Exploring attitudes to housing wealth and retirement

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- It is estimated that people aged 65 or over may now hold as much as £460 billion worth of unmortgaged equity in their homes.
- While most people still rely on pensions to fund retirement, a small but growing proportion of home-owners expect to rely on property as their main source of income.
- Nearly half (46%) of home-owners expect to access equity in their property during retirement.
- People in their 40s and 50s think that they will be much more likely to tap into their housing wealth in retirement than those who are already retired.
- Awareness of equity release schemes remains very high at 80% of home-owners, but only 11% of mortgage holders are likely to take one out in future.
- Only 46% of owners aged 45-54 want to leave their whole house as inheritance compared to 69% of those aged 65-80.
- While some home-owners are willing and able to access housing wealth in retirement, lenders and the Government need to work together to ensure a safe, robust market can develop further and dovetail with public policy.

Demands on housing wealth are increasing

In recent years, rapidly rising house prices in recent years have produced a significant increase in the wealth that people hold in property. It is estimated, for example, that people aged 65 or over may now hold as much as £460 billion of unmortgaged equity in their homes. At the same time, the combination of an ageing population in the UK and the impact of poor stock market performance on pension funds has fuelled concerns about the ability of people to support themselves in retirement. As a result, it is suggested that the wealth tied up in housing can resolve a wide range of financial demands. These might include, for example, financing children's education and deposits for first homes, paying for repairs and maintenance of the home, providing a source of income in retirement to supplement pensions, or financing older people's care. In the light of these demands, it is important to understand home-owners' own attitudes and whether they are able and willing to use their homes as sources of income.

Recent research commissioned jointly by the CML and Hanover Housing Association (a leading retirement housing specialist) aimed to explore individuals' attitudes to retirement, their financial plans and whether they might plan to use their housing wealth in future. In particular, the research focussed on comparing those who are currently retired with age groups approaching retirement, to understand any differences between how these groups might behave now and in the future.

Of particular significance for policy makers is the knowledge that over the next few decades the proportion of Britain's population aged over 65 will increase markedly. In 2001, 8.2% of the UK population was aged over 65 - equal to 9.1 million people. By 2031, that figure is set to rise to 25% or 14.8 million. Most of this group will also be home-owners. Currently, 65% of people over 65 are home-owners, but this figure will rise to around 80% when householders who are now in their 50s and 60s reach retirement. This research is, therefore, also important in shedding light on how the use of housing wealth might interact with public policy objectives in the future.

Consumer survey of borrowers

The market research company BMRB undertook a survey of 2,268 adults aged between 45-80 in June 2004. This was a face-to-face omnibus survey and included both tenants and owners. Data in this article relate to home-owners unless otherwise stated. To explore how different age groups' attitudes about their home and housing wealth might vary, information on three specific age groups (45-54, 55-64 and 65-80) was collated. The main areas of questioning were:

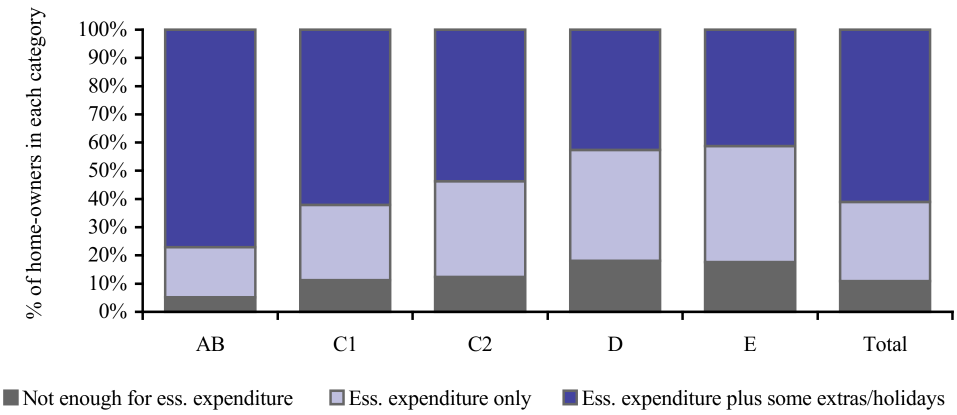
- plans for retirement – both income and housing;
- attitudes to using housing wealth in retirement;
- attitudes to equity release schemes as a vehicle for accessing capital;
- views on the trade off between leaving an inheritance and using housing equity.

