Equity Release Market Insight

Q4 2023

Analysing Our Customer Loan Trends

Paul Carter,
Chief Executive Officer, Pure Retirement

"Welcome to the latest edition of our Quarterly Report, focusing on Q4 2023. 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.

Overall, 25% of new customers used the released funds for home improvements, representing a 3% rise compared to Q3 2023, and a 2% uplift compared to Q4 2022, where it was beaten to the most popular use of released funds by debt and mortgage repayment. This potentially points to an even greater willingness to stay in their current property amid property and mortgage rate movements over the past twelve months.

Debt and mortgage repayments also continue to feature strongly, with 23% of applicants stating this as their primary reason for taking out funds, representing a 1% rise compared to Q3 2023, and a 1% reduction year-on-year. Holidays have risen to the third most popular loan use among applicants, with one in ten (10%) now using new initial advances to fund new experiences, and rising from the fourth place year-on-year and quarter-on-quarter. Gifting and buying a new car round out the top 5, with a proportion of 10% and 9% respectively – gifting fell by one position in the top five loan usage reasons quarter-on-quarter and year-on-year, while car purchases remained static.

Among lumpsum plans, debt and mortgage repayment is easily the most popular reason for taking out a lifetime mortgage, at 29% (up 2% quarter-on-year, and 1% year-on-year), with consumers seemingly wanting to use their released funds to clear existing responsibilities and eliminate monthly repayments.

Looking at drawdown plan trends among new customers, home improvements retake the top spot at 27% as a proportion of loan volume, remaining static quarter-on-quarter and sitting 9% clear of the second-most popular reason, debt and mortgage repayments (at 16%, up 2% quarter-on-quarter, but 2% down year-on-year). Holidays (13%) and car purchases (9%) sit in third and fourth spots respectively, holding steady as a proportion compared to historical data."

An Expert's View

Mark Gregory,
Equity Release
Supermarket

"You don't need me to tell you that 2023 was a tough year for mortgage firms, and one I will certainly want to put behind me. I therefore don't think it's misplaced to congratulate all firms who made it through to 2024.

However, out of adversity, the key is to learn from these experiences and make your business more robust for the future. I feel, certainly for the equity release industry, 2024 is the year of change, and for many positive reasons.

Throughout Equity Release Supermarket's journey, we've constantly gained from our experiences, with many positives, but also those 'how not to run a business' moments. It's therefore down to each firm principle to draw on those and formulate their own strategy.

We always considered ourselves a lean business, however the events of 2023 also taught us they could be fine-tuned even further. With greater market optimism heading into 2024, and having created greater efficiencies means the business will be in even better health than previous.

As a business we'd analysed how technology could improve the advice process further. Following previous meetings with the FCA back in 2020, we listened, and in 2023 we launched our new digital Factfind and Product Confirmation Letter (PCL). This has now created greater efficiencies for our advisers completing the advice process.

We've also looked at lead generation, as we had to substantially cut marketing budgets, but at the same time still generate sufficient leads. Having a website as a shop front, means you constantly have to improve and create new assets and content to keep Google and your audience engaged.

Analysing every overhead the business incurs down to PI cover, office costs and general expenses is essential and should always be part of ongoing housekeeping.

Conversely, how can we maximise every income opportunity?

Networking and engaging with introducers can help attract new business, plus maximising the client database that we may have taken for granted previously. There's potentially a rich source of business, from both existing clients and those who never proceeded to recommendation. Regular email engagement, with good content will keep clients interested, and this will hopefully land at the right place, at the right time.

Under Consumer Duty, we approached all lenders for updates on over 10 years' worth of applications, so we could cleanse our database. We then sent letters to 'live' customers offering a review of their plans with good success. This data cleansing is something I'm pushing for within the tech forum of the ER Council, so these updates become the norm from all lenders, and become available to every firm across the industry.

For many, cashflow has been key to survival. Therefore, ensuring your advice process is as efficient as possible – from choice of lender, solicitor and even down to your own administration can help cases complete much quicker. This can even be as simple as contacting the client as soon as possible, or even at the time you stated.

Our commitment to offering whole of market advice ensures we can provide best options for clients, but also means we can choose the best plan currently across over 460 variables based on the client's requirements. Finding out as much information beforehand on the client, their property, and then relaying this early in the application process to both the lender and solicitor will vastly help completion timescales – and ultimately cashflow.

