more2life

Later Life Lending Review

Turning household wealth into a better future for older people and their families

May 2018

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Foreword

Foreword by

Dr Louise Overton

The financial services industry is playing an increasingly central, and essential, role in retirement security. Growing numbers of older people face ongoing decisions about how to manage their income and assets over a longer period than previous generations, presenting both opportunity, and challenge, for the later life lending sector.

This timely, insightful research report from more 2 life highlights the continued possibilities offered by housing wealth in helping to meet a range of policy challenges, including inadequate pension income and problem debt; paying for social care and helping younger generations get on the housing ladder.

Among the growing numbers of older people carrying secured and unsecured debt into retirement, some may be doing so as part of a deliberate asset management strategy, but worryingly, this report indicates that a significant minority are doing so to help manage cash flow problems and make ends meet.

The use of housing wealth-based products like equity release has the potential to play a hugely important role, relieving budgetary strain and offering more financial freedom. But the report also reveals the persistence of long standing demand-side barriers to wider uptake of these products. These findings serve as an important reminder that more work still needs to be done, and bringing equity release into the mainstream, as one of the many possibilities older people consider when planning their retirement, remains a key challenge for the industry.

But the industry cannot rise to this challenge alone. Providers have made considerable progress in developing safe, suitable, and attractive products, and there is now an increasingly flexible range of equity release options[1]. The recent introduction of the idea of Retirement Interest Only Mortgages has also added to the choices available to older consumers, and will likely act as a catalyst for further development and innovation in the wider later life lending sector.

As the industry continues to bring new products to market, to help meet the needs of an increasingly diverse consumer population, there is a need for a more joined up approach, across the financial services industry, the regulator, and consumer and professional bodies, to foster the right environment for helping the market to develop more effectively. As well as getting the products right, other efforts, such as raising public awareness and providing timely, easily accessible, information and advice on the likely need and costs of care, for example, and the role of equity release in servicing debt, will be crucial for generating demand for the types of products that can deliver policy goals and enable older people to make the most of their overall wealth.

There is a clear consensus across government, the financial services regulator and the later life lending sector, that ensuring, and improving, the suitability and effectiveness of financial services for older people is a priority concern[2].

We know that consumers of equity release products and other financial services come from a variety of backgrounds and take out plans to meet a wide range of needs and preferences[3], so it is vital that products and services reflect the realities of people's lives and their changing needs and circumstances, as well as offering genuine long-term suitability.

This report argues that the retirement industry needs to modernise, by moving more of its services online, but older people (and those on low incomes) are particularly at risk of financial exclusion[4], so any further moves towards digitisation must not result in a 'digital only' approach. The many opportunities that this new retirement landscape offers, can, and indeed should, be realised in a way that delivers the best possible outcomes for all consumers.

Introduction

A perfect storm of economic and demographic factors mean that the retirement lending market is growing at an unprecedented rate – new research commissioned from the Centre for Economics and Business Research (Cebr) by more 2 life suggests it may be growing even more quickly than expected. We predict that the value of this market, including all types of secured and unsecured lending, will reach £86 billion in 2018, but will increase to £142 billion by 2027.

Use of housing wealth-based lending products including equity release has seen double-digit growth for six consecutive years[5] and grew by 40% between 2016 and 2017. This growth is driven by more retirees deciding to use wealth locked up in their properties to boost finances undermined by debt, poor returns on savings and low pensions income. They are also often keen to help family members facing buy their first property, meet large expenses or manage financial difficulties.

The size of the retirement lending market is expected to increase from £86 billion in 2018 to £142 billion in 2027

The Cebr research reveals a complex picture, but confirms the huge potential market for financial products that unlock housing wealth as a way to help older people improve their standard of living in retirement, and to provide financial support for family members while boosting the UK economy.

Falling income and rising debt

One major problem facing many older people is that they will approach retirement without adequate pension provision, with research suggesting that one in seven people now expect to have no pension provision beyond the state pension[6]. Some may feel they need to continue working for as long as possible to mitigate the financial impact of this shortfall. In conjunction with the ending of the default retirement age, this is likely to blur what was once a clear distinction between working life and retirement, as older workers reduce their hours rather than retiring as they reach the state pension age.

The state pension age is itself also rising slowly, and the government wants to encourage employers to make greater use of older workers, in part because this will lift some of the tax burden resting on younger members of society. These trends have already contributed to a doubling of the number of over 65s in employment during the past decade, to reach 1.2 million[7].

At the same time, the amount of secured and unsecured debt held by the over 65s is rising, according to Cebr's research. One reason for this is because 5% of owner-occupiers aged 65 and over and almost one in ten of those aged 65 to 74 are still paying off mortgages, with many of these held on an interest only basis.

Almost two out of five (37%) 65 to 74 year olds and 56% of 75 to 84 year-olds with a mortgage on their main home are thought to have interest only mortgages. They may face considerable financial strain when the final capital repayments for these debts are due. Additional research suggests that one in ten people aged over 65 have a credit card balance they have been unable to clear for more than a year[8].