Income and housing plans for retirement

Standards of living expected to fall in retirement

It is useful to put into context adults' attitudes to using wealth in their home by examining peoples' intentions and expectations for retirement. As might be anticipated, half of home-owners currently working full- or part-time expect their living standards to decrease to some extent when they retire. A further 40% expect their standard of living to remain about the same, while an optimistic 10% believe it will increase. Most significant is the difference between social groups. For example, 56% of those in the lowest social group E thought their standard of living would decrease, compared to 45% in the highest AB group. Chart 1 shows the extent to which these groups think they will be able to cover essential expenditure in retirement, with those in the lower social groups clearly believing themselves to be more at risk than others.

Chart 1: Home-owners' (age 45+) expectations about covering essential expenditure in retirement by social group



Source: June 2004 BMRB for CML/Hanover Housing Association
Notes: Based on home-owners working full or part-time, excludes don't knows/refused

This seems to indicate that people are aware of the problems of funding their retirement and how their lifestyles might be affected. Interestingly, there is not such a clear pattern when looking at this indicator by income. Whilst those with the highest incomes are least likely to say their standard of living will decrease, those on middle incomes are just as likely to report anticipated decrease in income in retirement.

The majority of home-owners will work beyond retirement

The fact that owners expect standards of living to fall in retirement raises the question of how long people might continue to work. When we asked home-owners if they intended to work part-time after retirement, a significant proportion - 57% - said that they would. Younger owners were less likely to think they would work when they retire, with only 54% of those aged 45-54 anticipating this, compared to 60% of those aged 55-64. It may be that the 55-64 group are driven by more imminent concern about the performance of their pensions as they approach retirement. Women who currently work full-time are slightly less likely to say they will work part-time when they retire, compared with full-time male workers (56% and 62% respectively).

The likelihood of working did not seem to be affected by either social group or income level. If anything, those in higher personal income groups and in the middle C1 social group, seem to be more likely to work. 66% of those earning £35-49,999 say they think they will continue to work, compared to 54% of those earning £10-14,999. This may reflect the greater opportunities among higher-income individuals to take up part-time non-executive positions. Looking at **overall** household incomes it is those in the low mid-income range of £15,000-24,999 that report the highest expectation of working at 66%. But, on both personal and household income indicators, there is no clear pattern. This suggests that a low income in the years leading to retirement does not make an individual more likely to consider part-time work during retirement. It may be that other factors more greatly affect individuals' motivation to work, such as social interaction or a desire to remain involved in the workforce.

This is borne out, to some extent, when we see that three-quarters (74%) of those who say they think they will work when they retire will do so because they want to, and only 25% say it is because they will have to. But it is the lower-income and lower social groups who report that they will *have to* work. Around a third (36%) of those with household incomes of between £10-14,999 reported that they *have* to work compared to 22% with incomes between £35-49,999. In addition, while just 17% of ABs say they will *have* to work after retirement, this rises to 41% among those in group D.

It is interesting to note that of those respondents that are already retired from full-time work, only five per cent say that they work part-time. This is significantly smaller than the proportion of those not yet retired who expect to work when they retire, showing a significant change in outlook to part-time work in the future.

Coinciding with these varied approaches to working in retirement is a wide spread in people's planned retirement age. 16% of both men and women think that they will retire before the age of 60, although 26% of men and 23% of women said that they plan to retire after age 65. Respondents from the highest social groups tended to give younger retirement ages than lower social groups, but report that they are more likely to work on part-time afterwards. Four in ten (39%) of those from social groups AB gave a retirement age of over 65, compared to 51% of those from social groups DE.

