Equity Release Market Insight

Q2 2024

Foreword

Jim Boyd, Equity Release Council Chief Executive

"Having worked in the equity release market for a number of years, I hope you understand when I say that there are moments when I feel deep frustration.

The products are good – arguably better and more attuned to customer needs than ever before and under-pinned by regulation as well as Equity Release Council Standards. The need is obvious as there are more older people with significant housing wealth, insufficient pension incomes and families in need of support.

Logically, this would seem to add up to a buoyant market which is helping an increasing number of people of all ages, but this is sadly not the story that the figures are telling us.

In 2022, £6.2 billion was released but following the disastrous mini-budget, it fell to £2.6 billion in 2023. Now while I'm reluctant to get out my crystal ball to predict what we might see by the end of 2024, I can say that the Q2 figures were positive and we are hearing encouraging noises from the market.

In Q2 2024, we saw double-digit increases in both total lending to £578 million and new customer numbers to 5,240. An increase in new customers is positive as we know that people who have used equity release understand the value of these products and are comfortable using their drawdown facility or taking a further advance. However, new customers need to be educated as to what later life lending can support them with as well as the different products and options on offer; so growth in these numbers takes more work and is a useful gage of consumer appetite.

So what next? Again, the crystal ball appears to have lost connection to the Wi-Fi but I do think that while we may see a slight wobble due to the recent election, the fact that the general election has been held is a positive as it removes an element of uncertainty facing the consumer and I believe the work that the industry is doing will bear fruit.

We know that not only are advisers speaking to new customers, but they are in regular contact with those who have decided to 'wait and see' until rates come down. Rates are starting to nudge down so these conversations have more chance of being productive.

We know that the wider financial services market is starting to come alive to the use of property in later life and are considering how they better engage with the sector. There are more tech solutions available and discussions which once might have been ignored are happening.

Indeed, we are delighted to be hosting the Later Life Lending Summit in association with the Association of Mortgage lenders at the end of November. This is a huge step towards more inclusive conversations and would have been unthinkable even a couple of years ago.

So in short, with the support of our members and the reassurance provided by operating in a market that boast standards which demand we go above and beyond what is mandated by regulation, I do think we will see a more positive end to 2024. It won't be easy but I do think that the market is ideally positioned to thrive."

The Average Customer in Focus

Paul Carter, Chief Executive Officer, Pure Retirement

"Welcome to the latest edition of our quarterly Equity Release Market Insight report, offering you a summary of the key headlines that could affect the market, and the way that consumers interact with it, going forward. Before we delve into these key trends and movements, we thought we'd share some of our own data when it comes to the average equity release customer over H1 of this year, as well as the loan usage trends over the last quarter.

How has the age profile of an equity release customer changed?

The average age among applicants over the first half the year stood at 69 years old, continuing the trajectory of younger customers seen across the industry, and representing a drop from 2018, where the average among our customers of was 74 years old.

What changes have occurred in terms of applicant house value?

We saw a 3% year-on-year increase in average house prices among applicants, with the H1 average of just under £416,000 representing our highest average property value since 2021. While 62% of completed cases came from owners of properties of under £400,000, an additional 26% came from those who reside in homes valued at between £400,000 and £700,000.

What's the split between drawdown and lumpsum plans?

Lumpsum continues to be the favoured plan type among our customer base, accounting for 53% of completed cases over the first half of the year – however, this is the lowest share over our data history (which peaked at 65% in 2021), showing that people are increasingly willing to explore the flexibility afforded by drawdown plans.

What are customers using released funds for?

50% of those who took out new plans in Q2 did so for either home improvements or debt and mortgage repayment, split evenly at 25% each. While the proportion of people using equity release for home improvements has stayed constant on both a year-on-year and quarter-on-quarter basis, debt and mortgage repayment has seen a 4% quarter-on-quarter increase, and a 3% rise from the 22% seen in Q2 last year. Holidays, gifting and car purchases continue to round out the top five most popular reasons, with each representing around 9-10% apiece.

