



University of Essex

The Future of the UK Equity Release Market: Consumer Insights and Stakeholder Perspectives



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INTRODUCTION

While debates about the role and relevance of housing asset use in later life are not new, recent increases in the number of equity release plans taken out by older people¹ suggest that housing equity is growing in importance as a source of later life finance. The equity release market has long been viewed as having the potential to offer a partial solution to the challenges of financing later-life needs in an ageing, asset-based welfare society. More recently, a report by the House of Lords Select Committee on Public Service and Demographic Change (2013) estimated that people aged over the state pension age in 2009 owned roughly £250bn in housing wealth that was 'available' to be released. It noted the importance of a safe and effective equity release market to 'enable more people to use their assets to help pay for the cost of their social care, to adapt their homes, and to support their incomes' (p.138). At the same time, significant changes in the wider retirement landscape have highlighted acute and increasing pressures on income and care needs for older home owners, particularly for those who are less well-off. Radical pension reforms to end compulsory annuitisation, increasing numbers of older people retiring with outstanding interest only mortgages (Collard and Hayes, 2014), and the passage of the 2014 Care Act which introduced a cap on the costs of long-term care (Commission on Funding of Care and Support, 2011), have focused a spotlight on the need for financial products that enable people to meet their later life needs through leveraging their (housing) assets (Association of British Insurers, 2014).

This is a moment of opportunity and challenge for the equity release industry. This report draws on new empirical research focused on the consumer perspective and experience, as well as the industry and other stakeholder views, to reflect on the future direction of the market. Our consumer study explores the views and experiences of 70 older people who took out equity release plans at least 5 years ago to identify the key issues for them, including what works well, and how they think the processes and products could be more effective and attractive to meet their needs. Our stakeholder study captures the views and experiences of 14 professionals engaged in the equity release arena, to identify their perspectives on the changing market, on the impacts this will have for consumer needs, objectives and priorities, and on what needs to happen next to create an environment for the growth of the industry in ways that will serve the needs of consumers. The data generated from this study offers a valuable and timely contribution to a strategically important question for the UK and other ageing, asset-based welfare societies: where next for equity release?

¹ Total lending of £325.7m in Q1 2015 is highest start to any year since records began. ERC communication 24th April 2015

CHAPTER ONE

THE RESEARCH

This report draws on semi-structured, in-depth interviews with UK equity release consumers and stakeholders. The research forms part of a wider study into housing wealth and wealth inequalities within and across generations. This study was funded by the Leverhulme Trust (Mind the (Housing) Wealth Gap: Intergenerational Justice and Family Welfare, RP2001-IJ-024).

The consumer study interviews, which took place at the beginning of 2013, explored equity release consumers' views and experiences having taken out plans. Areas covered in the interviews included reasons for taking out equity release; how participants went about making the decision, including their reflections on the information and advice that was received; thoughts and feelings about the decision at the time as well as several years later; and explored related topics such as attitudes to paying for care.

Participants were recruited to this stream of the study via a previous equity release survey (Overton, 2010). We wrote to all those who had agreed to take part in future equity release research (251 people) to ask if they would like to be part of this project. 70 consumers who agreed to participate proceeded to take part in our 2013 study.

We aimed to have a mix of participants, particularly in terms of socio-economic status, as we were keen to explore potential differences in the experiences of poorer and better off consumers. Definitions of socio-economic status are wide ranging, but for the purpose of this study we used participants' self-reported financial situation before taking out their equity release plan (captured in the 2009 survey) as an indicator. Within our final sample, 34 consumers had stated that before taking out their equity release plan they were '*finding it very difficult to get by*', '*finding it quite difficult*' or '*just about getting by*'; and 36 consumers had reported that they were either '*doing alright*' or '*living comfortably*'.

We acknowledge the potential limitations to this form of categorisation in the sense that self-reported financial situation is subjective; *just about getting by* to one person may be seen as *doing alright* to another. However, since we wanted to explore the possible effects of releasing equity under pressure, how this may affect whether or not people shop around, how long they spend planning the decision, and so on, the way that consumers felt about their financial situation before releasing equity was arguably more important than an objective measure of their financial circumstances.

We also aimed to have a mix of consumers based on product types, with a view to finding out why they opted for either a lifetime mortgage or a home reversion.

Table 1 summarises the consumer sample composition by product type, socio-economic status, household type, age group, and house value on entering into equity release.

Table 1 Sample sub-groups

	Number
Plan type	
Mortgage	42
Reversion	28
Socio-economic status	
Lower	34
Higher	36
Household type	
Couples	30
Single female	22
Single male	18
Age	
66-70	5
71-75	16
76-80	20
81-85	24
85+	5
House value	
Under £100,000	6
£100,000 - £149,999	10
£150,000 - £199,999	21
£200,000 - £299,999	21
£300,000 or more	12

The interviewees were geographically dispersed, from Scotland to the south coast of England, so the majority of interviews were conducted over the telephone rather than face-to-face. On a small number of occasions this method was not suitable, largely due to hearing impairments, so face-to-face interviews were carried out instead. All interviews were digitally recorded, with prior permission of participants, and fully transcribed. Interviewees have been given pseudonyms to protect their identity.

As well as, and to complement, our research into the consumer experience of equity release, we conducted an in-depth exploration of the views and experiences of equity release stakeholders. Topics included changes in the consumer population, consumer protection, regulation, the role of information and advice in equity release decision-making, and the market more generally. We wanted to ensure that a wide range of views and experiences were represented, so our stakeholder sample comprised individuals from a range of financial advice firms, providers, consumer

organisations, charities and law firms involved in equity release (Table 2 illustrates the stakeholder sample by sector). We did not set out to generalise findings across the stakeholder population; rather we intended to shed light on key equity release issues from a range of professional perspectives.

It is important to stress that the views of participants are theirs alone, and not necessarily those of the organisation or company they represent.

Table 2 Stakeholder sample by sector

Sector	Number
Third sector/not for profit	4
Private sector – Financial advice/consultancy	4
Private sector – Legal Advice	2
Private sector – Provider	4

The stakeholder interviews took place in 2014, mostly over the phone. Again, each interview was digitally recorded and fully transcribed. Individual identities have been anonymised.

We analysed both the consumer and stakeholder datasets thematically, using the framework analysis method (Ritchie et al, 2003).

CHAPTER TWO

CONSUMER EXPERIENCES AND ATTITUDES: THE LONG-TERM EXPERIENCE

Participants in our consumer study had held their equity release plans for a minimum of five years, but typically eight years or more, so we were able to capture the long-term experience of equity release. This is particularly advantageous since the suitability of equity release products depends, in part, on unknowable future events (future house value, longevity of the owner, future health and mobility needs, and future financial needs). People may feel very differently about the level of debt that is owed several years later, and they may have become more aware of features of the product which enhance or detract from its suitability for their needs and circumstances.

(a) Making the most of equity release

The majority of participants reported that, on balance, they were satisfied with what equity release had enabled them to achieve and had very few regrets. The following examples are illustrative of the positive difference equity release can make to people's lives, and offer an indication of the wide variety of uses that equity release can have, from providing a greater sense of financial freedom in retirement, to dealing with problem debt, and enabling a workable division of assets following relationship breakdown.

Bill, one of our better-off consumers, was 82 years old when we interviewed him. Bill had always lived alone, and when he was made redundant at age 57 during a period of high unemployment he was unable to get another job. Several years later, Bill found that his pensions were not keeping up with the cost of living and he was finding it hard to meet all of his housing costs. A survey on the roof of the block of flats he lived in revealed that major repairs were necessary at a cost of £25,000 per owner. Bill had very little savings and a fairly modest annual income, so could not afford to pay his contribution to the repairs. Having been refused a traditional loan on the basis that he was too old and his income was too low, he turned to equity release to solve the problem. With a lump sum of £69,000, Bill was able to pay for the repairs and have a sufficient amount left over to live a more comfortable and enjoyable lifestyle, giving him a 'new lease of life'.

Bill said:

I had to make a decision, that was it, and I have no regrets, it was the right decision, time has proved me right.

Bernard, a less-well off consumer, was 99 years old when we interviewed him. He had taken out a lifetime mortgage with his wife approximately ten years previously in order to prevent what he feared would be repossession of the property that they had lived in for 50 years. Reflecting on how he felt about the situation now, Bernard said:

In the long run it was definitely worth doing because it got rid of any troubles or worries, it gave us an income and gave us a place that they couldn't take away from us.

Victor, who was also less-well off, was 75 years old when we interviewed him. He had taken out a home reversion in 2007 which provided him with a lump sum of £83,000 to help pay off his mortgage. Having retired, Victor was still paying almost £500 per month towards his mortgage, and wanted more financial freedom so he no longer had to be 'very, very careful' with money. Victor feels very satisfied with the outcome.

I'd looked into it very carefully and knew the risks, knew the constraints ... and would I do it again? Yes, I would ... because, as I said, it's given me more flexibility. Even though I have a good pension, I've got rid of the mortgage and that was a loop around my neck ... and so, yes, it worked for me. But I'm single, no family and that's a big thing. If one had a family or you had someone who would benefit and looked forward to receiving some of your inheritance, then that's another matter. But I didn't have those constraints or worries. So it made it easier for me.

