Pure Retirement

The Quarterly PureReport

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HOUSE PRICES RISE £7,023 between July and September

TOTAL AVAILABLE UK EQUITY HITS £591bn

£530m gifted to family

72% believe the market will grow

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:

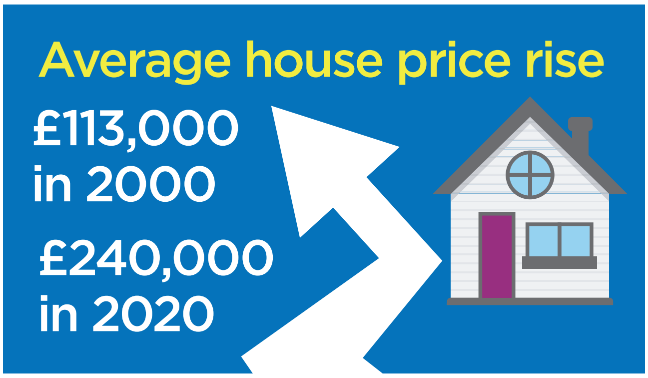
1. **Customer Demographics**
   Outlining general lifestyle patterns among retirees
2. **Customer Habits**
   Detailing retiree patterns when it comes to their affairs and finances and the way they interact with financial services
3. **Market Updates**
   Covering general patterns in the wider sector

We hope you'll find this useful and welcome any feedback on things you'd like to see included going forward.

1. Customer Demographic

Ongoing property trends continue to position the homes of the over-55s as a viable route to funding their retirement, with a rise of £7,023 recorded in the average house among that demographic between July and September.

It comes off the back of data from Nationwide which has highlighted the rising house prices among the over-55s over the last 20 years, with a national average of around £113,000 in 2000 rising to over £240,000 by last year.



Additionally, the end of 2020 saw the expectation that average house prices, in general, would reach an all-time high, buoyed by the stamp duty holiday and a predicted post-lockdown surge. There was an expected peak average of £342,000 in December, albeit followed by a predicted 6.2% decline over Q1 2021.

In 2020 the total available equity for release in UK homes among the over-55s hit £591bn according to data from Halifax, which represented an increase of £100bn year-on-year. There is naturally regional variance within those figures, with the South East recording just under £108,000 available for release on average per household, which contrasted markedly with the North of England and Scotland, which registered around £43,000 and £48,000 respectively. Similar regional variances are also witnessed when it comes to downsizing, where (the outlier of London excepted) the locations analysed as part of Pensionbee's research showed a range of over £50,000 when it came to the potential average amounts downsizing could release.

The pandemic naturally continues to affect people's retirement plans, with Interactive Investor's annual retirement survey showing that the proportion of people believing they'd live a better lifestyle in retirement has fallen from 51% in 2019 to 27% in 2020. Additionally, around a fifth of those aged between 60 and 71 believe they'd have to work longer to make up for financial losses – this comes during a time of rising unemployment among over-65s, with ONS figures showing there were 122,000 fewer over-65s in work in the three months to August, representing a 9% drop compared to the three months prior.

There's also a growing gender-based gulf when it comes to retirement plans. Research from the Equity Release Council has shown that 34% of surveyed over-55s are worried about running out of money in retirement (up from 27% in 2019). Concern is growing fastest among men with 32% expressing fears in this area, a 9% year-on-year rise, while women who are still working remain most anxious about the possibility, with 48% of respondents listing it as a concern. In addition, 41% of women still working feel they'll be able to afford to choose when to retire (versus 56% of men), and with the value of women's pension savings being up to 40% less than those of men, 29% of working women over 55 expect to have a less comfortable retirement than their parents (compared to 21% of men yet to retire).

2. Customer Habits

In the same way that property is providing a viable route to funding retirement among over-55s, it's also increasingly being turned to as a tool to assist younger family members, especially when it comes to first-time home buyers.

Knowledge Bank had noted a shift in its search criteria, all of which pointed to equity release being increasingly used to support home purchases of first-time buyers in the face of a lack of high-LTV mortgages being offered by mainstream lenders to those seeking to enter the property market.

In total, £530m was gifted to family and friends by over-55s during the first nine months of 2020, according to data released by Key. People were most generous in Q3, a period which saw £221m gifted, of which £100m went into the housing market – in total, £230m of gifted funds were used for house deposits during 2020 up to September.

Research by Sunlife found that among prospective applicants questioned on what they were planning on doing with released funds 55% claimed they'd use it to improve their lifestyle, while 32% intended to use it to fund home improvements. However, when surveying people who'd already taken out a plan that data shifted, with 60% claiming they'd used funds for home improvements and 41% claiming they'd used it to boost income.

Our own research found that the uses of released funds changed over the course of the year, with home improvements overtaking paying off debts as the number one reason for people to release funds – the former peaked at nearly 34% at the height of lockdown, falling to around 25-26% later in the year. Paying off debts similarly rose from a low of just under 18% in March to a peak of 28% in July. New home purchases also saw a rise, with big-ticket items such as holidays and new cars (unsurprisingly) showing a drop.

The repayment of debt continues to be a leading use of funds within the wider market, however. 40% of released funds in H1 of 2020 were used to repay debts, totalling £588m and led by mortgages (53%), credit cards (47%), and loans (36%). There's considerable regional variance in this, however – 49% of those in Yorkshire and the Humber used released funds on debt repayment, compared to 29% in the North East.

A mixed picture has emerged on the pension front, with £291bn of defined contribution savings sitting in dormant pots between 2016 and 2018. This represents a doubling from 2012-2014 levels of £139bn, and the government predicts up to 50m dormant and lost pensions by 2050. However, while unused reserves are growing, there's also been a 94% increase in the numbers of people withdrawing all of their pensions in one lump sum between April and September of this year as the residual effects and pandemic-induced income shocks start to take hold. Additionally, the levels of those accessing tax-free lump sums increased by 55%.

In terms of the equity release sector, advisers are predicting that the market will continue to be driven by younger applicants, with 57% of those questioned believing that the average customer age would get younger. This comes at a time when specialist advisers are seeing a marked increase in the number of over-60s exploring equity release as a retirement funding in the face of the UK entering a double-dip recession over the winter.

3. Market Updates

Financial advisers continue to view market conditions positively into 2021 according to research from Canada Life, with 72% of those surveyed believing that the value of the market will grow next year, helped by younger applicants and larger loan amounts.

42% of respondents saw their book grow during 2020 compared to 2019, but nonetheless, the overall feeling is one of optimism, with 62% believing pre-COVID levels will be reached by Q2 of 2021 and surpassing them by year's end.

This comes off the back of the Equity Release Council's figures, which showed that despite a 41% quarter-on-quarter increase in Q3, agreed plans were still down 9% year-on-year. As we've already seen, there's reason to believe that there'll be continued interest in equity release as a gifting tool, with some believing that the bank of mum and dad could provide an ongoing market surge. The FCA continues to keep an eye on the equity release market off the back of last year's findings, as they seek to investigate whether fees charged by brokers are excessive. With advisers potentially set to explore other areas to advise in during the pandemic, including equity release, the regulator is keen to ensure that customers continue getting suitable and fairly-priced advice during these challenging times.

The Equity Release Council has already responded to the FCA's 2020 findings by issuing a new Best Practice Guide, in which it encourages advisers to 'respectfully and robustly' challenge clients' motivations, as they seek to ensure consumers receive a high-quality and personalised service, and that all relevant details are sufficiently captured and recorded.

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