Issue No.19 December 2023

Pure Retirement

The Quarterly Pure Report

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

4 in 10

on track for a moderate income in retirement

£47,700

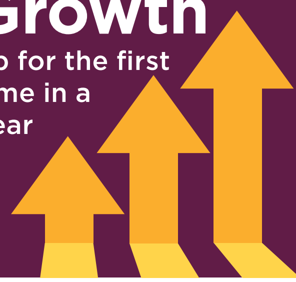
needed a year for a comfortable retirement in 2023

1/3

will have cleared their mortgage by 65

Market Growth

up for the first time in a year



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.

Analysing Loan Trends : What We've Seen

"Welcome to the latest edition of our Quarterly Report, focusing on Q3. Before diving into news headlines, let's highlight some of the key trends in loan usage we've seen at Pure Retirement over the past few months.

Among our new customers, home improvements remain the top use of released funds (as they are across additional borrowing and cash releases), but debt and mortgage repayments sit at around the same level – 22% of total applications – pointing towards the mixed usage of lifetime mortgages that a diverse customer has brought, split between aspirational and needs-based requirements.

Despite a challenging landscape, cars and holidays continue to sit among our top five most popular reasons for taking out a lifetime mortgage, pointing towards ongoing customer willingness to explore the further reaches of their aspirations in their later years.

Among returning customers seeking further borrowing, it's perhaps unsurprising to note that emergency funds are the second most popular reason for people to take out a further advance, suggesting that those who are exploring additional borrowing are doing so on a needs-based basis.

On the flipside, those accessing cash releases are perhaps doing so for more lifestyle reasons, with holidays and cars being the second and third most common reasons respectively.

These trends emphasise the continuing need for the lifetime mortgage sector to deliver effective solutions for diverse customer needs. As a committed lender, we hope this report helps you to widen your knowledge and understanding, enabling you to continue delivering best outcomes for your clients."

Paul Carter
Chief Executive Officer, Pure Retirement

Q3 Later Life Landscape Headlines

1. Customer Demographics

Workers aged 45 and over in Greater London and the East of England have over 40% more in pension savings than their counterparts in the Midlands and the North of England, according to research from Phoenix Insights. Those in Greater London have an average of £144,000 in pension savings and those in the East of England have an average of £136,700. By comparison, workers aged over 45 in the North West and the East Midlands have average pension savings of £91,400 and £98,100 respectively.

However, the cost of living has begun to bite, with fewer than four in 10 (39%) UK households on track for a moderate income in retirement, analysis by Hargreaves Lansdown has found. This represents a 3% fall from the 42% of households that were on track for a moderate retirement six months ago. Just over two-thirds (69%) of the highest fifth of earners were in line for a moderate retirement income, although Hargreaves Lansdown warned that this was “unlikely to meet their needs”.

Additionally, Retirees need an annual income of £12,800 to achieve a minimum living standard, defined as covering essential spending plus a week’s holiday in the UK but no car, according to the Pension and Lifetime Savings Association (PLSA). However, assuming retirees receive a full state pension of £10,600 per year, this leaves them with a shortfall of £2,200. A comfortable retirement costs £4,200 more a year than it did in 2022, according to calculations, and pensioners need a total income of £47,700 in July 2023 for a comfortable retirement compared to £43,500 in April 2022, analysis from interactive investor suggests. Assuming a retiree gets a full new state pension of £10,600, it would mean they need £37,100 private pension income, compared to £32,900 in April 2022. To generate £4,200 additional pension income, pensioners would need a private pension pot of around £598,700 - £68,700 more than the £530,000 needed in April 2022.

The situation is even more challenging for single people, who need to have £160,000 more in their pension pots than someone in a couple to ensure a moderate standard of living in retirement, according to analysis by Standard Life. A single person would require a £315,000 pension pot, while people living in a couple would need £155,000 each in order to achieve a moderate retirement income, the firm said.

Nearly one in three UK women expect to leave work before they plan to retire, with many citing health, wellbeing or menopause concerns as reasons for their potential early departures. 29% of women in the UK polled for a British Standards Institution (BSI) report said they were likely to leave the workforce early for reasons other than personal choice. Two-fifths of this cohort expect this to be due to their health and wellbeing, while a further fifth specifically cited menopause as a barrier to staying in work longer. The majority (75%) of UK women wanted employers to take more action to retain older female workers, while 71% said politicians needed to drive this change.