Roy was a better-off consumer, and he was 75 years old when we interviewed him. He had taken out a (partial) home reversion on his three bedroom bungalow in 2007 to allow him to remain in the property while providing a lump sum of £50,000 to his ex-partner following their separation. The £20,000 that Roy received enabled him to have 'a nice lifestyle'. He said it wasn't a difficult decision to make and can't understand why more people don't make the most of the money tied up in their properties.

It was absolutely the right decision. I mean, why would I be sitting, you know, I'd be sitting here on £180,000 for what? I can't downsize any more than a three-bedroom bungalow...I can't understand why people want to sit on houses that are going down in value, you know, for the sake of, well, generally, it's for the sake of kids, isn't it?

Participants' feelings about the decision did not seem to vary by plan type, and there were examples of consumers who felt that equity release had given them what they needed across the socio-economic range in our sample.

(b) Not realising how much the debt would grow

While the majority of participants were very satisfied with the outcome of their equity release decision, a minority – often those who were less well-off - were less positive, and in a small number of cases were so anxious or unhappy that they had opted to repay the equity release debt. Others would have liked to do the same, but were not in a financial position to do so. Common to each of the examples below was the difficulty in being able to fully appreciate, at the time of the transaction, how much

the debt might grow, and/or how they might feel about it several years later. For some consumers, it is possible that even the most explicit illustrations will fail to prepare them for the reality of the debt doubling after ten years, and this makes it difficult for advisers to be certain that their clients are making fully informed decisions.

For example, while Peggy (lower socio-economic status) said that she could not 'fault' the adviser, she added:

I'm not very good at sums so I found it totally impossible to work out how much I might owe and how many years I might live. Then in the end, which is my answer to lots of things, in the end I think, oh what the hell just do it.

Peggy's experience is described in more detail below: several years after taking out the plan she felt so uncomfortable about the level of debt that was owed that she decided to repay the loan, without seeking financial advice. It is difficult to see how taking out a lifetime mortgage, then utilising more liquid assets to repay it, was financially advantageous for Peggy, in light of the set-up costs of equity release and probably an early redemption charge to discharge the debt. Yet, her decision to repay reflected the strength of her discomfort with the burden of the growing debt. Clearer illustrations during the advice process may help to avoid situations like these.

Dorothy (lower socio-economic status) was 80 years old when we interviewed her. She had taken out a lifetime mortgage with her husband to repay an unsecured loan that was causing considerable anxiety. The money was also used to install a downstairs wet room to assist Dorothy with her mobility problems. Dorothy said that she thought equity release was the best option at the time, and couldn't really see any other way of raising the money. When she looks back now, she feels that the adviser may have been 'a bit pushy'. Dorothy and her husband questioned whether they had done the right thing following a visit to their solicitor, but felt that it was too late by then.

I think I didn't realise that the interest would build up so high, I mean obviously it's been quite a few years since we first took it out so obviously it's going to build up but I don't think I looked at that quite so much, you don't do you? You think oh in the future oh that's going to be a long way off that won't happen yet and then all of a sudden it's here... every year they send us a note of how much we owe... and every year I see the children's inheritance fading away and that worries me but it's something we can't change... If I ever won any money that would be the first thing I'd do was to repay it, buy my house back...

I can remember when we went to the solicitor to have it all signed and sealed sort of thing, he did say to us that you know this is quite a serious step, have you thought of any other way to raise the money. He did more or less warn

us I suppose...I mean we'd made up our mind then but I must admit you know when I came out the solicitors I did think to myself well have we done the right thing but it was too late really we'd done it...

I wish now that we'd taken a bit more advice from somewhere else... I mean nowadays Age Concern and even you know Citizens Advice Bureau, all these sorts of people would advise you.

Peggy was 81 when we interviewed her and living on her own in a three-bedroom semi-detached house. She decided to take out a lifetime mortgage when she was 69 years old to pay for a new kitchen and to make retirement more comfortable. Peggy felt that she may have been able to get a bank loan for the new kitchen, but didn't want to have to live 'a very miserly life to pay it off'. Several years later, she began to worry about how much she owed and how much she could end up owing if she lived for a long time. She also said that she became concerned about the prospect of not having the entire value of her house to help pay for care if ever it was required. Peggy therefore decided to sell some shares and use a maturing insurance policy to repay the lifetime mortgage. Peggy's decision to repay the debt also appeared to be driven by feelings of discomfort surrounding debt, embedded, in part, through family expectations, and the feeling that equity release debt was different from conventional acquisition mortgage debt.

I wasn't brought up to have debt, in my family, if you didn't have the money to pay for it you didn't have it, you never had it on what we used to call HP...That's how I was brought up so it was a bit...although my parents actually did have a mortgage on a house but that was different, they always said yes, but that's different. And I suppose that's partly how I felt as well...so I guess I just thought, I can't bear this, paying them all this money... sometimes when I look back I think, you must have been an idiot to do it in the first place but then, you see, you change, don't you?

Roger (lower socio-economic status) was 76 at the time of interview and took out a lifetime mortgage at age 66. His son had experienced considerable financial difficulty following a divorce, so Roger took out loans to support his son financially. Roger had also lost money through a timeshare scam. Having taken advice from an IFA, he decided that equity release would offer a solution to his money problems. However, ten years after taking out the lifetime mortgage, Roger now feels very insecure about the amount of debt that is owed, and says he didn't know as much then as he knows now.

I'd probably read about it a little bit but didn't really know all the ins and outs of it, I certainly didn't know as much about it as I know now...I didn't know or didn't realise, knowing probably isn't the right word, I didn't realise how much it could go up... just how much that can go up over 20 years and if you live to be 100 you could find yourself with nothing at the end of it...Having said that

of course one would hope that your house would still rise if we ever get out of this mess...so it's all ifs and buts. Of course, a lot of these things we didn't realise or didn't anticipate a few years ago.

I think it would have been better if it had been explained to me, not how much you could lose but how much it could go up over the course of time. I don't think that's explained forcefully enough.

These findings point to the importance of exploring more effective ways of communicating the long-term impact of lifetime mortgages, perhaps by drawing on infographic tools that take into account a number of different scenarios, including house price changes, as well as ensuring that consumers understand – and are supported to *realise* – what the cost will be in money terms. One major equity release provider, Just Retirement, offers an Equity Release Calculator (<http://www.justadviser.com/Equity-release/equity-release-tools-and-support/equity-release-calculator/>) which may help consumers to better anticipate the impact of the debt into the future. It is not currently clear to what extent advisers draw on this, or similar tools, in helping prospective consumers to visualise the longer-term impact of the transaction when making the decision, but our findings suggest that this would be highly beneficial for many consumers.

(c) Too little left to pay for care

Some participants were concerned about the extent to which equity release had depleted their stores of housing wealth, and how this might affect their ability to meet future care needs. The following examples highlight the difficulties people have in planning ahead and anticipating their changing needs and circumstances. At a time of increasing life expectancy, this is made more difficult as older people have to manage their savings and income over a longer period than past generations. It is therefore crucial for advice to be forward looking and focused not only on the short-term but on whether or not the plan is likely to meet consumers' needs in the long-term.

The experiences of these participants also reveal the reality of housing wealth as a limited resource, which cannot be used to clear mortgage and other types of debt, compensate for low pension income, support children financially, as well as meet the costs of care. Equity release can offer a very valuable solution to bridging the gap between income and needs in later life, but there is a significant risk that if increasing numbers of older owners use the value of the house early in retirement; this will leave them with fewer resources to draw on for unanticipated needs and expenses later on. This is particularly problematic for those with modest amounts of housing wealth.

Doris (higher socio-economic status) was 82 years old at the time of interview and took out a home reversion plan several years ago to support her children. With the £60,000 lump sum that was received, she was able to give £40,000 to one child in

order to pay off his ex-wife following their divorce, and the remaining amount to her other child who was in debt. Ten years on, Doris said she is concerned that she will not have enough equity in the house to help pay for care should she need it.

I am now concerned, well, I would be concerned, if I needed care. I'm 82 now, but... the house is not altogether mine any more...I think, at the time, being younger, I thought less about what will happen if I needed care.

Ron (lower socio-economic status) took out a lifetime mortgage with his wife to pay for numerous repairs and improvements on their home. Several years later, he too was starting to worry about the implications of releasing equity for moving into a retirement facility and paying for care.

When I'm 85 in June, she'll [my wife] be 88, so I just wondered if we ever had to sell the property, you know, to go into sheltered accommodation, or something like that, it can cost a fortune, can't it, these days? You just wonder whether you would have enough to cover that sort of thing, when you're paying out about £400 a week for each person.

When asked if he had thought about this at the time of taking out the plan, Ron said: *No, no. You don't think you can get to that [being in a position of needing care] do you?*

Gladys (lower socio-economic status) was 81 at the time of interview. She had taken out a lifetime mortgage eight years previously as she was struggling to make ends meet. She had few other options for raising the money and the equity released was invested to provide a monthly income of £250. The return on the investment has since reduced but she says she can still manage. Having had several years to reflect on her decision, Gladys said: *Like it or lump it, it was a good move.* Indeed she recognised that she had little choice. However, she also indicated that she was now concerned about what would happen if she needed care.

