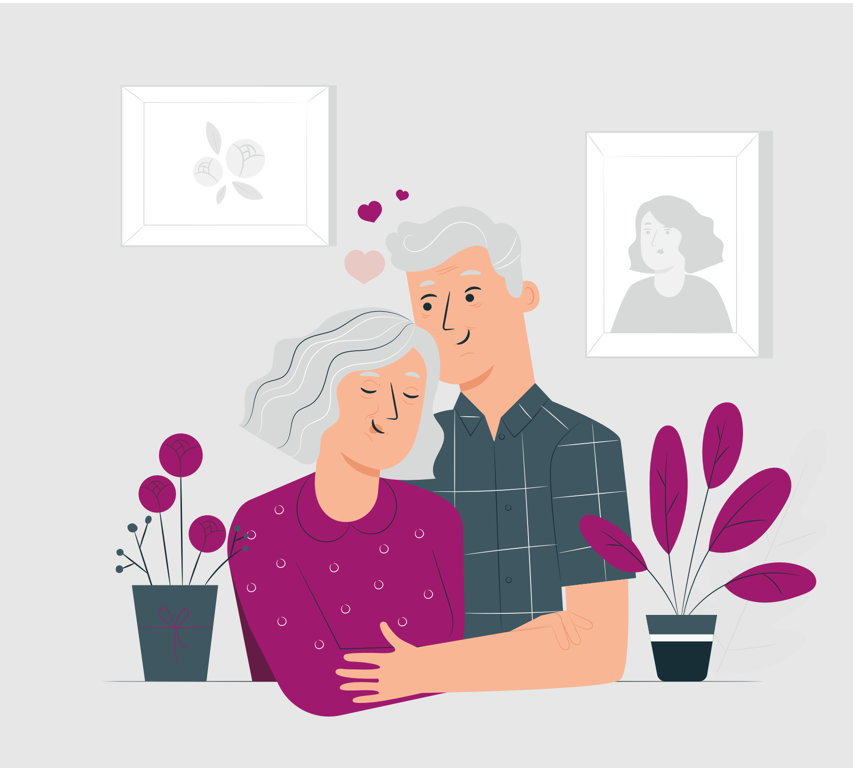
Issue No.17 June 2023

Pure Retirement

The Quarterly Pure Report

Our resource for you, helping to enhance your knowledge of the market and your target audience



39% are not confident they can afford to retire

34% are concerned about day-to-day living costs

20% of savers have reduced or stopped pension contributions

46% using equity release to gift early inheritance

We've divided our findings into three sections:

1. **Customer Demographics**
   Outlining general lifestyle patterns among retirees

2. **Customer Habits**
   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. Customer Demographics

Over-50s in the UK who have been driven out of work due to ill health have just 5% of the wealth of those who have retired early by choice, research from Phoenix Insights has revealed. According to the report, there is a significant gap in wealth between those who have chosen to retire compared to those who are economically inactive for other reasons such as ill health or caring responsibilities. Around 27%, or 3.5 million people, aged between 50 and 64 are currently economically inactive, and further analysis by Phoenix revealed this includes around 900,000 who have left work since the pandemic.

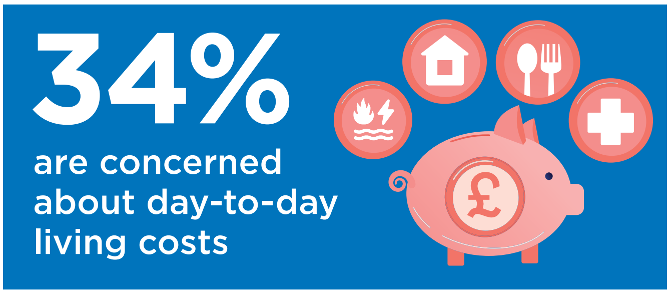
This comes amid a landscape where some 45% of homeowners are unlikely to achieve a moderate income in retirement, according to analysis by pension and benefits consultancy firm Broadstone. The 'moderate income' figure is based on the Pensions and Lifetime Savings Association (PSLA) standard of having £23,300 per year in retirement.

Retirement confidence among consumers had undoubtedly been impacted, as evidenced by the fact that almost 4 in 10 (39%) people say they are not confident they could afford to retire, according to research from Hargreaves Lansdown – this represents an increase of 5% on the previous year, when 34% of those surveyed reported they were not confident they could afford to retire.

This lack of consumer confidence extends to day-to-day household expenses with nearly a third of borrowers aged over 55 fearing the cost-of-living crisis will hinder their ability to repay their mortgage, a survey has revealed. There are 3.3 million over 55s who have yet to repay their mortgage, and among those questioned 16% planned to repay it ahead of retiring but thought the rising cost of living would make this harder. Meanwhile, 13% said it would take them longer. Two in five (40%) over-55s had already repaid their mortgage.

The annual income people will need for a minimum standard of living in retirement has jumped by nearly a fifth in the space of a year, according to the PLSA. In its latest inflation update, the PLSA said the cost of a minimum lifestyle has increased from £10,900 in 2021 to £12,800 in 2022 – an increase of 18% – for a single person and from £16,700 to £19,900 – up 19% – for a couple.

More than a third (34%) of UK savers say being able to afford day-to-day living costs in retirement is a "key concern", research from Smart has revealed, making it the biggest concern for UK savers in 2022. This concern of affordability was revealed by the research to have a gender disparity as 38% of women in the UK reported concerns about having enough money for day-to-day living expenses in retirement, compared to 31% of men.



Unsurprisingly, amid this backdrop, more than one in ten (11%) people who had retired have since gone back to work, while a further 4% are planning to go back to work, research from Investec Wealth & Investment has revealed. 29% stated the cost-of-living crisis amid rising inflation and energy bills was the main motivator for working again, while a further 26% said they want a new challenge. Nearly one in five (18%) said that they expect to work past the age of 70, while around 7%, representing around 400,000 savers, never expect to retire.