While the vast majority of people hope to be debt-free in retirement, holding debt need not be a problem if they are able to access financial products that meet their needs. Using housing wealth can help to address these issues in an effective and affordable way.

Holding debt in retirement need not be a problem if older people are able to access financial products that meet their needs

Using housing wealth to help family members

The other reason that a growing number of older people now find the idea of releasing the value locked up in their property more attractive is that younger members of their family may need financial support with – for example – buying their first home.

In addition, retirees will be aware that they may need to fund their own long term care, or that of their loved ones. Uncertainty around how social care is to be funded in the longer term is another potential source of concern – for society in general, but for those approaching or beyond retirement age in particular.

The financial services industry has a vital role to play in delivering solutions to help older people address these issues through the use of carefully crafted products and expert financial advice. The trends identified in our research reveal a huge commercial opportunity for our industry. However, if the industry is to meet the growing demand for these products, we will need more innovation, more advisers and more funding. We will need a greater degree of awareness among consumers of the financial products and services that could help them to make the best possible use of their financial resources.

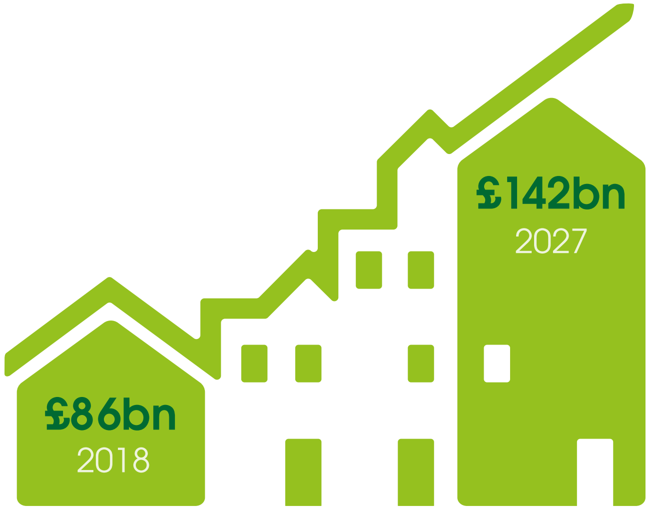
The retirement lending industry will also need to modernise. Too many lenders are still using paper-based processes, reducing the speed and efficiency of the lending process. It might once have been true to say that older people would rather deal with pens and paper, but it is increasingly the case that retirees will expect to be able to deal with a lender online, in the same way they deal with their bank and other service providers. In addition, lenders that still rely on paper-based processing will not be able to scale up to meet growing demand. Existing providers may also find their market share threatened by digital disrupters entering this market - the equivalent of an AirBnB or an Atom bank - that are able to offer a seamless, digital means of helping people to access the financial resources tied up in their homes.

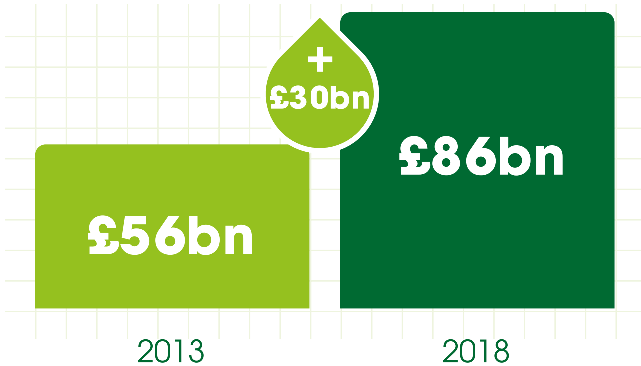
Our research confirms the huge potential for the retirement lending market as a means to deliver positive financial outcomes for older people and their families, along with broader social and economic benefits. But the financial services industry must create and refine products, distribution channels and funding if it is to fulfil that potential.

Our research confirms the huge potential for the retirement lending market as a means to deliver positive financial outcomes for older people and their families, along with broader social and economic benefits.

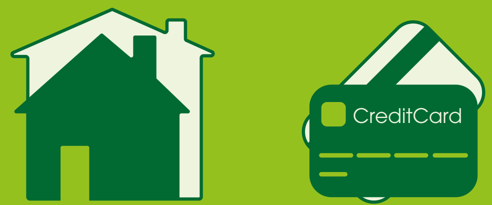
Key Findings

The size of the retirement lending market is estimated to increase from **£86 billion** in 2018 to surpass **£142 billion** in 2027.





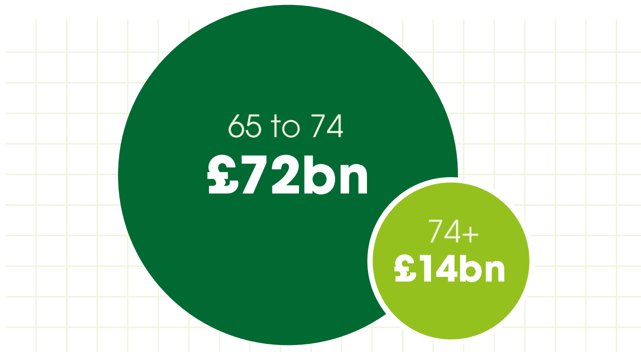
Debt held by people aged 65 and over has grown by over **£30 billion** in just five years.



