findings
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Equity release for older home-owners

Equity release offers older home-owners the opportunity to mobilise some of the capital tied up in their homes. While at the University of York, Dr Judith Davey, from Victoria University of Wellington, New Zealand, studied equity release clients and the schemes provided. The study, the first of equity release clients for ten years, confirms that the additional income released makes an important contribution to people's living standards but is unlikely to be used for major expenditure on housing disrepair or care services.

- **Half of the clients surveyed were women living alone, mainly widows; a fifth were men living alone and a third were married couples. Just over half of the clients had children. The average age at starting an equity release plan was 74.**

- **Clients lived in a range of properties, which were generally in good condition. The most typical situation was a post-war, two-bedroom bungalow and the median estimated house value was £65,000.**

- **Clients came from all socio-economic groups but concentrated in the non-manual occupations. The majority were in the middle range of incomes for their age group - £100-199 per week.**

- **The average sum released was £35 a week. Before embarking on equity release clients had found life financially quite difficult. The outstanding reason for going into a scheme was to acquire more income. On average, they had increased their income by 20 per cent. Satisfaction among clients was high, although some felt that schemes were not delivering very high value for money.**

- **Half felt it was important to leave some assets for their families; just under half had children. However, bequeathing wealth and releasing equity were not necessarily incompatible. Home income plans usually involved only £30,000 thus, in some cases, still leaving a considerable sum for others.**

- **The researcher concludes that constraints on the wider expansion of equity release schemes include:**
  - **suspicion of schemes and concerns about value for money;**
  - **fear of indebtedness;**
  - **attitudes towards inheritance;**
  - **misgivings about government policy directions;**
  - **from the supplier's viewpoint, the labour-intensive nature of the product.**

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The British population is ageing and, with growing home-ownership, an increasing proportion of older people find themselves in a situation where they are 'house rich and income poor'. This situation, set against a government policy stance aimed at reducing state support and encouraging self-reliance, calls for a new look at the concept of equity release.

The potential uses of home equity

There are several options for the disposition of housing wealth. It may be preserved to provide an inheritance or to be used for special needs, such as medical emergencies and financial difficulties facing family members. If people wish to mobilise housing equity, they must decide whether they wish to remain in their home. If they move, part of the capital can be released by 'trading down' to a smaller house or sheltered accommodation. A change of tenure to renting or boarding will make all the home equity available for use or reinvestment.

However, most older people wish to remain in their present home. This points to the possibility of 'releasing' housing wealth by borrowing against home equity. For this to take place a legal and financial mechanism is required. Government policies may provide incentives and disincentives but even more crucial are the attitudes towards this option on the part of individuals, families and society as a whole.

The supply side

In Britain, ways whereby older people can realise capital tied up in their homes have been available for over 20 years. In the mid-1990s, a range of commercial equity release schemes are available. They come in two types - mortgage and annuity schemes and home reversions. In the former (also referred to as home income plans), a mortgage is taken out against the client's property and used to purchase a life-long annuity. The provider firm takes interest repayments from the annuity, applies Mortgage Interest Relief at Source (MIRAS) and the remainder is paid out on a monthly basis. The capital is reclaimed, as in a conventional mortgage, when the property is sold, but the annuity continues until the death of the holder or the survivor of a couple.

In reversion plans, houses are sold at discount to investors, either wholly or partially, but the resident retains occupancy rights for life. Reversions are used to provide either annuities, cash sums or mixed annuity/lump sum payments.

The most active providers are three insurance companies which offer equity release schemes alongside their other business. With a property management company - a major handler of reversion schemes - these firms set up a self-regulation and promotion mechanism in 1991 - Safe Home Income Plans (SHIP). Other provider firms have comparatively minor shares of the client population, which is currently estimated at about 10,000 (couples or single people).

There is agreement that the potential market for equity release is very large and most firms express some optimism about the future. However, take-up is currently low, reflecting the level of understanding and acceptance of the concept among the general public. Other barriers to expansion on the supply side are the long pay-back period, comparatively low profitability, and the fact that selling schemes is labour-intensive.

The characteristics of equity release clients

The characteristics of current equity release clients in this study broadly corresponded with the findings of earlier British surveys. The schemes have ages of eligibility around 70 years. Three-quarters of survey respondents were concentrated in the age range 75 to 84. The average age at plan commencement was 74.

In terms of household composition and marital status, the clients differed from home-owners aged 70 and over in that they included more single people and fewer couples. Almost half of equity release clients were women living alone, mainly widows; a fifth were men living alone, and just under a third were married couples.

Clients were drawn from all socio-economic groups but concentrated in the non-manual occupations compared to older people in general, based on previous occupation. The majority were in the middle range of incomes for their age group - £100-199 per week. They generally had some income in addition to the state pension, usually from occupational pensions and investments, and some modest savings. This made them neither very rich nor very poor compared to older home-owners in general.

Equity release clients differed from 40 per cent of their age group in that they were home-owners, but were typical of older home-owners in being mortgage free. They lived in a range of homes with regard to type, size and value and generally their homes were in good condition. The most typical situation was a post-war, two-bedroom bungalow and the median estimated house value was £65, 000.

Just over half of the clients had children. It is not easy to establish how many people over 70 share this characteristic, but it is possible that childless people were over-represented among equity release clients. Those with children generally appeared to have good and open family relationships. The majority had discussed their participation in equity release schemes with their children and the family had been encouraging.

