reputation for putting the interests of advisers and providers ahead of the customers they were supposed to be serving. Many of those customers suffered severe financial consequences as a result of putting their trust in equity release.**

The equity release sector had to put its house in order if we were to let it speak to us ever again. Over time it has worked to do just that. Things still aren't perfect; further improvements can be made. This though is true of most financial products. But overall it has changed for the better. We'll look at that in more detail very shortly. Opinion, however, has not kept pace and what we see today is a quite remarkable disparity between the sector's reputation and reality. What makes this worth a closer look is the potential consumer benefits that could flow from a shift in perception.

**Pension savings are inadequate** and additional sources of capital and income could improve the lot of retired homeowners.

**Young adults are struggling** to get ahead in life and a cascade of wealth now could help them achieve that.

**The economy needs a stimulus** and unlocking dormant capital from home equity could help the Treasury and the economy.

Better use of home equity has the potential to play a significant role in addressing these challenges.

While that may sound simple, we are well aware of the reality. Minds are by far the hardest thing to change, particularly where those minds are focused on achieving the best outcomes for their clients. We spoke to a number of financial advisers for this paper and heard understandable reasons for continuing to treat equity release with caution.

Meaningful change in the perception and use of home equity is only likely to happen with the active support of UK policymakers: the government and most particularly the regulator. That change means preserving, and possibly even strengthening existing regulatory safeguards. But it also means taking equity release out of the silo in which it's currently stagnating and instead treating it as the mainstream product and advice process it arguably now needs to become.

This is mostly about the provision of retirement income, but it's also about helping younger generations to get on the housing ladder and supporting the economy. It's about using the scarce financial resources available to us as efficiently and as effectively as possible. Consumers have reasonable hesitations about using equity release – we'll look at these and how to address them – the key is in not allowing unnecessary barriers to prevent people benefitting from the housing wealth they have built up throughout their working lives.

## Reinventing equity release

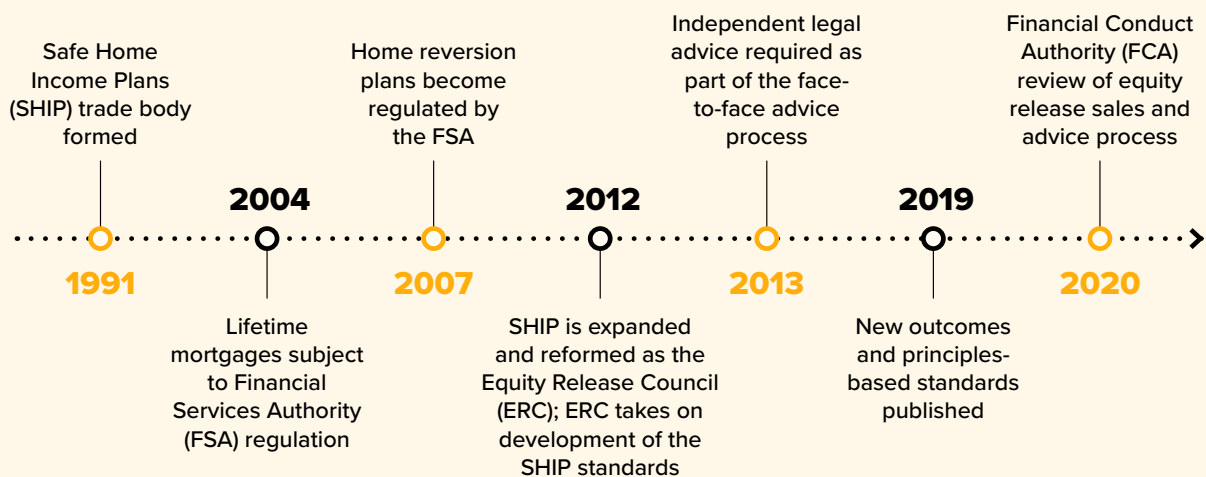
Through the 1980s to the early 2000s, equity release acquired a reputation for failing customers. For example:

- ▶ Variable rate loans were taken out and invested in fixed rate income producing products; no-one seemed to think what would happen to the customer if the interest rate on the loan went up.
- ▶ Capital and interest roll-up products that ended up with debts exceeding the value of the property.
- ▶ Falling property values in the 1990s, resulting in negative equity.

- ▶ Home reversion schemes, where part or all of a property was sold without family members being informed, resulting in them being denied their anticipated inheritance.

While there were variations the clear theme was financial institutions failing to consider how their contract terms could affect their customers, with many elderly people paying too harsh a price.

Fundamental change was needed and the last two decades have seen a progressive cleaning up of the sector.<sup>1</sup> Highlights include:



The Equity Release Council (ERC) developed and published a set of industry standards,<sup>2</sup> which have continued to evolve. These standards include:

- ▶ Lifetime mortgage interest rates must be fixed or, if variable, have a cap which is fixed for the life of the loan.
- ▶ Clients must have the right to remain in their property for life or until they need to move into long-term care, provided the property remains their main residence and they abide by the T&Cs.
- ▶ Clients have the right to move to another property subject to the new property being acceptable to the provider as continuing security for the loan.
- ▶ The product must have a no negative equity guarantee (NNEG) i.e., when your property is sold and all fees are paid, even if the amount left is not enough to repay the outstanding loan, neither the client nor their estate will be liable to pay any more.
- ▶ Clients are free to choose their own solicitor who will be provided with full details of the plan, including the rights and obligations of client and provider. Both client and solicitor must sign to confirm that these rights and obligations have been explained to the client and they wish to proceed.
- ▶ All customers taking out new plans which meet the ERC standards must have the right to make penalty-free payments, subject to lending criteria.

<sup>1</sup> Equity Release Council – Anniversary Report 2022, 31/01/22

<sup>2</sup> Equity Release Council – Our standards. Part A: principles, outcomes and rules, 28/03/22



- ▶ Clients will receive a 'fair, simple and complete presentation and explanation' of the plan. Benefits and limitations will be clearly set out, along with their obligations and information about costs, tax implications, what happens if they move house and how changing house values may affect their plan.

The ERC has done a lot of good work here with limited resources; getting a sector with poor member practices to pull itself up by its bootstraps is a hard undertaking. The development of the standards has been critical in improving products and practices, raising standards and slowly, progressively building consumer confidence.

#### **Equity release is a maturing market but more needs to be done**

Not only has product and provider choice expanded dramatically from the bad old days, driving the potential for healthy competition, but the FCA is also keeping a closer eye on proceedings.

But the sector isn't yet where it needs to be. For all we believe in the positive potential of a step change in how we make use of housing wealth in later life, the equity release sector still has work to do to align market practice with client outcomes.

#### **Early redemption charges**

While most providers apply a simple sliding scale (e.g. 10% in year one to 1% in year 10), at least one national provider applies an early redemption charge based on prevailing gilt rates at that time. This puts the client at an unfair disadvantage, with paying off a loan effectively a lottery.

#### **Lending criteria**

Equity release providers are repaid primarily through the sale of the property. No surprise then that they take a keener interest in the details of the property. This can, however, mean properties which would be fine for conventional mortgages being unfairly rejected. Reasons include having a flat roof, ex council properties and being too close to a pub.

#### **Follow-up loans**

Interest rates will change but shifts in underwriting and willingness to lend are harder to square away. Clients should be able to reasonably access further loans without being forced to move and possibly face redemption fees because underwriting standards from their provider have changed beneath them.

#### **No negative equity guarantees**

NNEGs can push up the interest rate and diminish the benefit of a deal. They make sense for a 50% loan-to-value (LTV) but insisting on one for a 10% LTV is possibly not in the client's best interests.

#### **Lack of income products**

A common reason for using equity release is supplementing regular retirement income. Yet there are almost no income paying products available. Almost all equity release products involve paying a lump sum, leaving the customer to pay interest on the whole sum, invest the capital and work out an income withdrawal strategy for themselves.

#### **Retirement interest only mortgages**

Introduced in 2018, however, to date, strict regulatory guidelines on affordability have meant no significant take-up.