I am concerned about it now because if I have to go into a nursing home of some sort, the house has got to be sold. Now, does the money then go to pay the interest that I have accrued, or does it go to pay for care? I don't know.

It will be some time before the full effects of the recent pension reforms, particularly the end of compulsory annuitisation, will be known. It is possible that the average age of equity release consumers will increase, as people utilise their pension lump sums in the first few years of retirement and fall back on their housing wealth later on. On the other hand, it is also possible that tax changes to inherited pension wealth² will incentivise earlier use of housing equity and later use of pension wealth. If the latter trend materialises, policy expectations of housing equity as a care

² Under the new rules, pension savers who die before the age of 75 can pass savings on to beneficiaries tax free (instead of being taxed at the previous rate of 55 per cent if funds had been drawn on).

funding resource are likely to be undermined, and increasing numbers of older owners could find themselves in a similar position to these participants.

(d) Best laid plans

The Equity Release Council Code of Conduct states that customers have the right to move their plan to another suitable property without financial penalty.³ This is a particularly important safeguard because equity release products are long-term products and (as we have already seen) it is likely to be very difficult for consumers to anticipate future changes in their needs and circumstances. This element of flexibility, built into the code of conduct, should therefore prove invaluable to some who may need (or want) to move to a different property in the future. Unfortunately, however, while the majority of consumers in our study said that they did not have any particular concerns with their plans, a significant minority experienced problems with portability.

Some participants had not been able to anticipate their future needs at the time of the transaction, particularly when releasing equity under pressure, while others did not think to ask about the finer details of the portability terms and conditions, or had fallen victim to a provider 'shifting the goal posts'. In all cases, however, the outcome was the same: they were unable to move to a property more suitable for their changed needs and circumstances. The examples below illustrate the reality of this unfortunate situation.

At the time of interview Joan (lower socio-economic status) was 82 and living with her daughter. She was already a widow when she bought her four bedroom house under the right to buy scheme in the 1980s. The house was purchased with the help of an interest-only mortgage, but when the insurance plan failed to meet the total repayment balance on the mortgage, Joan was advised to take out another interest-only mortgage. She later found that she could not keep up with the escalating interest payments, and so turned to equity release to repay the debt. In addition to clearing the mortgage debt, Joan used the money to buy a new boiler, make some home improvements and support her general living expenses. Thus, the money from the plan proved highly beneficial, and she was satisfied that she made the right decision.

Joan always anticipated that when she reached a certain age where she no longer wanted, or could cope with, four bedrooms, she would move to an apartment, but when she enquired about moving it became apparent that this was not possible.

When I originally took it out my sole idea was that when I reached a certain age and didn't particularly want four bedrooms, we could move into an apartment but when I enquired about that this firm don't touch leaseholds or apartments. I didn't know that at the time and I don't think it was made plain

³ See <http://www.equityreleasecouncil.com/ship-standards/statement-of-principles/>

to me either, I don't think the question ever arose actually because I didn't think to ask and, I suppose I just assumed, you know, because they said I could move, and I still can move to a same value property, I naturally thought you know I'd be able to move to an apartment... You were told you could move to one that came to their criteria and then when they sent you the criteria well there was even ex council houses on it which I thought was a bit strange as they'd already bought one, you know... so that was a little bit of a blow...but well you pick yourself up after it and just make the most of it.

At the time of interview Patrick (lower socio-economic status) was 75 years old and living in a two-bedroom bungalow, in a semi-rural village. He had lived there for 25 years and did not have any children. His house was valued at £160,000 when he decided to take out a home reversion plan to make his retirement more comfortable. His solicitor advised him not to do it, since 'you lose control' which Patrick says is 'probably a bit more relevant now than it was then'.

As time passed and Patrick realised that he would like to be nearer to the centre of town, he enquired about transferring his plan to an apartment, only realising then that it was not possible.

As I've got older, I always realised that if ever I couldn't drive I'd be a bit slightly isolated here [but] I'm not free, I suppose. If I wanted to move nearer the centre of the town, I'm not as free to move now as I would have been...I mean I did enquire about this, and apparently it cannot be transferred to anything that's – they wouldn't take on a flat, for example...which I, I probably wasn't clear about that when I did it, but that's what they said. I mean I was told I could go to something...that's mortgage-able, but it would have to be of less value than what I'm in now...I think the words that were quoted, 'As long as it was not a tin shed or a concrete bunker, the plan could be transferred.' I don't suppose now there's any way round it, I'm trapped... It seems as though, to summarise... they are moving the goal posts

Despite the restrictions that became apparent after taking out the plan, Patrick says that *the decision was mine, and it was the right decision.*

Jack (lower socio-economic status) was 84 when we interviewed him. He echoed this problem with lack of portability in a context of changing physical needs:

We have had no problems [with the plan] until we thought about moving into a retirement flat, especially for the elderly. [The company] has changed the goal posts slightly, putting sheltered homes in an unacceptable category ... My wife is now disabled and cannot walk any distance due to back pain. I am now 84 and have Parkinson's. Now our only option is to down-size into a smaller property, two bedroom bungalow instead of our four-bed one. This wouldn't solve our problems, might even make things worse having less facilities. Property prices have not recovered enough to even give us enough capital to

purchase outright a retirement flat, even if we were to put this bungalow on the market. So we are stuck.

The experiences of these consumers raise important questions about the extent to which equity release products can be considered ‘future proof’ and, indeed, whether warnings about risks and costs during the advice process are sufficient to deliver an appropriate level of consumer protection. The Equity Release Council adviser guide to equity release covers twelve of the most significant points to consider in the advice process, and point nine on this list reminds advisers to explain to consumers:

That the opportunity to move the mortgage in the future will be restricted to properties acceptable to the lender. This may rule out moving to age restricted or sheltered accommodation, depending on the lender’s policy at the time.

The experiences of these participants suggest that either this point was not made clearly enough (if at all), or that they were unable to take this on board at the time of the transaction. This also resonates with the FCA’s recent paper on consumer vulnerability, which noted that:

A frequent consumer complaint related to products taken out in good faith before the onset of vulnerability – which at a later date turned out to be unsuitable in some way for the situation they found themselves in. Consumers often feel that the details of exclusions and exceptions are not properly explained (Coppack et al, 2015, p.63).

These findings highlight the importance of looking *beyond* providing consumers with clear information and financial and legal advice. In order to support good consumer outcomes, and if equity release products are to be fit for purpose to meet (changing) consumer needs and circumstances in the long term, it is necessary also to focus on the suitability of product terms for the particular needs of the potential equity release consumer population.

CHAPTER THREE

CONSUMER EXPERIENCES OF EQUITY RELEASE ADVICE

The FCA's approach to regulating lifetime mortgages and home reversions places considerable emphasis on the role of information and personalised financial advice in achieving an appropriate level of consumer protection (Fox O'Mahony & Overton, 2014a).⁴ Following the Mortgage Market Review, most consumers cannot purchase an equity release product without receiving regulated financial advice (unless they are high net worth individuals or mortgage professionals). One of the key aims of our study was to explore the views and experiences of consumers regarding the role that this information and advice played in their equity release decision-making.

(a) Not all consumers feel that there is a need for advice

Our research indicated that not all consumers felt that advice was necessary, and some reported their frustration with being required to pay for independent financial advice, when they felt that the decisions they had reached via their own research were simply replicated and did not alter after consultation with an adviser.

Having decided who we wanted to go with we then discovered, to my annoyance, that we couldn't go straight to the mortgage provider and we had to use a financial adviser. We could pretty much tell him the answers to all the questions he had to ask because we'd been going through it for so long ... I'd done all the work and I didn't need an adviser. If I had wandered in with my mouth open to an adviser asking them to tell me what to do and paying all that commission ... then I wouldn't have minded but I'd done all the work anyway. (Mike, age 67, higher socio-economic status)

(b) Difficulty understanding the detail

The findings of our consumer study also indicated that, for other consumers, information about equity release can appear complex, overwhelming, and difficult to process, thus highlighting the importance of advice for some. As Harold explained:

I must say the one [adviser] that came to see me was very helpful, very open, and I think I saw him about three times altogether . . . it certainly sounds complicated from the literature they issue, but in the end it seemed very straightforward. (Harold, age 83, higher socio-economic status)

Nevertheless, our findings revealed that advice does not always succeed in enabling consumers to overcome information gaps, particularly for those consumers who were less well off. These participants typically reported that they were not very

⁴ The FCA also requires that all home reversion consumers must receive legal advice, and the vast majority of lifetime mortgage consumers will also receive legal advice, as required by industry regulator ERC.

confident in dealing with financial matters, and were much less likely to have carried out their own research before seeing an adviser (compared to those who had more financial experience and/or were better off). Confusion around the details and operation of the plan were also more apparent among these participants. For example, Ken said:

We had to go to a solicitor to get the papers put in order and signed and sealed. And at that particular time I hadn't realised that I was selling all the house... I thought I was only selling half the house... it wasn't until I'd come home and then I started to read, I got the sheets, there's reams and reams of the stuff, started reading through it and it wasn't until I started reading that I thought have they bought the house? Now it might be the fact that I was a bit naive about it, or I hadn't understood what had been said, but I felt that it was a bit under the belt, that's what I felt. Anyway...then I start reading the small print and that, and I realised then that it says that the house, or the agreement is between my wife, myself, and the company. And the rest of the family have got no say in it...like when we die, they have got no sort of say in what will happen in the house. And then you read on a bit further and it says that anything that needs repairing or replacing will be done and paid for out of our estate. (Ken, age 80, lower socio-economic status)

Another participant, Betty, was eager to take out equity release because she had no other way of raising the money she needed to help her pay for everyday living expenses. Reflecting on the advice that she received, Betty said:

I can't say I understood all the intricacies, I understood what I was going to get. That was the main thing for me, understanding what I was going to get... And in here I've got all the original work, the deeds, my solicitor's letter, the plan, the credit agreement, and all those things like underlease etc. I don't understand all that. (Betty, age 86, lower socio-economic status)

For consumers in Betty and Ken's financial circumstances, it is understandable that their main consideration was whether or not the plan was going to satisfy their immediate needs and concerns. However, it is these very consumers who have less resource from which to meet a growing range of diverse needs after retirement, and who are most in need of support and protection to negotiate transactions that will lead to good financial outcomes.

