Can housing wealth save the day?

Recommendations for helping consumers plan for retirement

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1. Executive Summary

We have long known that under-saving for retirement needs to be addressed and for those aged between 50 and the State Pension Age ("SPA") (who will be retiring between now and 2030), there is real urgency to take the necessary steps to provide for their financial security in retirement.

Given the importance of having an adequate retirement income and the impact of under-saving, TISA has developed this report to set out the scale of the problem and the role that housing wealth might play in boosting incomes for those that will have income shortfalls. We also set out key actions that consumers, Government and industry need to take to address this critical issue.

This report is evidence based and draws upon a wide range of data sources to provide a picture of the magnitude of the problem and why action is now required to prevent millions of consumers entering retirement without an adequate income. We commissioned The Wisdom Council to undertake primary research with more than a thousand people to gain the consumers' perspective of the challenges they face plus we sponsored the Institute for Fiscal Studies ("IFS") in their production of a review of automatic enrolment and pension saving in the UK[1].

Two thirds of those retiring by 2030 are facing different degrees of under-saving

There are 10.6 million people in the UK aged between 50 and the SPA who will be entering retirement between now and 2030. A combination of the demise of Defined Benefit ("DB") pensions in favour of Defined Contribution ("DC") schemes and low levels of saving amongst the private sector workforce and self-employed means that millions of people are approaching retirement with pension pots that will not meet their retirement income needs. We identified in earlier research that 2035 would be the tipping point when generations going into retirement would be significantly worse off than today's pensioners and the trends identified here validate this prediction.

Employees in the public sector continue to benefit from near universal availability of DB pensions and active membership of such schemes has been around 85% over the long term. This group represents about 20% of the workforce and 1.7 million of our target age group who will go into retirement with the benefit of a generous pension scheme.

It is a very different story amongst workers in the private sector. DB schemes have progressively been closed both for new members and future accruals. There are now only 1.1 million people in our target group that are still active members of a DB scheme. Only 1.2 million were active in a DC scheme prior to the introduction of Auto Enrolment which has boosted this number to 2.2 million in total, albeit for those who have just started saving, it will likely be a case of too little too late. The long term trend over the last 40 years has been for only half the private sector employees to have actively participated in a workplace pension at any given point in time.

We are particularly concerned about the self-employed who make up 15% of the UK's workforce and have the lowest savings rates of the target age group. The schemes available to them are DC

[1] IFS – What happens when employers are obliged to nudge? Automatic enrolment and pension savings in the UK – November 2016

personal pensions and do not benefit from employer contributions. There are 1.8 active members of such schemes, which includes around 600k self-employed people aged between 50 and the SPA.

There are also 3 million pension policies that are no longer active and being preserved until the individual that owns the policy starts using the funds. This is made up of a combination of approximately 30% DB schemes and 70% DC schemes. A large number of these policies are assumed to be owned by the same individuals that have a propensity to save, have moved employer and are actively saving into a new pensions today.

The median values of pensions in DB schemes today is comparable with recently retired generations and members of those schemes look likely to enjoy the same level of retirement benefits. However, for members in DC schemes, their median values are only worth between 8% and 24% of their peers in DB pensions, depending on age and type of scheme. For the 6 million people relying on DC schemes there is clearly a significant under-saving problem that needs to be addressed. The larger DC median values tend to be in the schemes not actively being saved into and would only provide an estimated income of between £1,200 and £2,000 per annum using current annuity rates.

Furthermore, 27% of the population has historically not been part of the workforce and typically unable to save into a pension, plus half the private sector workforce and two thirds of the self-employed have also not been saving into a pension. We are therefore faced with a further 6 million people that may be reliant upon either the State or being part of a household that will receive a pension income.

The people most likely to face shortfalls in retirement income only have their home to fall back on

The bottom half of households by income and wealth only own 9% of the UK's wealth. The next 40% of households own 46% of the UK's wealth and the top tenth of households own 45% of the UK's total wealth. About 20% of our target group are in debt and a further 40% have less than £25k in non-pension saving. Such levels of savings are clearly not going to meet their retirement income shortfalls.

However, around 80% of the group are owner occupiers and 8.9 million have equity wealth within their home. 2.5 million people have between £1,000 and £125k in equity in their home and a further 4.7 million have between £125k and £375k. The remainder, with even higher home equity levels, are probably not the audience that will have retirement income shortfalls.