Pensions still main source of income for retirement

There is not much difference between currently retired and younger age groups' plans for income sources in retirement. Despite recent concerns around future pension performance, most respondents expect to rely on pensions and spouses' incomes as the two main sources of finance, shown in Chart 2. Owners still in work have a greater spread of planned options for retirement income than those already retired. This is sensible, given recent research by the Pensions Policy Institute (PPI, 2004), which suggests that most people will need to have a range of options to fund retirement income in future. In contrast, already retired owners have a much greater reliance on pensions alone.

A key difference between retired and working owners is the increase in the proportion of people stating they intend to use property as main or second source of income. While this is still quite a small proportion, rising from two per cent among those already retired to 13% among respondents currently working, it is notable that these people will rely on property as a main/second source of income rather than just as a top-up to other main income. We explore later general attitudes to using property equity in retirement.

Chart 2: Retired owners' income sources

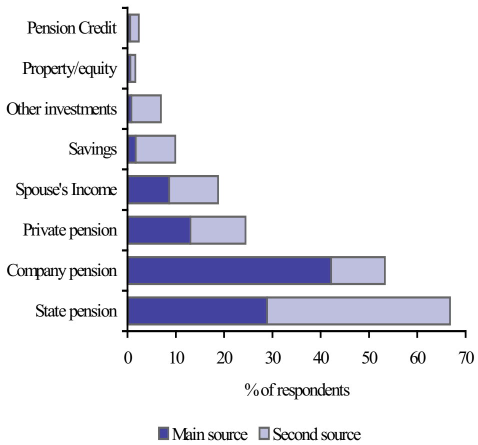
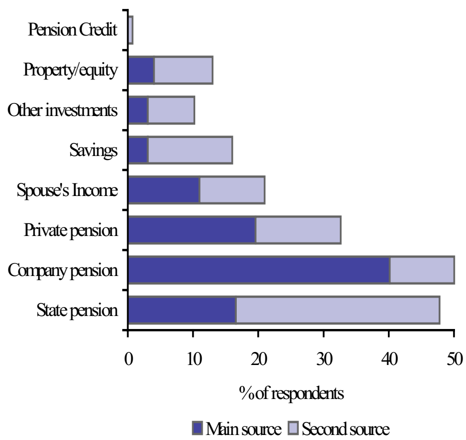


Chart 3: Working owners (age 45+) expected retirement income



Source: June 2004 BMRB for CML/Hanover Housing Association

Are we becoming more ambitious with our retirement plans?

Working respondents were surveyed about their housing plans for retirement to understand their attitudes to the home and the wealth tied up in it. The results, shown in Table 1, suggest that the youngest age group interviewed are much less attached to their home than older respondents.

Table 1: Owners' (age 45+) housing plans for retirement

	All owners	Outright owners			Own with a mortgage		
	aged 45+	45-54	55-64	65-80*	45-54	55-64	65-80*
	%	%	%	%	%	%	%
Stay in current home	53	54	72	58	43	57	76
Move to smaller home	23	32	16	21	30	21	18
Move abroad	10	7	2	5	16	11	0
Move to different area	8	11	6	5	9	7	0
Move to larger home	2	1	1	0	3	4	0
Live with family	2	0	2	5	1	2	0

Source: June 2004 BMRB for CML/Hanover Housing Association
Notes: * Very small sample sizes for 65-80 age group. Base: Working home-owners

Of outright owners, fewer of those in the 45-54 age group said they were likely to stay in their current home (54%) than those in the 55-64 age group (72%). The youngest age group were more likely to consider moving to a smaller home, moving abroad, or moving to a different area than older home-owners. Respondents who still had a mortgage were even less likely to think they would stay in their current home, with 16% of the 45-54 age group stating that they plan to move abroad. There may be a number of underlying reasons for these differences:

- Older owners are more likely to have reached the peak of their achievable housing aspirations.
- Mortgage holders, who are perhaps in a more flexible position, are more likely than outright owners to consider options other than saying in their current home, particularly moving abroad or moving to a larger home.
- Younger owners may also be more flexible about their future housing decisions or have different demands/needs of their housing than the current cohort of older home-owners.