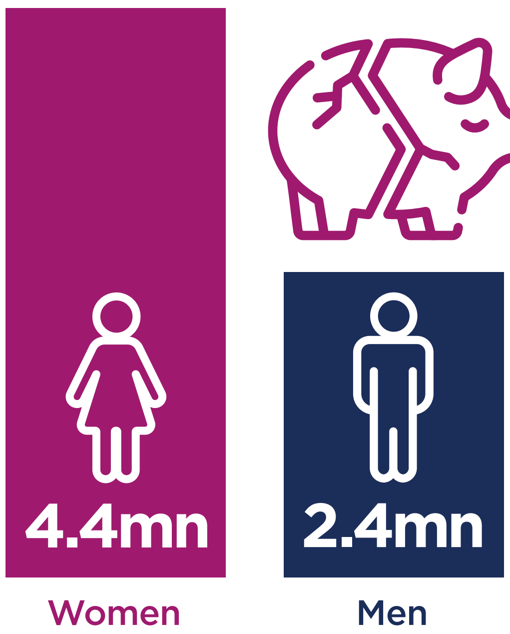
Are there any differences between the loan usage habits of lumpsum and drawdown customers?

Among drawdown customers in isolation, home improvements continue to be the primary reason for releasing funds, sitting at 27% - while debt and mortgage repayment continues to remain the second-most popular reason, its 19% proportion represents a 6% reduction compared to the overall figures. Holidays remain the third-most popular use of funds among drawdown customers, with a 14% share representing a 4% uplift compared to overall figures.

Lumpsum customers continue to use released funds for more needs-based reasons; debt and mortgage repayment is the most popular use among this particular customer segment and a 30% proportion representing a significant increase compared to overall figures. Establishing a contingency fund is also the fourth-most popular reason among this group, accounting for 8% of all new lumpsum customers in Q2."

Q2 In Focus: The Key Stories and Headlines

The amount of women and men over 50 who are at risk of poverty in retirement



Source: SunLife

17%

year on year increase in Q2 pension withdrawals between 2022 and 2023

Source: AJ Bell

56%

of all pension pots accessed were cashed out in full

Source: Standard Life

54%

of homeowners with adult children either already have helped them buy a home, or expect to do so

Source: Homowners Alliance

28.6%

drop in mortgage lending, which totalled £217.7bn between March and February

Source: Octane Capital

There are reasons to be optimistic about the equity release market

+12%

increase in equity release customers in Q2

+15%

rise in total lending

Source: Equity Release Council

1. Customer Demographics

Some 4.4mn women and 2.4mn men over the age of 50 are at risk of poverty in retirement even after the state pension rise, according to research from Sunlife. The research also showed 92% of adults over the age of 50 who do not have private pension savings admitted to being worried about money, with 85% concerned about the rising cost-of-living and 55% feared sudden unexpected costs, while 39% are specifically worried about running out of money during retirement. Those who are yet to retire are the most concerned with 43% of those aged over 50 who are still in work saying they worry about not having enough to fund their retirement.

These figures are backed up by additional findings from Phoenix and the Fabian Society, which found that 40% of 60 to 65-year-olds are in households with less than £3,000 in savings and 21% live in a rented home. The report said poverty was high in the years up to 66 because of the binary divide between working age and pension age which does not reflect the lives of people in their 60s.

Additionally, around 21% of retirees say that, despite paying off their mortgage, they are "unable to live fulfilling lives" due to insufficient money in their retirement funds, according to data from Senior Capital. The findings also showed that 22% of retirees surveyed were already reducing or stopping spending on medications and 15% were skipping meals due to their financial situation. The figures also showed that 11% of British retirees have no savings at all, and almost one in five retirees across the UK will be on the poverty line as they do not have sufficient money in their pension pots. Furthermore, one in seven said that the largest strain on their mental health was worrying about funding their retirement.

Analysis by Broadstone highlighted income inequality among single pensioners, with single pensioner incomes in the bottom quintile growing by 2% before housing costs between 2010/11-2011/12 and 2020/21-2021/22 - an average increase of £208 per year. Meanwhile, those who are in the top quintile saw income growth over the same period of 9%, equivalent to £2,496 every year, an increase of £2,288 compared to those in the lowest incomes.

Unsurprisingly, one in four over 55s said mortgage worries and the cost-of-living crisis have had a severe impact on their mental health, according to a survey by Key Later Life Finance. 11% of those questioned said they had sought or were considering seeking medical help as they grappled with 'potentially unaffordable' increases to monthly mortgage repayments, while many were also concerned the cost of servicing these higher repayments could hit their standard of living in retirement. All these concerns meant almost all those polled – 87% – had seen their mental health suffer due to the cost-of-living crisis. Only 13% said they are unaffected.