Our findings reveal the paradox of the recent regulatory move towards mandatory, paid-for-by-the-consumer financial advice in equity release transactions: while all are required to pay for advice, some consumers don't need it; of those who need it, some consumers will benefit more than others; and – in light of a range of factors, including the limited range of financial and product/term options available to them – those most in need of decision-making support may benefit least from the current

regulatory emphasis on advice as a 'one-size fits all' approach to consumer protection for equity release transactions.

(c) The importance of trust and feeling at ease with the adviser

The FCA's recent paper on consumer vulnerability highlighted the importance of straightforward and clear information, recognising that a common experience for people in a range of difficult situations is '*the feeling of being under pressure and struggling to take in and process information*'. It goes on to say that

Dealing with the complexity of financial products and services can be particularly problematic here. Lengthy product documentation and confusion between marketing literature and important product information were examples given. This can lead to people ignoring material (such as correspondence) altogether, or making poor decisions. Firms need to take on board that people may not be able to attend to the detail of complex financial matters, and clear, straightforward processes and communication are very important (Coppack et al, 2015, p. 37).

Our research suggested that the relationship between adviser and consumer can play a key role in determining how clear and helpful consumers find advice, and how that advice influences their subsequent choices. A personable, friendly adviser helped consumers feel comfortable and at ease with asking questions and seeking clarification for issues they were unsure about. The following quotes give a sense of the importance of this kind of relationship.

I did it over the phone with a considerable amount of help from the agent that was with [the company]. She was very, very helpful . . . where I didn't understand it I said so. (Frank, age 83, higher socio-economic status)

I was quite impressed . . . They were excellent and also very personable. We did a lot of discussion by email and also the young chap phoned me a lot. I got to quite like him and respect him. (Fred, age 74, higher socio-economic status)

The importance of a comfortable, trusting relationship with the adviser could also be seen in participants' choice of provider. Grace (aged 90, lower socio-economic status) opted against recommendations made by an independent financial adviser in favour of a plan provided by her local bank, in part because of a negative relationship with the adviser. After several visits she felt that she was being pressured, experiencing 'information overload':

In the end they were getting me so confused I couldn't think what they were really talking about. You know and their way of trying to talk you into these things . . . I mean they could quote all these different prices and how much the interest would be and all this on such and such a thing. I mean at our age we just can't take it all in.

Rather than basing her decision on economically rational financial criteria, she turned to the bank she knew and trusted:

They came to explain it so much better than anybody and it was all quite straightforward and the gentleman that came you know, he was very honest you know . . . and I mean I had, I've been with the bank all my life for my own personal banking and for the family before me so you know I felt I could trust them.

If financial advice is to be effective, especially for those consumers most in need of support for good decision making, and who do not have the advantage of personal financial capability or friends and family to advise them, advisers must consider not only the financial needs, circumstances, and objectives of consumers, but must also be sensitive to their decisional needs. This includes the extent to which they have negotiated the information beforehand, and whether they feel able to question or query if the options presented are unclear.

CHAPTER FOUR

CONSUMER EXPERIENCES AND ATTITUDES: OTHER KEY FINDINGS

(a) Breaking the silence

We asked all the participants in our consumer study if they knew anyone else with an equity release plan, and the overwhelming majority reported that they did not. Reflecting on the possible reasons for this, participants repeatedly pointed towards the silence that surrounds equity release, where either they or others did not want to talk about it. Some explained this by noting that older people belong to a generation where money matters are not openly discussed; other participants also acknowledged that to ‘admit’ to having taken out an equity release plan might represent failure for some people – failure to achieve economic success and the all-important status of being an outright owner. Our findings revealed the powerful effect of the political rhetoric of home ownership in creating an expectation that many older owners have internalised (the idea that outright ownership equals success, respectability, responsibility); and which is now contributing to the prejudice, stigma and silence associated with equity release (Fox O’Mahony & Overton, 2014b).

I don’t actually let on I’ve taken it out, I think that’s like saying you’ve got another mortgage again. There is no end to this sort of mortgage unless I pay it all back . . . then I would be in dire straits...I didn’t have a mortgage when I took out equity release. So I suppose in some ways I feel a bit ashamed because I’ve got another one again when I’m getting on in life. My aim was always not to have a mortgage when I retired. (Martha, age 74, higher socio-economic status)

Almost everybody has a mortgage, regardless of your age bracket. And there’s great rejoicing when older people clear off their mortgage...And so because it’s so general, mortgages are acceptable conversation. But somehow, with equity release, it’s, ‘Oh, you poor thing. You know, you had to do this because you can’t manage, you’re so poor’. And so there’s a very slight stigma about it, unless you can make it abundantly clear it’s purely because you intended going on a world cruise, then that’s acceptable. But to actually go in for it because you won’t otherwise be able to manage, that’s rather looked down upon. (Gladys, age 81, lower socio-economic status)

The silence and stigma that surrounds equity release has a number of important implications. Firstly, it has implications for ‘peer-to-peer learning’ as a route to increased financial capability for older people with respect to equity release transactions. This is particularly acute for those who are less experienced in financial transactions more generally, and less well off. The likelihood that most older people will only have one opportunity to select an equity release product to cash-in their housing equity means that there is little opportunity for individuals to learn from their own experiences; this is compounded if there is little peer-to-peer

learning from the experiences of others. Secondly, the silence and stigma is also likely to inhibit the wider take-up of equity release, with adverse implications for some older owners for whom it might present an appropriate financial solution.

The impact of stigma and secrecy as barriers to market growth also underpinned this observation from one of our stakeholder participants:

The people who are in charge of growth in the market are the consumers. If there is enough information out there on the likes of direct.gov to explain impartially through the Money Advice Service – whatever that actually does – and then through ERC and through individual brokers, then we can only give information out, let it be there, let it be there in a non-confrontational, easy-access manner, but when more consumers start to say, ‘Yeah. This is fine. I know that Dave next door did one of these, so I’m a bit more confident about doing it now...’ As an industry colleague of mine says, ‘Unlike for pension business, mortgage business, investment business, your next-door neighbour doesn’t recommend me as somebody to sort out your equity release needs because he doesn’t want his neighbour to know that he’s had to take out an equity release and the other people next door don’t want to let it be known that they may need to take one out. (S05)

It is possible that future generations of retirees will have a different set of attitudes to debt, housing equity consumption, and the perceived stigma of not achieving outright ownership in retirement. Our findings reveal that, in the meantime, greater up take of equity release products among current cohorts of older owners requires more than raising awareness and getting the products right (greater flexibility and innovation): it also requires specific strategies to normalise equity release as a socially accepted vehicle for retirement finance.

(b) There’s no place like home – Why do older people release equity in situ instead of trading down?

In theory, there are a number of ways in which older people can access (some of) the asset value of their homes, so we asked participants why they opted to release equity using a commercial product rather than trading down. The most common response to this question related to the importance of place and space. Thus, while policy discourse sometimes presents older people as living in houses with rooms surplus to their needs (Intergenerational Foundation, 2011), our research indicated that these rooms provide important opportunities for family and friends to visit, to enable separate sleeping arrangements between couples (sometimes due to ill health), and for possessions to be stored. Participants expressed their reluctance to reduce their living space for various reasons, including maintaining their home’s function as a hub for extended family:

There are a few flats [in the area] but we had to have space for the children when they came home, it was crucial for us. They’re our children; this is their

family home. Neither of them have their own place, and they rent . . . It was crucial for us to know that they could come and stay for as long as they wanted to at any time they wanted to. (Bob, age 76)

Other motives included a sense of belonging and the fact that participants felt comfortable in an area they were familiar with. Strong, often longstanding, relationships with neighbours were valued for social and practical support as well as safety:

There's a great neighbourliness . . . it's like living in a village, it's not like high rise property where you're remote, we all know each other. I have many friends; I'm very content where I live. (Bill, age 82)

In addition to positive attachments to home, participants also regularly mentioned the difficulty—indeed, the ‘absolutely daunting’ prospect— of having to get rid of possessions in order to downsize. Jack (age 84) also emphasised this barrier to moving: ‘*every room is packed with furniture and oddments and ornaments and things that we've carried with us, baggage in other words, and to get rid of it seemed a tremendous job*’.