This comes amid a backdrop where the success in reducing the gender gap in state pensions could be undermined if inequalities between men and women in defined contribution pensions continue to rise, according to consultants LCP. Additionally, nearly three in 10 (29%) of women surveyed for Royal London said the state pension will be their only source of income in retirement, compared with 13% of men. Women are also less likely to say they have checked their state pension age, with just over half (53%) of women having checked, compared with 58% of men.

Unsurprisingly, ‘retirement anxiety’ is increasingly becoming an issue for over 40s, due to the financial pressures of the cost of living on income and savings, according to research by Abrdn. The research found that nearly two thirds (58%) of UK adults aged 40 years plus are anxious about retiring, up from 54% in 2022. A fifth (20%) admitted they are ‘very anxious’, a 70% increase on 2022’s figures (12%), while 18% said that their anxiety is severe enough to keep them awake at night.

By extension, while working into later life is often seen as a negative, the idea of a sudden ‘hard stop’ retirement is no longer the norm with only 27% of people currently in employment expecting to do this, according to Aegon’s new report. However, the main reasons for doing so are positive and include an enjoyment of working life (57%) and keeping the mind sharp (54%). Only 29% said it was because they had not saved enough. This is borne out by figures released by the ONS, which shows that the employment rate (71.3%) for 50 to 64-year-olds is still yet to return to pre-pandemic levels (72.5% in 2019), although it has increased over the past year. It also showed a decline in the number of older workers leaving their job to retire over the past year, perhaps evidence of the impact of the tough economic environment. This is added to by the fact that around 460,000 people aged 50 to 64 years who are economically inactive are willing to, or would like to, work.

2. Consumer Habits

A third of mortgage holders say they will have paid off their mortgage by the time they hit 65, data from LV= shows. The group says 32% of homeowners with a home loan did not think they would hit this target, according to its Wealth and Wellbeing Research Programme study. It says that one in ten retirees found they still had mortgage debt when they retired, averaging £38,000. The firm adds that 63% of those who retired with an outstanding mortgage debt had to pay the mortgage debt with their pension, giving rise to fears of homeowners stuck on forever mortgages. Research from Equifax puts that figure at over 40%, and over a quarter of these are held by those who will be over 70 at maturity. Of the identified group of UK mortgage borrowers whose loans will not mature until they are past 66, 40% are already aged 55 or over, and 16% of those 55-plus have a remaining mortgage balance over £100,000.

When it comes to pensions, research by Aegon suggests that one in eight (13%) people in their 50s have stopped or reduced their contributions to retirement savings due to the cost-of-living crisis, running the risk of seriously compromising their future income.

However, according to the FCA pension saving levels have remained resilient despite rising costs placing pressure on household budgets. 6% of pension savers - less than half of the figure quoted in Aegon's research, representing around 1.5 million people - reduced or stopped pension contributions as a result of the cost of living. The FCA's annual Financial Lives Survey also found that, amongst those aged 55 or over with a pension in accumulation in May 2022, 6 per cent, or around 300,000 savers, had cashed in some or all of their pot to cover day-to-day expenses in the six months to January 2023.

As if to highlight the mixed picture being presented when it comes to pension saving, consumers in the UK are more likely to increase their pension contributions rather than reduce them. This is due to improving savings rates as a result of continued rate rises by the Bank of England (BofE), findings from GlobalData have revealed. The survey found that 18.2% of consumers increased their pension contributions in the 12 months to May 2023, with just 3.3% reducing them. The survey of 3,000 people in Q2 2023 found that 32% of those earning more than £50,000 per year increased their contribution more than the overall proportion of consumers who earn under that amount.

When it comes to the intersection between pension saving and mortgage repayments, pension savers could add up to £52,000 to their retirement pot by completing their mortgage repayments as early as possible, analysis from Standard Life has found. The research found that those who begin working on a salary of £25,000 per year and pay the standard monthly auto-enrolment contributions from the age of 22 could build up a total retirement fund of £461,000 by the age of 66, not taking inflation into account. However, topping up contributions by 4 per cent for ten years from the age of 55, the age at which a 25-year mortgage term taken out at the age of the 30 would be paid off, could result in a total pot of £513,000 – £52,000 more than if no tops up were made.

