Equity Release Market Insight

Q1 2024

Analysing Our Customer Loan Trends

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Welcome to the latest edition of our quarterly Equity Release Market Insight report, offering you a summary of the key headlines that could affect the market, and the way that consumers interact with it, going forward. Before we delve into these key trends and movements, we thought we'd share some of our own data when it comes to our loan usage data for Q1 2024.

What Have We Seen?

Analysis of our Q1 data for initial advances pointed to 20% of new equity release customers listing either holidays (11%) or cars (9%) as the primary reason for borrowing as a proportion of loan volume, highlighting the diverse range of purposes and circumstances currently being served by modern later life lending.

These levels are the highest we've seen on both a year-on-year and quarter-on-quarter basis, with holidays now the third most popular reason behind home improvements (25%) and paying off debts and mortgages (21% - the lowest it's been on both a yearly and quarterly basis). Our data also points to stability, with the top five reasons remaining unchanged over the last twelve months, with gifting rounding out the most common reasons in fourth place.

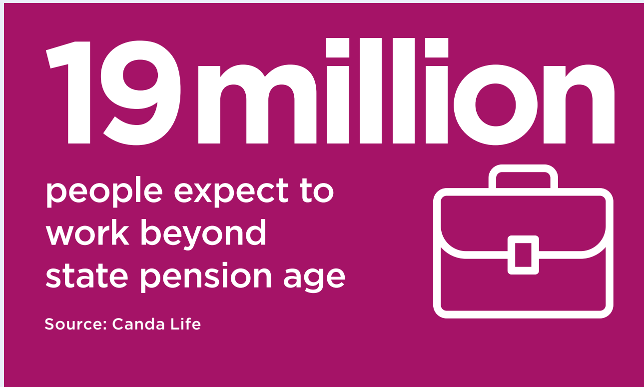
Are lumpsum and drawdown customers using released funds for different reasons?

Among **lumpsum** applicants in isolation, paying off debts/mortgages has remained the most common reason, sitting at 26% (albeit the lowest it's been on both a yearly and quarterly basis, peaking at 29% in Q4 2023). Home improvements have remained the second-most popular reason, while gifting (third-most popular, 11%), and contingency fund (fifth-most popular, 8%) point to more needs-based borrowing among this audience – either for themselves or to help out their family.

Drawdown customers, meanwhile, favour more aspirational and lifestyle-oriented uses, with only 16% of applicants primarily using released funds for repaying debts and mortgages – 10% less than lumpsum customers and only marginally above the 14% taking out a lifetime mortgage primarily for holidays. In the same way that lumpsum customers listed contingency funds as their fifth-most popular reason, among drawdown customers it's lifestyle improvements, accounting for 8% of cases by volume.

These latest figures highlight the way that lifetime mortgages continue to cater for a diverse range of needs and audiences, and also underlines the importance of offering both lumpsum and drawdown options, given they're effective solutions for people for very different reasons. We don't underestimate the importance of monitoring and understanding key customer trends, and look forward to continuing to use these sorts of findings to shape our product offering going forward.

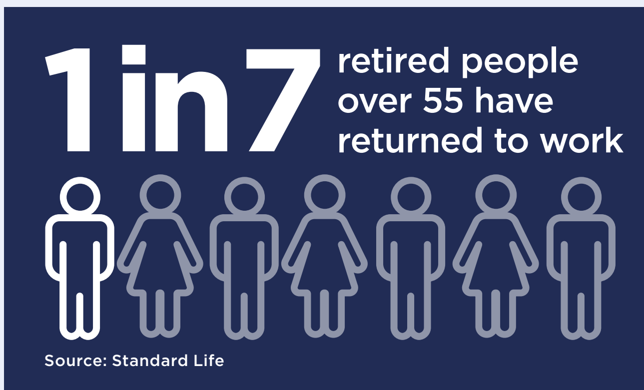
Q1 In Focus: The Key Stories and Headlines