## For many, pensions aren't enough

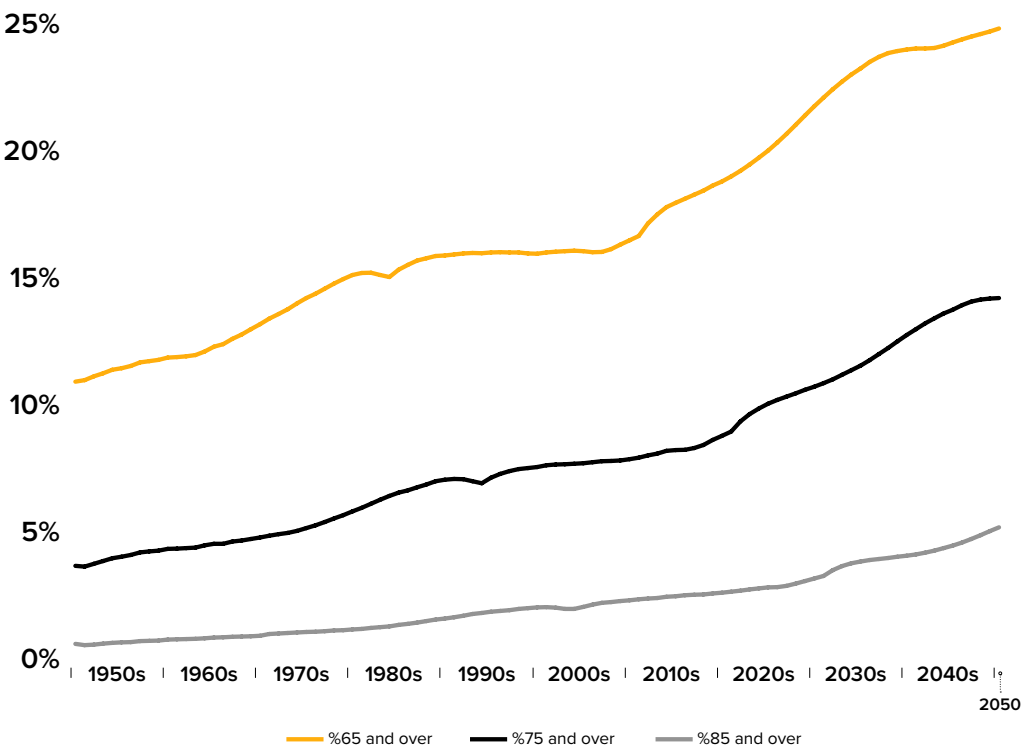
**While the details may differ, the goal of a comfortable later life is pretty much universal. The reality however is that this is increasingly unattainable for many.**

While the cliché of the final salary member, property-owning baby boomer has some truth to it, it is also true that many retired and soon to be retired people do not have sufficient pension and financial wealth for a comfortable later life. The defined benefit (DB) boom is ending, defined contribution (DC) pots are often inadequate and the state is creaking under the pressure of a dependency burden which is set to increase.

### Defining the scale of the problem

The UK population is ageing. The headlines are familiar but the pattern is still stark. By 2050 some 25% of the population will be aged 65 and over. Aged 85+ is the fastest growing group with numbers set to double to 5% by 2050.<sup>3</sup>

Percentage of people aged 65 years and over, 75 years and over, and 85 years and over, 1950 to 2050, Great Britain  
Source: ONS



<sup>3</sup> ONS – Living longer: is age 70 the new age 65?, 19/11/19 (Figure 1)

As the ratio between older and younger people shifts, the government faces a tax and spend challenge. Much of its revenue comes from three principal taxes, the burden of which fall predominantly upon those of working age: income tax (27%), National Insurance (20%) and VAT (17%).<sup>4</sup> However, spending is weighted towards the older population, with per capita spend for pensioners nearly double that of working-age adults thanks to the State Pension and the NHS.<sup>5</sup>

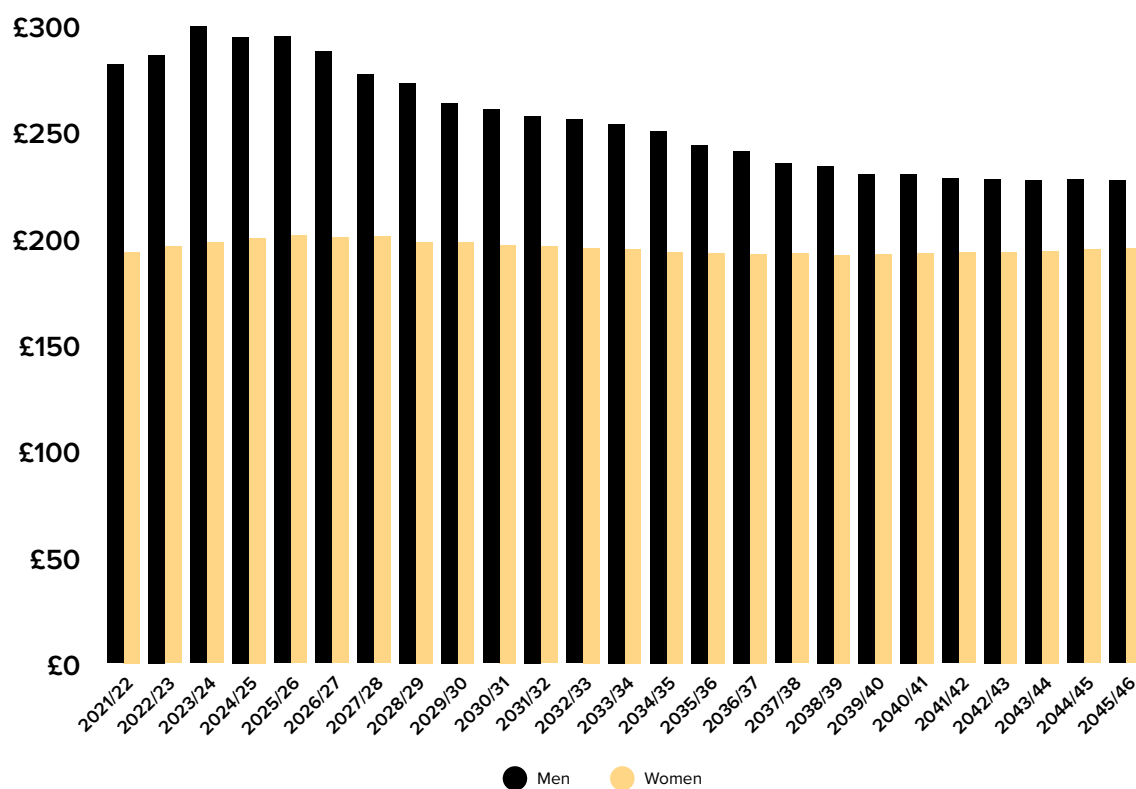
The UK is in a demographic headlock, with people living longer, the population getting older and the government having fewer and fewer (relatively) young people to pay for more and more older people.

All of which wouldn't be a problem if our retirement savings were in robust good health. Unfortunately, the UK's retirement savings are currently inadequate to meet the financial needs of retired people in this country. Some people are well provided for, but many are not. This problem is only set to get worse over the next 20 years.

Auto-enrolment is a hugely positive movement but is a long way off having a meaningful impact on later life income, especially if the lower income threshold and low contributions are maintained. The effect of waning DB pensions, on the other hand, is evident. While the retirement income gender gap is set to close over the next 20 years, this will largely be down to declining male income levels as DB falls away.<sup>6</sup>

Total projected pension for newly retired men and women (£ per week, 2021 earning terms)

Source: LCP



<sup>4</sup> Institute for Fiscal Studies – Composition of government revenue: 2021–22 forecast, 09/06/21

<sup>5</sup> Intergenerational Foundation – Age Bias: how government spending is skewed against the young, 31/03/21

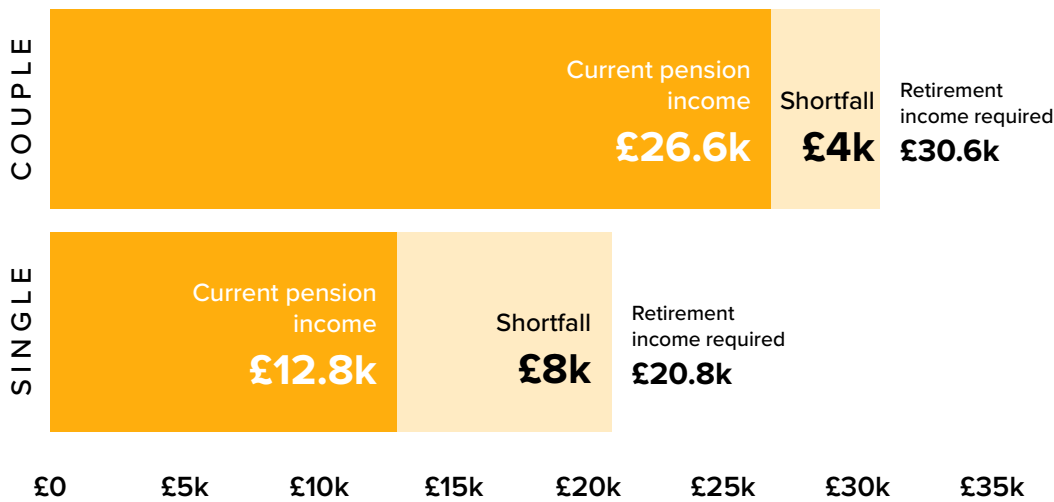
<sup>6</sup> LCP – The Ski-Slope of Doom – is this the most worrying chart in pensions? 21/04/21

**‘Comfortable’ is more of a stretch than it might sound**

One person’s idea of comfortable might be barely tolerable to another, or luxury to someone else. Quantifying levels of later life income is helpful and the Pensions and Lifetime Savings Association (PLSA), with the help of Loughborough University and the Joseph Rowntree Foundation, has done just that.<sup>7</sup> Detailed spending analysis informs approximate standards of living across three levels of income for couples and individuals.