£73bn
Secured

£13bn
Unsecured

The **£86 billion** in debt held by people aged **65 and over** comprises **£73 billion** in secured and **£13 billion** in unsecured debt.



Most (£72 billion of the £86 billion total), is held by those aged 65 to 74.

Key Findings

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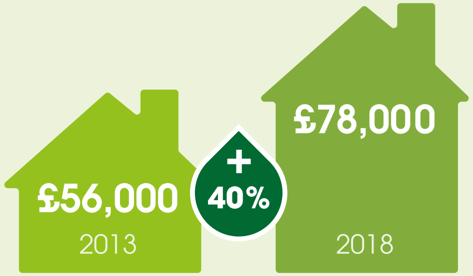
Homeowners aged 65 and over

About **5%** of homeowners aged **65 and over** are still paying off mortgages.

65 to 74 year olds

Almost **one in ten** of those aged **65 to 74** are still paying off mortgages.

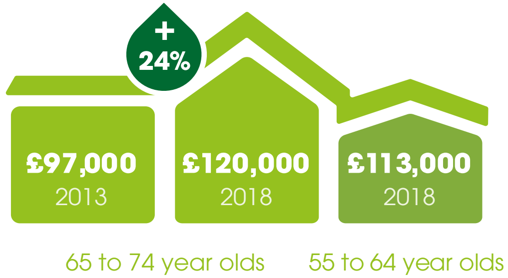
75 to 84 year olds



Those aged **75 to 84** who are paying off a mortgage owe over **£78,000** on average – **up 40%** in just five years from **£56,000** in 2013.

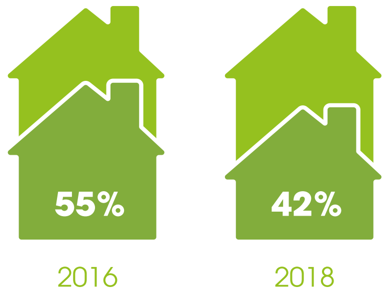
The average amount of total debt held by people entering retirement is increasing: average total secured and unsecured debt of people in the UK in the **65 to 74** age group increased from **£12,500** in 2017 to **£15,700** in 2018.

Average owed on mortgages



Homeowners aged **65 to 74** paying off a mortgage owe an average of **£120,000, 24% higher than in 2013**; and higher than the average for **55 to 64** year olds with a mortgage (**£113,000**).

Interest only mortgages



About **42%** of those aged **65 and over** who still have a mortgage have an interest only mortgage, down **13%** over two years.

Key Findings

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Payday loans and **unpaid bills** are the forms of debt that over-55s most want to avoid.

More than **one in ten** people aged **over 55** have used or are using debt secured against an asset of value, such as their home, to cover day-to-day expenses.

Almost **one in three** people aged **over 55** fear taking on debt because it will cause stress.

Among the over 55s, men are more likely than women to keep pension savings for the longer term.

Women are more likely to take the whole pot as cash, to draw it down in small sums at regular intervals, or use it to pay off debt.

Mortgage debt is rising among older generations

As people are purchasing their first home later and house prices have increased significantly over the past 15 years, mortgage debt has risen. Cebr's research shows that average household mortgage debt has increased significantly over the past 12 years for every age group between 35 and 85. People aged 55 to 64 now hold an average of £31,000 in mortgage debt; a notable increase from £27,000 in 2014.

5% of homeowners aged 65 or over are still paying off a mortgage, including 9% of those aged 65 to 74 and 4% of those aged over 75. Those aged 65 and over who are paying off a mortgage owe £78,000 on average – a 40% increase in just five years, up from £56,000 in 2013.

Within that group, we estimate that homeowners in the 65 to 74 age group paying down a mortgage owe an average of £120,000; 24% higher than was the case in 2013, and higher than the average owed by 55 to 64 year olds with a mortgage (£113,000). This may be explained at least in part by the fact that use of interest only mortgages becomes more frequent as one moves up through the age groups.

Average household mortgage debt (including those without mortgages), by age of household reference person

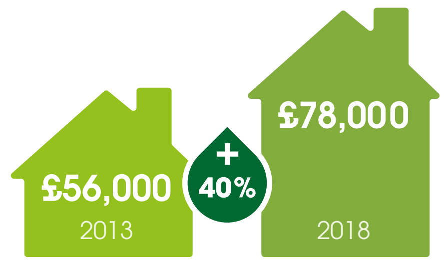
Homeowners aged 65 and over

About **5%** of homeowners aged **65 and over** are still paying off mortgages.

65 to 74 year olds

Almost **one in ten** of those aged **65 to 74** are still paying off mortgages.