It still remains to be seen whether these younger borrowers follow through with their plans or simply get to the same position as current older borrowers when they reach similar ages and circumstances.

Questions then arise about whether those who say they want to move to a smaller home also expect to withdraw equity, and whether those who want to stay in their current home correlate with a desire to pass on an inheritance. The following sections explore some of these questions.

Attitudes to using housing equity

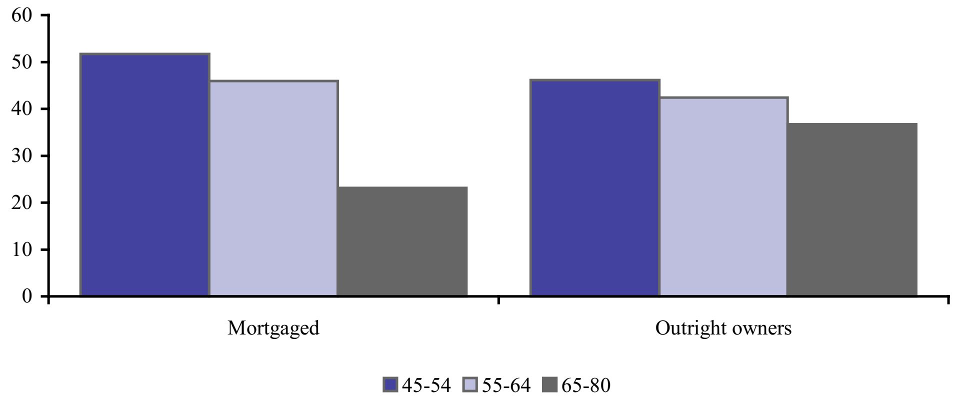
Do people want to access equity in their homes?

Across different age groups, there appear to be different attitudes to using accumulated housing wealth. Chart 3 illustrates how likely working home-owners are to use the equity in their homes during retirement. The results show that owners aged 45-54 show a far stronger intention to draw on the equity in their homes during retirement (52% for mortgage holders and 46% for outright owners) than are owners aged 65-80 (23% and 37% respectively).

The propensity to withdraw equity increases both with social group and income group (although it should be noted there are only small samples by income). For example, 51% of those in group AB said they thought they would use the equity tied up in their home compared with 42% of those in social group D.

Nearly two-thirds (63%) of home-owners who said they would access their equity, said they would do this through trading down to a smaller property. This fits in with home-owners' housing plans for retirement, where between a quarter and a third stated that they would move to a smaller home in retirement.

Chart 3: Owners (age 45+) intending to use housing wealth during retirement, %



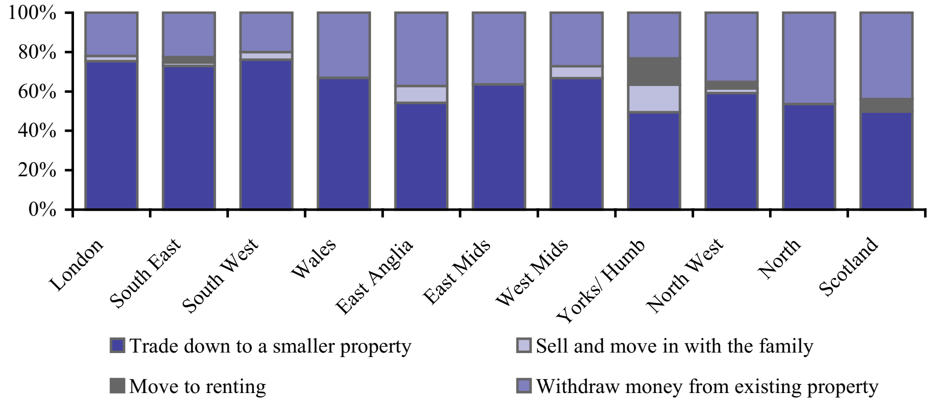
Source: June 2004 BMRB for CML/Hanover Housing Association
Notes: Base working home-owners

The survey results suggest that those in the younger 45-54 age group are more likely to consider trading down (66%) than older age groups (58% for 55-64 year olds and 48% for the 65-80 group). Only a quarter (26%) of those aged 45-54 said they would consider withdrawing money from existing property – this increased to 31% for those aged 55-64. Social group has a significant effect on the propensity to trade down, with 70% of ABs expecting to trade down compared to 48% of those in group D. This is probably because, for those in lower social groups and with lower value properties, trading down is less likely to be an option. Indeed, those in group D state that they are more likely to move in with family or move to renting during retirement.