PLSA retirement living standards			
	Minimum	Moderate	Comfortable
<b>Couple</b>	£16,700	£30,600	£49,700
<b>Single</b>	£10,900	£20,800	£33,600

When we compare these levels with actual current pension income data the picture is concerning.



According to the ONS<sup>8</sup> median in-retirement household income sits somewhere between minimum and moderate on the PLSA scale. Comfortable is a long way off. For female pensioners and couples over the age of 75, the income position is even more precarious. These are of course, median figures and by definition some will have incomes above these amounts and many below.

The increasing pressure on the state is demonstrated in some 37% of couples’ and 56% of single people’s later life income being funded by benefits, primarily State Pension. Around a third (35% and 29% respectively) comes from occupational and personal pensions.<sup>9</sup>

<sup>7</sup> PLSA - Retirement Living Standards 12/10/21  
<sup>8</sup> ONS - Pensioners’ Income Series: financial year 2020 to 2021, 31/03/22  
<sup>9</sup> ONS - Pensioners’ Income Series: financial year 2020 to 2021, 31/03/22 (Table 2.1)

According to ONS data, median after tax household incomes in retirement are around £26,572 for a couple and £12,792 for a single person. To put this into perspective, the shortfall between the PLSA's moderate income and the actual median incomes received amounts to a little over £4,000 a year for a couple and around £8,000 a year for an individual.

Multiplied across the roughly

**12.5 million**

retired people in the UK,

the aggregate annual shortfall in retirement incomes today already amounts to around

**£48.4 billion**  
a year.

The single biggest cost many of us will face – and one which is notoriously unpredictable – is long-term care. It can become a necessity at any time, but we'll focus here on later life care.

### Social care concerns act as a barrier to optimising housing wealth

This isn't the time or place to get into the detail of the government's social care policy, so we'll restrict ourselves to two points. First, individuals of modest wealth may still have to spend a significant portion of that wealth providing for their care in the last few years of their lives. Second, falling ill and needing to pay for care is the biggest financial concern in retirement for 37% of homeowners over the age of 55.<sup>10</sup>

### Estimating the need to pay for care is half the problem

Independent think tank, The King's Fund, sums up the dilemma: "The lifetime costs of adult social care for older people varies considerably according to the level of their need....it is very difficult to predict which individuals will have the greatest needs (for example, those who will develop dementia) so costs are very hard to prepare for."<sup>11</sup>

- ▶ In 2020/21 the average cost of a local authority-funded care home place in England for over 65s was £751 per week (2019/20: £679). Home care services cost an average of £18.44 an hour (£17.48)<sup>12</sup>
- ▶ Estimated costs for self-funders are 41% higher than the costs paid for by local authorities<sup>13</sup>
- ▶ The Department of Health and Social Care estimates that one in seven of those aged over 65 will face care costs of more than £100,000 over their lifetime<sup>14</sup>

<sup>10</sup> ERC – The Pension/Property Paradox: moving beyond tunnel vision in retirement planning, March 2020

<sup>11</sup> The King's Fund – Key facts and figures about social care

<sup>12</sup> NHS – Adult Social Care Activity and Finance Report, England – 2020/21, 21/10/21

<sup>13</sup> The King's Fund – Key facts and figures about social care

<sup>14</sup> IFS – Does the cap fit? Analysing the government's proposed amendment to the English social care charging system, 07/02/22

Faced with this unquantifiable yet very real risk the two likely responses are:

- ① Holding wealth as protection against future risk, or;  
.....
- ② Not saving in the first place, with greater spending earlier in life.

Both strategies could result in a lower standard of living in retirement, either because wealth isn't used when needed, or because it isn't accumulated in the first place.

Government reforms to the care system in England will introduce greater certainty around risk and cost but individuals could still find themselves facing care bills in the tens of thousands of pounds.

**Key characteristics of England's new social care system:**

- ▶ Anyone with assets in excess of £20,000 will have to pay at least some of their care costs
- ▶ Anyone with assets in excess of £100,000 will have to pay all their care costs
- ▶ Personal payments towards the cost of care are capped at £86,000, excluding any means-tested council support
- ▶ Daily living costs (residential, as opposed to healthcare) are assumed at £200 a week and are not counted towards the £86,000 cap
- ▶ While the proposed new system will protect against complete loss of wealth, those with moderate levels of wealth stand to be the worst affected. Someone with £110,000 in assets could lose up to 78% of their wealth in care costs compared to someone with £500,000 losing just 17%<sup>15</sup>

<sup>15</sup> IFS – Does the cap fit? Analysing the government's proposed amendment to the English social care charging system, 07/02/22

## Where do we go from here?

What we need is clearly articulated government policy linking social care, retirement income, inheritance planning and the consumption of housing wealth in later life. Given the obvious interconnectedness of these issues and the huge relevance they have for so many people's lives, this seems a bit of an oversight.

## We're now faced with three possible solutions

- ① Progressively load the burden of paying for retirement more and more heavily on younger generations

---

- ② Accept steadily increasing poverty in retirement

---

- ③ Use alternative assets, in particular people's housing wealth

Of these three options, the only one that is both robust and socially and politically acceptable, is to look to housing wealth. Many younger generations already feel hard done by relative to the baby boomers who have preceded them. Not only have they missed out on the guaranteed incomes of final salary schemes, they are burdened by huge student debts and are also finding it progressively harder to get on the housing ladder.

The country as a whole is staring down a major cost-of-living crisis. Fuel bills are soaring and inflation is hitting record levels. The Treasury is proposing to increase taxation, which will predominantly squeeze those of working age a little harder to prop up the NHS and social care. Times are getting harder for everyone and increasing levels of poverty are already a growing concern.

Which leaves us with tapping the potential of housing wealth (for those that have it available to them) to help fund later life income.

## Freeing the flow of intergenerational wealth

**While our primary concern is improving the financial wellbeing of the UK's older population, making greater use of home equity also has the potential to accelerate the cascade of wealth down through the generations.**

### The inheritance timing issue

In the UK the median age at death between 2018 and 2020 was 82.3 years for males and 85.8 years for females. The most common age at death was 86.7 and 89.3 years respectively.<sup>16</sup>

People living longer (and hopefully healthy) lives is good news, but from an inheritance perspective this creates a timing issue. Someone receiving an inheritance from their parents will typically be in their 50s or 60s. Even by skipping a generation with assets willed directly to grandchildren, in many cases they'll already be in their late 30s.

This is a 21st century problem and we've yet to work out how best to deal with it. But what we can be sure of is that the 20th century approach of preserving capital in the form of housing wealth until the homeowner dies and only then passing that wealth on to family members is no longer an effective approach for more and more families.

Longevity into people's 80s and 90s is a modern phenomenon. The house price boom of the past 40 years, coupled with a surge in home ownership is also a modern phenomenon. The average age of first-time buyers in the UK is now 32.<sup>17</sup> This too is a consequence of higher house prices and an expansion of tertiary education. Raising a deposit has become an increasingly significant barrier to getting on the housing ladder, with increasing numbers of first-time buyers having to rely on financial help from older generations.<sup>18</sup> We need to take a step back and recognise that public policy, the financial system and people's expectations all lag behind the reality of the situation in which we now find ourselves.

Releasing some of the equity in a property allows older homeowners to choose when and how they share their wealth with the younger generation. This more targeted approach gives them greater control to use their assets to the maximum benefit at the point of need.