Looking ahead to 2024, with a renewed optimism and experience from 2023, I feel this industry will change and innovate further, and we need to make sure we are ready and adapt to the changes ahead. ”

Pure Retirement

Q4 In Focus: The Key Stories and Headlines

252,000

extra 50-64 year olds leaving the workforce compared to Q4 2019

EXIT

Source: Just Group

4.4m

women over 50 at risk of poverty in retirement

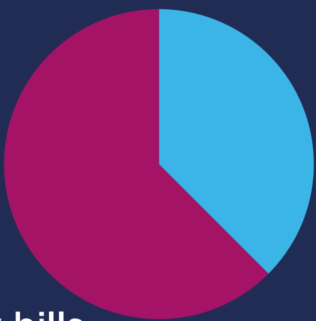
27%

of over 50s have no private pension savings

Source: SunLife

1/3

are spending savings or pensions sooner than planned to pay bills



Source: Interactive Investor

£27bn

sitting in lost or forgotten pension pots

Source: FT Advisor

The amount of over 50's relying on the state pension alone

Source: SunLife

How important is the later life lending sector to property professionals?

Very important	Somewhat important	Not very important	Neither important or unimportant
54%	30%	5%	11%

Source: Countrywide Surveying Services

1. Customer Demographics

Labour market figures show a continued rise in economic inactivity among workers aged 50-64, according to research from Just Group, with an extra 252,000 leaving the workforce compared to the same period four years ago. A total of 3.5 million people in this age group are now economically inactive as of Jun-Aug 2023 compared to 3.2 million in Jun-Aug 2019 (the economic inactivity rate has risen from 25.5% to 26.7% over the same period). Nearly half (45%) of those surveyed retired earlier than they had expected with the majority of these driven out of the workforce due to factors beyond their control. Of those that retired earlier than expected, a third (33%) said this was because of ill-health or physical impairment.

According to Interactive Investor's research, conversely, 47% of people aged between 55 to 65 have claimed to have been leaving the workplace because they want to "wind down", with a further 22% citing ill health, and 15 per cent claiming caring responsibilities meant they had to reduce working hours or give up work completely. Yet while many were leaving the workforce early, not all were finding it financially viable to do so. Just 33 per cent said they could retire earlier than state pension age thanks to savings, and only 22 per cent cited having a significant defined benefit pension from their workplace.

There continues to be a gender-based divide in retirement provisions, with analysis from SunLife highlighting that 4.4 million women over the age of 50 are at risk of poverty in retirement. The research found that while 27% of over 50s have no private pension savings, women are more than 50% more likely to be relying solely on the state pension than men, with 2.4 million (20%) men over 50 and 4.4 million (33%) women are relying on the state pension alone to fund their retirement.

Additionally, women pensioners who have shared part of their income tax allowance with their husband could face unexpected tax bills as a result of the freezing of the income tax allowance, according to consultants LCP. The marriage allowance applies in cases where one member of the married couple (or civil partner) pays tax at the basic rate and the other member is a non taxpayer. The latest government figures suggest that around 2.1mn couples benefited from the marriage allowance in 2020/21, and just over one in three of these are estimated to be pensioner couples. In most cases, the husband will be the taxpayer and the wife will have the lower income and be a non taxpayer.

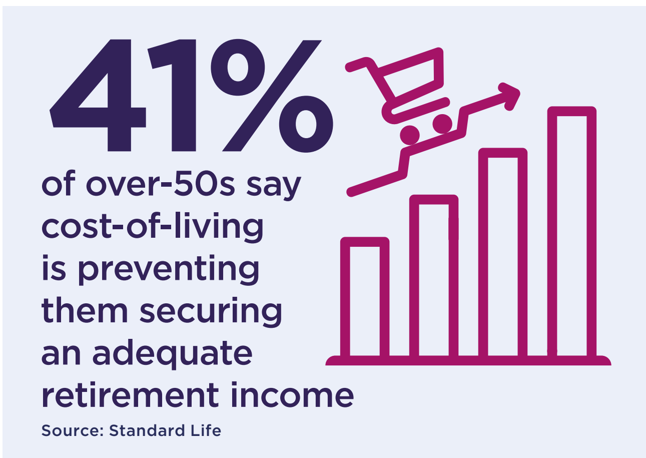
The dynamic surrounding married couples had also been under the spotlight from a retirement planning perspective, where among 2,000 married adults surveyed by Wesleyan, almost half (46%) do not have a retirement plan in place, and around a third (31%) of couples confess they have not got a clue how much they will need in retirement. Many are also not making the most of the available retirement planning support, with two in five (41%) never having taken professional financial advice for their retirement, even though one in five (19 per cent) believe it is something they feel they need to do.

Taking a more long-term view of retirement planning, certain subsections of society will be disproportionately affected by an inability to fully plan for their futures. Scottish Widows' annual Women and Retirement Report suggests that 75% of single mothers, representing around two million women, could face living in poverty when they retire. In particular, the report found that the issue of unavailable or expensive childcare disproportionately impacts the job prospects of mothers, as more than a third (37 per cent) leave jobs to look after their children, while nearly half (48 per cent) said that having children slowed their career progression.