A growing trend is for people to view their home as a means of creating retirement income and in ONS surveys, around 25% expect to downsize to meet their income needs.

However, considerable capital is required to provide an income and even releasing £150k (which for many outside of the South East would be a challenge) would only provide an income of between £4,500 and £7,500 per annum depending on the annuity or drawdown option selected. For those people who are currently relying mainly on their home and the State pension to provide an income in retirement, it is important that they are realistic about what income the equity in their home can generate.

This would also point towards the need for greater savings as well as using the home where there are significant income shortfalls.

The consumer's perspective

We tested consumer perspectives with a group of over a thousand people aged 50 and over. These consumers seem somewhat optimistic about the lifestyles that await them in retirement despite our research findings on the scale of under-funded pensions, including 70% of them expecting to travel in retirement, 30% of them seeking to help their children financially and 22% of them planning to pay off their mortgage.

Overall their expectations of required retirement income was realistic, being typically two thirds of salary. However, three quarters had either not done any planning for retirement or not refreshed their plans for a number of years. Despite this, half were confident that they would have sufficient income in retirement, with 70% expecting their non-pension saving to provide at least a fifth of their income, with half expecting to use the value in their home to boost their retirement income.

For those who did expect an income shortfall in retirement, this was an average of £11,400 per annum. Aside from continuing to work, down-sizing was seen as the most likely option and the average respondent thought that just over £100k could be raised from their home. There was an expectation amongst some that they would receive much more income than current annuities or drawdown can facilitate. This re-enforces our observation that for many people, down-sizing alone will not meet the income shortfall and additional saving is required.

Of note was the group's hostility towards using equity release. Only 14 people (out of the thousand) were planning to use equity release as a means of boosting retirement income. For those that subsequently realised that they may have an income shortfall to address, only 6% would use equity release. Whilst 80% were aware of equity release and two thirds claimed to understand it, collectively they only managed to answer on average 3 out of 13 true or false questions correctly on equity release, indicating a significant lack of understanding. Whilst we are not advocating equity release as a solution, it may be appropriate for people that need to access capital from their home and for whom down-sizing is not the best option. It is therefore important for these people that their lack of understanding of how equity release works be addressed.

Lack of holistic advice and guidance

A key issue arising in our research is the lack of holistic planning that takes into account the value in the home. There is an increasing expectation that the home will be part of creating a retirement income and 70% of those surveyed think housing should be included within financial planning. This also means that the Government and industry need to support them in this process.

A key challenge for people planning for retirement is the lack of realistic expectations regarding how their home is going to achieve their desired outcome. Unlike planning for a pension, there are no publicly available tools for projecting the value of a property, estimating costs of down-sizing or pointing out the social and familial impacts of moving to another part of the country. Blind luck appears to be the planning mechanism being adopted by most people today.

A further concern is that using housing wealth tends not to be proactively considered by financial advisers when providing retirement planning advice to consumers. Equally, if a consumer seeks

advice from a mortgage broker when exploring options around raising wealth from their home, it makes sense for this conversation to be undertaken as part of planning for their other assets as well.

Part of the issue is the lack of qualified advisers transacting life-time mortgage. Whilst there are over 5,000 advisers with the relevant qualifications, estimates suggest that there are not many more than 400 of them who have permissions from the Financial Conduct Authority ("FCA") and are transacting such mortgages.

It seems sensible that Government and industry work together to address this now so that appropriate support can be made available to consumers, as demand grows amongst the increasing number of people entering retirement needing to access the wealth in their homes.

Enhancing consumer choice by supporting the life-time mortgage industry

In the 3rd quarter of 2016, there were £572 million of life-time mortgages written (shared mainly by just 9 lenders) versus £37,100 million of traditional mortgages, excluding re-mortgages (shared amongst 139 lenders).

Whilst the future potential demand for life-time mortgages is likely to be significantly higher than current industry volumes, there are also obstacles faced by new entrants to the industry, including lack of funding, lack of clarity on the Solvency II capital treatment of life-time mortgages as an asset class, and lack of distribution. If consumers are to increase their demand of such products in the future, then these issues will need to be addressed.

