Pure Retirement

Equity Release Market Insight

Q3 2024

Foreword

Paul Carter, Chief Executive Officer, Pure Retirement

Welcome to the latest edition of our quarterly Equity Release Market Insight report, offering you a summary of the key headlines that could affect the market, and the way that consumers interact with it, going forward. Before we delve into these key trends and movements, we thought we'd share some of our own data when it comes to the average equity release customer over the last quarter, and examining the key changes in audience profile over Q3.

Property trends

According to our data, the average property value increased on both a quarterly and annual basis and is among the highest level we've ever recorded for a single quarter. At £423,434, the average Q3 house value among new customers represents a 4% annual increase (from £406,805 in Q3 2023), and a 3.2% increase on a quarterly basis (up from £409,811).

This represents a shift even after factoring national house prices increases – according to Nationwide's house price index this rose 2.5% annually and 0.7% quarterly (meaning that the average house price value among new lifetime mortgage customers has risen nearly five times as fast as the national average over the last quarter).

The majority of cases continue to come from owners of properties valued at between £250,000 and £399,999, which account for nearly one in four (37%) of cases. Owners of £1m+ properties remain static in accounting for around 4% of all new initial advances.

Customer trends

For the first time, there is a preference for drawdown over lump sum plans among our new customers in Q3. Over the last quarter, 51% of new customers chose this plan – this is in stark contrast to a year ago (where only 41% of new customers preferred drawdown plans) and Q2 of this year (where 46% chose drawdown plans).

Among single life applicants the proportion being female continues to grow, and currently sits at 70%. This contrasts with the 64% at the same point a year ago, and 67% in Q2.

Loan usage patterns

Lump sum customers are far more likely to use their released funds for needs-based reasons, with the 31% proportion being used for debt and mortgage repayment being both twice as high as that seen among drawdown customers, and a 4% rise year-on-year.

On the flipside, 15% of drawdown customers released funds for holidays (a consistent level over the past year), while this particular use hasn't been seen in the top five uses among lumpsum customers at all in 2024.

Please take part in our short survey to help shape future issues

Q3 In Focus: The Key Stories and Headlines

60%

surge in the size of average pension needed for a basic standard of living, driven by cost-of-living crisis

£68,300 in 2021-22

£107,800 in 2023-24

Source: Resolution Foundation

£311,000

average equity for over-55 homeowners

Source: Nationwide

34%

aged between 55 and 68 planning to use cash savings to supplement retirement income

Source: Shawbrook

39% of pensioners have retirement regrets

with **15%** regretting not putting a plan together early enough

Source: Hargreaves Landsdown

37% UK adults using ISAs to save for retirement

rising to **62%** for those aged 55-64

Source: LV

Equity Release Council's Q3 figures show positive signs for the market.

£61m withdrawn from property wealth between July and September

+6% increase from Q2 2024

+2% new plans agreed

Source: Equity Release Council

Customer Demographics

There's been a surge in the size of the average pension needed for a basic standard of living, according to new research by the Resolution Foundation. The findings pointed to an increase of 60%, from £68,300 in 2021-22 to £107,800 in 2023-24, driven primarily by the cost-of-living crisis which has pushed up the cost of securing an adequate income in retirement significantly. The research found that on average a worker needs an income of £19,300 a year in retirement to achieve a basic standard of living. However, this varies from £13,500 to £28,400 depending on relationship status and housing tenure. Single home owning pensioners would need £258 a week (or £13,500 annually) and pensioner couples that own their own home would need £395 a week (or £20,600 annually).