75 to 84 year olds



Those aged **75 to 84** who are paying off a mortgage owe over **£78,000** on average – **up 40%** in just five years from **£56,000** in 2013.

Use of interest only mortgages is widespread among older people

Older people are more likely to have an interest only mortgage, meaning they carry a larger amount of debt for a longer period. Almost two out of five (37%) of 65 to 74 year olds and 56% of 75 to 84 year-olds who have a mortgage on their main home are thought to have interest only mortgages. Some may face significant financial difficulties at the end of the mortgage term when they need to pay off the remaining capital, either due to investment plans underperforming or no plans being in place. This group in particular could benefit from financial products that help them to unlock housing wealth in order to repay the outstanding borrowing.

Share of mortgage holders with an interest-only mortgage, by age of household reference person, 2012-2014 and 2014-2016

Total debt for people aged 65 and over is rising more quickly than expected

The total amount of secured and unsecured debt held by those aged 65 and over is expected to reach £86 billion in 2018, comprising of £73 billion in secured and £13 billion in unsecured debt. Cebr has adjusted this prediction upwards; its most recent research suggests the amount of debt held by people in this age group is increasing even more quickly than was previously supposed, and has grown by £30 billion in just five years.

Total debt of over 65s (£)

The lion's share of this debt, £72 billion of the £86 billion total, will be held by those in the 65 to 74 age group. This rise appears to be due to a combination of factors: the fact that more people aged 65 and over are still in paid employment, the rise in the state pension age and increased average household incomes have all made it easier for older people to access credit. The total is also boosted by high levels of mortgage debt for this cohort, due in part to their use of interest only mortgages.

The average amount of total debt held by people entering retirement is increasing; Cebr expects the average total (secured and unsecured) debt held by people in the 65 to 74 age group will almost double, from £12,500 to £22,700 between 2017 and 2027.

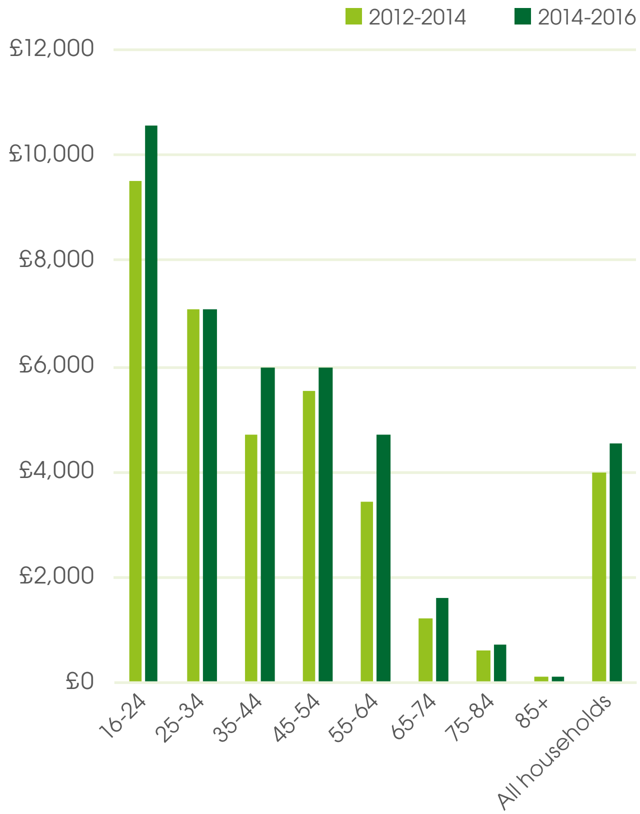
For the older age groups the total debt will be much lower, but will also have increased significantly over the same period, from £4,100 to £8,200 for those aged between 75 and 84, and from about £2,400 to about £6,000 for those aged over 85.

> The total amount of secured and unsecured debt held by the over-65s is expected to reach £86 billion in 2018

The average amount of total debt held by people entering retirement is increasing: average total secured and unsecured debt of people in the UK in the **65 to 74** age group increased from **£12,500** in 2017 to **£15,700** in 2018.

48% of all 55 to 64 year olds, nearly 30% of 65 to 74 year olds and 15% of 75 to 84 year olds hold some form of unsecured debt, such as credit or store cards, overdrafts, loans, car finance, hire purchase, or payday loans. Average unsecured debt among 55 to 74 year-olds rose by more than 30% between the 2012/2014 and the 2014/2016 editions of the ONS Wealth and Asset Survey.