The lack of suitable (and suitably-priced) alternative housing options was also a factor for lower socio-economic status participants, with many indicating that they had no option other than equity release to meet their housing and financial needs.

The place we'd like to go to would be the coast, you know, and a bungalow would be ideal because of my age and infirmities and what not, well they're just not available. . . And I'd had to have paid all the expenses—solicitors, moving, their expenses, mine—and really, it wasn't financially possible. (Joan, age 82, lower socio-economic status)

These findings support the claim, against a backdrop of significant housing wealth inequalities among the older population, that there are limited options open to those with financial needs and modest amounts of housing wealth.

Overall, participants pointed to a range of practical, logistical and financial barriers to moving, but emotional and psychological attachments, such as maintaining a place for people and possessions, a sense of belonging, and the feeling of safety and security in their current home and locale, were the most common reasons why equity release consumers opted to release equity while remaining in their existing homes.

(c) 'I like the situation of care in the home better than residential care... those residential homes are appalling, aren't they?' - Attitudes to paying for care

Despite much discussion about the potential for housing wealth to meet care costs in later life (House of Lords, 2013; Commission on Funding of Care and Support, 2011), it remains relatively rare for older owners to use equity release products for this purpose. In a 2009 study of equity release consumers, just 8 per cent of those surveyed said that they had used some or all of the money from their equity release plan to pay for care or health needs (Overton, 2010). Since then, there appears to have been no increase in the proportion of consumers using equity release to meet care costs. In fact, paying for care did not feature at all in the data collected on uses for equity release in Key Retirement Solutions 2014 Market Monitor (KRS, 2014). This suggests that, to date, there is a gap between the expectations of policy makers and the preferences and practices of older owners.

Earlier studies explained older people's reluctance to use housing equity for care costs with reference to three key ideas: that elderly people should be allowed to preserve accumulated assets for inheritance (Jarvis *et al*, 1998); that taxes should pay for residential care (Parker and Clarke, 1997); and that people resented the prospect of being 'forced' to sell their home because they believe they are entitled to make their own decisions about whether, when, how and why they use their assets (Finch and Mason, 2000). A further issue that has been raised relates to concerns about the lack of appropriate product vehicles for the 'safe' and efficient decumulation of housing equity for this and other purposes. Participants in a 2006 JRF study responded more favourably to the (theoretical) possibility of gradually releasing some housing equity, through government-guaranteed schemes, than they did to using private sector schemes. This finding fuelled concern that 'assumptions that there will be a future role for the private sector, either through provision of insurance or through equity release schemes, may be flawed' (Croucher and Rhodes, 2006, p.38).

In contrast to earlier research, our study found little evidence of strong support for inheritance or cultural attachments to the owned home as an explanation for reluctance to pay for care using housing equity. Rather, our study revealed that people's sense that it was unfair that they were required to use their housing equity to pay for later life residential care needs (where this existed) was rooted in the feeling that they were being betrayed by a political rhetoric that had encouraged people to behave responsibly throughout their working lives, by saving and investing in housing. For example, Ellen, a less-well off owner said

'[We] worked all our lives, and paid in our pension and our tax and national insurance and everything. I think at that rate we should be owed something in our final years.'

Irene suggested that it was unfair that people who had not accumulated an asset pot would receive the same level of care as those who are paying for themselves:

the point that I've done all that, got my own house, didn't go to anybody for anything, and the fact that somebody else has been sitting on their backside all their lives getting, scooping it off of the nation, if you like, and they won't have anything to sell, and they'll get the same treatment as me. That bugs me a bit. It may sound like I'm a bit selfish, but it bugs me. (Irene, age 86, higher socio-economic status)

In contrast, we found very little evidence of this sense of unfairness when exploring participants' attitudes to paying for care received at home. Participants unanimously agreed that care at home was preferable to care in an institutional setting, and the majority said that they would be willing to use their own resources, including housing equity, for this purpose.

It does seem to me that older people want to stay in their homes when they get old and their health isn't good...I think A, it's better for the individual, but also I think it's better for society that people can stay in their home with the support that they need... I think we would feel that's [paying for domiciliary care] a legitimate reason to draw down the money [release more equity] Like to pay for home help or even an adaptation or something like that with the bathroom (Bob, age 76, lower socio-economic status).

All the while I can look after myself I shall continue to do so. But if I needed a little bit of help to come in occasionally and that has to be paid for, then so be it...That would be a legitimate use of my resources (Norman, age 75, higher socio-economic status).

While our research was limited inasmuch as it focused on equity release consumers rather than the general population of older home owners, these findings nevertheless raise some potentially important policy and practice implications. We know that the probability of needing domiciliary care is much higher than the probability of needing institutional care (Mayhew et al, 2010). Yet a recent report by Age UK shows that the number of older people receiving home care fell by 21 per cent from 489,000 in 2005/06 to 384,600 in 2012/13. Over the same period, the number of older people using residential care homes and nursing care rose by 21 per cent and 22 per cent respectively (Age UK, 2014a). These changes reflect local authority funding pressures which have led many councils to raise eligibility thresholds for care funding contributions. By 2012, 85 per cent of local authorities had set their eligibility threshold for adult social care at 'substantial', with a further 2 per cent setting their threshold at 'critical'. Only a minority now pay for people with low and moderate care needs (Age UK, 2014b, p.8).

While housing wealth cannot fill the gap borne by diminishing public resources, equity release could play a role in reducing the growing level of low to moderate unmet need, thereby preventing escalation to more substantial and/or critical needs. Since attitudes to using housing wealth to pay for care at home appear more favourable than attitudes to care in an institutional setting, there is an opportunity for the industry and/or government to send a clear message that equity release offers a (partial) solution here. Indeed, the Universal Deferred Payment Scheme is set to apply only to care in an institutional setting, leaving open the opportunity for commercial equity release products to play an important role, which is aligned to older people's preferences for aging in place, and to achieving the Government's aspirations of 'transform[ing] the social care system to focus on prevention and the needs and goals of people requiring care' (Age UK, 2014a).

(d) Lifetime mortgage or home reversion plan: what helps to explain consumers' product preferences?

The autumn 2014 Equity Release Council Market Report indicated that the vast majority of equity release customers opt for lifetime mortgages, with home reversion plans representing less than 1% of new plans agreed in the first half of 2014. We explored participants' product choices with a view to finding out why they opted for either a lifetime mortgage or a home reversion plan. We found that there were a number of factors involved, with participants' socio-economic status playing a key role here. We also discovered that product choices were sometimes influenced by adviser bias.

(i) Choice of product and the importance of security

For less well-off owners, concerns about feeling safe, secure and in control often played a significant part in determining the choice of product, whereas the overriding consideration for better-off owners centred on value for money (Fox O'Mahony & Overton, 2014b).

For some lower socio-economic status consumers, concerns about accumulating debt meant that the certainty of knowing the fixed share of equity they would retain under a home reversion offered greater security than maintaining the arguably 'fuller status' of owner under a lifetime mortgage. On the one hand, this reflects the likelihood that lower socio-economic status consumers live in lower value properties, and so are less likely to benefit from future house price rises; however, it also reveals a significant tension between tenure security and financial security. Lower socio-economic status owners who had opted for lifetime mortgages also tended to express the reasons for their preference in terms of wishing to avoid loss of control or insecurity. In explaining why they did not opt for a home reversion, one consumer said:

I didn't like the thought of somebody owning it [the house] and being able to come round and inspect the property and say, 'Well, you aren't keeping it up', or, 'You've not done this', or, 'You haven't done that'. I didn't like that at all . . . You feel as though you lose control of your house. If you like, you're in actual fact giving up some of your feelings about the place. I'm sure you wouldn't look upon your house in the same light if you'd given up the deeds as such. (Joseph, age 76, lower socio-economic status)

In contrast, higher socio-economic status participants were much more likely to express the reasons for their preferences in 'economically rational' terms. As Doris said, *'the adviser gave me both, you know, the sort of balance sheet for both, and the reversion was better, in my case'*. (Doris, age 82, higher socio-economic status).

Similarly, for Henry (age 81), a particularly wealthy participant, home reversion was preferable on the basis that it offered the most economically beneficial outcome for his situation. Having sold a large family property at the height of the property boom, Henry no longer wished to invest in property. After passing on the majority of the proceeds from the house sale to his children, he had retained £600,000. The new property that he and his wife wished to purchase cost £1.2 million, and so they opted for a reversion which enabled them to acquire the new property, while also fulfilling their motive of reducing their investment in the property market. As Henry said: *'the great advantage with a reversion is that you don't have interest in the property market'*.

For well-off owners like these, a stronger (and, in the case of Henry, much stronger) underlying sense of (financial or ontological) security seemed to dampen any concerns about security of tenure. On the other hand, since less well-off owners were less likely to have savings or investments as well as lower house values and income, it is possible that having fewer other resources meant that equity release had a greater impact in compounding their sense of insecurity.