2. Recommendations

TISA has developed 4 key recommendations that will help to address the issues set out in this report. Whilst we do not advocate the use of saving for retirement through equity in the home, we recognise that currently this is an active choice being made by millions of people. There are also millions more who will find that accessing housing wealth becomes a necessity rather than something that was planned. Action is therefore required to support these consumers in planning and funding an adequate income in retirement.

1. **Enhance consumer awareness:** The biggest issue is the lack of consumer understanding regarding their likely retirement income shortfall and the actions that can be taken, to the extent possible, to mitigate this. The Government and industry need to rapidly engage in greater consultation to agree an approach that collectively helps people that are under-funded and entering retirement by 2030. It is now critical that there is a collective effort to educate this cohort regarding the financial future that they face and support them in taking appropriate measures that will mitigate their retirement income shortfalls. This will include debunking unrealistic expectations regarding how housing wealth will provide a panacea to compensate for under-saving and encourage consumers to adopt realistic plans that will deliver an adequate income in retirement. Given that, of the target cohort, those aged between 50 and 55 are better positioned to address their future savings shortfall (as they have more time ahead of retirement), both Government and industry should focus on engaging this group in particular.

2. **Provide holistic financial guidance:** The Financial Advice Market Review ("FAMR") is an important opportunity for greater consumer engagement and for the Government and industry to make financial guidance available to the mass market. TISA has already worked with leading industry firms to develop and submit recommendations[2] to HMT and the FCA regarding the proposed approach and development of a guidance framework for industry, plus submitted a response to the HMT consultation on the definition of advice. We are calling for a holistic approach for financial guidance that includes methods, benefits and consequences of using home wealth to fund retirement as part of financial planning, so that consumers can consider all their sources of savings and wealth for supporting them in retirement. We are supportive of the Government proposal to create a single body for the provision of financial guidance to consumers and call for this service to include consideration of equity within the home, given the large number of people that will be drawing on such wealth to part-fund their retirement. Equally we call for the industry to consider peoples' home wealth as part of their guidance propositions that we anticipate will be demanded by consumers as a result of FAMR facilitating greater consumer engagement.

3. **Provide holistic financial advice:** The advice industry should make holistic advice propositions available to consumers to support the bow wave of people that will need to navigate the complexities of using their housing wealth in retirement. TISA recommends that professional awarding bodies review their syllabuses and examinations to support advisers considering housing wealth as part of a holistic advice proposition. We also encourage these awarding bodies to consider whether knowledge of solutions to access housing wealth be made a compulsory requirement for advanced financial planning qualifications. TISA recommends that advice networks should begin gearing up to provide holistic advice propositions that include the

[2] Financial Advice Market Review – Response by TISA to HMT and FCA consultation – December 2015

use of housing wealth in retirement and also encourage their members to obtain the necessary qualifications and permissions required to provide such services. TISA also recommends that the FCA creates a regulatory environment that encourages the provision of financial advice that includes using housing wealth as a mainstream service.

4. **Making access to wealth in the home mainstream:** As the need to access housing wealth in retirement builds, consumers will require greater access to products that let them achieve this goal. The regulatory environment for life-time mortgages needs to be adjusted to accommodate wider access whilst maintaining the high standards of advice and safeguards related to these products. TISA recommends that the FCA and Prudential Regulation Authority ("PRA") work together to create a regulatory environment to:

   - Enable life-time mortgage products to be sold as part of a holistic advice proposition
   - Encourage more advisers to be able to transact life-time mortgages to help broaden access to such products
   - Review the FCA's "higher risk" general rating for equity release with a view of lowering it. Whilst this rating may have been appropriate in the past, there is an argument that life-time mortgages are not "higher risk" for equity release clients because: (i) many consumers will not have alternatives to fund their pension deficit; (ii) consumers are guaranteed to be able to stay in their home as long as they live or move to aged care; and (iii) eligible consumers will be owners of an unencumbered home, meaning they have demonstrated a considerable level of financial astuteness and responsibility
   - Examine the early encashment charges that are deemed necessary by funders committing to such long-dated mortgages and provide comfort to them where appropriate, as to the quantum and types of early repayment charges that are deemed acceptable
   - Ensure that the capital treatment regime for insurers holding life-time mortgages does not unnecessarily thwart innovation from occurring in the industry