Average unsecured debt, by age of household reference person



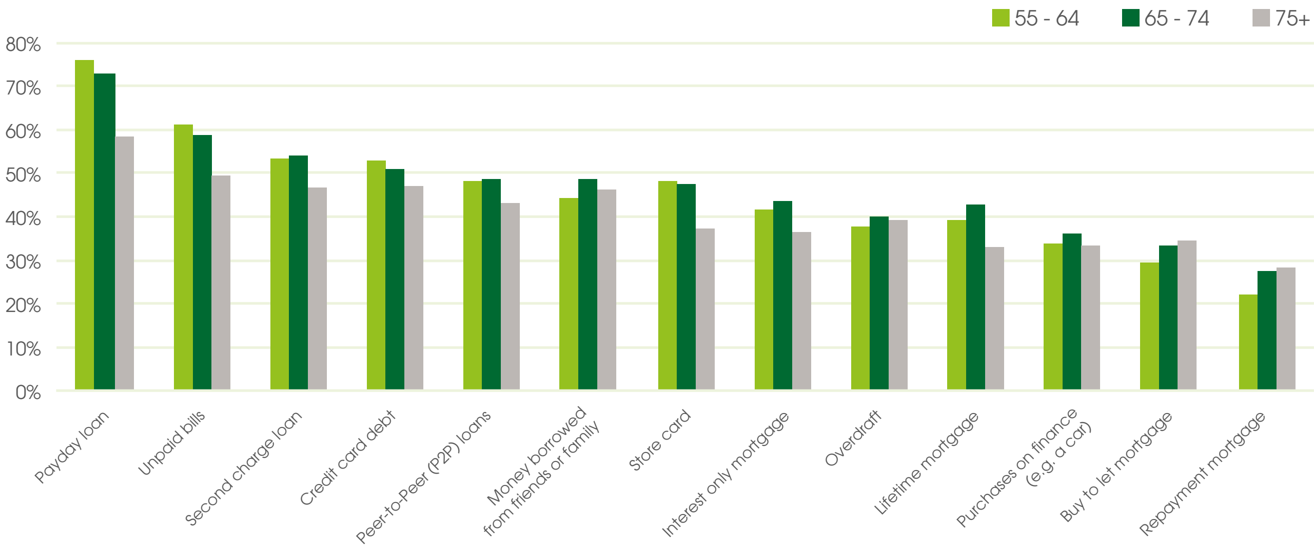
How the over-55s use and think about debt

In addition to research based on the ONS Wealth and Asset Survey, Cebr has collaborated with Censuswide to survey 2,000 over-55s about their attitudes to debt. The results of this research suggest unpaid credit card balances are the form of debt used most often by the over-55s, with 30% spending more on credit cards than they pay off each month.

Asked which forms of debt they most want to avoid, payday loans were cited by more than 70% of all respondents. Unpaid bills were the second most disliked form of debt, cited by around 60%. Credit card debts and second charge loans were each mentioned by more than half the respondents, while peer-to-peer loans, money borrowed from friends or family, store card debt and interest only mortgages were all cited by more than 40%.

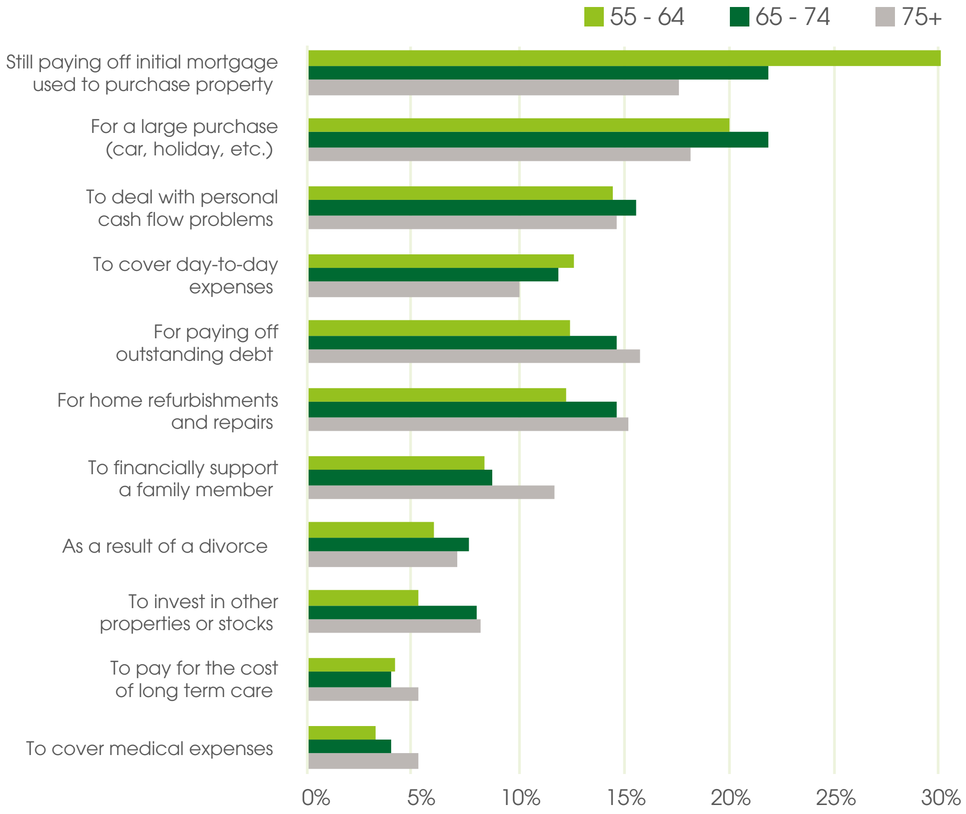
While 60% of respondents are happy to make use of a lifetime mortgage to access the equity in their homes, the prevalence of myths and scare stories appears to impact the appetite for these products among some 65 to 74 year olds. Age groups younger and older than this cohort appeared less hostile to the idea, but there is clearly more scope to spread the message about why equity release products can be an effective way to release and use housing wealth in retirement.