There is much to gain from drawing on consumers' attitudes and experiences to inform industry decisions about product design and pricing. Concerns relating to financial (in)security and debt played a central role in consumers' product 'choices'. For one thing, while marginal consumers who opted for home reversions indicated that trading a fixed share of the asset offered greater security, the home reversions market declined to less than 1 per cent of the market in 2013 (ERC, 2014).

Meanwhile, industry-led product design practices (e.g. relatively high start up costs and interest rates combined with relatively low loan-to-value ratios) have tended to benefit better-off owners with higher house values: those who are able to release some equity, without compromising their overall feelings of financial security, and without experiencing the stigma of need (for more on this see Fox O'Mahony and Overton, 2014b). Our findings indicate that focusing on the types of equity release

interventions that might also benefit less well-off consumers might remove some of the barriers that prevent many owners from releasing equity through this route and potentially support the growth at scale that has long eluded the equity release industry.

(ii) Choice of product and the role of the adviser

In seeking to understand why participants opted for either a lifetime mortgage or a home reversion, we asked consumers whether both product types were discussed during the advice process. On several occasions, participants could not recall their adviser discussing both product types; in instances where both product types had been mentioned, reversions were only mentioned in passing, with some participants indicating that they were steered away from this option. These findings suggest that product choices are influenced by the advice process, with a bias towards lifetime mortgages. Point six of the Equity Release Checklist for advisers asks:

(Prior to any recommendations) have you provided the customer with a fair and balanced overview of the pros and cons of both lifetime mortgages and reversion plans?

Comments made by participants in our consumer study included:

Well, they skated over it, [home reversion] let's put it that way (Gladys, age 81)

We didn't consider that at the time. I don't think we knew about it actually (Ted, age 80)

I think that [home reversion] was mentioned almost in a negative fashion I would say (James, age 77)

These findings raise questions about the extent to which the significant drop in reversion sales reflects the irrelevance of such a product in today's market; a (relative) lack of innovation in this sector compared with the lifetime mortgage sector, or, whether it is (at least partially) attributable to adviser bias.

This, in turn, raises another important question regarding the extent to which consumers are being advised on the product options that are best suited to their circumstances, needs and objectives. In a context which requires an additional qualification to advise on reversions, yet permits authorised advisers to legitimately promote themselves as independent while providing advice only in relation to one kind of product (Sheldon et al, 2012), there is some potential for consumers to be misled and, ultimately, to purchase one product type (most likely a lifetime mortgage) when an alternative option may have been more appropriate. Regulatory rules state that advisers are required to disclose the scope of the service they offer, but our research suggests that it is not clear that consumers are sufficiently aware of this. In the absence of a level playing field, or a clear obligation on advisers to consider

whether, or not, a home reversion would be the more suitable product in every transaction, we may reasonably question the extent to which consumers are receiving advice that takes account of the full range of options that may be available to them.

CHAPTER FIVE

STAKEHOLDER EXPERIENCES AND PERSPECTIVES ON EQUITY RELEASE ADVICE

(a) Financial advice was seen as essential

Participants in our stakeholder study were unanimous in their view that financial advice is needed in equity release transactions. Stakeholders regarded advice as essential for helping consumers to make good decisions regarding:

- (i) Specific product options and features;
- (ii) Thinking ahead and thinking about the long term impact of equity release; and/or
- (iii) Determining whether equity release or an alternative course of action was most appropriate.

One reason why advice was seen as essential was the perceived inadequacy of information without advice, particularly in light of the amount and type of information issued to consumers under current regulatory requirements. Some stakeholders expressed concern that this resulted in information overload; thereby discouraging consumers from reading all of the necessary information. These quotations from stakeholder participants illustrate this general feeling:

'I don't believe that most consumers read half of what they're sent on a financial product because the regulation of it is far too onerous... The bumpf that gets sent out to consumers when they reach retirement is just ridiculous. And that's not a provider issue, that's by and large a regulatory requirement ...I'm not saying what goes out is wrong, because I think there's a lot of really good stuff in there, what I'm saying is people don't read it, so therefore it's irrelevant. So what I think you need is a summary sheet above all of that, which is one page long, that says here's the benefits, in four or five bullet points, here's the risks in four or five bullet points' (S03 Private Sector, Consultancy)

'I think the format of the provision of information is actually quite highly prescribed, and sometimes that's not necessarily particularly helpful ...the KFI is driven from the traditional mortgage market, to the equity release market. So, if you were to design a KFI that was specifically for equity release and home reversions, it wouldn't look quite the same... (S14 Private Sector Provider)

The FCA have recently recognised that firms feel restricted in their ability to present simpler information by current regulatory requirements, and have reported that they would like to work collaboratively to overcome these issues:

Firms regularly argue that FCA rules prevent them from producing simpler information or communicating it in more innovative ways. The FCA wants to work collaboratively with industry to drive improvements. The FCA will soon publish a Discussion Paper exploring how the FCA and the industry can work together to deliver information to consumers about the products or services they have bought or are thinking of buying in smarter and more effective ways (Coppack et al, 2015).

Stakeholders reported mixed views on the need for financial advice based on the features of equity release products, including what are sometimes seen as 'complex' terms and conditions. Some stakeholders viewed this as an important element of the advice process:

Some of the features of the products that are out there... the way that, for example, early redemption charges are calculated, on a lot of contracts out there, is complicated... [and] understanding the concept of roll-up interest and compound interest, you know. We, sadly, live in a nation where doing basic percentages is not the norm, is not easy. So, from a financial capability perspective, understanding the concept of equity release, it does need proper explanation (S14 Private Sector Provider)

I know that the FCA has said that advice is a must with equity release, and it is, absolutely. I would wholeheartedly back that view. Even if you are really knowledgeable, and if you work in the market itself then you probably wouldn't need advice, but there are very few people who don't [need advice]. Most people might think that they know all about this. They'll read some articles... they'll then say, 'Okay, I've got this sussed.' They haven't. They need to be taken through all the bad things that can happen. They need somebody to sit with them and say, 'Actually, if you borrow this amount of money, do you realise that in ten years' time it will be double that?' You're saying now that you don't want to move. What if one of you has passed away and the other one did want to move nearer to your daughter or your son, do you realise that actually you might have to repay all of this money? To get out of it you might also have to pay penalty costs of this.' It needs someone to make sure that people are thinking this through. (S12 Third/Not for profit Sector)

In contrast, some other stakeholders considered the products themselves to be very simple:

Either product that exists at the moment takes less than 30 seconds to explain if you look at it in its purest form' (S08 Private Sector Adviser)

Nevertheless, this participant was clear that good advice was necessary to support good consumer outcomes, because even if the products are simple, the decision-making process that consumers must undertake, balancing their current and future

needs and resources, is complex and requires forward financial thinking, which many people struggle with.

(b) Advice standards

Our consumer study indicated that consumers can find it difficult to think ahead at the time of the transaction, with the implication that advice focused on whether or not equity release will meet the consumer's future, as well as immediate, needs is essential. Some stakeholders shared this view, while recognising that advisers are not always well placed to think long term.

It's not about product, it's about the advice, the delivery and execution of the product is the least concern, the main concern is to get the right advice that's forward thinking, forward looking, and most people don't have that vision, most people struggle to plan the money for a year's time, let alone the next ten, 25, 30 years. But to be fair a lot of advisers aren't that much better. And I would like personally to see higher standards of advice in the sector and to have advisers required to train to a higher level...but as always you have to strike a balance and if we put too high a bar in, we will lose out as a sector, and if we lose out as a sector customers lose out too (S08 Private Sector Adviser)

Others questioned the effectiveness of advice for other reasons. One stakeholder suggested that financial advice for equity release tends to be procedural and process driven rather than focused on supporting the individual consumer in their decision-making.

I think advice that has some kind of standard is absolutely essential. So it's a promise to consumers that you'll always do this, but you'll never do that and, unfortunately, regulation doesn't require that. It usually requires a lot of, sort of, tick boxing and covering off, and it's none of the softer side that consumers could do with. It's usually just a hard factual protection' (S01 Not for profit Sector)

This is particularly notable in light of the findings of our consumer study as discussed in Chapter Three, section (c), which underlined the importance of 'softer' approaches in supporting equity release consumers to make decisions that are appropriate for them.

Another stakeholder expressed a concern with variability in quality and approach amongst equity release advisers:

The problem with the advice service at the moment is that it's a lottery... You could end up with [someone] that's not going to pressurise you, so that you can make an informed decision. You could end up with somebody who needs to get that sale this week. You could end up somewhere in the middle...There

will be good advisors and there will be not such good advisors, and trying to find them is hard (S12 Not for profit sector)

This participant expressed a strong view that advisers should operate on a fee-rather than commission-basis, so ensuring that there is no incentive for advisers to make an inappropriate/poorly judged sale. The Retail Distribution Review (RDR), implemented as part of the FCA's strategy to improve consumer protection by making the retail investment market more transparent, efficient and attractive to consumers (Price and Livsey, 2013), requires that from January 2013, regulated independent financial advisers must declare their charges and can no longer take commission on products. However, the RDR was not applied to the equity release sector.