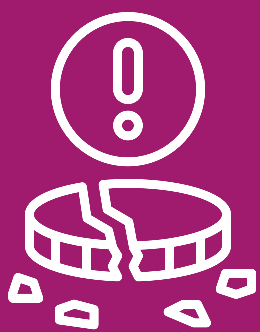
Perhaps unsurprisingly, less than half of UK adults are confident they will be able to have financial freedom when they stop work, with younger and middle-aged UK adults being especially fearful about their finances compared to those over the age of 55 according to research by Continuum and YouGov. The survey found that those aged 45 to 54 were the most concerned with just 29% confident they will have financial freedom in retirement. Those aged over 55 were much more confident with 53% saying they would have financial freedom.

This is backed up by additional research from Trafalgar House, which found that savers' confidence in their retirement funds has returned to 2021 levels of 30.9%, despite a previous increase to 31.7% in 2022. It also found that the number of respondents who believe they have much less than they need for retirement increased from 44.6% to 47.8%. When asked whether they felt they would be able to retire at their normal retirement date, earlier, or later to meet their needs, just over half of respondents (53.7%) felt they would either need to retire late, never, or said they simply don't know.

Further research across the industry has also highlighted that certain demographics face additional risks and pitfalls when it comes to their retirement. Hargreaves Lansdown's Savings and Resilience Barometer claimed that there is a "shock in store" for high-earning households as only 39% are currently on track for a comfortable retirement income, with the barometer putting a comfortable retirement income at £38,662 a year for single people and £58,480 for couples. Using these figures, only 18% of households overall are on track for a comfortable retirement income. Meanwhile, more than two-thirds (69%) of high-earning households are on track for a moderate retirement income of £25,000 a year for single people and £36,480 for couples. Just under two fifths (39%) of households overall are on track for a moderate income in retirement.

47%

of respondents believe they have much less than they need for retirement



Source: Trafalgar House

There also continues to be a gender divide when it comes to retirement provisions, with Fidelity International's Women and Money study uncovering that 52% of women in the UK do not believe they will have enough money to sustain their income in retirement. The study found 12% of women have reduced their pension contributions, with those who have done so cutting back by an average of £173 a month. This reduction is largely driven by the current cost of living crisis, forcing many women to prioritise their more immediate financial needs. 51% cited a lack of available funds after covering essential expenses preventing them from saving more into their retirement fund.

Perhaps unsurprisingly when everything previously mentioned has been considered, research from Hargreaves Lansdown has found four in ten (39%) pensioners have retirement regrets. The most common regret was failing to put together a plan early enough (15%). In addition to this, one in ten said they regretted not boosting contributions early enough, while 1% said they wished they had taken financial advice. The research also revealed that 3% of pensioners said they wish they had kept a closer eye on their investments, while a further 3% said they had not understood the different retirement options.

Additionally, research from Barnett Waddingham has outlined how one out of ten workers aren't planning to retire — with a lack of pension savings cited as being the main cause. Additionally, this proportion more than doubled among the self employed — to 22%. The number was also higher among older workers in the 65-74 age group, who were already working past retirement age. When asked why they won't retire, 50% of respondents cited financial necessity and 42% said they preferred to keep working, while 20% believe they won't live long enough to retire.

This is despite over-55s homeowners sitting on an average £311,000 in equity, with one in four owning £400,000 or more, according to a Nationwide study. Additionally, nearly two out of three (64%) of over-55s own their home outright with a further one in seven (14%) owning their home with a mortgage. The average amount owed on home loans by over-55s is £69,000.

Family contributions are increasingly essential for home purchases, and generous parents and grandparents are looking to their own property wealth to help support younger buyers, according to research from Legal and General and the Centre for Economics and Business Research (Cebr). The 'Bank of Family' is expected to help fund 42% of UK property purchases made by those under 55 years old, contributing to a total of 335,000 housing transactions supported by family lending in 2024 – the largest number of property purchases since Legal & General began tracking lending from family members in 2016. Gifting from parents and grandparents is also predicted to hit £11.3bn by 2026. To help meet these costs, a fifth (19%) of those providing support are doing so by downsizing their property (12%), using equity release (8%) or re-mortgaging (4%). Among Legal & General's customers, 9% used equity release for financial gifting in the first six months of the year.