Thinking about your future, what type of debt would you consider best to avoid?



When asked why they use secured debt, or have done so within the past five years, the two most commonly cited reasons were still paying off a mortgage on their main property and using finance for a major purchase such as a car. But significant minorities also said they used or had used secured debt to help manage cash flow problems (cited by around 15% of the total sample); and to manage day to day expenses (cited by more than 10%).

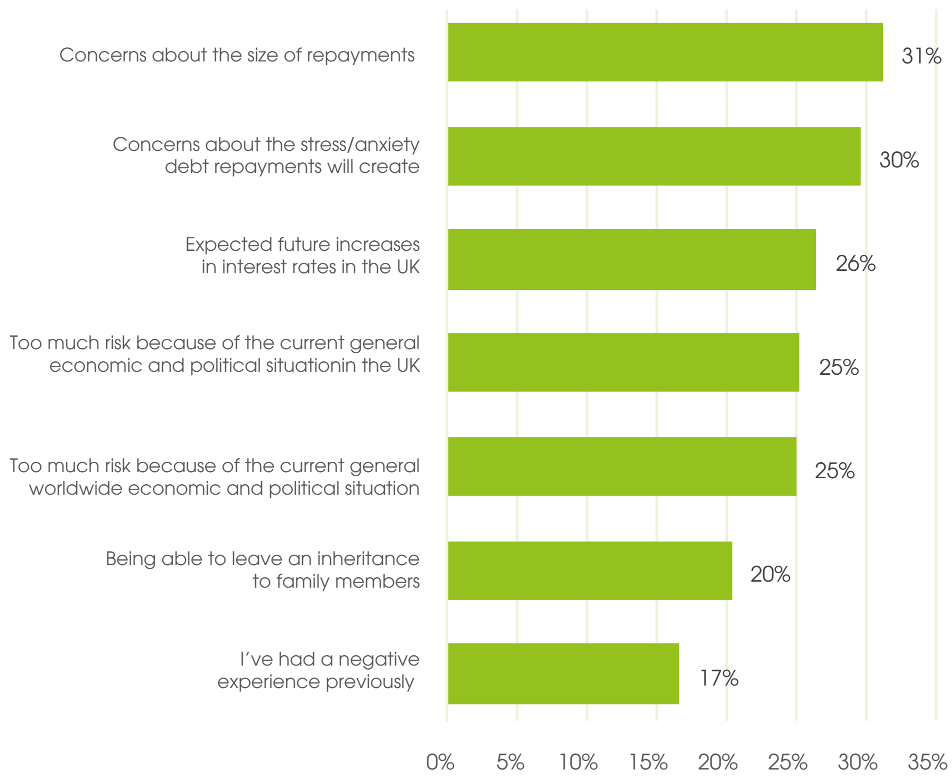
If you hold secured debt or have held secured debt in the last five years, what are your reasons for this?



Concerns about debt

Respondents were also asked which factors had discouraged them from taking out debt during the past five years, or would discourage them from doing so in future. The most commonly cited reason (by 31%) was concerns about the size of repayments, ahead of concerns about stress or anxiety that could be caused by the debt (30%). 20% said they did not want to take on debt because they wanted to be able to leave an inheritance to members of their family.

What factors have discouraged you from taking out debt in the last five years or would discourage you most from taking out debt in the future?