<sup>16</sup> ONS – National life tables: life expectancy in the UK 2018 to 2020, 23/09/21

<sup>17</sup> The Guardian – Average UK first-time buyer is now older than 30, says Halifax, 22/01/22

<sup>18</sup> Resolution Foundation – Hope to buy: the decline of youth home ownership, 2/12/21



### Our tax system doesn't help

Aspects of the UK tax system actively stifle the flow of intergenerational wealth. The inheritance tax (IHT) system encourages homeowners to retain their residential property wealth until death with an additional £175,000 IHT exemption in respect of an individual's main residence, where the value of it is passed to family members on death.

On the other side of the IHT coin, any wealth gifted to a family member is potentially liable to IHT if the donor dies in the subsequent seven years. The message from HMRC is simple: keep money in your house, don't pass it on.

Then there's the tax treatment of pension funds on death. Since the Pension Freedom reforms of 2014/15 unused DC pension pots can be passed on after death with relatively generous tax exemptions. No tax is payable where death occurs before age 75; after that point the recipient only pays income tax when they draw on the money. Any tax receipts for the Treasury are deferred for many years and may be non-existent. This is money that has been built up with the benefit of generous tax breaks during the saver's lifetime.

As a consequence, an adviser talking to a wealthy client about retirement income and IHT planning might actively encourage them to preserve as much wealth as possible in their pension because it makes sense from an IHT planning point of view.

The upshot is a tax system which helps people accumulate wealth (generally a good thing) but then discourages them from using that wealth in later life.

## Accessing property wealth could be an answer

**We've established that people are living longer, often with inadequate pension income and with the added concern of potential long-term care costs.**

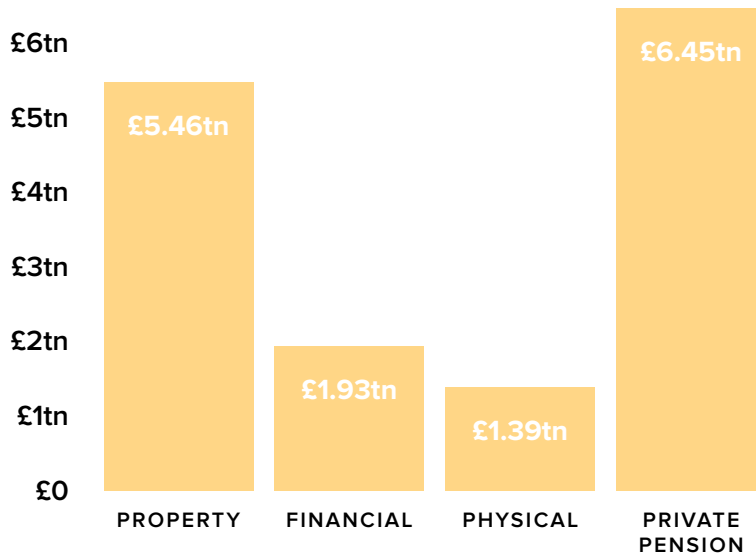
At the other end of the scale, the affluent in later life are actively encouraged to preserve their wealth in homes and pensions, shutting down the flow of assets during their lifetime to younger generations. A more judicious use of the wealth stored in people's homes could address both issues, with the UK economy also benefitting in turn.

**Additional income sources beyond pension savings will be necessary for many, and crucial for some**

For all the tax reliefs and savings incentives successive governments have thrown at the pension system, as a nation we've ended up with almost as much wealth tied up in our houses as we have in retirement savings and investments.

Household total wealth components - April 2018 to March 2020

Source: ONS



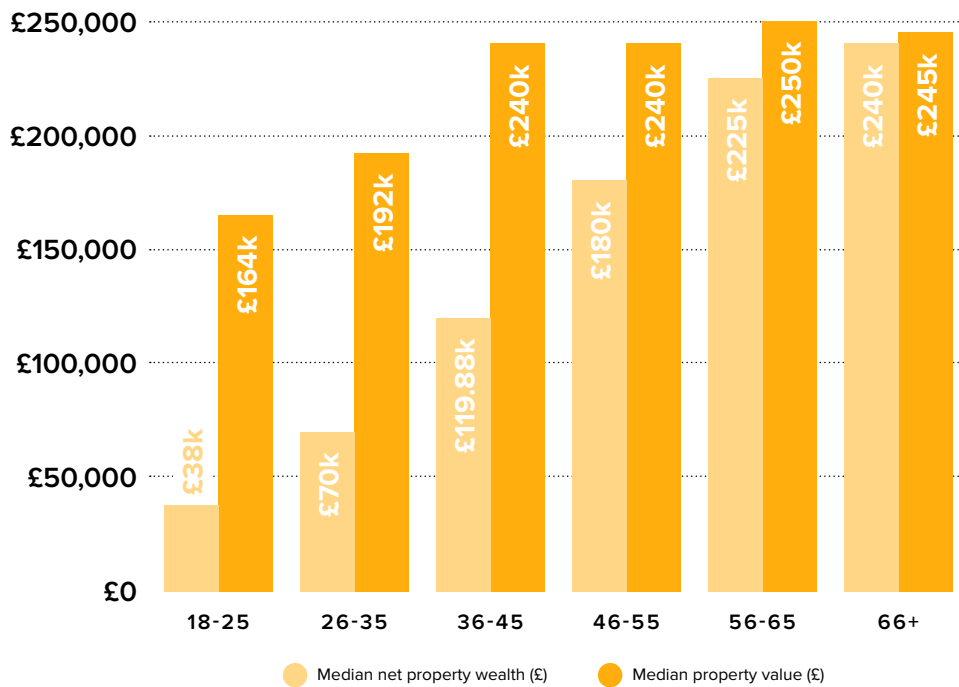
At the UK level there's £5.46 trillion sitting in property (up 7% from 2016/18) and £6.45 trillion in pensions (up 5%). For some, housing wealth actually exceeds pensions, savings,

investments and other assets such as cars or household contents. This was the case for the middle two deciles of the ONS's latest Wealth and Assets Survey.<sup>19</sup>

<sup>19</sup> ONS – Household total wealth in Great Britain: April 2018 to March 2020, 07/01/22

### Median net property wealth and value by age

Source: ONS



So how could housing equity help? Taking a very high-level view (and accepting the layers of granularity that sit beneath) we know a few things:

- ▶ over half of homeowners in England are aged 55 and above (35% are 65 and over)<sup>20</sup>
- ▶ property wealth is concentrated in the older cohorts with a median of £225,000 for ages 55 to 65 and £240,000 for 65+<sup>21</sup>
- ▶ around 70,000 customers use equity release each year, accessing £4.5 billion. Since 1991 ERC member providers have lent £38.7 billion to 592,000 customers. Typical LTV limits range from 20% (for those in their 50s) to around 50% for those in or above their mid-80s<sup>22</sup>

A retired (age 65 and over) population of 6.87 million households,<sup>23</sup> with the median property wealth noted suggests equity release has barely scratched the surface. And then there are the 700,000 or so people due to reach State Pension age this year alone.<sup>24</sup>

There's clear scope for market growth which could have a broader positive impact. For example: if an extra 100,000 people a year borrowed £50,000 each, that's £5 billion potentially finding its way into the economy each year.

<sup>20</sup> Statista – Distribution of homeowners in England in 2021, by age, December 2021

<sup>21</sup> ONS – Property wealth in main residences by HRP age: Great Britain July 2010 to March 2018, 13/07/21

<sup>22</sup> ERC – Autumn Market Report 2021, 23/09/21

<sup>23</sup> ONS – Estimates of the numbers of households (and people in households) by the mix of age groups and number of people aged 65 and over, UK, 2019, 21/04/20

<sup>24</sup> Legal & General – 700,000 to reach retirement age in 2022: seven things to consider for people approaching this milestone, 04/01/22