3. Number of people retiring by 2030

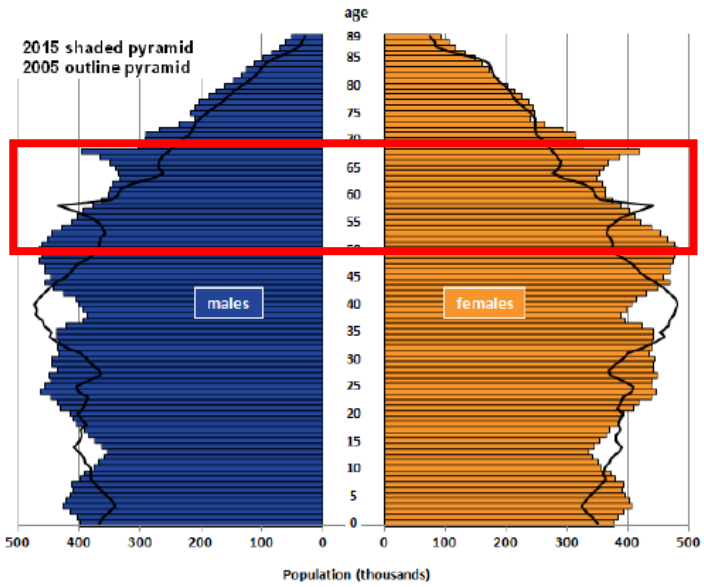
This report focuses on those aged between 50 and the SPA, being the group that will be retiring in the period up to 2030. UK demographics[3] in 2015 indicates that there are 11.3 million people aged between 50 and the SPA, made up of 5.4 million women and 5.9 million men.

We are using the latest data for the economic activity status of older workers dating to June 2012[4] as a proxy for the 2015 demographics. This shows that in 2012, 77% of men and 73% of women below the SPA were either in full time or part employment or seeking work. In 2015 terms, this equates to 4.6 million men and 3.9 million women in full or part time work or seeking work. Of these, 1.7 million men and women were self-employed.

This overall level of economic activity is pretty consistent over the last 30 years[5] albeit it conceals that there was a significant increase in women joining the workforce and men leaving the workforce. We also saw the number of self-employed grow. These factors all impact the individual's ability to save for retirement and changes the dynamic for many households regarding sources of retirement income.

Furthermore, 18% of men and 25% of women aged between 50 and the SPA were economically inactive, plus 8% of men and 7% of women were retired. The average age for men leaving the workforce is just below 65 and for women, just above 62, albeit there is an increasing trend of people retiring later.

UK demographics 2015



In total, this could equate to 10.6 million people retiring between now and 2030, unless they opt to work beyond the SPA.

[3] ONS Population Estimates 2015
[4] ONS Pension Trends – The labour market and retirement 2013 edition
[5] ONS – UK Labour market October 2016

4. Pension savings

Context

There is considerable data on membership of private sector and public sector pension schemes plus personal pensions that we have used in this report. However, what the available data does not track is the movement of individuals between the private sector and public sector during their life time, the movement of people changing employment in general, changes in employment status and the large number of people that move in and out of self-employment especially for the older age groups. We have sought to take these factors into account (at a high level) to provide a sense of the potential numbers of people that will qualify for pensions of different types.

By necessity, we must make some assumptions regarding these groupings and our objective is to provide a broad brush feel for the likely scale of people with and without pensions. Furthermore, given that some of the data for 2016 is not yet available and we have therefore drawn upon statistics dating from 2014 and 2015 and applied this to our target age group. We recognise that this introduces an element of approximation but we do not believe it detracts from the key trends. The real value for the reader is to get a sense of the likely magnitude of under-saving in the UK and we believe that this report achieves that objective.

Our call to action for Government, industry and consumer is based upon there being millions of people who have under-saved, are nearing retirement and will need to find ways of meeting income shortfalls in retirement.

We have not forecast the potential State pension that these individuals might receive as this adds a further layer of complexity and is unlikely to radically alter the key conclusions or recommendations.

Public sector workplace pensions

According to an IFS report[6] around 20% of the working age population has been employed by the Government since 1971 (excluding public corporations) with most of the public sector professions being in long term careers in the NHS, education sector, HM Forces, police and general Government. A further 10% were employed in public corporations in 1977, dropping to under 2% in 2011 as many of those corporations began being privatised since the 1980s. Since 2012, the percentage of employees in the public sector has dropped from its long term trend of c20% to 16.8% in June 2016.