However, for all the talk around pensions and saving patterns, it's worth bearing in mind that pension savings make up less than two fifths (36%) of retirement income on average, dropping to less than a third (31%) for single pensioners, research from ISIPP has revealed. The group's analysis showed that average incomes before tax are around £30,570 for pensioners rising to £41,130 for couples and dropping to £20,120 for single pensioners. On average, around £11,100 was provided by pension saving, whether occupational or personal, while investment income contributed just over £2,100 year to average incomes, and earnings amounted to more than £3,800 a year across all retired people.

When it comes to later life lending, research from Santander UK shows that a quarter of homeowning adults would consider using equity in their property to support their financial position in later-life. When asked what homeowners would release equity for, just over a third (33%) said they would access money to boost their retirement finances, around one in four (23%) would use it to complete home improvements, while 15% said they would use some of the equity in their home to help their own children onto the property ladder.

Additionally, the pandemic and the cost-of-living crisis has impacted how open families are about their finances, according to research. Its survey found that later life lending clients are twice as likely to involve their families in the equity release process in 2023 (43%) compared to 2019 (19%). Family involvement is particularly important as 84% of advisers agreed that involving families in the equity release advice process allows them to air any concerns which can then be addressed.

With gifting remaining a popular use of funds, research from Saga has revealed unique insights into the shifting landscape of intergenerational lending. The findings include the fact that almost half (48%) of grandparents have no preference on how their grandchildren spend the money they're given, while buying a property (20%) was the next most popular option. Not only that, but grandparents are the third point of call for financial help for grandchildren, with 15% using this as their source of funds – behind parents (45%) and banks (22%).

3. Market Update

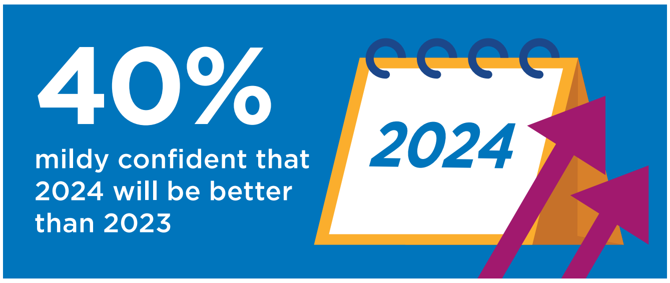
[Figures released by the Equity Release Council](#) show that the market has seen growth for the first time in a year - with quarterly increases in both new customers (10%) and total lending (8%). Total equity release lending has reached £716 million in Q3 - loaned to 7,379 new customers and 8,466 returning drawdown customers. The average initial drawdown is £63,238 but returning customers have the potential to borrow more in the future at the prevailing rate. The average lumpsum is £94,806 but both lumpsums and initial drawdowns are down about a third on an annual basis.

Property failing to meet the minimum or maximum value criteria or the borrower wanting a higher loan-to-value loan than was available were the biggest reasons for equity release declines in the first three months of the year, a report has found. This has risen from fifth position in the same period last year and was particularly the case of borrowers looking to rebroke or looking for further advances based on estimated rather than confirmed property values.

When it comes to funds usage, data from Legal & General Home Finance shows that home improvements remain the most popular reason for existing customers to release additional funds from a lifetime mortgage (53%). While some of the funds are used to increase homes' long-term efficiency, such as installing insulation or double glazing, for other customers, the funds are essential for adapting their homes to meet their later-life accessibility needs. This allows them to stay in their forever homes, instead of moving to a new property or going into care. Meanwhile, data from Mortgage Advice Bureau's Later Life's Market Monitor Report H1 2023 shows the number of people using equity release funds to repay their mortgages has fallen by 16%, reducing from 40% (H1 2022) to 24% (H1 2023).

In a review of later life mortgage firms, the Financial Conduct Authority has worked with the largest firms to improve their advice processes and prompted the removal or amendment of almost 400 misleading promotions. The review looked at firms responsible for around half of all lifetime mortgage sales. It found in many cases advice did not meet the standards expected. For example, a lack of evidence that sufficient consideration of consumer's individual circumstances had been given and advice lacked discussion of alternatives.

Despite a challenging year, a webinar poll undertaken by Countrywide Surveying Services found that almost three quarters of property professionals are confident that 2024 market conditions will be no worse than those experienced in 2023. The poll revealed that 40% of property professionals are 'mildly confident' that 2024 will be better than 2023, 6% expressed that they are 'very confident', with 27% expecting market conditions to be 'much the same'. In contrast, 24% of respondents were 'not confident' that conditions in 2024 would be more favourable than those in 2023 with 3% forecasting that they will be 'much worse'.



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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