Customer Habits

More than a third (34%) of people aged between 55 and 68 are planning to use cash savings to supplement their retirement income, research by Shawbrook has found. The bank stated that those near-retirees not planning to use cash savings in retirement were “neglecting” the “important role” savings accounts can play in supplementing their pension pots. Despite this, Shawbrook found there was a wider awareness of the role savings can play in retirement, with 77% believing that a savings account is important to their retirement strategy. More than a third (34%) felt it was ‘very important’ and 43% said it was ‘somewhat important’. This is further underlined by additional research from LV, which found that ISAs are being used by 37% of UK adults to save for retirement, rising to 62% for those aged 55-64.

77%

of pension pots matured with less than £50,000 of assets last year

Source: Bowmore Financial Planning

However, quite how realistic a strategy that is long-term is up for debate, as up to 20% of retirees in the UK have consistently overspent during their retirement so far, with signs that the issue will only get worse for the next generation planning to retire, according to findings from PensionBee. When asked what the largest drain on their finances was, daily living expenses emerged as the largest financial burden for Brits during retirement, cited by 28% of respondents as their largest expense, largely driven by the rising cost of living in the UK since 2021. Meanwhile, housing costs, including mortgage payments and general property maintenance, ranked as the second-largest expense.

A reliance on savings as part of people’s long-term retirement strategy could also be borne out by ongoing undersaving as more than three quarters of pension pots matured with less than £50,000 in assets last year. Research from Bowmore Financial Planning found this was the case for 77% of defined contribution pensions - equivalent to 565,903 pots, and additionally also found that 43% held less than £10,000, compared with just 5% holding more than £250,000. For reference, data from the Pensions and Lifetime Savings Association shows the average level of annual income required for a single person living a comfortable retirement is £43,000 while for couples this is £59,000.

However, one bright point when it comes to retirement planning is that recent financial squeezes on households haven’t discouraged people from contributing to their pension. The Department for Work and Pensions’ data points towards overall participation in workplace pensions remaining at 88% for the second year running.

The government's data showed £12.8bn of individual contributions were made to personal pensions in 2022-2023, up from £12.7bn the previous year, and also showed 2.6mn people have so far taken a flexible payment from a pension - 43% of them were aged under 60, while a further 28% were aged 60-64. Average withdrawals of around £15,000 in 2023 were in line with recent years, with the average single withdrawal coming in around £3,000.

57%

of homeowners over 55 aim to be mortgage-free before retirement

Source: Key

21%

of first time buyers will have to delay their home purchase by 5 years

Source: Legal & General

That said, one in two older workers are aiming to phase their retirement amid concerns about their retirement finances, according to WTW's Global Benefits Attitudes survey. The research found that many older workers were putting these plans into action, with 17% of those aged 50 or over already reducing their working hours or job responsibilities, while a further 32% plan to do so as they near their retirement date. WTW found that most of these employees want to transition into retirement over a relatively long period of time. For example, those who started phasing into retirement at age 56 expect to work for a further 10 years. The survey found similar results for workers who want to phase into retirement when they are older.

Large numbers of people are making a concerted effort to retire as close to debt-free as possible, as homeowners over the age of 55 are cutting back on spending as they aim to be mortgage-free before retirement, according to recent research. The study revealed that nearly 57% of those surveyed are making sacrifices in the lead-up to retirement to avoid carrying mortgage debt into their post-work years. General spending and leisure activities are the main areas where cutbacks are happening, with around 31% of respondents reducing expenditure in these categories. However, not all over-55s are on track to pay off their mortgages before retirement. Nearly one in five (18%) said they would only be mortgage-free because they plan to delay retirement, while 14% admitted they are cutting back on pension contributions to clear their mortgage debt.