A UK household, saving the UK median of £180 per month, would take almost 11 years of consistent saving to reach £23,549, the average amount paid by first-time buyers on a deposit in England. However, research has shown that the average sum gifted for a house deposit was £61,596, speeding up the process for FTBs and enabling them to secure better rates with a lower LTV.

2. Customer Habits

One fifth of savers have reduced or stopped their pension contributions over the past twelve months, while a further 20% are considering doing so over the coming months, according to research from the Pensions Management Institute. The survey found that more than one in ten (13%) of savers have reduced their contributions over the past twelve months, while 7% have already ceased contributions altogether.

Around 2.5 million people aged over 55 and still in work will have to delay their retirement due to the cost of living crisis, according to a survey. The Legal & General poll reveals that, of those planning to delay retiring, 1.7 million must keep working indefinitely in either part-time or full-time roles. Almost two-thirds cited not being able to afford the loss of income, while living costs are so high, as the main reason for delaying retirement. However, a quarter also said they still enjoy their jobs and do not feel old enough to retire; while a fifth worry they will be bored if they stop working.

The number of pensioners paying higher or additional rates of tax has leapt by 70% in the past decade, with HMRC figures obtained by pension consultancy, Lane, Clark & Peacock revealing that in 2012/13, there were 400,000 pensioners who paid the higher rate (40%) tax, while 25,000 paid the additional rate of tax (45%). Compared with figures in 2022/23, these figures have soared to 671,000 at the higher tax rate, while more than double the number (56,000) now pay the additional rate, representing a 71% increase across the tiers.

Nearly one million (990,000) pre-retirees aged over 55 are considering annuities for the first time in preparation for their retirement, research from Legal & General Retail has revealed. The research detailed that 16% of people approaching retirement but still working were looking at the product due to improved rates against the background of rising living costs. It found that a further 14% (828,000) of working over-55s had always planned to purchase an annuity in retirement. Legal & General also detailed other reasons as to why savers might be drawn to annuities, such as the stability of a guaranteed income making it easier to plan their finances (78%), and the assurances the product offered in a volatile market (36%), and the improvement in rates (identified by 18% of savers).

While those in later life are undoubtedly exploring their options when it comes to funding their retirement, when thinking of downsizing few actually proceed with it. A third of over-45s (29%) say they have plans to downsize in the next five years according to research, but just 13% of over-75s have actually made the leap. While the ideal age to downsize is seen as 66 years old, as people assess their retirement finances, their ties to the community, their homes, and the security it brings mean that most people choose not to proceed.

Some 46% of customers referred by equity release introducers are using property wealth to gift an early inheritance to family, while around one in seven, or 15%, see equity release as a way of managing potential inheritance tax (IHT) liabilities. Research has found that referral customers release more property wealth on average than the wider market at £133,048, compared to £114,354. Some introducers, such as accountants, recorded average amounts of £183,334, the report showed.

People aged 50–90+ trust the financial expertise of Martin Lewis more than that of banks and financial institutions – whose advice they often find "patronising, condescending and self-serving". These findings come from the LiveMore Barometer, and when respondents were asked to say which financial advice they trust the most, the highest number of 50–90 year-olds (35%) put Martin Lewis top – above friends and family (30%) and their own online research (29%).

3. Market Trends

Over £600bn of equity was available for release in UK homes in the last quarter of 2022, representing a decrease of almost £200bn since the second quarter of 2022. Based on the latest Halifax quarterly regional house price index, the figures reveal that the total amount of housing equity available to homeowners over 55 now stands at an estimated £624bn. The average price of a property in the South East is now £395,000, creating £121bn of potential equity and making it the highest-value region in the UK.

This comes amid a backdrop of property market caution, with UK house prices forecast to fall by 10%, data from the Office of Budgetary Responsibility (OBR) reveals. This represents a one percentage point larger fall than the OBR's November forecast. Meanwhile, data found that property transactions are expected to drop by 20% relative to their peak in the same quarter. Leading indicators from Halifax and Nationwide suggest that house prices have already fallen by 3% to 6% between their peak in the middle of 2022 and February 2023.

Nonetheless, in spite of falling house prices, the impact of inflation and clients running out of money sooner than expected are the biggest harms to consumers in retirement, IFAs have said. Some 58% said that they see inflation reducing spending power during clients' retirement as the most significant foreseeable harm facing consumers in the context of the consumer duty, a study has shown.

The Equity Release Council has appointed a standards committee to develop its consumer safeguards. The 11-strong committee will be in post for two years and is made up of experts from across the trade body's membership, replacing the former standards board. Its composition has been expanded and reflects the organisation's ability to bring together all disciplines involved in delivering positive customer experiences, including providers, advisers, solicitors, surveyors and tech platforms.

Among existing customers, home improvements were the main driver for people taking out a lifetime mortgage in 2022. The research found that 29.7% of borrowers who released equity from their homes last year did so to renovate their properties – the first time this particular funds usage topped the list. Paying off a mortgage (27.3%) and early inheritance (8.9%) were the next most popular reasons for unlocking house wealth, with supplementing income and contributing to house deposits also favoured.

The number of equity release borrowers tumbled by 29% to 16,691 in the first three months of 2023 from 12 months ago, Equity Release Council data shows. Total lending came in at £699m in the first quarter of 2023, the lowest quarterly total since the second quarter of 2020, when withdrawals were limited to £698m due to pandemic lockdown restrictions. Among new customers, 6,766 plans were agreed, down 39% on the final quarter of last year and 44% below a year ago

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

Pure Retirement

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