A small number of stakeholders suggested that they would like advisers to be trained to a higher standard, though there was some concern that this would discourage new advisers from entering the sector and existing ones to cease advising in this area. This is a particular concern in light of recent industry research (Bower Retirement Services) suggesting that there is a growing shortage of equity release advisers, and that current provision will not be sufficient to service predicted market growth in the coming years. While parts of the industry appear to be responding with a recruitment drive, this also raises potential concerns about quality, if a significant influx of newly qualified advisers lack the knowledge and skills of more experienced advisers.

CHAPTER SIX

STAKEHOLDER EXPERIENCES AND ATTITUDES: THE EQUITY RELEASE MARKET

A number of commentators have predicted substantial market growth in the equity release sector over the last several years (for example, Actuarial Profession, 2005). Yet, notwithstanding the recent increase in sales, the equity release market remains small at less than 2 per cent of the mainstream mortgage market.⁵ We asked stakeholder participants about their views on the barriers to, and drivers for, market growth. Our aim was to understand stakeholders' views as to what factors have inhibited this long-awaited market growth.

(a) Supply-side barriers to, and drivers for, market growth

Stakeholders identified a number of supply side barriers to market growth, the most common of which related to equity release products and equity release providers.

(i) Products: Greater flexibility and innovation

Following the market downturn in the wake of the Global Financial Crisis, the equity release industry set out to achieve market growth by introducing greater product flexibility. Flexible product features include drawdown lifetime mortgages allowing borrowers to obtain an agreed, maximum amount of money as and when required; inheritance guarantees enabling consumers to protect a proportion of their property value from the outset; impaired life schemes (otherwise known as enhanced lifetime mortgages), which take into account the health and lifestyle of the consumer, working on a similar principle to enhanced-rate annuities. One provider who re-entered the market in 2011 now offers lifetime mortgages which permit consumers to pay off some of the interest during the life of the loan, thus reducing the overall cost of the loan and increasing the amount left for inheritance at the end of the loan term.

Despite these developments, many stakeholders suggested that current product offerings do not meet the changing needs and preferences of successive generations of retirees. Stakeholders expressed fairly widespread agreement on the need for greater product flexibility and innovation. As the following participant explained, alternative product offerings are not only necessary to meet a wider range of consumer needs, but also to ensure the long-term affordability of equity release given demographic shifts such as increasing life expectancy and an increase in the average age of first time buyers:

The average age of the first-time buyer is rising significantly, so we could well be in a position where people are actually reaching retirement still with very big mortgages. So, unless the products change so that interest can be paid in some

⁵ Equity release advances were valued at £1,074m in 2013 (data provided by the Equity Release Council in personal communication), against total gross mortgage lending of £177bn for 2013 (Council for Mortgage Lenders)

way, shape or form, or part-paid, part-rolled, or something like that, then I just don't think that they'll be affordable. All the interest rates will be so huge that it wouldn't make sense, it wouldn't make financial sense because people would be in negative equity within a very few years...There's a product that fits most needs, I suppose, but there isn't a huge amount of consumer choice and I think that needs to change...It's going to take a much smarter actuary than me to work out how those products are going to look, but I just can't see how very long term it's going to stack up for them to be able to lend that sort of funding out. (S05 Private Sector, Adviser)

Many stakeholders also considered that while Equity Release Council Standards and safeguards play an important role in consumer protection, these standards restrict product choice and flexibility. Amongst other things, the ERC code of conduct requires that customers have a No Negative Equity Guarantee, which means that they will never owe more than the value of their homes and no debt will ever be left to the estate. Since the vast majority of equity release products are sold by members of the ERC, this means that most consumers entering into equity release receive this protection, which comes at a cost. Some stakeholders questioned the necessity of this blanket approach to consumer protection, considering it to be one of the factors contributing to limited demand:

The market will grow if better products come on the market. As I've often said to people, consumers aren't stupid. They like products that are flexible; that they understand; that are transparent; they accept that charges are there but want to know what they are. Millions of consumers would access this, if there was a simple, straightforward product that they could understand...I think the Equity Release Council does not necessarily encourage innovation and it needs to. The protections that the Equity Release Council put forward are great, but if they're stifling the market then that's not great. Consumers should be treated as adults, not as being idiots, and be given a choice of products. As long as the risks are properly and clearly explained, some consumers may opt for a technically riskier product or forgo some of the protection in order to get a more flexible product. (S12 Not for profit sector)

They're [Equity Release Council safeguards] nice to have, but the reality is I think they restrict innovation a little bit because we're almost forcing every client to have it. So for example if you had a client with a £400,000 house and she's borrowing £10,000 to replace the roof for example, does she really need a no negativity equity guarantee because you'd have to have something pretty extreme to happen for the £25,000 she may owe in 20 odd years' time to erode the £400,000 value of her house. But because we have those protections built in as a norm, you're forced to have it therefore you're forced to carry a higher interest rate or higher set up charges to have each of those, so I think there needs to be a tiered approach to it so that different products that offer different levels of protection, you pay accordingly as to the level of

protection that you need or that you choose to have... (S10 Not for profit sector)

The issues raised in these responses bear further analysis to determine the views of both stakeholders and consumers, or potential consumers, of equity release products. In our study, consumers sometimes expressed frustration over the requirement to receive (costly) independent financial advice, but no interviewees questioned the desirability of the NNEG, or indicated that they were dissatisfied with having to pay for the (indirect) costs that this incurs. Building on our findings to date, it would be useful for further targeted research to explore more fully what consumers want from equity release products, including the particular features that might make them more attractive.

Any industry responses to consumer demand for greater product flexibility and innovation should, however, be tempered by our consumer study finding that a tiered approach to protective product features, without additional, alternative measures to ensure consumer protection, might have an adverse effect on consumer outcomes, since equity release consumers are not always in a position to take account of the risks involved, even if they are fully and clearly explained.

(ii) A negative image

Some stakeholders also suggested that equity release products would benefit from a name change. 'Equity release' is perceived as still suffering from the negative image it gained during the late 1980s and 1990s. During this time, certain products/providers employed alternative mechanisms, for example, using equity-linked investment bonds to invest the funds that were raised from the loan in an attempt to obtain a higher return than an annuity purchase could provide. As with many investments, higher returns carry higher risks; and with increasing interest rates and poor stock market performance at the end of the 1980s, some customers were left with large debts and negative equity. In some cases this led to repossession (Appleton, 2003). These particular products were later banned; but a similar situation then occurred with roll-up mortgages. Originally, interest rates on these products were not fixed and so in the adverse financial and economic conditions of the late 1980s, when interest rates rose and property values fell, customers found that they were in negative equity and, once again, some were forced into repossession (Appleton, 2003).

Although these approaches have been excised from the modern market, concerns about a poor industry reputation have lingered, prompting one stakeholder participant to suggest that a name change might be the only way to shed the negative perception that many people still associate with equity release:

We sometimes can't get clients beyond the fact that I don't want to talk about equity release, I know I don't want it. And if you ask them what is it you don't

want, they say, I don't know but I know I don't want it, I know it's not safe so whether the industry likes it or not unfortunately we are still carrying the baggage from the 80's and I think a name change is probably the only way out of pressing the reset button on this industry and giving it a fresh start... I think it's just the label, I think it's just the term equity release, I think it's deemed negative...I think we need to switch more towards retirement lending, retirement mortgages as the badge of what we do rather than the term equity release... (S10 Third sector/Not for profit Adviser)

This negative image is particularly salient in light of our discussion in Chapter Four, section (a), which noted the impact of negative perceptions of equity release in creating an atmosphere of stigma and secrecy, and which recommended the need to normalise equity release as a socially accepted vehicle for retirement finance.

(iii) Lenders

Half of the stakeholder interviewees also considered the limited number of equity release providers to be one of the key barriers to market growth. Among these participants, the perceived benefits of a 'big player' or household name entering the market included greater consumer choice; greater competition among existing providers (with the effect of greater product innovation and more competitive pricing for consumers); and greater trust and respectability for equity release.

I can see a big player coming in...if it gains that new found respectability then that to me would be the biggest trigger for equity release growth going ahead. Because then it would become High Street, it would have a brand and it would be something that the consumer can relate to, probably has some foundation of trust in, and makes them think, hey, this is quite respectable actually. If M&S or John Lewis, I don't know, I'm making it up as I go along, Virgin, but a brand that's associated with good feeling and good service and reputation. At the moment it's insurance companies, we all hate insurance companies, and it's brands we don't know (S08 Private Sector Adviser).

The market would definitely benefit from other mainstream brands entering the equity release lending space. It would be a definite plus to enhance broadly only Aviva's name that's there. Just Retirement are the second largest lender in equity release with 30% plus lending. Aviva's is close to 50% and LV 15% or something. So whilst we talk about lots of different providers in the market, some of them are tiny and they're just not household names...Yes, their [existing provider's] percentage of the market would get squeezed, but if it's a percentage of a much, much bigger cake, then that doesn't matter. It still would be positive for them (S07 Private Sector Provider)

Since we carried out these interviews, Legal and General - a well-known company that consumers are familiar with in relation to other financial services - have entered the equity release market and have stated that they expect to write over £100 million

of business in 2015. It remains to be seen whether their presence will make a significant difference to equity release sales, as some stakeholders in our study predicted.