Chart 4 shows that owners in London, the south-east and the south-west, where the highest value properties are concentrated, are most likely both to be in a position to trade down and to be attracted to this option. This may be driven by a desire to move out of the London area, in particular to the country/coast in retirement. Those in the north are correspondingly more likely to say they would withdraw equity from existing home rather than those in the south of the country.

Significantly, those who have withdrawn equity from their home in the past are more likely to say that they would access equity during their future retirement – 65% compared to 43% of those who have never withdrawn equity from their homes.

Chart 4: How do home-owners (age 45+) expect to access equity in retirement?



Source: June 2004 BMRB for CML/Hanover Housing Association
Notes: Data should be treated with caution due to small sample sizes, based on all working home-owners aged 45-80

Use and awareness of equity release schemes

Awareness of equity release schemes is high across the board with around four fifths (82%) of home-owners having heard of such schemes. Men (84%) were a little more likely to be aware of such schemes than women (80%). As Charts 5 and 6 show, when outright owners are split by social group and age group awareness goes up as high as 87% for social group C1, and 86% for outright owners aged 55-64.

Chart 5: Awareness of equity release schemes, by social group

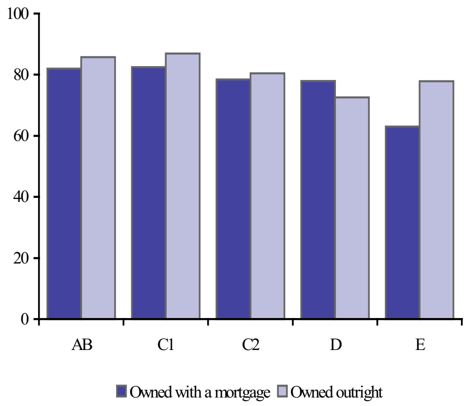
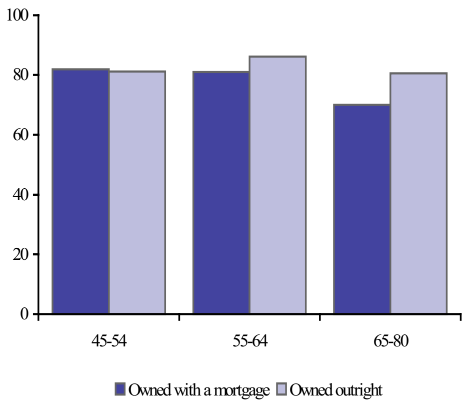


Chart 6: Awareness of equity release schemes, by age



Source: June 2004 BMRB for CML/Hanover Housing Association
Base: All owners aged 45-80

It is perhaps not surprising that those who are outright owners have greater awareness than mortgage holders as they are more likely to use such a scheme. However, there does seem to be lower awareness amongst social groups D and E, and among home-owners in lower income groups. The highest awareness is among higher income groups, with awareness at 94% of mortgage holders with incomes above £50,000. These findings may have implications for lenders' marketing strategies.

