

Assessment of equity release pilot schemes

Findings
Informing change

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A substantial number of older home-owners are income-poor but asset-rich. Many cannot afford to pay for additional help at home, even though this could improve their quality of life considerably. A on the value of their home could make such help affordable. However, the rules on entitlement to means-tested benefits, and the constraints on the terms of equity release loans, mean that such drawings were not a realistic option for older home-owners with low incomes before the pilot schemes.

Key points

- Three local authorities – the London Borough of Islington, the Royal Borough of Kensington and Chelsea, and Maidstone Borough Council – piloted the 'signposting' of an equity release product which was designed to provide small amounts without any adverse impact on benefits. The pilots ran from January 2010 to June 2011.
- The local authorities agreed that if a suitable product were developed they would pilot its signposting to older home-owners who might be helped by it.
- An equity release provider, Just Retirement, developed an equity release product for the pilots that was appropriate for home-owners on Pension Credit. A regulated financial advice firm, Just Retirement Solutions, agreed to provide objective advice to enquirers from pilot areas at a lower cost than usual.
- More than 250 people at external partners and across local authority departments received training to signpost the scheme. The feedback indicated that most went away with a reasonably positive view of what the pilot schemes were offering, having come to the training with more sceptical views.
- After 18 months of publicising the equity release product extensively in the three areas, the number of enquiries was small. There were 20 enquiries prompted by the pilot schemes. A "sound solution" was found for ten of the twenty enquirers.
- The Home Cash Plan is now being offered nationally through Age UK Enterprises and FirstStop. Together they received more than 1,200 enquiries about equity release in the first nine months.
- The main task in achieving relevant financial advice for older home-owners is to alter the perception of drawing on the value of their home.

The research

By Rachel Terry and Richard Gibson, independent consultants

Background

A substantial number of older home-owners are income-poor but asset-rich. Their home is valuable, with little or no debt secured on it; but their income is so small that they are entitled to Pension Credit. Many cannot afford to pay for additional help at home, even though this could considerably improve their quality of life.

Before the pilots, older home-owners on low incomes faced four major deterrents to drawing on the value in their home (equity release):

- reluctance to reduce the amount they would leave to their family;
- anxiety that drawing on their housing equity would be risky, not good value for money, and complicated;
- the minimum size of deal was likely to mean borrowing considerably more than they needed; and
- concern that it might lead to a reduction in their entitlement to means-tested benefits, thus making it not worthwhile.

JRF wished to explore a possible solution and identified three aspects to be tackled:

- providing people with reliable individual advice on options;
- having a safe way for people on benefits to draw small amounts from the value of their home; and
- giving them confidence to investigate such options.

As a result of discussions organised by JRF, three local authorities, the London Borough of Islington, the Royal Borough of Kensington and Chelsea, and Maidstone Borough Council, agreed that if a suitable product were developed they would pilot its signposting to older home-owners who might be helped by it. An equity release provider, Just Retirement, developed and agreed to offer an equity release loan – the Home Cash Plan – that met the specification drawn up through the earlier discussions led by JRF. A regulated financial advice firm, Just Retirement Solutions, agreed to provide objective advice to enquirers from the pilot areas at a lower cost than usual.

All three pilot authorities sought to involve a very wide range of external partners locally, as well as working internally across local authority departments. More than 250 people received training. The feedback indicated that most went away with a reasonably positive view of what the pilot schemes were offering, having come to the training with more sceptical views.

Experience during the pilot schemes

The Home Cash Plan, developed by Just Retirement for the pilot schemes, helped to fill the product gap for low-income home-owners by offering:

- a minimum initial drawing of £5,000;
- further sums of at least £2,000 on demand, up to a total of £30,000, without an additional fee; and
- accepting as security for the loan any property commonly considered mortgageable.

The advisory processes started when someone contacted Just Retirement Solutions. All the material about the pilots made it clear that if a person wished to know more, they should phone this regulated financial advice firm (a free phone call). Those who did so would be given fuller information about their options, including their entitlement to social security benefits and information about the Home Cash Plan. If they wished to explore the possibilities further, they could have face-to-face and/or telephone meetings with a regulated financial adviser.

