

The Quarterly PureReport

Issue no.7 Q3 2020



60 is the average age people believe they'll pay off their mortgage

£499bn of equity available for release in UK homes

81% of advisers think they need more guidance relating to vulnerable customers

£19bn less borrowing predicted from over-55s

As always we want to share with you the market and customer trends spanning the last couple of 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 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 News**
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

Unsurprisingly, the pandemic continues to play a large part in customer demographics, and their attitudes towards retirement, long-term care and their property.

In a survey of 5,000 adults, 27% of those who worked in arts and travel had yet to save into a pension, and 67% of retail workers believed that if they did retire they'd rapidly run out of money. With a number of sectors effectively shutting down there could be a pocket of workers set for relatively imminent retirement who won't be able to afford to via traditional means, with the result of a potential increase in equity release interest.

18% of over-50s surveyed by the Co-op said that the pandemic has already or will impact their retirement plans. Of that subset, 25% stated they'd not been able to retire owing to their finances. A further fifth has used their retirement savings as a result of the pandemic, while 10% had been made redundant and had to take early retirement. Similar patterns were found in separate research from the IFS, with 13% of older workers having changed their retirement plans – 8% of workers over 50 planned to retire later, while 5% planned to retire earlier.

55%

of over-60s don't know how they would fund long-term care

When it comes to long-term care, 55% of over-60s are undecided as to how they'd fund it, with 19% of those previously open to the idea of care homes now against it – of those, 38% sought to enter assisted living or smaller properties, with 9% looking to move into a family member's spare room and 6% looking towards a granny annex as a solution.

Looking to property, it's been calculated that there's £499bn of equity available for release in UK homes among the over-55s, peaking at a combined £102bn for the South East of England and £96bn available in London (the latter figure equating to over £125,000 per household). It comes at a time when over-50s homeowners have seen their homes more than double in value over the past 20 years, from an average of around £113,000 in 2000 to over £240,000 this July.

£499bn

of equity available for release in UK homes



Two things have come out that bear repeating going forward, however. Firstly, the majority of over-55s still don't understand equity release, with 66% not fully grasping the no negative equity guarantee. Secondly, a third of over-55s homeowners claim to have felt vulnerable when making a financial decision, suggesting that special care needs to be made going forward to accommodate vulnerable customers who may choose to interact with the equity release market.

66%

of over-55s don't grasp the no negative equity guarantee

2. Customer Habits

There's predicted to be a sharp drop in borrowing among over-55s, amounting to a £19bn fall in annual totals as big ticket items fall in popularity – under the predictions, totals would fall from £226bn in 2019 to £207bn in 2021.

Among equity release customers, there's been an increase in people using released funds to pay off existing debts as those in later life look to future proof their finances. Two fifths of released funds in H1 of this year were used to clear debts, amounting to a combined £588m.



These figures come at a time when 20% of people expect to still be paying their mortgage over the age of 65 (with 5% believing they'll never pay it off), and the average age people believe they'll pay their mortgage off at rising to 60, up from 58 last year. Additionally, 42% of pension pots are being raided in what the regulator deems to be 'unsustainable' levels – i.e. at more than 8% annually.

20% expect to still be paying off their mortgage over the age of 65

As well as streamlining their own finances, many are also choosing to financially support their children or grandchildren in these difficult times. A third of those surveyed said that such acts had become important to them, up 10% from before the pandemic. The bank of mum and dad continues to prove

£19 billion

less borrowing predicted from over-55s



popular, with parents being responsible for 72% of the gifts. There's also the sandwich generation – i.e. the 3% of UK adults supporting both parents and children simultaneously. 20% of those surveyed said that the effect of the pandemic on their wider family's finances makes them more likely to take out equity release.

20%

say the pandemic makes them more likely to take out equity release

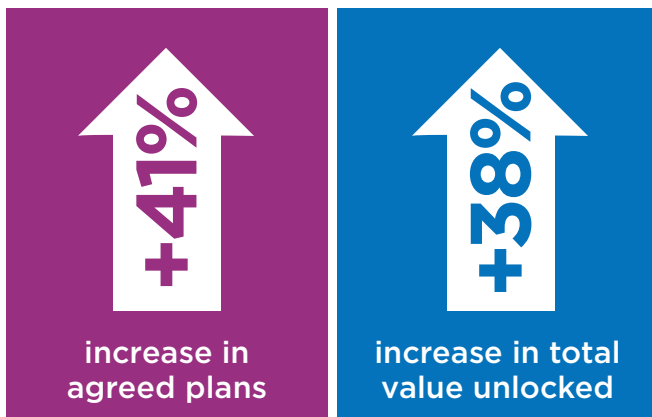
Brits' mentality regarding how to fund their retirement has also started to shift, with 43% of those surveyed from 16 years old to retirement claiming that they believed property would form the bulk of their retirement income, compared to 27% who felt it would come from a workplace pension. The greatest belief in bricks and mortar to fund retirement came from younger age groups – specifically 47% of those aged 35-44 and 46% of those aged 25-34.

