Pure Retirement

The Quarterly PureReport

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UNDER 70s
65
Driving the market

1.5m
retirement plans affected by the pandemic

34% DROP
In year-on-year activity

POTENTIAL EXPLOSION IN Q3

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 Habits**
   Detailing retiree patterns when it comes to their affairs and finances and the way they interact with financial services
3. **Market Updates**
   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

Analysis of the latest ONS figures by the Just Group has highlighted that the lowest income group of pensioner households receive less state pension than all other higher-income groups

Additionally, lower-income households also receive fewer state benefits, with the lowest income group receiving a combined average total state support of £9,986, which is £4,246 lower than the £14,232 average amount received by the next lowest income group.

In the same way that there is a correlation between people's circumstances and the amount of state aid they receive, there have been patterns emerging among existing equity release customers in relation to the amount they're borrowing and their stated use for the funds. Those borrowing the minimum amount (£10,000) on plans are likely to use the money for holidays or home improvements, with figures from HUB showing this was the case for 33% and 30% of respondents respectively. On the flipside, those borrowing over £330,000 were likely to use the funds to restructure their finances (39%) or for restructuring current lifetime mortgages (25%), with those borrowing larger amounts also likely to gift a higher proportion of mortgage amount to family (14% vs 1% to minimum amount borrowers).

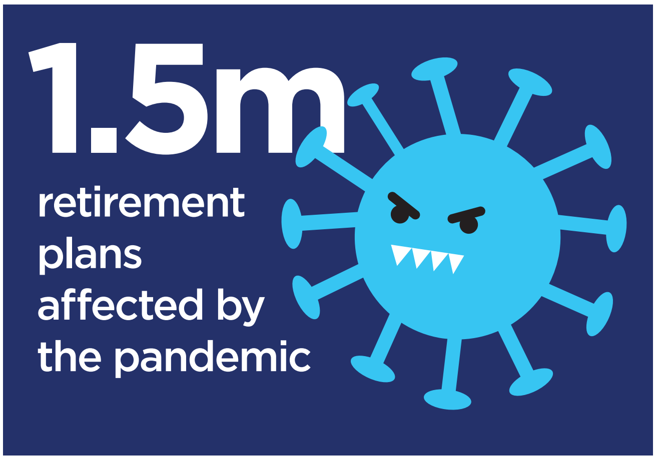
Staying with existing customers, the under-70s have been driving the market in recent months, with figures for May of this year showing that those over 70 appeared to display greater reticence amid the ongoing pandemic. This resulted in a drop in activity in that age group of 9% compared to the average for the four months prior. Meanwhile, using the same metrics there was a 4% increase in plans taken out by those aged 55-59, a 3.5% increase among 60-64-year-olds, and a 5% increase among those aged 65-69.

However, there still appears to be a lot of work to be done to counter misconceptions among potential customers, with recent research by SunLife showing that only 11% of those surveyed were able to answer a series of key questions about equity release correctly, with 89% getting at least one question wrong.

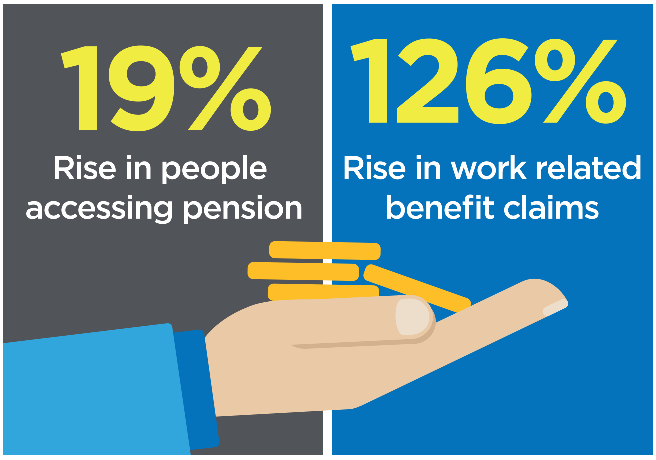
2. Customer Habits

Unsurprisingly, the pandemic has had a significant effect on people's retirement plans, with one of the headline figures from L&G's recent research suggesting that around 1.5m people's retirement plans will be affected as a direct result

One in six people aged over 50 and in work (15%) believe they'll delay retirement, with 26% preparing to keep working in some capacity indefinitely. Research from Aegon has also highlighted similar patterns, with 18% of the general population planning to delay their retirement, rising to 40% among the self-employed.