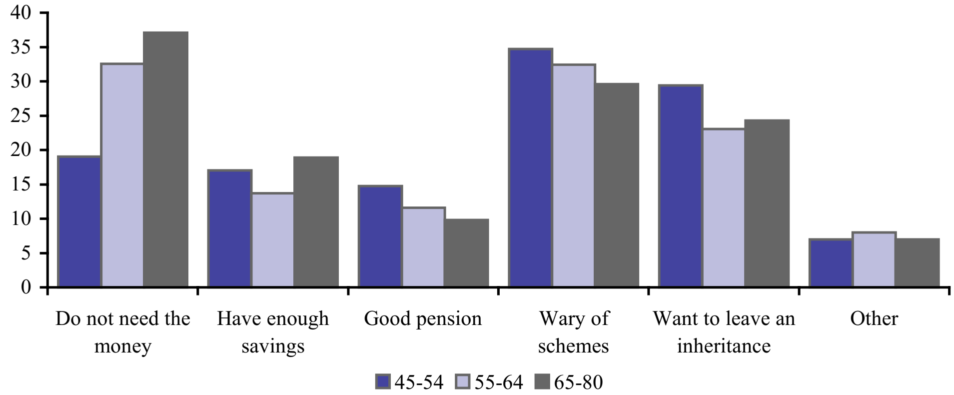
Also pertinent for lenders is that the propensity of owners to access housing wealth through equity release schemes remains very low. Only one per cent of today's retired home-owners stated that they had already used an equity release scheme, although those who had used a scheme were satisfied with the product and thought it represented good value for money. While this looks low, it is broadly comparable to the current take-up of equity release schemes nationally. With 9.1 million households over 65, one percent would equate to about 90,000 households with equity release products. This is close to CML estimates of 71,500 outstanding equity release products at end June 2004, particularly when home reversion plans are included.

Looking at home-owners' attitudes to using a scheme in future, only 11% of current mortgage holders and six per cent of outright owners said they would be either quite likely or very likely to use a scheme in future. Younger mortgage holders seem more open to using schemes than older age groups, with 13% of those in the 45-54 age group saying this would be likely, compared to just two per cent in the 65-80 age group. This may indicate that households already accustomed to releasing equity, for example, through remortgaging, are more likely to see the benefits of equity release when they are older. It also fits in with a greater overall willingness of younger people to access equity generally, as shown in Chart 3 above. This group may also recognise that it may be more necessary for them than older households, whose aspirations may be more modest and whose pensions may be more secure. Owners working full-time (15%), with personal incomes of £25,000-£34,999 (10%) and over £50,000 (17%) are also more likely to consider taking out an equity release scheme in future.

Why do equity release schemes remain unpopular?

The main reasons home-owners gave for not wanting to use a scheme are shown in Chart 7. Age seems to have quite a significant affect on attitudes, although there is clearly a range of different reasons contributing to owners' decisions, rather than one major reason. While younger owners are more wary of schemes (35%) and want to leave an inheritance (29%), older owners are more likely to say that they do not need the money (37%) even though a quarter of them also state they would want to leave an inheritance (24%). It may be that the attitudes of those aged 45-54 will change by the time they are eligible for equity release schemes, but, either way, improving understanding of the products and how they work could help to overcome owners' wariness.

Chart 7: Reasons why home-owners (age 45+) are unlikely to use equity release scheme, by age



Source: June 2004 BMRB for CML/Hanover Housing Association
Base: All owners age 45+ who say they are unlikely to use equity release scheme

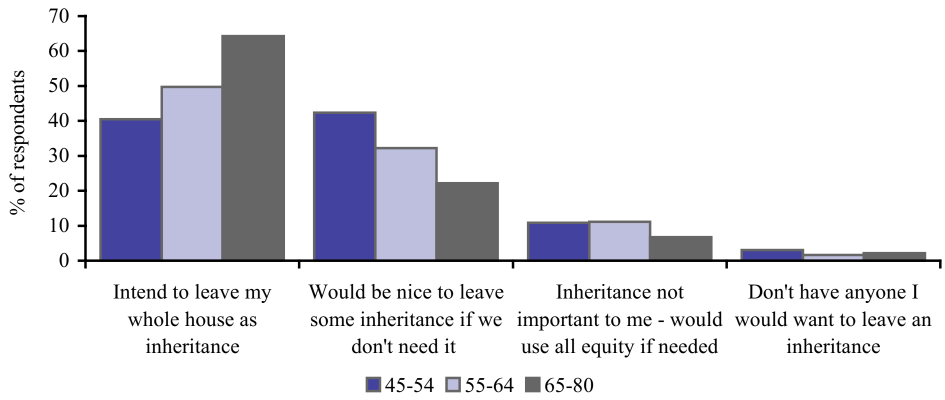
Recent research by the National Consumer Council (NCC, 2004) also found high awareness of equity release schemes among older owners. But it also reported ongoing concerns about taking out these products because of the perceptions of risk involved and a lack of confidence in the products being offered. The introduction of regulation for lifetime mortgages from 31 October 2004, and the belated but welcome regulation of reversion schemes in the future, could well provide the increased security and confidence for both consumers and lenders that this market needs. We expect that regulation will, over time, encourage more providers into the market, which could encourage greater flexibility and innovation in products.