1 in 13 divorcing couples use equity release to settle finance

58% discuss the value of their joint home

Source: Legal & General Home Finance



Workers expected to reach a comfortable retirement income

7% Self employed

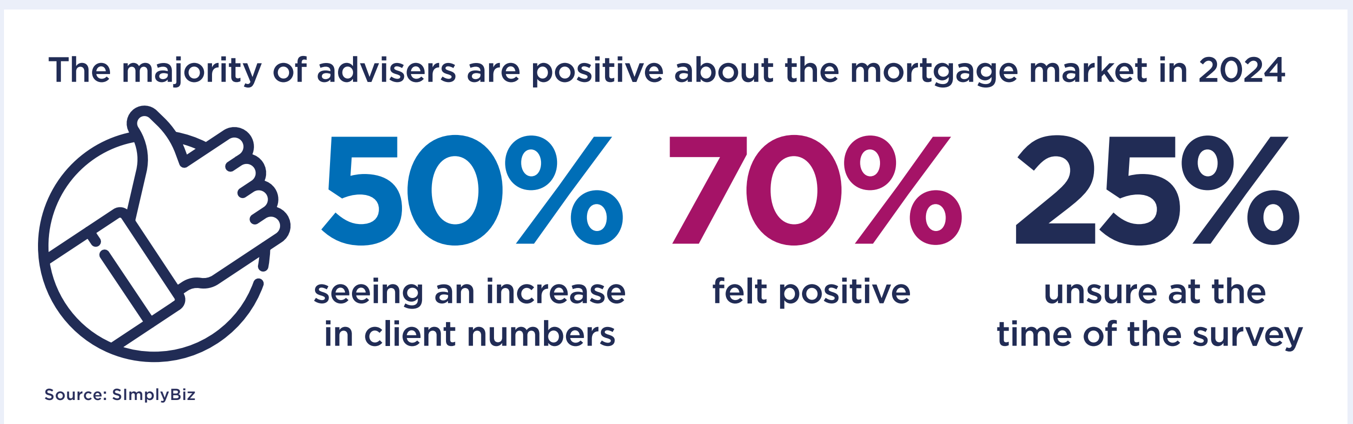
16% Company employed

Source: Hargreaves Lansdown

25% have stopped paying in to their pensions

12% have reduced contributions

Source: Investec Wealth & Investments



1. Consumer Demographics

According to research from Canada Life, Britons under the age of 66 who plan to work beyond the state pension age expect to retire when they are 72, with nearly half of those (49%) yet to retire planning to work after the state pension age – equating to over 19m people. 36% will do so because they worry their pensions will not cover day-to-day expenses, rising to 52% of those aged 55 or above. However, money is not the only thing keeping people in the workplace beyond the state pension age: 23% enjoy the routine, 20% like their jobs and 18% have not prepared for retirement.

This tallies with research from People's Partnership and State Street Global Advisers, which found that some of those who decided to retire early in recent years are now returning to the workplace, after realising their savings weren't enough or simply because they were bored of retirement. Those that re-enter the job market tend to do so either part-time or on flexible hours in low-stress roles and prefer to work close to where they live, their new jobs are often very different to their previous careers.

Additionally, around one in seven (14%) retired people aged over 55 have returned to work due to their pension not being sufficient to fund retirement, research from Standard Life has found. Almost two-thirds (64%) of over-55s who have gone back to work said income issues were the cause, with a third (32%) unretiring because living costs had increased more than they expected.

The picture is similarly concerning when it comes to retirement provision among current self-employed workers, with Hargreaves Lansdown noting that self-employed workers were less likely to contribute to a pension due to fluctuating earnings and not being able to access the money until they are at least 55. Its research found that less than a quarter (23%) of self-employed households are on track for a moderate income in retirement. By comparison, almost half (46%) of households where the main earner is employed by a company were on the path to a moderate retirement. When looking at households expected to reach a comfortable retirement income, 7% of the self-employed are on track, compared to 16% of those employed by a company.

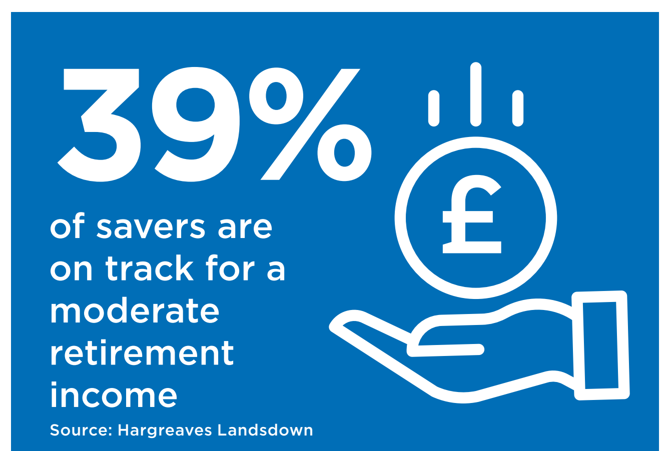
These demographic discrepancies relating to retirement planning extend to relationship status, with nearly half (45%) of adults think it is easier to plan ahead for retirement when savers are in a long-term relationship, according to research by Phoenix Group. It found that 48% of midlifers (45-54) in a relationship regularly putting money towards their future retirement income, compared to 37% who are single. Additionally, figures from the 2021 census showed the proportion of one-person households in England and Wales decreased since 2011 in all age groups apart from the mid-50s to 60s group which has seen an increase. The increase is most pronounced among those aged between 60-69.