The equity release experience

Four out of five respondents took out home income plans, i.e. mortgage and annuity schemes. Reversion schemes were more prominent in recent equity release business, however. Two-thirds of the clients who were interviewed had a knowledge of the scheme which could be described as very good or good.

The outstanding reason for going into an equity release scheme was to acquire more income. This applied to all income groups. Thus having extra money and increased financial security (often expressed as 'peace of mind') were seen as the best aspect of the schemes. Satisfaction among the clients was high: 84 per cent say they were very satisfied and 14 per cent fairly satisfied. The vast majority had experienced significant and positive improvements in or at least maintenance of their standards of living. Few suggested any negative features of the schemes apart from the fact that annuity payments did not keep up with inflation, and were not delivering particular value for money.

The sums received from equity release were calculated as a percentage of usual income. The average was 28 per cent. Annuities ranged from £13 to £100 per week, with an average of £35. There was a strong concentration in the £21-30 range. The highest sums were from reversion schemes.

The predominant use of equity release funds, at all levels of income, was to pay for everyday expenses, sometimes expressed as "to live better" or "to pay bills". This was similar to the results from earlier British surveys. Use for house-related expenditure was much less prominent. This was mainly for decorating, with repairs and improvements much less common.

The majority of clients were willing to give advice on equity release to others and most were enthusiastic. None said that they would dissuade people from taking up a scheme, although many added caveats. They suggested that advice should be taken first and families consulted. Care in choosing a company was seen as important.

> *"The pluses outweighed the minuses - go for a well-presented, safe scheme which suits your circumstances."*

Leaving aside those who did not respond, a three to one majority of clients favoured some government supportive action on equity release. Two forms of action were recommended. First was publicity and information. The second suggested action through taxation and regulation, advocating a range of controls, subsidies and guarantees.

> *"Increasing the non-taxable portion of the annuity or giving special tax relief on such annuities would help enormously."*

The issue of inheritance

Equity release clients were unanimous in preferring to use their assets to help them in their old age rather than leaving them to other people. They were keen to retain their independence and "not to be a burden". The majority agreed that their children or close relatives were quite comfortable and did not need their money.

However, about half still felt it was important to leave some assets to the next generation. Attitudes varied according to family circumstances. Of clients with children, 80 per cent considered inheritance of some importance or very important; the corresponding figure for the childless was 22 per cent. This fits the assumption that inheritance is less important to those without offspring. However, over half the clients did have children. Their motives for taking up an equity release plan must therefore be weighed against their desire to bequeath. However, the two aspirations need not be incompatible. On average, home income plans usually involved only £30,000, which usually still left considerable wealth to bequeath.

Why do people take up equity release?

The research concluded that equity release clients were reasonably typical of older home-owners in Britain. What made them different was their attitude towards the wealth they had tied up in bricks and mortar. Putting together the need for more income to support a desired lifestyle with a view that home equity was a resource to be used, and the initiative to seek out a vehicle to do this, begins to explain their receptivity to using equity release schemes. The evidence is that potential clients take a careful and cautious approach, seeking out advice and information, and selecting a scheme which suits their circumstances. Their comments show that they recognise the inherent trade-offs and constraints which arise from their actions.

Prospects and policy implications

Despite the optimistic views of the firms and the examples of satisfaction expressed by respondents, there were still constraints on acceptance of equity release. Fear of indebtedness, misgivings about government policy directions, and even more so suspicion of the schemes themselves are serious barriers to take-up. Older people and their advisers are wary, with good reason as major assets may be put at risk. Clearer understanding of how equity release works will help reduce this apprehension, and the provider firms are working hard to present their products in a 'user-friendly' manner.

This research shows some indication of renewed confidence among potential clients. Most importantly, it concludes quite clearly that several schemes have safely weathered many years of operation in a sometimes difficult environment and are delivering greater financial security with high levels of client satisfaction.

The findings of the research are therefore optimistic for equity release schemes. This is not to suggest, however, that they are a panacea for all the problems of old age in an ageing society. They will not solve difficulties in the area of housing improvement and long-term care provision. They will not suit every set of personal circumstances and aspirations. However, subject to adequate control and consumer protection, they do present an option for older home-owners to supplement other sources of income, to support and maintain standards of living, and to make their retirement more secure and enjoyable.

About the study

The research described in this report was carried out during the period July to December 1995 when Judith Davey was a visiting research fellow at the University of York, attached to the Centre for Housing Policy. This provided the opportunity to replicate in Britain the work on equity release which she had conducted in New Zealand. There were several strands to the research programme. On the supply side, interviews were conducted with firms operating in the equity release area. To research the circumstances and attitudes of clients, a sample of 500 holders of schemes were included in a postal survey, with a response rate of 62 per cent. More detailed exploration took place through face-to-face interviews with clients, in the Leeds-York-Harrogate area. These were able to be compared with a quasi-control group of older home-owners, matched as far as possible with the client interviewees.

Further information

A full report, Equity Release: An option for older home-owners by Judith A Davey (price £7.50 including postage and packing), is published by the Centre for Housing Policy, University of York, York YO1 5DD (01904 433691).

Related *Findings*

The following Housing Research *Findings* looks at related issues:

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9 Equity release shared ownership (Oct 95)

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