Similarly, analysis from Boring Money has found that 34% of self-employed people have no pension at all. The data also showed that one third of non-retired adults have two or more pension pots. This rises to 44 per cent for 55 to 64-year-olds and increases to nearly seven in 10 for those earning more than £70,000.

Unsurprisingly, the cost-of-living crisis has been identified as the main barrier for 41% of over-50s that might prevent them from securing the income they think they'll need in retirement, according to research from Standard Life. Additionally, a further one in ten with a DC pension or SIPP (11%) say they are more likely to purchase an annuity with their pension pot in light of the cost-of-living crisis, and one in ten already are, according to FCA data. Additionally, the research also found that 37% of people in the UK say rising cost of living has made them cautious when making financial decisions, and 33% of respondents felt they had made poor financial decisions over the past two years, especially around savings (identified by 13% of respondents), followed by debt (10%), investments (8%) and pensions (7%).

According to research from L&G, when it comes to retirement priorities family comes first, with 90% claiming that spending quality time with family was important, with 81% listing affording necessary care as a key priority and 73% claiming that financing major family events, such as weddings, was of great importance. However, 41% said they ended up needing more money than planned to fund their later years, with 20% saying they needed 'significantly more'.



2. Customer Habits

One in five over-55s admit to never checking their pension pot, according to a study from Standard Life which additionally found that only 23% of the 2,000 polled checked their pension annually, however four in ten said they review their cash savings at least weekly. Additionally, women were also less likely than men to check their future savings, with 17% not checking their contributions compared to 10% of men.

The findings come at a time when an estimated £27bn is sitting in lost or forgotten pension pots - it is estimated one in 20 people in the UK could be in this situation, leading to calls for the government to bring forward guidance so providers can prepare for the delayed pensions dashboard.

Additionally, nearly 7 million people aged over 50 in the UK have no private pension savings, according to research by SunLife. Its annual Life Well Spent report found that 20%, or around 2.4 million, men over 50 and 33%, or 4.4 million, women over 50 were relying on the state pension alone to fund their retirement. Of the over-50s with no private pension, 92 per cent were worried about money, while 85 per cent were concerned about the rising cost of living.

Amid the recent economic backdrop, with soaring interest rates and inflation levels, it's perhaps unsurprising to learn that, among current mortgage holders, nearly one in 10 (7%) of UK adults with a mortgage missed a payment in the last 12 months, according to Bluestone Mortgages. The research, which surveyed 2,000 UK adults, revealed that 18 per cent have missed a payment in the last 12 months due to "inflationary pressures".

The intersection between retirement planning and the increasing cost of living is highlighted by analysis from Interactive Investor, which found that nearly one in three people are spending savings or pensions sooner than planned to keep up with household bills. More than half of adults of all ages say the rising cost of living is their most pressing financial worry, followed by running out of money and not saving enough for old age. Two out of five said money is the issue most affecting their mental health, and one in three experienced a negative shock to their finances over the past three years, while 58% of adults aged under 66 have had to stop saving or save less, and nearly one in four would like to save more into a pension but cannot afford the extra contributions.

As an additional knock-on, a large minority of over-40s do not believe they will have enough money for a comfortable retirement, according to new research from Netwealth, which found that 41% of 4,750 UK savers aged 40 and over believe it is unlikely that they will have a large enough savings pot for a comfortable retirement, which is estimated to be £430,000 by the PLSA. Fewer than a fifth (19%) expressed confidence in their retirement preparedness, although 51% of this group have failed to factor in the impact of inflation when making financial plans for the future. Overall, nearly half (45%) of respondents admitted they have not calculated the cost of retirement and a further 15% revealed that they are not saving for retirement, even though they are aware that their current savings are insufficient.

The economic squeeze has also seen ramifications for the Bank of Mum and Dad, as children and relatives feel the pinch and look to the older generations for financial assistance. This is illustrated by research from Hodge, which shows that nearly two thirds of people who are receiving financial support from their families are receiving their funds from the equity of that relative's home, according to new. The research also found that 61% of people aged under 50 had done so with the help of relatives releasing funds against the value of their own property. A quarter of those who had received financial support in this way used the funds to go and purchase a property of their own, with 84% of people aged under 50 claiming to need financial support from family to help them with the cost of living generally.

Analysis from OneFamily has also found that almost 2 million (1,868,821) parents over 50 either have, or would consider, taking out equity release to help their children get on the property ladder, with the survey of 2,000 over-50s suggesting the average amount of money people either had already, or would be willing to take out on their home for this purpose, was £52,000.