Men are more likely than women to invest their pension pots

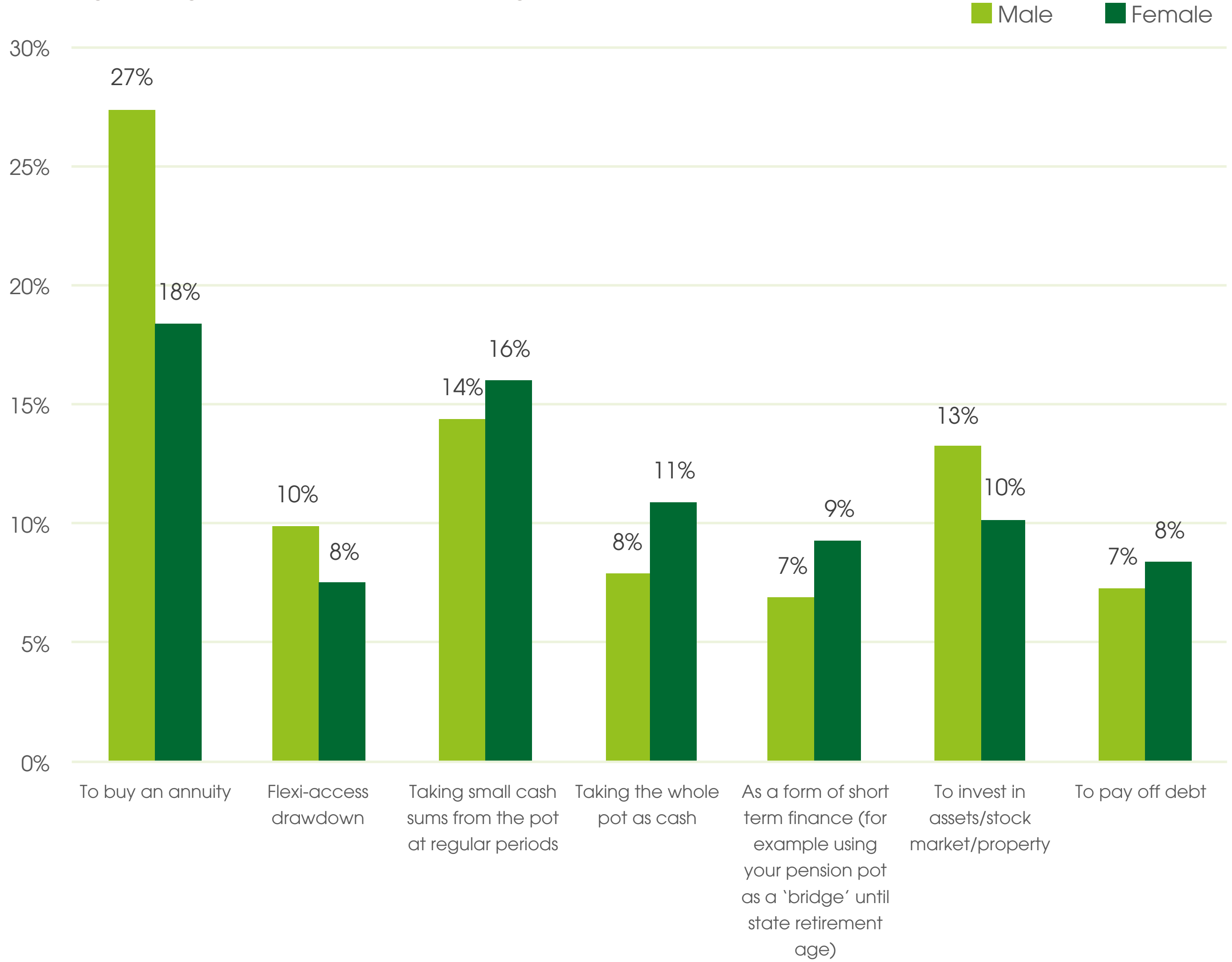
The survey also asked respondents how they would use – or had already used – money saved in a pension pot. Breaking responses down by gender revealed an intriguing contrast between the way men and women planned to spend their pension pots, with men more likely to want to use the money for longer term pension or investment products.

For example, 27% of men said they would use a pension pot to buy an annuity, compared to 18% of women. Men were also more likely to use the money to invest in the stock market, property or other assets. Women were more likely to take the whole pot as cash, to draw it down in small sums at regular intervals, or to pay off debt.

These findings may be explained in part by the fact that women tend to have less money saved in pension pots: one recent study suggests the average value of pension savings held by women at or approaching retirement is £59,000, compared to £143,000 for men[9]. While women have certainly been impacted by the gender pay gap, they have also historically been more likely to take time off to have children or look after family members, and are more likely to work part time. For a certain cohort of married women there was also an expectation that their husband would look after financial planning for retirement.

But the findings also illustrate the need for financial providers to consider carefully the possible differences between the financial requirements of men and women in retirement.

If you have saved into a pension pot, how are you planning on using or how did you use your savings?