### Investment planning

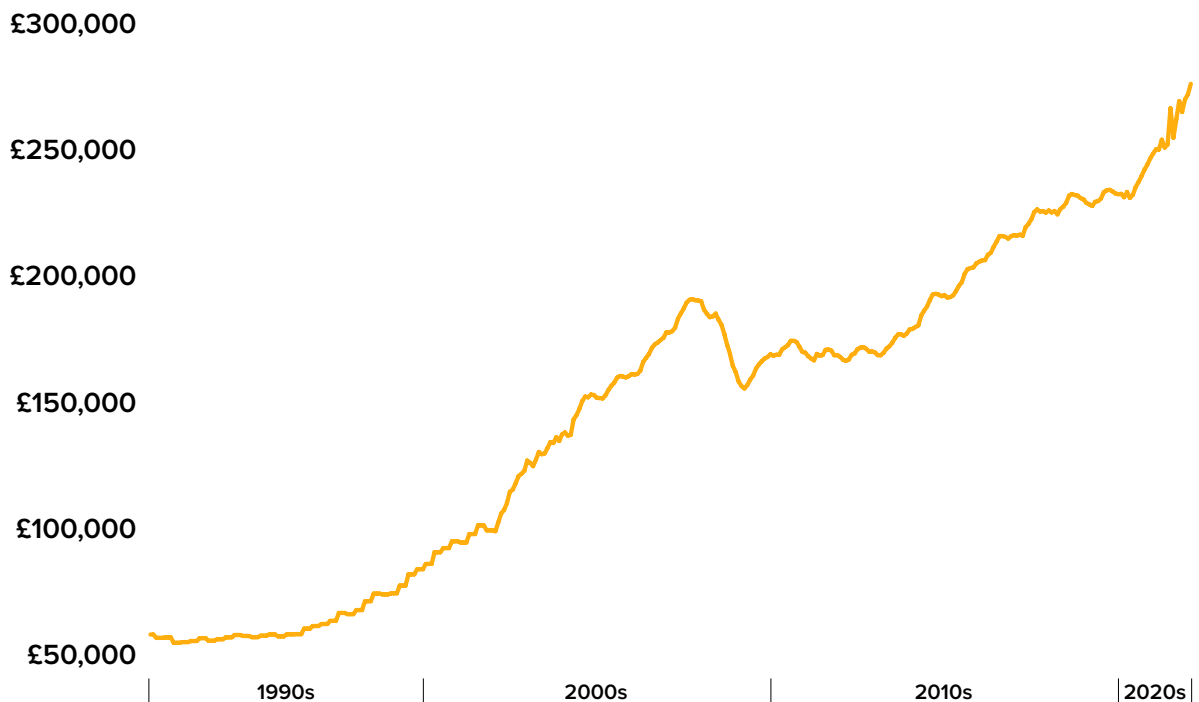
A common concern among the advisers we spoke to is that equity release customers do not understand compound interest and the risk of borrowing against their home with interest rolling up. This is a genuine risk and one which should be fully explored with the customer.

FCA rules govern the growth assumptions used to illustrate the potential future values of equity-backed investments. An equity release customer receives an explanation of the rising debt and the financial consequences

of this. Yet there appears to be less discussion about the potential change in property value; with projections simply showing an annual increase or fall in the property value of 1% a year. Past performance is not a guide to future performance and there's no excuse for overpromising on returns, but the omission of a meaningful discussion around the potential for an increase in property values is at odds with what we all know of the housing market. The compound annual growth rate for UK property over the last 30 years works out at over 5.5% a year.<sup>25</sup>

Average price by type of property in United Kingdom (all properties)

Source: UK Land Registry



While there are risks, both from accumulating debt and from falling property prices, there is a reasonable chance that over a period of 10 years or more the value of the property will increase faster than the debt will roll up; in effect, in LTV terms the customer will owe

a lower percentage at the end of the term than at the beginning. The equity release sector appears to be at pains not to overplay any possible upside, to the point of almost omitting it entirely.

<sup>25</sup> Land Registry – UK House Price Index, May 2022

## Lifetime bequests

As one adviser put it to us, “better to give with a warm hand than a cold one”.

A retired 70-year-old couple, living in a home worth £300,000, who borrowed £50,000 to either give, or lend to their grandchildren, with a fixed interest rate of 3.89% (typical equity release interest rate applicable in mid-May 2022) would see their debt increase after 18 years (roughly their current life expectancy) to around £99,500.<sup>26</sup>

Over that same period, it's likely their property would increase in value; even if it didn't, the debt-to-property ratio would still be only around one third. If their property increased in value by just 1% a year, it would be worth around £350,000, while if it fell by 1% a year, it would still be worth around £250,000.

In the meantime, their two grandchildren, aged in their early 20s would be able to buy their first homes now rather than possibly waiting for any bequest until they were around the age of 40, or later should their parents inherit first.

## Supplementing retirement income

Borrowing the same £50,000 would lead our 70-year-old couple to the same debt of around £99,500 by the time they reached their late 80s. But that debt would still be equal to only around a third of the value of their house, assuming it did not increase in value at all. In return, that £50,000 placed in the bank or invested and drawn down at £200 a month could last for around 20 years.

This isn't a fast track to affluence. It's about increasing the level of comfort people can enjoy in retirement; that £200 per month could help bridge the gap between the ONS median level of income and the PLSA's moderate income.

Both the scale and the scope of the opportunity here are significant. But, for a combination of reasons, we're failing to adequately engage with property wealth as a solution to our current financial challenges.

Public policy is a major hurdle here. We'll come back to that a little later. For now, let's consider how consumers feel about accessing housing wealth during their lifetime and some of the factors influencing their thinking.

<sup>26</sup> Based on data from Responsible Life, May 2022

## Consumer engagement requires a fundamental shift in attitudes

**The core challenge in establishing housing wealth as a potential later life income stream is that, for many, it's an alien concept. Those who are aware tend to view it with suspicion through a lens which is 30 years out of date.**

Putting that aside for a moment, how might a homeowner go about accessing their housing wealth for income?

The two main options are:

- ① Downsize by selling their home and moving to a smaller, cheaper property to release capital and reduce ongoing living costs
- ② Stay in their home but use an equity release arrangement to access capital or income, borrowed against the value of the house, to be repaid after death

While these will account for most cases there are alternatives. For example, renting a room out or letting the whole home and either renting a lower cost property or staying with family.

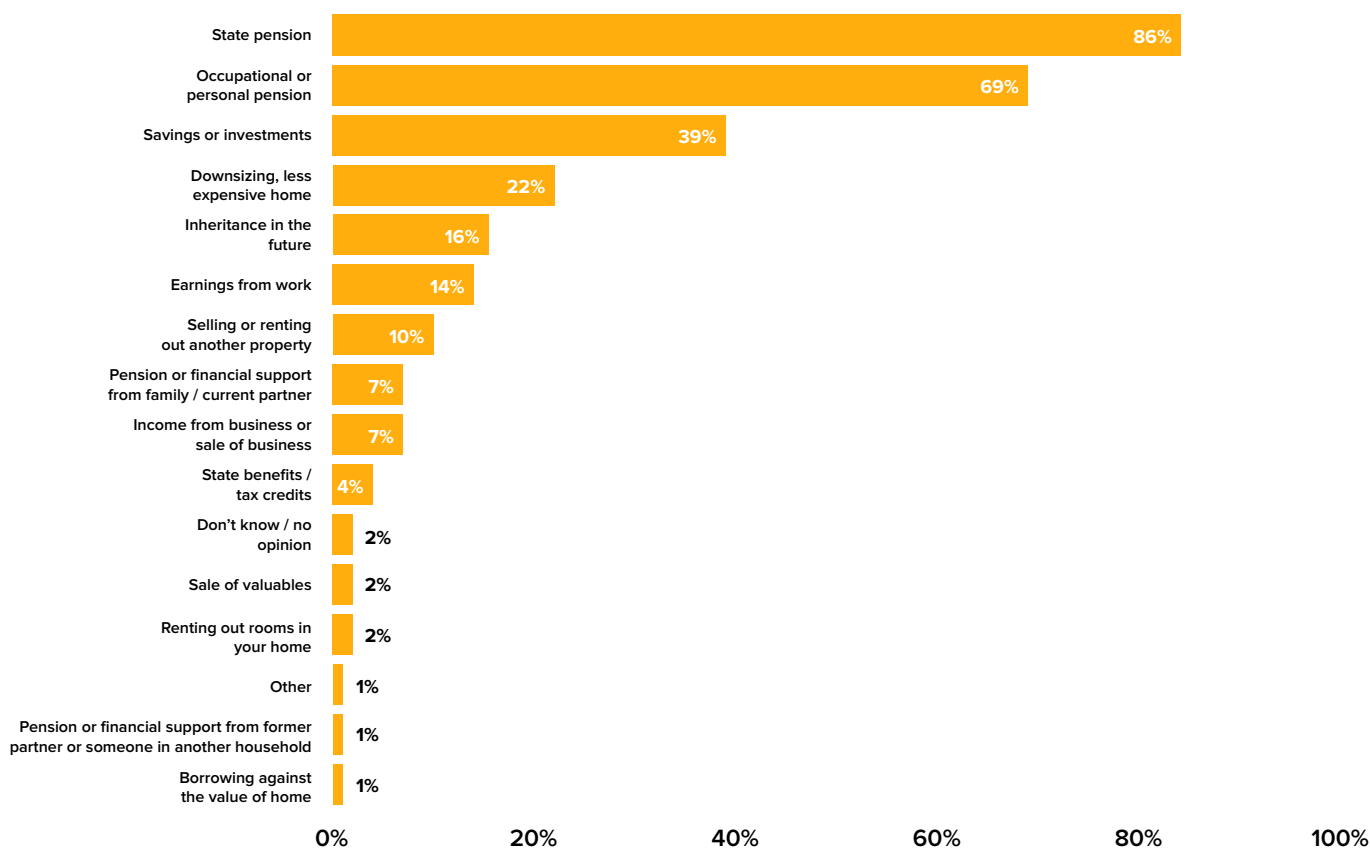


## Housing wealth is low down the list of potential retirement income sources

So, how do UK adults really feel about using their home to fund retirement?