Over the period between 1979 and 2013, between 89% and 95% of public sector employees were aged 20 to 60 years old. Although this has changed marginally over the period, our target age group has generally been at least 25% of the workforce.

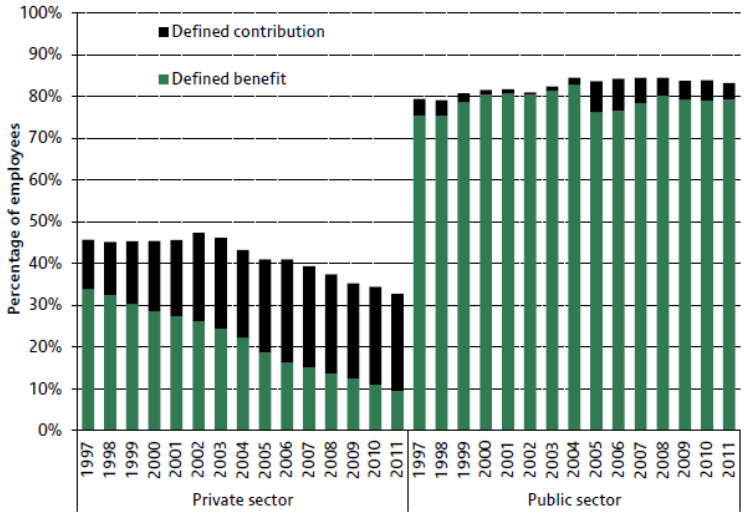
In terms of the split of men versus women employed by the public sector, men were the majority of employees for public corporations (that have now been privatised), whilst women have been the majority for non-public corporation jobs (e.g. in general Government and public sector service). In 1979, women represented 59% of such jobs increasing to 66% in 2012/13, the latest year for available figures. This compares to a fairly steady level of 40% in the private sector over the past 20

[6] The public sector workforce: past, present and future – IFS, February 2014

years. The increase in women workers enhances their ability to participate in retirement savings and will help to inflate the number of households that have more than one pension to rely upon in retirement.

In 2013, the public sector employed 5.7 million people, of which 25% were aged 50 to 59 (1.4 million people) and a further 7% were over 60 but below the SPA (400 thousand people). This equates to 1.8 million of the target age group.

Percentage of employees with pensions to which employer contributes by scheme type[7]



One of the benefits of working in the public sector are the generous DB schemes which, as the chart above demonstrates, attracts very high levels of participation. Pre Auto Enrolment take up was more than double that of the private sector with an average of 85% of public sector workers contributing to a pension.

There is typically a very high participation in public sector schemes, especially amongst the older age groups. As a result, of these 1.8 million target age group, 1.66 million[8] of these were actively participating in a scheme being predominantly a DB pension. For 50 to 54 year olds (660,000 people) the median value of the policy was £147k and for 55 to 64 year olds (1 million people) the median value was £184k.

Men have typically been saving into these schemes for longer plus they get paid more which has resulted in their pension benefits being much higher than for women. The median value of pension benefits for women was only 60% of that for men.

Private sector workplace pensions

Participation in the private sector has been very different. Employers began replacing DB schemes in the 1990's with less generous DC schemes plus there has been a steep decline in participation rates. DC schemes typically have significantly lower combined employer and employee contributions and

[7] IFS, The economic circumstances of cohorts born between 1940s and 1970s

[8] ONS Eligible employees participating in workplace pensions in Great Britain by sector, age group and sex: 2005 to 2015

the risks associated with key variables to how much income might be received in retirement (e.g. investment performance, inflation levels, interest rates etc.) now sit with the individual to manage.

If we were to assume that the group retiring between 2016 and 2030 had worked and contributed to pensions for up to 40 years and were at the SPA when they retired, their savings would date back to between 1976 for those aged 64 today and 1991 for those that are 50 years old today. For the purpose of deriving high level estimates, we have not differentiated between men and women and their relative SPAs.

Active membership of occupational pensions since 1953 (excluding GPP and stakeholder)[9]

Between 1976 and 1995, private sector pension active membership levels fluctuated around the 6 million level. However, according to the Pensions Policy Institute ("PPI")[10], active membership started falling after 1995, dropping to 2.7 million in 2012 after which Auto Enrolment began to increase membership again. This has added 6.7 million[11] active members by 2016, however many of these are only contributing the minimum 2% combined between the employer, the employee and Government.