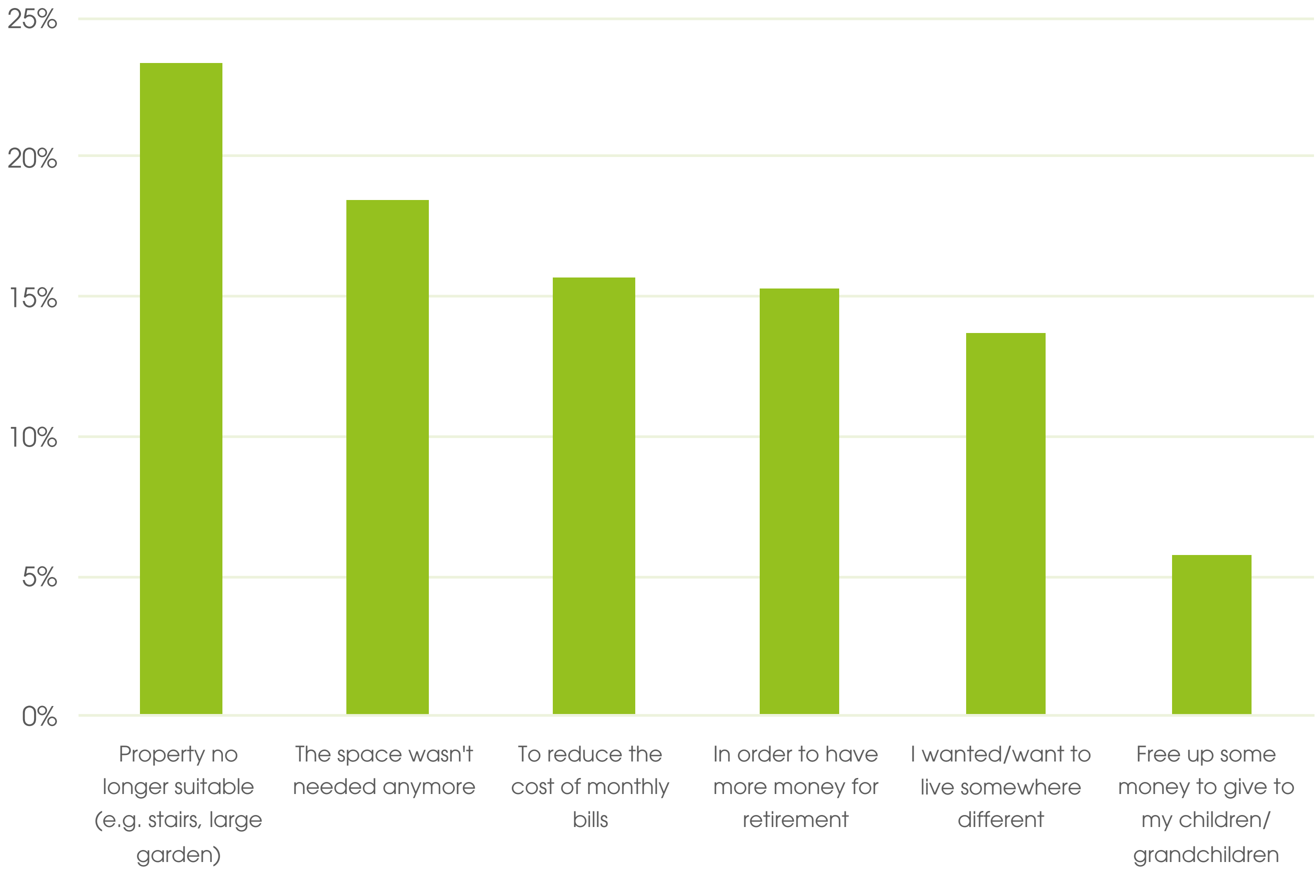


One in six downsizers do so to reduce outgoings and free up money to spend in retirement

The Cebr/Censuswide survey also asked those respondents who have downsized or are considering doing so why they might take this step. The most common reason was that their current home was not suitable (23%) or simply too big (18%). But it is notable that 16% of respondents said their main reason was to reduce the cost of monthly bills or to free up more money to spend in retirement (around 15% in each case). Just over 5% said they wanted to downsize for the specific purpose of freeing up money to give to younger members of their family.

The research also revealed that one in four of downsizers aged over 75 felt that the costs associated with downsizing were greater than they had expected, a much bigger share than for younger downsizers. This suggests a need for better advice and information being made available to this group in advance of their decision to downsize – and highlights the need for a greater number of suitable properties.

If you downsized your home in the last five years, or have/are considering downsizing, what was/is your reason for this? (Tick all that apply)



Dave Harris
Chief Executive Officer, more 2 life

"The current set of circumstances in relation to the ownership and relative value of wealth tied up in housing, may not be replicated precisely in future, but current trends related to debt held by older people are likely to continue. In part this will be due to the increasing average age of first-time buyers of property, currently 30, up from 29 in 2011[10], and to a significant increase in the numbers of homebuyers using mortgages with a longer term; in 2016 28% of first-time buyers opted for a 30 to 35 year mortgage, more than double the percentage who did so in 2006 (11%)[11]. The need for the financial services industry to develop products that will help older people enjoy a better standard of living in later life is only likely to increase in future.

"But today, the most urgent message for the industry to take from the findings of this research is that the market for retirement lending is growing even more quickly than was previously supposed. For growing numbers of people aged 65 and over, financial products that draw on the resource of housing wealth may well turn out to be the best way for them to solve the financial challenges they and their families have to face in future. Our industry is perfectly positioned to seize this opportunity and to deliver the best possible financial outcomes for older people and their families, boosting the UK economy as a result. We must rise to the challenge."

Our industry is perfectly positioned to seize this opportunity to deliver the best possible financial outcomes for older people and their families, boosting the UK economy as a result more2life

This report is based on research commissioned by more 2 life in 2017 and 2018 from the Centre for Economics and Business Research (Cebr). Cebr analysed data gathered from 2012 onwards for successive releases of the Wealth and Asset Survey produced by the Office for National Statistics (ONS); and has complemented insights drawn from this information with the results of a survey of 2,000 consumers aged 55 and over, conducted with Censuswide in 2017 and in 2018, looking at use of and attitudes towards debt by this age group.

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