Interactive Investor found a similar pattern during their own research, which found that a tenth of respondents aged over 40 said they had given what they considered to be a living inheritance in the past three years, with around 16% of respondents aged over 40 reported said they were planning to gift money during the next three years. The research found the most common reasons for giving a living inheritance were to see the benefits during a respondent's own lifetime (40%), helping with either a deposit on a home (28%) or the rising cost of living (32%).

3. Market Update

[Research from Countrywide Surveying Services] saw 84% of property professionals highlight the importance of the later life lending sector within the wider UK mortgage and residential property market. Breaking down these responses, over half (54%) suggested that the later life lending sector was 'very important' with under a third (30%) expressing that it was 'somewhat important'. Only 5% said that the sector was 'not very important' with 11% implying that it was 'neither important nor unimportant'.

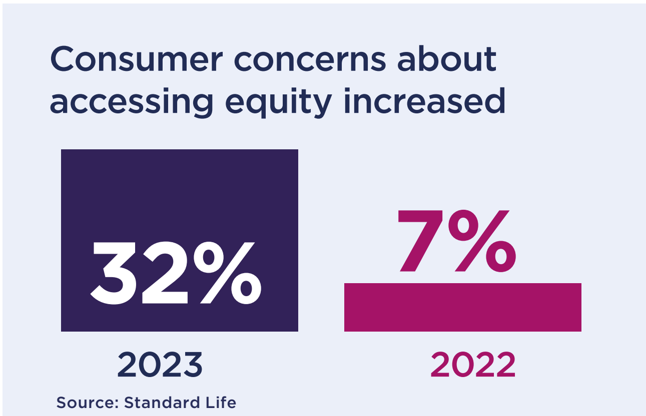
However, on the flipside the majority of advisers are concerned about losing assets in the 'great wealth transfer' when trillions of pounds are expected to be handed down to future generations. The latest Scottish Widows investor confidence barometer found this was a concern for 91% of advisers. More than half of those surveyed said they only expected to retain services for a minority of their clients' dependents upon the death of the client and while 74% of advisers said they had an intergenerational planning strategy in place for the majority of their clients, it leaves around a quarter who do not yet have a clear strategy for their clients' wealth transfer plans.

Rising interest rates are pushing up equity release complaints over delays as this can lead to higher prices, according to a senior executive at the Financial Ombudsman Service (FOS). Speaking at the Equity Release Adviser Conference, Simon Pugh, FOS' ombudsman manager, noted that there had been a slight increase in equity release complaints and a rise in such complaints being upheld but that was from a "low base". Figures from the FOS show that it had received 98 later life complaints in Q1 this year, up from 72 in the same period last year. The upheld rate during the same period has gone up from 15 per cent in Q1 last year to 26 per cent in the Q1 this year. He said that the main area of complaints was around delay, which was driven by the rising interest rate environment.

While UK adults over the age of 45 are less concerned about equity release in general, there are significant gender differences around perceptions of equity release in the country, research from equity release lender Standard Life Home Finance has found. According to the results of the study, nearly six in 10, or 58%, of men in the UK are comfortable about taking out equity release, compared to just over four in 10, or 43%, of women expressing confidence in doing so. Consumer concerns were lower this year when compared with last year, with 32% of respondents having no concern about accessing their housing equity in 2023 in contrast to just 7% saying the same in 2022. However, a lower proportion of women at 22%, compared to men at 35%, reported having no concerns about the process. In addition, only 7% of men compared to 21% of women felt worried when they realised they needed additional financial support to meet their needs.

Customers place fixed interest rates at the top of their priority list when looking for a lifetime mortgage, research by ourselves has shown, with one in three respondents (37%) placing this at the top of their priority list and 75% considered it one of their top three reasons for choosing the product. The study, which sampled 800 people from our customer based, found that this feature was considered the most important by almost twice as many people as the second most-popular response, namely the security of a no-negative-equity guarantee. This garnered 19% of people listing this as the most important feature, with 45% listing it among their top three.

New and returning equity release customers in Q4 totalled 13,651, down from 17,078 in Q3 2023 and 20,597 in Q4 2022, according to the Equity Release Council's report. Throughout 2023, 26,119 customers took out new equity release plans, with drawdown plans restored as the majority preference – attracting 53% of customers last year and 55% in Q4. The average amount borrowed by new customers in Q4 2023 was £79,484, compared to £106,917 a year prior. With smaller loan sizes and the ability to make voluntary partial repayments on all new plans, customers are better able to manage their exposure to higher interest rates. 2023 saw 64,448 active customers taking out new plans, making use of drawdown reserves or agreeing extensions to existing plans, down 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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