Given that the number of active members were relatively steady over the period between 1976 and 1995 (the first twenty years of saving for those near their retirement age now) we can deduce that somewhere in the region of 55% of the private sector workforce was contributing to a pension, with a higher percentage of those aged between 40 and 60 in a pension and a lower percentage for those under 40 or over 60.

This is relevant not just from the perspective of numbers of people saving but that the pensions being offered to them were predominantly DB schemes and significantly more generous than the schemes that followed.

Over the period 1995 to 2012, two key trends came into play. Firstly, employers began switching to DC schemes offering less generous employer contributions. Secondly, the ratio of those actively saving into pensions declined to closer to 47% for the overall whole workforce, implying a ratio of just 38% for the private sector down from 55% 10 years earlier. This period therefore saw less people saving and for those that did, an increasing number of them were being offered less generous schemes.

[9] ONS
[10] PPI Pension Facts – November 2016
[11] Aviva – Auto Enrolment preview – November 2016

All of the above factors impact the numbers of people in our target group who are eligible to receive a pension as well as the amount they might get in the form of a retirement income.

Number of members of occupational pension schemes[12]

Type of membership		Number of members (millions)							
		1995	2000	2009	2010	2011	2012	2013	2014
Active members	Private sector	6.2	5.7	3.3	3.0	2.9	2.7	2.8	4.9
	Public sector	4.1	4.4	5.4	5.3	5.3	5.1	5.3	5.4
	Total	10.3	10.1	8.7	8.3	8.2	7.8	8.1	10.2
Pensions in payment		8.5	8.2	8.2	9.0	9.0	9.2	9.5	9.6
Preserved pension entitlements		7.0	6.7	6.7	10.1	9.8	9.8	10.2	10.6

Employee membership of workplace by private sector pension type[13]

Using ONS data for households with active contributions into DB schemes and taking the public sector into account, we can derive the private sector participation. For 50 to 54 year olds (840,000 people), the median value[14] was £147k and for 55 to 64 year olds (300,000 people) the median value was £184k. As previously, the median value of pension benefits for women was only 60% of that for men.

With regards to private sector participation in DC schemes, for 50 to 54 year olds (640,000 people) the median value was £14k and for 55 to 64 year olds (600,000 people) the median value was £17k. Similar to DB schemes, the median value of pension benefits for women was only 50% of that for men.

[12] PPI Pension Facts – November 2016

[13] PPI

[14] The median value is the value of a pension that is exactly in the middle of the range of pension values. The mean value refers to the average of that range.

Percentage of individuals with wealth in current private sector occupational DB schemes and amount (£) held in such pensions, by age[15]

	July 2012 to June 2014		July 2010 to June 2012	
	% with	Median	% with	Median
16–24	6	5,000	6	3,500
25–34	23	22,400	24	12,300
35–44	30	59,900	31	35,000
45–54	32	146,900	34	97,200
55–64	19	184,200	20	142,000
65+	1	140,600	1	93,500
All	18	64,900	20	43,300

Percentage of individuals with wealth in current occupational DC schemes and amount of wealth (£) held in such pensions, by age[16]

£

	July 2012 to June 2014		July 2010 to June 2012	
	% with	Median	% with	Median
16–24	5	1,200	3	2,800
25–34	15	4,500	12	7,500
35–44	17	11,400	14	12,400
45–54	14	14,300	12	14,700
55–64	9	17,000	8	14,600
65+	1	10,700	0	16,000
All	10	9,000	8	10,500

A further 1 million people aged between 50 and the SPA have started an Auto Enrolment pension between 2013 and 2015, which are predominantly DC schemes. For those who were not saving into a pension prior to this, the introduction of Auto Enrolment could help to boost savings levels in the last years of their working lives but the process of increasing contributions from a low base over the early years and the system being based on banded earnings, means that for the average worker they will end up with only a modest pension pot. For those that still have 15 years of contributions ahead it is possible that the average paid worker could create a pension pot worth between £20k and £30k at retirement.