Attitudes to inheritance

Home-owners' willingness both to use the wealth in their home generally, and to use equity release schemes specifically, hinges on their attitude to inheritance. The survey results around this theme are shown in Chart 8. The desire to leave the whole house as inheritance clearly increases with age, from 40% for mortgage holders aged 45-54, up to a high of 64% for owners aged 65-80. At the same time, younger home-owners are more likely to be pragmatic and say that they would like to leave an inheritance only if they did not need it themselves. This does suggest a changing attitude to both leaving inheritance and accessing the equity in property. Views about inheritance are much more entrenched among those currently aged over 65, and it will take some time for this change in attitudes to filter through.

These results also back up equity release providers' own findings showing that the over-75s are those who most want to leave an inheritance. These post-war home-buyers were the first generation to have become mass home-owners, and they are reluctant to use equity.

Chart 8: Attitudes to leaving housing wealth as inheritance, by age



Source: June 2004 BMRB for CML/Hanover Housing Association
Notes: Base all adults aged 45-80

There is a significant difference in attitudes across different regions. In the south, owners are less likely to say they would want to leave the whole house as inheritance (London 45%, south-west 42%) compared to regions in the north (north 58%, Yorkshire and Humberside 63%, Scotland 62%). This will partly be a reflection of higher property values in the south, giving southern owners a greater ability to release housing equity while still leaving significant inheritances. It will also echo differences in age profiles between regions.

The role of property in funding retirement spending

These survey results suggest that there is a willingness among some households to use housing wealth to meet some of the increased needs around funding retirement and other spending. This is particularly so for those now approaching retirement, rather than those already retired. Owners in the 45-54 age group seem much more willing to make use of the flexibility and capital that the equity in their home can give, and less likely to stay where they are and rely solely on their pensions. This may reflect that these owners still expect to make additional moves in their housing career, or that they are more adventurous in their outlook and have more choices than current retired owners. Or, it may be a 'rose-tinted' view of the future that could change significantly when this group gets to retirement age.

Either way, the research findings are clear about owners' expectations of a fall in standards of living in retirement. Obviously, property cannot necessarily meet all of the objectives of home, income, inheritance and care costs. Much relies on the pattern of house price movements, which will determine whether or not there is sufficient available equity in property to meet owners' aspirations and needs in old age. As recent research points out (PPI, 2004), if owners continue to withdraw equity in their properties through remortgaging or by drawing down using flexible mortgage products, this could have a significant impact on the amount of equity available for owners' use in retirement.

It makes sense for older people to have a range of potential income sources in retirement including a pension, savings and other investments and property. To ensure that those households who wish to supplement their incomes from housing wealth have this option, lenders and Government need to work together. Both need to understand the range of financial situations that owners face, and put appropriate vehicles in place to meet their needs. The continued development of safe home equity release schemes will be hugely beneficial to home-owners. Even if only some of the 11% of mortgage holders saying they would be likely to take out a scheme actually do so, the market would still grow significantly. Of the £460bn unmortgaged equity in the homes of those aged 65 and over, only 0.00067% has been taken out in equity release schemes, so huge potential still remains in this market. The findings from this research suggest that the greater potential lies further in the future, as those aged in their 40s and 50s reach retirement. The challenge to lenders is to ensure that, with the help of regulation, they are able to devise and market equity release products that meet consumers' needs while addressing concerns around risk and transparency.

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