The figures from Aegon also show that 12% of over-55s who hadn't considered accessing their pension funds prior to the pandemic have already done so, with a further 8% admitting to having considered dipping in. There were already signs of rising numbers of people accessing pension funds early, with first-quarter withdrawals 19% higher than last year, with suggestions that withdrawal levels for Q2 and beyond were likely to be significantly higher. 10% of adults with a pension (but not yet retired) are likely to need to work longer or increase their savings contributions owing to having reduced or stopped their pension payments due to the pandemic. Retirement prospects are also likely to be significantly affected by rising unemployment, with ONS figures showing a 126% rise in people claiming work-related benefits between March and May. Many adults in the coming years may have to explore later life lending in order to achieve the retirement they're seeking, and this could be especially true among divorced women, who according to research by Now Pensions, retire with only a quarter of the savings of their male counterparts.



Among existing equity release customers, SunLife has seen rising numbers of applicants using released funds for gifting as they seek to support those close to them during these unprecedented times – a trend at odds with usual patterns of applicants usually using funds to improve their own lifestyle. Data from Equity Release Supermarket has also shown the growing popularity of lump sum plans among consumers – whereas they accounted for 56.5% of plans taken our during Q1, they've increased their share to 61.2% during Q2. Drawdown plans have correspondingly fallen from 37.9% of total plans in Q1 to 33.7% in Q2.

3. Market Updates

The market, unsurprisingly, saw a considerable drop in year-on-year activity, with figures from the ERC putting the damage at around 34%.

However, the figures arguably don't tell the full story, with some in the industry remaining bullish and pointing to the fact that many applications have experienced 3-6 week delays, setting up a potential Q3 explosion as pipelines clear and consumer confidence returns. Indeed, we've run an edition of our monthly Insight blog exploring whether there's more reason to be optimistic than the headlines may suggest. It comes off the back of an especially positive Q1 which saw a 14% year-on-year rise in lending, demonstrating that under normal circumstances consumers are increasingly turning to lifetime mortgages to fund their retirement. That said, while there has been a rise in both plan numbers and the combined value of plans, average plan amounts did see a 9% drop in Q1, according to figures released in May – a figure worth monitoring.

Naturally, over the past few months many lenders have had to adapt procedurally to new challenges, with most lenders having moved over to remote valuations by the end of April. However, as government guidance shifted, many have since gone on to adapt to more fluid and flexible solutions with most lenders having appropriate measures in place by mid-late May. But while lenders have been having to adapt to a changing landscape, they've also found room to innovate and enhance their product ranges. Figures from the ERC show that average market rates fell to an all-time low of 4.48%, with 40% of products on the market now offering rates below 4%, showing that lenders continue to understand the need to offer the best possible retirement solutions to consumers even in the toughest of environments.

That commitment to driving new developments and innovation has also extended to the technological sphere, with many feeling that the pandemic has pushed the wider equity release sector into exploring more wide-reaching technological solutions. Focus group work has shown potential equity release applicants would be willing to explore the use of conversational chatbots to answer basic initial enquiries when researching whether equity release was a viable retirement solution for them. However, there will likely always be elements of the process which will continue to stay in their current guise, with those in the industry feeling that while strides have been made in terms of digital developments, aspects such as the need for a wet signature will continue to be in place for some time yet.

Lastly, competition has increased in the RIO market of late, the market seeing rising numbers of available products and falling rates. This suggests that there's growing interest in the wider later life lending sector as people give greater thought to retirement planning and the available avenues to help them achieve the later years they desire.

Pure Retirement

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