Importantly, the statistics above also indicate that 47% (240,000) aged 60 to the SPA and 49% (1.5 million) aged 50 to 59 were not contributing to a pension. This ties back to 45% not saving over the longer term.

[15] ONS – Wealth in Great Britain 2012/14 – December 2015
[16] ONS – Wealth in Great Britain 2012 / 2014 – December 2015

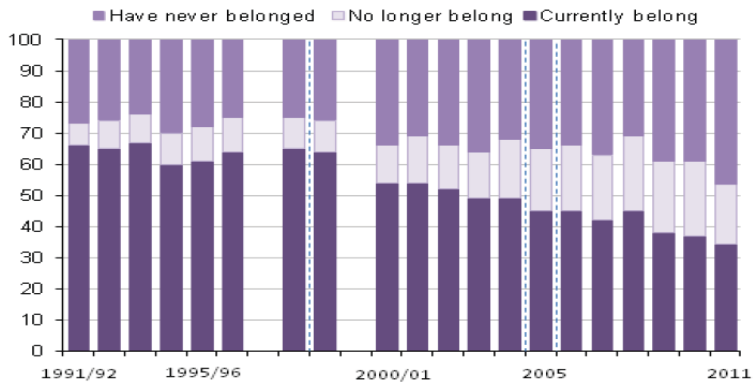
Self-employed and private sector personal pensions

The self-employed are a group that we are particularly concerned about not contributing to a pension. In 2015, there were 4.7 million[17] self-employed people, making up 15% of the UK workforce. 35% of them (1.6 million people) are over 50 years old and as a group have saved only two thirds as much as their peers in employed work.

Research by the RSA reveals that the self-employed are likely to have smaller pension pots than employees, with average pension wealth of self-employed 55 to 64 year olds at £50,000 less than half that of employees at £104,000[18]. Prudential have estimated, based on average earnings over a working life-time of 41 years that the self-employed also miss out on up to £91,512 in employer contributions.[19]

Contribution levels into personal pensions for men and women has been very low for the past 25 years and were only introduced in 1988.

Self-employed men in a personal pension [20]



In 2012, only 33% of self-employed men and 34% of women were contributing to a pension. Furthermore, according to the PPI, 45% of men had never had a pension, in their working careers. This implies just over 540,000 participating members in 2012. However, many of the self-employed come from previous employment and may benefit from preserved rights in an occupational scheme.

This group does not benefit from the introduction of Auto Enrolment and need some stimulus to encourage higher levels of savings. Whilst the Lifetime ISA ("LISA") might help those under 40, the demographics of this group mean that the majority of self-employed will not be able to benefit from the LISA, which might offer some flexibility with pension savings.

[17] ONS Trends in self-employment in the UK: 2001 - 2015
[18] RSA analysis of Family Resources Survey 2011/12
[19] Prudential UK Self-employed workers
[20] PPI

Percentage of individuals with wealth in current personal pensions and amount of wealth (£) held in such pensions by age[21]

£

	July 2012 to June 2014		July 2010 to June 2012	
	% with	Median	% with	Median
16–24	1	9,000	1	6,900
25–34	5	7,300	6	7,200
35–44	14	12,300	16	12,500
45–54	18	23,000	18	18,000
55–64	14	30,500	12	30,000
65+	1	30,000	0	75,300
All	9	18,600	9	15,700

Looking at the whole universe of personal pensions, including those that are associated with the self-employed, 18% of 50 to 54 year olds (820,000 people) were saving into a personal pension with a median value of £23,500. 14% of 55 to 65 year olds (950,000 people) had a personal pension with a median value of £30,500. The median value for women was half that of men as seen in occupational schemes.

Preserved pension entitlement

In addition to the entitlement to a pension that the public and private sector and self-employed people are currently saving into, there are substantial preserved entitlements in pensions that have yet to start paying out a retirement income. The table below includes DB, DC, personal pensions and Additional Voluntary Contributions ("AVCs").

Percentage of individuals with wealth in retained pensions and average amount of wealth held in such pensions by age[22]

£

	July 2012 to June 2014		July 2010 to June 2012	
	% with	Median	% with	Median
16–24	1	3,200	1	3,500
25–34	11	8,000	12	7,200
35–44	24	16,000	27	14,600
45–54	31	30,000	32	29,800
55–64	24	40,900	23	41,900
65+	4	24,600	4	36,500
All	16	21,900	17	20,900

For the 50 to 54 years olds, 41% (1.4 million people) have accrued such rights and have a median value of £30,000. 24% of the 55 to 64 year olds (1.6 million people) have accrued rights, with a median value of £40,900.

