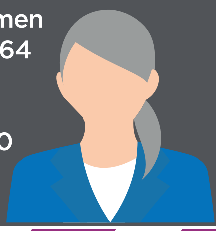
Pure Retirement

The Quarterly PureReport

Issue no.5 April 2020

51%

More women aged 60-64 in work than not since 2010



2 million

of the 14 million in poverty are pensioners

Record low average rate

4.48%

Year on year market offering has risen

42%

As always we want to share with you the market and customer trends spanning the last few months, keeping in mind that the ongoing worldwide situation is greatly affecting the way that everyone is thinking and acting at present.

We've divided our findings into three sections:

1. **Demographic Trends**
   Outlining general lifestyle patterns among retirees
2. **Customer Patterns**
   Detailing retiree patterns when it comes to their affairs and finances and the way they interact with financial services
3. **Market Trends**
   Covering general patterns in the wider sector

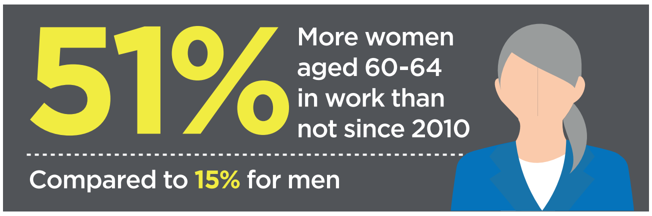
We hope you'll find this useful and welcome any feedback on things you'd like to see included going forward.

1. Demographic Trends

The profile of the over-55s continues to evolve and the UK's population continues to age. Recent figures included in the Equity Release Council's latest quarterly report suggest that over-55s represent 75% of recent population growth with a projected increase of 3.7m by 2030.

Pensioner poverty continues to rise, with around 2m of the 14m in poverty in the UK being pensioners. The latest figures are at odds with a largely downward trend in recent years, with large reductions in pensioner poverty between 1997 and 2012 now being eroded with rises in the last five years or so. The four key drivers in national poverty are listed as: employment rate, earning, benefits and pensions, and housing costs, with the geographical areas seeing the greatest increases in pensioner poverty being London and Wales. Additionally, in the long-term there could be a marked increase in the number of pensioners privately renting rather than owning their own home. With many in their 30s, 40s and 50s currently renting and unlikely to be in a position to purchase a home due to rising house prices, those in later life who are renting could double by 2046 from the current 6% to 12%.

Perhaps as a result (along with changes to the pension age), there are more women aged 60-64 in work than not for the first time, according to the ONS, amounting to an increase of 51% since 2010 – the year the pension changes were introduced – compared to 13% for men of the same age group. The centre for ageing better has suggested that this could be due to financial necessity, which tallies with continued patterns of rising demand for later life planning advice. This has arguably contributed to the Equity Release Council's membership almost doubling over the past two years from 219 firms to 431.



Turning specifically to equity release customers, of those taking out a single life plan women are twice as likely to generate money through a lifetime mortgage as men, according to recent research. In the first six months of 2019 single women accounted for 30% of lifetime mortgage business, compared to 17% being from single men (the rest came from joint lives plans). The latest Equity Release Council report also presents some interest statistics, including that the average age of customers taking out a drawdown plan has risen to 70.6 years old in H2 of 2019, representing the highest figure in 2.5 years. Additionally, the market continues to see rises in average house prices among new applicants – drawdown plans saw a 3% rise to £358,439 and lump sum plans saw a 1% rise to £315,451.

2. Customer Patterns

Over-55s' behavioural trends in relation to their finances continue to be dominated by a mixture of misinformation, lack of planning and debt management. On the latter point, figures collated by Key demonstrated that 1/3rd of the 2020 class of retirees would enter retirement in debt, with an average amount of £17,460.

Of those in debt, 48% owe money on credit cards, 31% have outstanding bank loans and 14% do so while still holding a mortgage.