When it comes to home ownership the average age when a UK adult buys a home is now 36, according to official data from the Office of National Statistics. Between April 2022 to March 2023, 36% of recent first-time buyers — resident less than three years — used gifts from family or friends and 9% used inheritance. This contrasts with 20 years ago, where between 2003 to 2004, 20% of first-time buyers — resident less than five years — used gifts from family or friends and 3% used inheritance. These findings are further backed by data released by Santander, which showed that around 18% of first-time buyers are now aged 40 or over, with the lender also helping a 67-year-old first-time buyer on to the property ladder. The lender also claimed that there have been nearly 6,000 agreements in principle completed in 2024 for customers aged 40 or over.

Gifting appears to be increasingly considered as a means to get family members on the property ladder. According to research from the Homeowners Alliance, around 54% of homeowners with adult children either already have helped them buy a home, or expect to do so as the Bank of Mum and Dad, but many worry the support won't be enough and feel guilty they cannot offer more. As part of the survey, approximately half say they wish they could offer more support as the Bank of Mum and Dad than they currently do, and a quarter feel guilty about not being able to offer support. Additionally, nearly one in 10 parents lending support said they would need to work longer and delay retirement, and a similar proportion said they may need to downsize their home.

When it comes to working patterns, over three in five (62%) retirees left the workforce before the state pension age of 66 years old, research by Just Group has found. The survey also revealed that a fifth (19%) of retired over-55s said they retired as soon as they started to receive the state pension. Furthermore, the same proportion (19%) claimed they retired sometime after receiving the state pension. The research found that male retirees were more likely to retire before the state pension, compared to their female counterparts.

However, there is also an awareness among workers of what their road to retirement would look like, with half of adults in the UK thinking they will be able to achieve a 'hard stop' retirement according to a study by Phoenix Insights. It found 44% hoped for a 'hard stop' when they come to retirement, while 47% hoped for a period of transition with just 9% hoping to keep working. However, just 52% of those who still have to retire and are hoping for a hard stop believe it is realistic to achieve this. Additionally, one in five think they will have to continue working.

40%

of 60 to 65-year-olds are in households with less than £3,000 in savings

Source: Phoenix and the Fabian Society

21%

of retirees who have paid off their mortgage are "unable to live fulfilling lives" due to lack of funds

Source: Standard Life

2. Customer Habits

Pension withdrawals could hit new highs in the coming months, as a result of the cost-of-living crisis and inflation, according to AJ Bell. The provider is urging savers to "stop and think" before accessing their retirement pot during "peak withdrawals season" in April, May and June, after a 17% year on year increase in Q2 withdrawals between 2022 and 2023.

This caution was backed up by data from the FCA, which showed that in the period October 2022-2023, around 56% of all pension pots accessed were cashed out in full, compared with just over a third (36%) in some form of drawdown and just 8% used to buy an annuity. It was also noted that the proportion of pots cashed out in full has been consistently in the 50-60% range in every six-month period since the start of pension freedoms. The pension pots most likely to be cashed out in full are, not surprisingly, those of the lowest value. In the latest six-month period out of just under 205,000 pots cashed out in full, around two thirds (137,000) were worth under £10,000 and nearly nine in ten (184,000) were worth under £30,000. Looked at by age, around 70% of full encashments are by people in the 55-64 age group, with most of the rest cashing out before the age of 75.

The regulator's data also showed that almost 70% of people accessing their pensions for the first time did so without seeking advice in 2022/23. The number of people accessing their pension for the first time rose by 5% as the impact of the cost-of-living crisis continued to be felt, as total number rose to 739,535, compared with 705,666 in 2021/22.

Looking at trends more holistically, over three quarters (78%) of retirees have already dipped into their pension pots by the time they retire, according to data from Scottish Widows. Of the 78% who claim early, more than half (52%) withdraw funds five years before their Selected Retirement Age (SRA), with 21% opting to start taking out funds 9-10 years before they retire. The data also revealed that the average amount a customer withdraws by age 65 is £47,000.

But while people may be more willing to access their pension pots, conversely people haven't been cutting back on their contributions in spite of the challenging economic landscape. The number of people reducing or stopping their pension contributions has decreased, with only 17% doing so in the past six months, compared to 22% a year ago, according to a survey by Opinium on behalf of Hargreaves Lansdown. The survey also found savers want to rebuild their pension savings, with 7% of people contributing more to their pension over the past six months, and a further 2% saying they had boosted their contributions after cutting back previously. The research also showed that older people were more likely to cut back on pension contributions, with one quarter (25%) of those over 55s saying they had, compared to just 11% of the 18-34 age group.