*Which of these options do you expect to use to provide money for your retirement?*

Source: ONS Wealth and Asset Survey<sup>27</sup>



Quite rightly, people's expectations are mainly anchored to state and private pensions. After that, savings and investments are going to be doing some heavy lifting, given their relatively limited contribution towards overall wealth.

Downsizing is by far the most popular property-related option. We wonder though how informed this score is. In how many cases had respondents given it real consideration as part of a financial plan rather than it being an assumption with no thought or research behind it?

Way, way at the bottom of the list we have borrowing against the value of the home. If this is the equity release industry's starting point it has a lot of work to do. Our question here is whether including the term 'equity release' would have influenced the score at all. Possibly not.

We can set the overall figures against research published by the Institute for Fiscal Studies (IFS) in 2018, which found that 30% of those at the point of retirement anticipated making use of the wealth stored in their home to help fund retirement.<sup>28</sup> It didn't specify *how* but isn't a million miles away from the ONS data.

<sup>27</sup> ONS – Early indicators from the Wealth and Assets Survey, 04/08/20

<sup>28</sup> IFS – The use of housing wealth at older ages, 11/06/18

### Downsizing to release cash may not be the objective

The IFS also reported that 40% of homeowners over the age of 50 can be expected to move house during their lifetime. This makes the ONS stat look a little light. However, while moving house will likely free up money, it tends not to be the primary motivation. More commonly that's being closer to family or changing housing needs. The pandemic has reinforced this trend with reasons to move including a better quality of life and being closer to friends and family. Some 9% of over 50s who have yet to retire said they are now more likely to use their property wealth to fund their lifestyle than before the pandemic.<sup>29</sup>

However it may come about, the reality up to now is that downsizing may not release much wealth. The IFS puts the median sum released by 'downvaluing' at £13,800 (8.5% of property value). Age group is the key factor here with the median ranging from £3,600 (3%) for those aged 50-59 to £49,100 (25%) for the over 80s.

### Equity release is a more contentious prospect

While there is evidence to suggest people may actually be quite keen on equity release, we approach (and present) it with caution. Canada Life (a major provider of equity release products and so perhaps not wholly unbiased) suggests 30% of over 55s who have DC pensions, plan to use equity release to supplement their retirement income. Curiously those with larger pensions are more likely to do so than those with smaller pots (42% compared to 27%).<sup>30</sup> It may be that those who have set aside more for retirement are more likely to be aware of and open to other potential income sources, but we don't know.

Similarly, research from the ERC (again, not exactly neutral) shows 47% of homeowners over 60 and 57% across all ages would be interested in accessing money from the value of their property in later life.<sup>31</sup>

### There's a clear disconnect between parents and children around using housing wealth for income

There are important questions around people's expectations and wishes for their family members. The lang cat commissioned YouGov<sup>32</sup> to research how UK adults feel about potential inheritances, leaving money to their children and whether they agree with their parents using housing wealth in retirement.

When asked why they would not use an equity release product the main answers given were:

**32%**

I don't expect to need to use equity release

**23%**

I want to pass the house on to children/grandchildren

**22%**

I wouldn't feel comfortable using equity release

**21%**

Prioritise leaving inheritance for my children over using housing wealth for my own benefit

**21%**

I would rather downsize

<sup>29</sup> Property Reported – A year of lockdowns driving 3 million over-fifties to relocate, 08/06/21

<sup>30</sup> Actuarial Post – Third of pension savers to release equity from their homes, 18/02/22

<sup>31</sup> ERC – Home advantage: Intergenerational perspectives on property wealth in later life, 18/08/21

<sup>32</sup> All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,095 adults. Fieldwork was undertaken between 26-27 April 2022. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+)



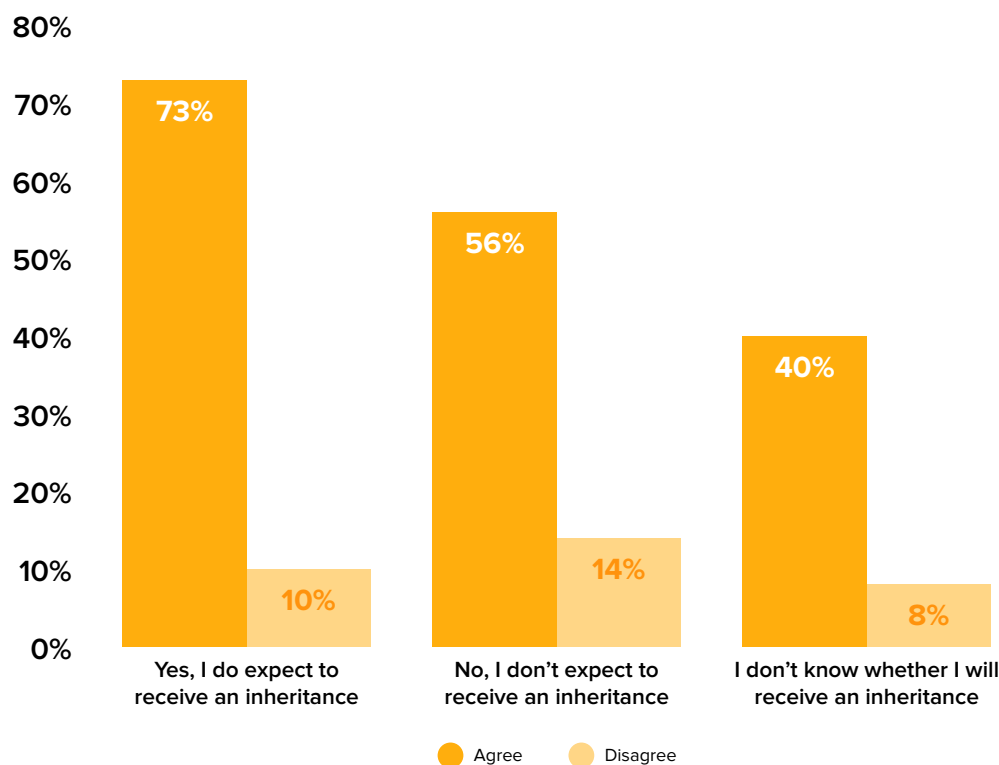
So the primary motivations for not using equity release are a lack of perceived need and protecting their property for others to inherit.

This throws subsequent YouGov findings into sharp relief. When asked whether they would be happy for their parents to use some of the money in their house to improve their quality

of life, the response was strongly positive with 61% of those with parents agreeing compared to just 11% who disagreed. In fact there was greater enthusiasm among those expecting an inheritance (73%), which would arguably include at least part of that property value, than those who don't (56%).

*I would be happy for my parents to use some of the money in their house, if they needed more money to improve their quality of life in retirement*

Based on UK adults that have parents



Almost half (48%) would be content to give up 90–100% of their expected inheritance to see their parents enjoy a happy and comfortable retirement.

When we tested people's understanding of how equity release mortgages work, we got a lot of don't knows (58%) and wrong answers, for example on issues like negative equity

(17%), whether you can remortgage (11%) and interest rate guarantees (14%).

Our conclusion from this research is that there is still a lot of misunderstanding around equity release, both in terms of how products can help people and also how family members might feel about their using housing wealth in this way.

### Transaction costs are a potential deterrent

Whether we're talking about downsizing or equity release the higher the frictional costs that eat into the overall value of doing something, the less likely people are to want to go ahead.

As well as the interest charged on a loan, which itself tends to be higher than a standard mortgage loan, advisers report typical **equity release** costs look something like this:

Adviser commission:  
**Around £1,500**

Legal fees:  
**Around £750 – £1,000**

Product fee:  
**Around £750 – £1,000**

All in, a borrower can expect to pay in the region of **£2,500 – £3,000 in transaction fees**. This might not seem too bad, relatively if you're borrowing, say, £100,000 but for a more modest equity release (£25,000 for example), it could be off-putting.