43%

think property will form the bulk of their retirement income

3. MarketNews

Figures from the [Equity Release Council](#) have demonstrated a gradual return to near normality for the market – these echoed predictions made by many in the industry following Q2, who felt that the long pipeline from Q2 would intersect with an uptick in Q3 activity.



The latest figures demonstrate a 41% quarter-on-quarter increase in agreed plans, and a 38% increase in total value unlocked by new or returning customers (figures which represented 9% and 3% year-on-year decreases respectively). Average lump sum lifetime mortgage amounts remained stable quarter-on-quarter while increasing 4% year-on-year, with average drawdown amounts rising 2% from Q2 and 11% from Q3 2019.

The start of Q3 saw the industry still reflecting on the findings from the FCA, with the ERC responding to the regulator's findings by [doubling their adviser checklist from 12 points to 24](#) with a supporting statement that read:

“ We are continually reviewing our standards, and this latest version of the Checklist will support advisers in taking a personalised approach to each customer. ”

An energised sector continued to innovate what's been a changeable quarter amid relaxed government restrictions. [Adviser firms reported a surge in people exploring unlocking equity in their homes](#), suggesting the gradual return of consumer confidence when it comes to making major financial decisions. The market's product innovation has undoubtedly played its part, with sub-3% rates becoming increasingly regular ([including the release of our own 2.35% MER Sovereign product in July](#)).



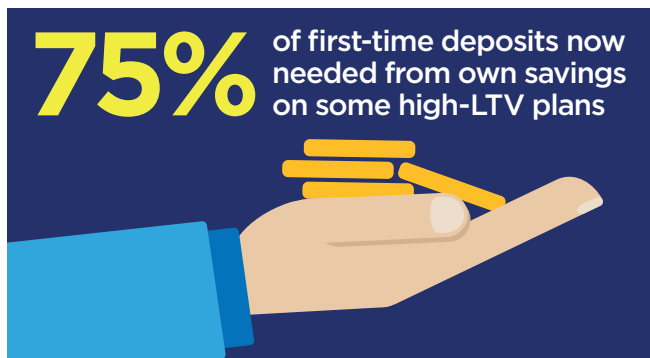
Sovereign Range

Indeed, by September [the average lifetime mortgage interest rate had fallen to 4.21%](#), equating to an average rate lower than at the start of the year (4.55% in January) and significantly lower than at September 2015 (6.12%),

It was the same story when it came to product offerings. [While 90 deals had been withdrawn between the start of June and mid-July](#), by mid-September market activity throughout 2020 was at a level that equated to a [new product being launched every 28 hours throughout 2020](#). It made for 525 whole-of-market products, a 510% increase from the 86 available in 2017 and rising from the 315 available at the end of 2019.

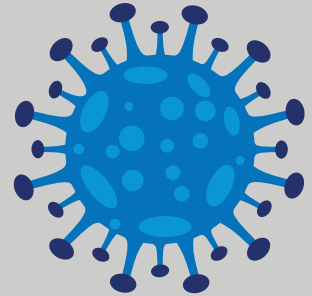
3. MarketNews

The market saw applicants looking to release funds to either streamline their finances or to offer financial support to a family member, including gifting for use as a housing deposit, aiming to take advantage of the government's stamp duty holiday. The latter option was however thrown something of a spanner in the works courtesy of [Nationwide's decision to limit the input from the Bank of Mum & Dad](#) on high-LTV first-time buyer mortgages. Under the new measures those applying for a 90% mortgage would need to prove at least 75% of the deposit came from their own savings rather than familial gifting.



81%

of advisers think they need more guidance relating to vulnerable customers



With many new customers approaching the equity release market potentially in a state of pandemic-induced vulnerability, it's little surprise that [advisers have sought more guidance on vulnerable clients](#). In research released at the end of September, 81% believed there was a need for greater education and more resources to provide them with practical guidance on how to spot the signs and deal with vulnerable clients.



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