Increasing numbers are turning to gifting to aid loved ones, with the 'Bank of Family' reaching record levels in 2024 with £9.2bn being paid out, up from £8.1bn in 2023. Legal & General has revealed that the average contribution increased from £25,600 in 2023 to £27,400 in 2024. The firm stated that with family contributions becoming "increasingly essential" for property purchases, more relatives are now being called upon to support aspiring homebuyers. One in five first time buyers (21%) said they would have to delay their home purchase by more than five years, while one in 10 (9%) first-time buyers would not be able to buy at all. Of the 335,000 property purchases that the Bank of Family supported, 204,000 were funded with assistance from parents, 42,000 were bought with funds from grandparents and 88,900 from other family members or friends.

Market Trends

Recovering house prices in the first half of the year have boosted the total value of the nation's property equity to an "unprecedented" £5.7trn, analysis by the Equity Release Council has found. The analysis, which examined the "untapped potential" of property wealth to support the older generations, showed the latest figure surpasses the previous high of £5.6trn from mid-2022. The analysis additionally detailed the total UK mortgage debt of £1.6trn compares with an overall property market value of £7.3trn. This gives an average loan-to-value ratio of just 22.2%, with the remaining 77.8% of the housing market effectively owned in equity or cash. The average LTV has dropped from 28.9% ten years ago, and means for every £10,000 of property owned, £7,720 is backed by cash, with mortgages covering only a minor share.

The Equity Release Council has also created a guide to help lenders develop more retrofit lifetime mortgages and support energy efficient home upgrades. In consultation with the Green Finance Institute and ERC members, The Retrofit Lifetime Mortgage Guidance is designed to support product development and encourage broader discussion within the industry. The Council hopes the guidance will help the industry find ways of tackling the UK's ageing housing stock and meeting the government's ambitious net zero targets. The new guide sets out good practice in this emerging sector, including how to protect borrowers and what brokers and lenders need to consider. Within the guidance, the Council has proposed a customer journey for the process of taking out a retrofit lifetime mortgage.

The Council's latest quarterly figures show positive signs for the market. According to the latest statistics, homeowners over the age of 55 withdrew £615m of property wealth from their homes between July and September, a 6% increase from Q2 2024. With the number of new plans agreed rising by 2% to 5,370 over the same period, Q3 became the first time since before the mini-Budget of Autumn 2022 when the equity release market has seen two successive quarters of growth. Average loan sizes increased modestly, with new lump sum lifetime mortgage customers taking £111,618 while those taking drawdown lifetime mortgages took £69,952 upfront and reserved another £49,747 for future use. The Council says an 8% quarterly rise in existing customers taking further advances to extend their loans was a sign of customers having sufficient equity remaining in their homes, helped by UK house prices having risen year-on-year for six months in a row since February 2024, according to the latest UK House Price Index.

8%

quarterly rise of customers taking further advances

Source: The Equity Release Council

There are also shifts in usage patterns, with fewer customers using equity release to meet cost of living expenses or as a source of emergency funds, according to figures from Legal & General Home Finance. New customers using lump sums for living expenses decreased by 16% from last year to just 10.4%, and customers taking additional drawdowns for this purpose fell by 9% to 19.6%. New customers using lump sums for emergency funds fell by 12% from last year to 18.6% and 19% less customers took additional drawdowns for this purpose (6.2%). Meanwhile, there has been a significant increase in customers using the equity in their homes to help strengthen their financial position. Customers using lump sums to repay mortgages increased by 58% since 2023 (38.9% of customers) and a quarter of all customers used these funds to consolidate their debts, an increase of 18% on last year.

Take a look at our **full marketing toolkit** to see how we can help you better reach your potential customer base.

Providing solutions for your future

Pure Retirement Limited, 2200 Century Way,
Thorpe Park, Leeds, LS15 8ZB

www.pureretirement.co.uk

Company registered in England and Wales No. 7240896.
Pure Retirement Limited is authorised and regulated by the Financial Conduct Authority.
FCA registered number 582621.