It's also true though, that equity release costs are a victim of their own failure. Thanks to the persistent widespread caution around the use of housing wealth and the belt and braces safeguards that have been put in place to protect consumers, equity release products and their distribution now cost more than would be the case for other comparable mortgage or investment products.

The equity release sector is far more competitive than it used to be. However, we think more could be done on the part of product manufacturers in particular to benefit customers. This will become especially relevant if, as expected, we see interest rates continue to rise in the immediate future. The onus will be on the equity release industry to continue to find more cost-efficient ways to meet consumer needs and to provide customers with well-designed, flexible and competitively-priced products and services.

With **downsizing** too, there are significant transaction costs to consider. Take the example of someone moving from a house worth £250,000 to one costing £180,000:

Estate agent fee:  
**Typically in the region of £2,500**

Stamp duty:  
**£1,100**

Legal fees:  
**£500 – £1,000**

Removal costs:  
**£1,000**

There are always additional costs involved in moving house, even if you keep new furniture purchases to a minimum. For a move like this, you're likely to end up losing between **£5,000 and £10,000 in costs**.

Increasing downsizing transaction costs by £1,000 reduces inclination by 19%.	Increasing equity release costs by £1,000 decreases inclination by 23%. <sup>33</sup>
---	---

<sup>33</sup> French, McKillop and Sharma – What determines UK housing equity withdrawal in later life? 2018

### **Very few homeowners are actively seeking to release their housing wealth**

What people 'would' do isn't always a good indicator of subsequent activity. The ERC found that over a third of homeowners aged 55+ haven't sought out information and/or advice on later life planning. Only 19% of those who have were prompted to consider property wealth as part of their plan.

Market turnover hovers around 70,000 to 80,000 customers a year, with a little over a half of that new business and the rest further withdrawals. By value, the total amount lent to customers has varied between roughly £4 billion and £5 billion a year.<sup>34</sup>

By comparison, around 600,000 people a year access their DC pensions.<sup>35</sup>

It's hard to see any material change happening without some kind of intervention to address people's perceptions and understanding

---

<sup>34</sup> ERC – Equity release activity climbs 24% year-on-year to £4.8bn as market returns to growth, 25/01/22

<sup>35</sup> FCA – Retirement income market data 2020/21, 09/12/21

## The advice sector is stuck in a perception loop

**Advisers and wealth managers are among the primary gatekeepers of using housing wealth in later life; regulated advice is an essential part of the process. We spoke to a range of advice professionals with different business models and client types to get their perspective and, importantly, their take on the perspective of others.**

A few clear themes emerged:

**Low take-up is part of a cycle** – only around one in 10 of those we spoke to actively use equity release. Most aren't qualified to advise on it and don't see it as part of their daily activity. Because they don't see equity release as central to their role, most haven't felt it worthwhile to invest time in the qualifications necessary to advise clients.

“ *If a typical client of mine ended up having to use equity release, I'd see it as I'd failed in the planning process.* ”

**Equity release is considered a specialist activity** – even the minority of advisers who are active proponents of equity release will typically hand off customers to a specialist to advise the customer on the transaction. We spoke to a couple of professionals who are qualified, but even they prefer to work with a specialist equity release adviser.

“ *Are you competent if you only do one or two cases every few years?* ”

**There's a silo effect at work** – equity release is regulated as an extension of the mortgage market, which makes sense because technically it is a mortgage. From the perspective of advisers though, that means it's not treated as an investment and income product alongside the other financial arrangements they typically advise

on and have built their business models around. Equity release may not fit naturally into existing administration systems and fee charging structures.

“ *You do lose a bit of the process where the client is referred out.* ”

**There's no clear consensus on how and when to use equity release** – most advisers we spoke with see equity release as suitable in at least some scenarios, but there was little agreement. Looking across a range of scenarios including IHT planning, gifting to children, supplementing retirement income (either due to a shortfall or as a tax planning solution for the wealthy) and funding later life care, for every adviser that would, another definitely wouldn't. This may be true of all financial planning but it struck us particularly here.

“ *It can be such a clever idea and such a good product in the right circumstances.* ”

**Reputational issues are a challenge** – most advisers cautiously recognise that equity release products and services are now largely fit for purpose. However, the general belief is that other people think it still has a poor reputation. There is some justification to this, in as much as many advice clients do still have a deeply ingrained wariness both of taking on debt later in life in general, and of equity release products in particular.

***Because of my history I'm absolutely against equity release. I know the rules are different and I know things are better now though.***

“ This forms one of the core barriers the equity release market faces in normalising the use of housing wealth to fund later life income.

### **Long shadows are holding back progress**

We got a real sense (albeit from a limited sample) that, in the main, advisers are starting to see equity release in more neutral or even positive terms. The problem is they think most other people, both other advisers and potential customers, see it in a negative light. There's a self-perpetuating cycle here that lies at the heart of the problem.

The sector's turnover is constrained by an outdated reputation; people's perceptions of products and advice haven't caught up with the changes of the past 20-plus years. The general perception of equity release is a fringe activity that isn't relevant for most people; so most don't seek out information about it or in the case of advisers, advise on it; so not many equity release transactions take place; so its reputation doesn't change; repeat to fade.

“ ***There's absolutely space for a more ethical, transparent provider.***

Most people don't have an ongoing relationship with an adviser; according to OpenMoney's latest Advice Gap Report only 7% of UK adults have paid for financial advice in the last two years.<sup>36</sup> The advice sector is in good health and unless something changes, such as an increase in demand for equity release or a change in regulation or taxation, it's probably both unrealistic and unreasonable to expect any significant behavioural change.

“ ***I don't think we're quite at the stage with demographics where it feels mainstream yet. The people who need these products aren't the ones getting advice.***

<sup>36</sup> OpenMoney – The Advice Gap 2021, January 2022



### The curious incident of the regulator

So, we've got a consumer need, people could benefit, society could benefit, the economy too but customers aren't buying and advisers aren't recommending. This begs the question of what the policymakers, regulators and politicians are doing.

Mortgages, including equity release, have been regulated since 2004. Past FCA reviews of advice in this sector were focused on the suitability of advice given – a key criticism being the failure to adequately personalise advice recommendations. This may well be valid but it fails to address the broader issue of 'the dog that failed to bark in the night': the problem is not so much the advice given, as the advice *not* given.

The FCA regulates equity release as an extension of the mortgage market. Regulation is siloed and currently, equity release sits in the mortgage silo. The regulator's interest in equity release is whether a mortgage adviser has given their customer suitable advice in relation to the loan they have arranged. In this respect, as far as we can tell they are doing a good job.

There is no explicit obligation for an adviser dealing with a customer in their 60s and older to advise on the consumption of housing wealth, even when advising on retirement income needs. The FCA expects advisers to take all relevant personal and financial information into account. However, it doesn't appear that an adviser overlooking the option of accessing housing wealth and instead focusing solely on pensions and other financial assets is likely to risk censure from the FCA.

This is an illustration of the perennial problem: the FCA is not held accountable for the good outcomes its regulation fails to encourage, only for the bad outcomes it fails to prevent.

The forthcoming introduction of the Consumer Duty may serve to change this dynamic. It will strengthen the regulatory pressure on advisers and product manufacturers to make sure their products and services meet customers' needs. In particular the Consumer Duty is intended to require firms to act in good faith towards retail customers, avoid foreseeable harm and enable them to pursue their financial objectives. All this would seem to point towards the need to take greater account of equity release in the future; it remains to be seen how this will play out.

## Government policy around housing wealth isn't clear

**Beyond the 2019 pledge that “nobody needing care should be forced to sell their home [in their lifetime] to pay for it”<sup>37</sup> the government appears to lack a clearly articulated policy for the use of housing wealth in later life.**

This is understandable to some extent; considered policy would touch on various government departments, including the Treasury, the Department for Levelling Up, Housing and Communities, the Department for Health and Social Care and the Department for Work and Pensions.

### **The government's preferred path fails to take account of key issues**

In as much as the government does have a preference, it appears to favour older people downsizing rather than remaining in their home. The thinking is that older people moving out of larger houses frees them up for younger, growing families. It also, coincidentally, generates more stamp duty from the turnover of property.