(iv) Advertising and promotion

Though provider issues were the most frequently identified supply-side barriers to market growth, others were also mentioned, including advertising and promotion. A number of stakeholders felt that the market would benefit from more advertising and promotion with lenders, followed by the Equity Release Council, considered best placed to do this. One participant was clear that the need is not simply for *more* advertising but *better* advertising, believing that current messages do not speak to a large proportion of the older population who could benefit from equity release, particularly single older women:

I think we're appalling the way we promote these schemes. I mean, really, the adverts are rubbish. Every time I see one I think, 'Oh, my goodness,'...very often it can have a crisis appeal to it. It's either a crisis appeal or a, sort of, you know, a smug looking couple on a cruise, and the way I see it is, this is very much part of your overall financial planning to get the very best you can get in your later years. So, I think, we're talking about different uses of equity release. I think messages could be...better tuned to specific needs, so somebody reading it says, 'That's me.' At the moment, I think most people reading the literature just think, 'This isn't me. I'm not one of those people.' So, there's probably a dozen different messages that you could put out there. I think a lot of single women could really benefit from this, but again, you don't see much of that. They're always couples on the cruise ships...why are we not promoting this to single women who want to remain in the house? They've only got half the pension now, and this is a real option for them...so we need more messaging to them. The same with the long-term care messages, and we need to feminise all of those messages. (S01 Not for profit sector)

The issue of equity release (advertising) failing to reach older women is a particularly significant one. Although we have seen some improvements in pensioner poverty rates, women are still more reliant on means-tested Pension Credits and they typically receive smaller pensions in retirement than their male counterparts (Foster, 2014). In a post-pension liberalisation climate, women may be more likely to withdraw all of the money from their typically smaller pension pots to service immediate needs and/or preferences, and this could leave an income or savings shortfall later in retirement. The role of housing wealth may therefore increase in significance for older women, particularly those living on their own. There is thus a particular demand for equity release to reach this section of the older owner population. While these changes offer the industry and others such as the Equity Release Council, Money Advice Service, and Society of Later Life Advisers a real opportunity to meet this challenge, it is important that strategies to reach the older

female market are based on sound understandings of the needs, objectives and circumstances of the potential consumer base.

As the participant above also suggested, the current advertising and promotion of equity release does little to promote or embed the idea that housing wealth could or should be seen as part of mainstream financial planning for later life, rather than a niche product designed for lifestyle purposes and/or debt relief. There has been much debate recently about the need for equity release to be viewed in this way. The Equity Release Council is working towards this, but a more joined up approach across government and industry may be needed to ensure a more effective approach.

(b) Demand-side barriers to, and drivers for, market growth: Needs (pensions, care, ageing population)

Changing attitudes to inheritance and housing wealth among the next generation of retirees were sometimes considered to be part of future growth in the equity release market, but more often than not, stakeholders considered growth to be driven by need. Indeed, almost all stakeholder interviewees talked about underlying demographic shifts as a driver of demand. Yet, the conversion of this potential increase in demand into market growth is likely to be conditional on the availability and accessibility of products and services that meet people's needs. It is therefore important that, in developing products, in positioning, advertising, and promoting them, and in normalising the idea of equity release products for a wider older owner population, the industry's strategy is based on a clear and robust understanding of the potential equity release consumer population's needs, objectives and circumstances in retirement. At the same time as political expectations on the role of housing equity in meeting later life needs grow more demanding and complex, the economic environment, including historic long-term low gilt and annuity rates, leaves older people reaching retirement with less financial scope to stretch their pensions and therefore more pressure on their accumulated asset-base to cover a range of needs and wants.

It is therefore more timely than ever that the financial products and services available to older owners are attractive and well-placed to meet their needs; and that the products themselves and transactional protections positioned around equity release are appropriate to the needs, objectives, circumstances and concerns of a considerably broader potential equity release population.

SUMMARY AND NEXT STEPS

This report sheds new light on the experiences and views of UK equity release consumers and stakeholders. This final section summarises the key findings, sets out some important policy and practice implications of these findings, and considers next steps to create an environment in which the equity release market can develop, aligned to the needs of consumers.

Equity Release Products

Our research revealed a particular set of issues around the long-term suitability of equity release plans, where some consumers were unable to move to a more suitable property for their changed needs and circumstances. Looking beyond information and advice as the core vehicles for consumer protection, these findings raise questions about whether a more suitable form of protection lies in regulation for better product terms, to ensure that equity release products are fit for purpose in the long term.

Many stakeholders suggested that current product offerings do not meet the changing needs and preferences of successive generations of retirees, expressing widespread agreement on the need for greater product flexibility and innovation. Many also held the view that while Equity Release Council Standards and safeguards play an important role in consumer protection, these standards restrict product choice and flexibility.

Building on our findings to date, it would be useful for further research to explore the range of what consumers want from equity release products, including the particular features that might make them more attractive.

Where next for equity release products?

- What are the best ways to ensure that equity release products meet the long-term needs of consumers?
- What are the consumer protection implications of moving towards hybrid products and/or a tiered advice system?
- Are current product offerings feasible from a funding perspective in the long term?
- How can the equity release sector overcome stigma and negative perceptions?
- Would it be appropriate to allow some consumers to avoid the indirect costs of a NNEG?
- What features would make equity release products more attractive to consumers?

Equity Release information and advice

The FCA's approach to regulating equity release products places an emphasis on information and personalised financial advice. Following the Mortgage Market Review, consumers cannot purchase an equity release product without receiving regulated financial advice (unless they are high net worth individuals or mortgage professionals).

Our research indicated that advice does not always overcome information gaps, particularly for those we identified as lower socio-economic status consumers. These participants typically reported that they were not very confident in dealing with financial matters, and were much less likely to have carried out their own research before seeing an adviser (compared to those who were more financially capable and better off). Confusion around the details of the plan and how it worked were also more apparent among these participants.

This implies that the recent regulatory move towards mandatory financial advice will benefit some consumers more than others and those most in need of decision-making support may not be getting the type of protection they need.

Our research also suggested that the relationship between adviser and consumer can play a key role in determining how clear and helpful consumers find advice, and how that advice influences their subsequent choices. A personable, friendly adviser helped consumers feel comfortable and at ease with asking questions and seeking clarification for issues they were unsure about. These findings underline the importance of soft skills during the advice process.

Some lifetime mortgage consumers were unable to fully appreciate how much the debt would grow, and in a small number of cases, had opted to repay the loan. These findings point to the importance of exploring more effective ways of communicating the long-term impact of lifetime mortgages.

The difficulty of presenting simple and straightforward information was an issue raised by a number of stakeholder interviewees, who considered regulatory requirements to be a hindrance in this regard. The FCA have recently reported (Coppack et al, 2015) that they would like to work with firms to overcome this and develop more effective ways of communicating with consumers.

Participants in our stakeholder study were unanimous in their view that financial advice is needed in equity release transactions. Stakeholders regarded advice as essential for helping consumers to make good decisions regarding:

- Specific product options and features;

- Thinking ahead and thinking about the long term impact of equity release; and/or

Determining whether equity release or an alternative course of action was most appropriate.

A small number of stakeholders suggested that they would like advisers to be trained to a higher standard, though there was some concern that this would discourage new advisers from entering the sector and existing ones to cease advising in this area.

Where next for equity release advice?

- Is a more holistic approach to advice feasible and or desirable?
- What is required to ensure that good quality advice isn't a 'lottery'?
- Should the industry and/or FCA take an RDR approach to equity release advice?
- Should the FCA and/or ERC look beyond advice to consider whether other forms of regulation might deliver better outcomes for consumers and for the industry?

Growing the Equity release Market

Given the relatively high level of housing wealth among (some) older owners in the UK, the highly developed nature of financial services and relatively low level of state care and pensions, it is surprising that the market has not yet realised its growth potential. In addition to greater product flexibility and innovation, stakeholders identified a number of other barriers to demand including the limited number of equity release providers, the negative image that is still often associated with equity release, and sub-optimal advertising and promotion.

Our research suggests that a key factor in wider take up of equity release is also likely to involve a different set of messages. Both industry and government could play a key role here, with greater attempts to normalise the use of housing wealth in later life and reduce the stigma currently associated with equity release. One route to normalisation could be via Pension Wise, with property wealth forming part of every discussion about financial planning in retirement.

Another potential way forward for market growth is for the state to share some of the risks inherent in equity release provision, as happens in the US. Here, the government provides a guarantee to reduce the risks to lenders and borrowers; enabling providers to offer better value for money.⁶

⁶ The Home Equity Conversion Mortgage (HECM) is a government-insured lifetime mortgage. The government provides insurance, for a fee, (currently 0.5% of the house value up front) to the borrower against the risk that the lender can no longer make the payments, and to the lender against the risk of the NNEG. This guarantee encourages lenders to offer higher LTVs than the non-government insured lifetime mortgages in the UK.

It would be useful for further research to explore the nature and consequence for individuals, providers and government of greater risk sharing in equity release. Similarly, there could be much to gain from a deeper understanding of older people's perceptions of equity release risk as well as their attitudes to, and appetite for, risk-sharing options, as well as different types of provision and products.

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