Overall, just under two fifths (39%) of savers are on track for a moderate retirement income, although some savers, particularly higher earners and homeowners, are doing better than average, according to Hargreaves Lansdown's latest savings and resilience barometer. The data also showed that homeowners and couples without children are doing better than average when it comes to preparing for retirement, as 51% of homeowners and 47% of couples without children were on track for a moderate retirement income.

This is backed up by a survey conducted by Independent Age, who found that more than two fifths (41%) of over-50s who are not fully retired worry about living in economic hardship when they give up work, with 56% citing having less disposable income as their primary financial concern and around 80% of people did not believe the state pension, currently £208 a week, would be enough to cover essential costs. Almost one in five (18%) of people aged 60 to 64 are living in deep poverty, according to the latest DWP figures. Deep poverty is defined as living in in a household with an income below 50%of median income after housing costs.

Additionally, poverty in later life is at the highest level since 2007/08.

The increasingly tech-savvy profile of the modern retiree has been highlighted by figures from the Office of National Statistics, which found that the 70-plus age group is second only to those in their 20s when it comes to the average amount of time using a computer or device as a primary activity (separate from working or watching streamed video). The data also highlighted that silver surfers in Britain spent an average of 43 minutes and six seconds a day using devices in such ways in September last year – 10 minutes longer than those in their 40s. Under-20s were not part of the survey. The over-70s spent more time web browsing, checking email, and on other computer use (such as creating content for the public) than any other age group surveyed – but also spent the least time (just three minutes a day) on social media.



2. Consumer Habits

Property is increasingly being used as a tool to settle finances in divorce, among over-50s, with one in 13 divorcing couples over the age of 50 will turn to equity release to settle their finances, according to research from Legal & General Home Finance. It found property is the priority asset up for discussion at the point of divorce for over 50s, with 58% discussing the value of their joint home as they prepare to separate. Additionally, some 18% of people said they would buy their partner out using savings while 8% would turn to equity release, still allowing one party to stay in the home.

That same research also found that Just 7% of divorcees said they would seek financial advice, despite 40% believing the process was financially unfair. The survey of 3,000 divorced adults found financial concerns delayed almost 20% of divorces - with 13% delaying their divorce due to cost of living pressures while 19% said they had delayed for financial reasons.

Among mortgage holders, research from Just Group has found that over a quarter (27%) of those born between 1965-1980 are not confident they would pay off their mortgage before age 67 with 13% firmly believing they wouldn't and a further 14% unsure if they could. The growing cost of borrowing appears to be contributing to these repayment fears: nearly half (45%) of Gen X – identified as those between 42 and 58 years of age – who have a mortgage said that it was taking them longer to pay it off than they had hoped. When asked why, the most common reason (34%) was that they had needed to extend the mortgage term to reduce monthly payments.

This final point feeds into data released by Bowmore Financial Planning, which showed that the number of mortgages with over 30-year terms sold to UK borrowers jumped 13% in the year to end of September last year, rising from 459,296 in 2021/22 to 520,779 in 2022/23 – similarly, the number of 40-year mortgage sales has increased 29%, from 1,533 in 2021/22 to 1,980 in 2022/23. Bowmore says that soaring interest rates has pushed more homeowners to consider longer-term mortgages to reduce monthly payments.

Amid this wider backdrop of trying to reduce monthly outgoings, a nationwide study by Investec Wealth & Investments found one in four (25%) have stopped paying into their pensions while another 12% have dramatically or slightly reduced monthly contributions – this represents an annual average reductions and lost contributions that adds up to nearly £900 a year. Additionally, nearly half (49%) questioned in the study do not plan to restart or increase contributions and around a third (30%) admit the decision will have an impact on their retirement date.

This is backed up by other findings from the Pensions Management Institute, which found that nearly half (49%) of working adults have changed their retirement plans due to the cost-of-living crisis. This included 23% of people who revealed they had reduced their pension contributions, while one in 20 (5%) had stopped their contributions altogether. Almost a quarter (24%) of working adults stated that they were planning to delay their retirement as a result of the increased cost of living.

Mortgage sales to the over 60s hit £13.2bn in mortgages in the last year (year-end to September 2023) as older borrowers use mortgages to minimise their heirs' inheritance tax, according to Bowmore Financial Planning, as borrowers want to minimise the amount of inheritance tax owed on their estates can take out a mortgage against the value of their property to gift cash to their children. Over-60s made up 6% of the value of all new mortgages sales last year 2022/23, up from 4.2% in 2021/22. Sales of mortgages to over-60s fell less than 1% from £13.3bn last year whilst overall mortgage sales fell 33% from £331bn to £220bn over the same period.