After 18 months of publicising the equity release product extensively in the three areas, the number of enquiries was small. There were 20 enquiries prompted by the pilot schemes. Works on the property were the most common reason for enquiring, with the wish to reduce outstanding debt the next most common. A wide range of amounts was sought: one was seeking £5,000, four were seeking £10,000, nine were seeking between £20,000 and £40,000, and two were seeking £100,000 or more. A “sound solution” (one or more measures that together appear to meet the financial need of the enquirer, but not necessarily involving equity release) was found for ten of the twenty enquirers.

The pilot authorities identified five reasons for the small response:

- The poor reputation of equity release is deeply and widely embedded amongst those who might have drawn attention to it;
- Lack of contact with those who might benefit from drawing on the value of their home;
- Constraints of both law and policy on initiating contact with those who might be helped;
- Reluctance of staff to suggest drawing on the value of the home; and
- An under-estimate of how long it would take for older people to make the decision to enquire about equity release.

Despite the small number of enquiries, the enquirers have been able to get free financial advice, and often a solution to their financial needs. In addition, the pilots have yielded three valuable broader outcomes:

- The Home Cash Plan is now being offered nationally through Age UK Enterprises and FirstStop. Together they received more than 1,200 enquiries about equity release in the first nine months.
- Through their work with Just Retirement Solutions, all three local authorities have demonstrated an effective collaboration with the private sector, where shared aims and objectives enabled effective joint working without legal contracts.
- *Which?* included a positive piece about the Home Cash Plan in its May 2010 magazine. *Which?* had previously expressed considerable reservations about equity release schemes.

The legacy of the pilot schemes

The main legacy of the pilot schemes is the national availability of the Home Cash Plan devised specifically for the pilots.

Points learnt from the pilot schemes include:

- the difficulty of bringing equity release to the attention of older home-owners on low incomes in a way that encourages them to consider it, even though it may be a useful option for them;
- the perception of equity release as risky and poor value is widely held, and the extensive consumer protection now provided is little-known; and
- the reluctance of some front-line staff in local authorities to suggest consideration of equity release.

What now needs to be done

The current focus on finding a sustained basis for helping to support independence will necessarily include consideration of drawing on the value of an older person’s home. The main task is to ensure that people get relevant financial advice, and that older home-owners develop a more favourable perception of drawing on the value of their home.

Implications for stakeholders

The researchers suggest that the pilots have the following implications for stakeholders:

Providers and potential providers of equity release should note that a product offering smaller and more flexible drawdowns has the potential to broaden the client base for equity release products. This is particularly relevant in light of the Dilnot Commission's report and forthcoming White Paper on adult social care, which may prompt larger numbers of people to invest in 'that bit of help' and healthy ageing using their own resources.

Central and local government should provide a clearer and more coherent line on the use of equity release – communicating to the public and front-line staff in public bodies that equity release is a useful financial product for *some* people.

Central government and the Financial Services Authority should provide greater clarity regarding the difference between generic and regulated financial advice, and between advice about, and promotion of, financial products such as equity release.

Increasingly, local authorities are expected to be facilitators through providing information and creating choice, rather than being direct service providers. This is particularly true of social care and support. Important aspects of this will be encouraging people to think positively about drawing on the value of their home in later life as a way of achieving a better quality of life and maintaining independence; and providing information regarding equity release and other financial products.

Local authorities, in responding to their wellbeing powers, need to consider how they collect data on their local populations, to ensure they can identify, locate and understand more about the needs of those who do not come into contact with the local authority very often.

About the project

The study was undertaken by Rachel Terry and Richard Gibson, both independent consultants. When planning how the pilots might be assessed, JRF and the participants agreed to support a Pilots' Working Group. This was a forum in which practical experience of operating the pilot schemes could be discussed and shared amongst the participants. This Group met regularly throughout the 18 months of the pilots and was found to be very useful by all the parties involved. The assessment has benefited from regular evidence from, and dialogue with, the three local authorities involved, and with the financial advice firm. Age UK has also been involved throughout the project.

For further information

This Findings is part of a programme of work on Paying for long-term care.
See www.jrf.org.uk/work/workarea/paying-for-long-term-care

The full report, **Assessment of equity release pilot schemes**, by Rachel Terry and Richard Gibson, is published by The Joseph Rowntree Foundation. It is available as a free download from www.jrf.org.uk

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