This fails to take account of several issues:

- ▶ The lack of suitable later life housing
- ▶ The high price of specifically 'older age' property
- ▶ The costs of moving house
- ▶ The relatively low sums of money released through downsizing
- ▶ People's general reluctance to uproot from their home, situation and community

### **Positive action must come from the top**

It's striking that apparently so little political thinking has been devoted to a dynamic that's been decades in the making. The UK has anticipated with considerable certainty our ageing population, the concentration of wealth in baby boomers, the developing inadequacy of our pension provision and the shortage of appropriate housing. Why is the government not addressing the collective outcome? This isn't a new phenomenon. But it is becoming increasingly pertinent with the inaccessibility of housing to younger generations and the perennial failure of our regulator to foster a culture and marketplace for financial engagement and effective long-term planning for the wider population.

The government talks about levelling up and undoubtedly it is looking for ways to mitigate the cost of living crisis. It seems an easy win for the government to take another look at equity release and to consider the role it could play in easing some people's financial pressures.

In 2015 the government introduced Pension Wise alongside the new pension freedoms. This was done to protect DC pension investors from the risk of poor decision making around their retirement savings. Similar risks exist in not using housing wealth effectively, and for many their housing wealth is many times greater than the value of their DC pension. We haven't done an economic analysis so we're not going far down this road, but it looks to us as if equity release has the potential to do some good for more people. But that can only happen within the structure of appropriate policy or regulation.

<sup>37</sup> BBC – Social care: will people still have to sell their homes? 8/9/21

## Conclusions and recommendations

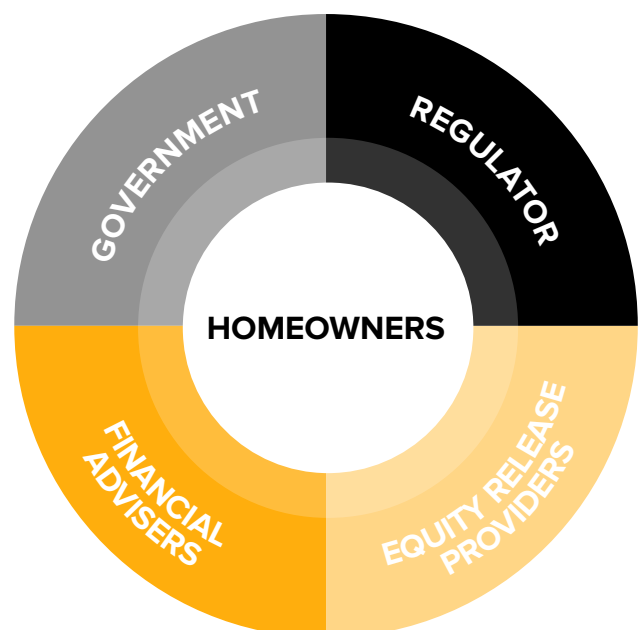
**There are good reasons to move on from where are now: to improve people's standard of living in retirement; to help younger generations now, rather than in another 20 years' time, to deliver more efficient tax planning outcomes for clients and to give the economy a boost. It is in everyone's interests to create a new approach.**

All this good, however, is matched by challenges:

- ▶ Retired property owners have understandable reservations about using housing equity as part of their financial planning in retirement
- ▶ The majority of advisers have successful businesses and aren't under pressure to actively incorporate housing wealth into their advice process
- ▶ Equity release lenders struggle to reach consumers, despite the introduction under the ERC of standards to remedy past failings
- ▶ The FCA can claim to be doing a good job of making sure all equity release arrangements are compliant; but it doesn't regulate what doesn't happen
- ▶ The government can claim to be fixing pensions, legislating on social care and levelling up around the country, without doing anything about the use of housing equity

Without collaborative effort to normalise the planned drawdown of housing wealth in later life where appropriate, we think it's unrealistic to expect anything will change.

We've set out some measures we think will help. These are individual and directed at the various players we've addressed throughout this paper but, to be clear, this isn't an issue that can be successfully tackled on an individual basis. We think it's imperative to get all relevant parties together to agree and develop a new strategy. That will be the first step in evolving housing wealth from the asset of last resort to a normal facet of mainstream financial planning.





## The government

Despite the accelerating effect of soaring house prices and a culture of failing to prepare adequately for later life, the government seems either unconcerned or unwilling to act. Neither is reassuring.

### Recommendations

- ① Relevant government departments to meet with industry, regulatory and consumer representatives to collectively agree a blueprint for what the well-functioning use of housing wealth in later life might look like

---

- ② Housing wealth to be incorporated into the Pension Wise guidance process

---

- ③ The Money and Pensions Service to encourage holistic wealth planning from mid-life onwards, including the option to consume housing wealth, when appropriate

---

- ④ Consider scrapping the £175,000 home allowance element of the IHT exemption

---

- ⑤ Encourage the FCA to actively regulate to deliver positive outcomes and not simply to prevent negative ones

## The FCA

For all that equity release is technically a mortgage product, when looked at in terms of what it does for people, it sits more naturally in the advice and planning space. It's not the FCA's job to create markets for the private sector, however good regulation should encourage good outcomes and not simply prevent poor ones. Current regulation does very little to encourage the consideration of housing assets within the provision of later life wealth advice. Without a change in tone from the regulator, equity release is likely to remain a niche activity.

### Recommendations

- ① The regulation of equity release to be treated as more than simply a subset of mortgage regulation; it should also be regulated as an integral component of investment and income planning in later life

---

- ② Conduct of Business rules (e.g., COBS 9.4) to be made more explicit in requiring advisers to actively take account of housing wealth as part of their suitability recommendations when advising clients in later life

---

- ③ Advisers required to complete equity release CPD training on an ongoing basis, where relevant to their advisory activities, to make sure they're better able to identify and act on situations where it is likely to be suitable

---

- ④ Where advisers are providing a client with an holistic financial plan in retirement, they explicitly state whether they are taking account of housing wealth in their recommendations

### The advice community

Advisers help people make the most of their money and use their wealth to live the lives they want. We're not suggesting advisers and planners should be obliged to advise on equity release or indeed to take the relevant qualifications. We do, however, think awareness and understanding could be improved. Advisers also have a role to play in improving consumers' understanding of the role equity release can play in later life financial planning.

#### Recommendations

- 1 Make sure back-office systems can accommodate housing wealth as an asset when advising clients
- 2 Build housing wealth decumulation into cashflow recommendations where appropriate when advising clients about retirement income
- 3 Where appropriate, undertake CPD activity to ensure familiarity with equity release products and their uses
- 4 Advisory trade bodies take a lead in actively encouraging advisers to incorporate housing wealth and equity release into advice processes

### The equity release sector

Equity release providers, advisers and their representatives, in particular the ERC, have gone a long way towards rehabilitating the sector and fixing its past problems. However, while the sector is slowly growing, it's still a long way from fulfilling its potential.

We'd like to see the industry undertake an open and active engagement strategy, bringing together policymakers, regulators and consumer advocates to address whatever reservations may persist and agree a common strategy for the use of housing wealth in later life.

#### Recommendations

- 1 Address remaining product shortcomings; be honest about the risks they could pose for customers
- 2 Develop regular income products to meet the needs of customers looking to use equity release to supplement their retirement income
- 3 Work with the FCA, the Treasury and other government departments to develop and articulate a coherent strategy on the consumption of housing wealth in later life
- 4 Produce guidance for advisers on equity release suitability across all relevant customer scenarios
- 5 Commission a detailed economic study to build out evidence of the fiscal and social benefits of a more developed approach to the consumption of housing wealth in later life
- 6 Work with suppliers, such as cashflow software providers and back-office systems to embed housing wealth and equity release products into advisory systems and processes
- 7 Develop a collective communications campaign, commit resources to it: address consumers' concerns and misunderstandings about equity release





# HOUSE RULES

JUNE 2022

© the Lang Cat Ltd 2022. The Lang Cat Ltd is registered in Scotland (company number SC390771, 6 Quayside Mills EH6 6EX). And finally, importantly, please note: the Lang Cat Ltd is not regulated by the Financial Conduct Authority or Prudential Regulatory Authority. We cannot (and do not) provide financial, investment or other related advice. Nor do we provide any recommendation or endorsement of products or providers. Everything we publish is our interpretation of, and view on, global affairs and other matters of particular interest to us at the lang cat. It is provided to you, our audience, for general information purposes only on an 'as is' basis, and it is not intended to be a recommendation or a substitute for further appropriate activity by you and any other interested party (for instance, from a regulatory, risk, compliance, due diligence, suitability, analytical, legal, accounting, advice or any other perspective). You use the information at your own risk and we can't accept responsibility or liability if you use it, or rely on it, and things go wrong. Whilst we always strive to be perfect and ensure that everything we produce and report on is accurate and up-to-date, we can't guarantee accuracy (because, for instance, we rely on others for data and other input). Thanks for reading.