Eight out of 10 (79%) pensioner homeowners eligible to claim benefits are failing to claim anything at all with each household missing out on an average of £1,231 a year extra income, according to Just Group's research. One in 10 (9%) were claiming but receiving too little, on average missing out on an additional £476 income per year. In total, a quarter (27%) of those missing out on income were entitled to benefits worth at least £1,000 a year. The research was based on in-depth fact-finding interviews with clients seeking advice on equity release during 2023 and showed that 38% were entitled to benefits. Of those eligible, nearly eight in 10 (79%) were not claiming at all and one in 10 (9%) were claiming less than they were entitled to.

Among equity release customers, research from Hodge has found that people in Scotland are more comfortable releasing equity from their home to help their loved ones financially than anyone else in the UK, and outside of London. Just over a quarter of people aged 50+ said they would consider releasing funds against the value of their property and around 40% feel comfortable with the idea overall, the study shows. In Scotland, however, more than a third of people aged 50+ said they would be happy to raise equity through their home in order to help out a family member.

13%

rise in the number of mortgages with over 30 year terms

Source: Bowmore Financial Planning

49%

have changed their retirement plans due to the cost-of-living crisis

Source: Pensions Management Institute

3. Market Trends

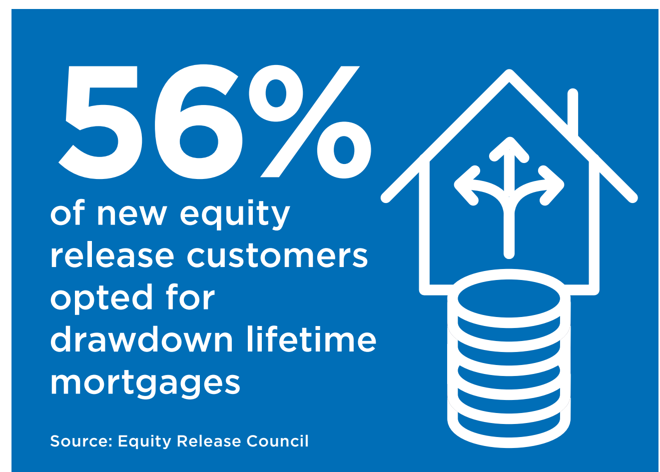
Nearly half (49%) of firms offering retirement advice have seen an increasing demand for their services as a result of recent changes in pension tax allowances, research from NextWealth, commissioned by Aegon, has found. The increased demand was driven by a number of recent tax changes, including the abolition of the lifetime allowance (LTA) and the increase in the money purchase annual allowance, announced as part of the 2023 Spring Budget.

Inheritance tax paid on gifts has increased by more than 153% since 2011 to hit £256mn in the 2020-21 tax year. A Freedom of Information request to HMRC by IFA firm Continuum, found the number of estates paying IHT during 2020-21 increased by more than 120% since 2011, with 1,300 now affected by the tax. The sum paid by estates has also risen to £196,923 for 2020-21, a £25,737 increase from 2011.

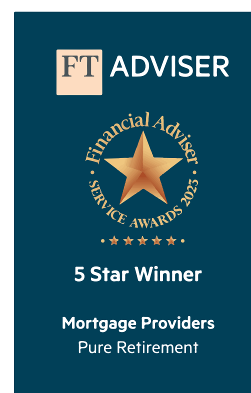
A new adviser survey shows that the majority of advisers are positive about the mortgage market in 2024 and half are seeing an increase in client numbers, according to data from SImplyBiz. When asked how they considered the advice landscape's prospects in 2024, 61.5% of all advisers surveyed replied that they felt positive, rising to 69.8% in responses from mortgage advisers specifically. However, 25% responded that they were unsure at the time of the survey and would need a better feel of the new year before having a clear view.

Labour has announced that it would undertake an in-government pensions and retirement savings review if the party is elected at the next general election, stating that it would review the current state of the pensions and retirement savings landscape to assess whether the current framework would deliver sustainable retirement incomes. This would involve working with the industry to ensure that pension savers are getting the best possible returns, and to identify and address the barriers to schemes investing more into UK productive assets, including "cultural and regulation-induced risk aversion".

Over half (56%) of new customers who have made use of equity release products opted for drawdown lifetime mortgages, the Equity Release Council has found. In its Q1 2024 equity release market statistics, the Council revealed that this figure was the highest quarterly share since the Bank of England began to increase the base rate from 0.1% in Q4 2021. The Council found that between January and March 2024, 14,216 new and returning customers made use of equity release products. This is a 4% increase from Q4 2023. New customer numbers dropped by 11% quarter-on-quarter in Q1 2023 and fell by nearly a third (31%) year-on-year.



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



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