However, the majority of British workers are "dangerously underestimating" the amount of money they will need to ensure a basic standard of living in retirement, according to research from PensionBee. Fewer than half (49%) of respondents expected they would need a total pension pot of £250,000 or more. According to the Pensions and Lifetime Savings Association's Retirement Living Standards, a single person would need £14,400 a year to ensure a 'minimum' standard of living in retirement, meaning that if someone has a 20-year retirement, they will therefore need £288,000 to meet the minimum Retirement Living Standard.

Other research puts the figure needed for a moderate retirement standard even higher, with research by Standard Life showing that single pensioners require £277,500 more in their pension pot in order to secure a moderate standard of living in retirement and would need to have amassed a pension pot of £555,000. Additionally, a comfortable living standard in retirement, which allows for a three-week foreign holiday, a full kitchen and bathroom replacement every 10-15 years and £1,500 a year in clothing and footwear, single pensioners would need to accumulate a pension pot of £890,000. For couples, they would need £985,000 between them, equating to a pot of £492,500 each.

When it comes to making major retirement decisions, the prevailing culture is one where people do so without speaking to appropriate professionals. According to a survey of more than 1,000 retired over-55s by Just Group, it was revealed that 28% of participants withdrew pension cash between the age of 55 and the point at which they finished working full time, either as a lump sum or via income drawdown. Almost half (49%) of those who withdrew money did not receive advice or guidance before making the decision. A little over one in four (27%) said they had spoken with a regulated financial adviser before opting to withdraw money from their pension.

Savers are also not seeking advice prior to retirement, and regret not doing so when they discover they've inadequate reserves built up to meet their financial goals. Standard Life's Retirement Voice report found, on average, retirees hoped to build up a pension pot of around £250,000, but the average amount accumulated by retirement was £131,000. Of the more than 6,000 people surveyed, 53% wished they'd started saving earlier while 42% regret not accessing advice or guidance to plan for their retirement.

70%

access their pension for the first time without seeking advice

Source: FCA

5%

rise in the people accessing their pension

Source: FCA

78%

have dipped into their pension pots by the time they retire

Source: Scottish Widows

3. Market Update

Overall mortgage lending in the UK reached £217.7bn between March 2023 and February 2024, which is a drop of 28.6%, Octane Capital has found. The lender said that as a result, seasonal housing market trends should bring a welcome boost to mortgage lending as spring and summer come into fruition. Octane Capital said there are a number of factors that have led to this decline in mortgage lending over the past year, including the increased cost of borrowing due to heightened interest rates. Furthermore, the cost-of-living crisis has resulted in limited buyer purchasing power, and as a result, limited mortgage lending market activity.

House prices, meanwhile, fell 2.9% in the year to April, according to the latest data from chartered surveyors e.surv. The average cost of a home in the areas analysed is now £359,154, compared to £369,880 in April of last year. The South East of England had the biggest fall in rates within the timeframe, down 6.6% from April 2023. However, price drops are said to be decreasing, with prices having risen on a monthly basis, up 3.8% from March this year.

Nonetheless, the total amount of housing equity available to homeowners aged over 55 still stands at around £622bn, according to Canada Life's latest property value tracker. This represents an increase from £616bn of potential equity release in Q2 2023, when the report was last done. Drilling down into regions, the South East, London and East Anglia had the most potential equity release value available at £111.5bn, £118.4bn and £69.6bn respectively. On the other hand, the North East, Wales and Yorkshire and the Humber had the lowest potential value available at £16bn, £24.7bn and £37.2bn apiece.

Moreover, there are additional reasons to be optimistic as equity release customer numbers rose by 12% in the second quarter of the year driving an increase in lending, according to data from the Equity Release Council. The ERC's latest quarterly market report for Q2 2024, reported a double digit rise in the number of customers taking out new products. This growth was echoed in total lending which rose by 15% in the second quarter of the year to £578mn. Both the total number of customers served and total lending activity contributed to Q2 2024 being the "busiest quarter for almost a year for the equity release market."

Take a look at our **full marketing toolkit** to see how we can help you better reach your potential customer base.

Providing solutions for your future

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