This trend has been matched in equity release trends, with rising numbers of those taking out a lifetime mortgage using that money to pay off debts. Figures released by LV= have shown the proportion of applicants using released funds for home improvements have fallen from 31% in 2016 to 24% last year, with the number of people using housing equity to pay off outstanding debts, loans or mortgages rising to 27%.

Savers are increasingly accessing their pensions as soon as they hit retirement, according to recent figures. Those aged 55 accessing their pension pots has risen from 26,900 in 2017-18 to 29,700 in 2018-19, representing an increase of 10%. In addition, with savers being able to access their pension pots at age 55 since pension freedoms were introduced in 2015, a record 7,683 accessed their pension as soon as they were able to in Q2 of 2019. However, LV= research has highlighted that 32% of people in their 60s and 16% of over 70s haven't touched their pension pots as yet with reasons listed varying from still being in work, a desire to make it last as long as possible, and the ability to live off other means (such as cash savings, a partner's income, state pensions or property investments).

Savers continue to have a lax relationship with their retirement planning, with over half of those recently surveyed not knowing the size of their pension pot. These statistics become more alarming when broken down by gender, with 60% of women claiming to be unsure of the status of their pension pot, compared to 49% of men. Broken down by age, a lack of knowledge afflicted 54% of those aged 18-33, 57% of those aged 35-54 and 49% of those aged over 55, suggesting that age has a limited effect on these patterns.

There's also a lack of awareness when it comes to the necessary amounts needed to sustain a comfortable retirement. Over a quarter of savers believe that £11,000 a year is sufficient to live on during their later years, a considerable shortfall from the £34,000 outlined by the PLSA and a state of affairs which could see a shortfall of £500,000 over the course of a retirement should an individual rely solely on the state pension. However, there are signs of increasing awareness, with only 22% of those recently questioned believing that their state and private pensions will provide enough to live off.

With older homeowners facing an annual retirement income shortfall of over £17,000, it's perhaps of little surprise that more and more are exploring property wealth options to fund their retirement. With mortgage-free property wealth among over-65s rising by £14,78bn to £1.133tn in the past year, one in three older homeowners surveyed were intending to use property wealth to fund their retirement. This may continue to rise, with 80% of existing equity release customers recently questioned stating a desire to stay in their home rather than downsize. The industry may need to work harder to overcome misconceptions held by those in later life in relation to the solutions available to them – older borrowers believe there are fewer mortgage lenders and products available to them, and also believe they're offered less favourable rates.

3. Market Trends

As the market has become increasingly competitive it's benefitted from greater choice, greater numbers of feature-laden products, and reduced rates

On the latter point, in January 2020 the market recorded a record low average rate of 4.48%, which when compared to an average of 5.21% average 12 months prior equates to a £7,000 saving in interest costs over the first 10 years of the loan. Over the same 12 month period the proportion of products offering an interest rate of 4% or lower has risen from 7% of the total market in January 2019 to 42% this year.

That total market offering itself has risen 42% year on year, and can now boast over 300 individual products available to consumers. There have also been year-on-year increases in the number of plans considering sheltered or age-restricted accommodation (126%), regular interest repayments (80%) and ERC-free repayment options (65%).

Perhaps as a consequence of these market trends Age Partnership have reported a 330% rise in the number of over-55s seeking equity release advice over the past four years (with those at the younger end of the spectrum making greater use of repayment options). This tallied with predictions made at the start of the year by financial advisers, who were of the view that the market would likely see younger borrowers and larger amounts being released in 2020.

As a final aside, there has also been an influx of activity within the Retirement Interest-Only (RIO) Mortgage market, with the number of available products doubling year-on-year from 38 to 74 from 2018 to 2019, suggesting that there's wider interest in retirement solutions across the board.

Take a look at our Full Marketing Toolkit to see how we can help you better reach your potential customer base

Pure Retirement

Providing solutions for your future

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