[21] ONS – Wealth in Great Britain 2012 / 2014 – December 2015
[22] ONS – Wealth in Great Britain 2012 / 2014 – December 2015

Retirement income

There are a number of significant differences between DB and DC schemes which we do not explore here, other than to touch on contribution rates, as this helps to demonstrate the much lower retirement incomes that individuals saving through a DC scheme are likely to receive. A PPI report[23] that looks across a wide range of DB and DC schemes points towards the average contributions going into a DB scheme being 20.9% of salary with 5.2% from the employee and 15.8% from the employer. This compares to 4.7% for the average DC scheme with 1.8% coming from the employee and 2.9% from the employer. This average will have been impacted by the recent low contribution level of many Auto Enrolment schemes currently contributing only 2% of salary, albeit this is due to rise to 8% of banded salary from 2018. In 2013, the average total for DC schemes was 9.1% (ONS), between employer and employee contributions.

The key point is that with much lower contribution levels, the DC schemes will produce significantly less income in retirement than DB schemes and that those people aged 50+ today will be the last cohort to benefit from an element of meaningful DB pension in the private sector. The next generation aged 40 to 50 will entering retirement relying mainly on DC schemes, albeit, many of those aged 50+ will also be reliant upon DC schemes in retirement.

To help provide consumers with a benchmark on the levels of income that would deemed adequate in retirement, the Department for Work and Pensions ("DWP") has proposed some targets for the replacement rate of retirement income as a percentage of salary in working life. The lower income levels have a high target rate as they are already living on very modest means which needs to be maintained. The higher income brackets have greater flexibility to reduce income levels whilst still having an adequate lifestyle.

The target rates include all forms of income including work and personal pensions, State pension and income from other sources such as savings or rents.

Income bands (gross earnings) and replacement target rates[24]

Original 2004 income band	Income band in 2012 earnings terms	Target replacement rate
Up to £9,500	Up to £12,000	80%
£9,500-£17,500	£12,000-£22,100	70%
£17,500-£25,000	£22,100-£31,600	67%
£25,000-£40,000	£31,600-£50,500	60%
Over £40,000	Over £50,500	50%

The increase in the number of women entering the workforce over the past 40 years has helped to boost the number of households in retirement receiving a non-State pension, with 70% of retired pensioner couples currently receiving an occupational pension. This results from a combination of high levels of employment in the public sector with generous pensions and contributions to private

[23] PPI – Pension Facts November 2016

[24] DWP – Inadequate retirement incomes July 2012

sector pensions. Furthermore, they have been building up rights to a State pension which further increases household retirement incomes.

Proportion of pensioners receiving an occupational or personal pension[25]

	Occupational pension[31]	Personal pension
Single pensioners	57%	11%
Pensioner couples	70%	26%
All pensioners	63%	18%

The median amount of income received by pensioner couples from an occupational pensions is £212 per week, equivalent to £11,024 per annum. The average amount of State Pension that a man and a women have accrued is around £195 per week, equivalent to £10,140 per annum. This would provide a combined retirement income of £21,164.

Average amount received by a pensioner from occupational and personal pensions[26]

	Average amount received 2014/15 prices (£ per week)			
	Occupational pension[33]		Personal pension	
	Mean	Median	Mean	Median
Single pensioners	£149	£104	£73	£33
Pensioner couples	£298	£212	£127	£55
All pensioners	£230	£148	£111	£47

Using the 3rd quintile of average household income (which is around £38,000 per annum) as a proxy and applying the DWP target of 60%, derives a goal of £22,800 per annum. This compares well with the £21,164 (deduced above) for the average pensioner couple with an occupational pension income. Whilst this is just one example, it is clear that those in work that have both built up a State pension and have saved enough into a pension scheme are more likely to be enjoying an adequate income in retirement today.

Looking forwards, our target group of men and women aged between 50 and SPA face a different future. The table above shows pensions that are currently paying out and is skewed in the earlier ages reflecting the fact that many of the people already retired are wealthier and thus able to cease working at an earlier age. The older age brackets, with a larger proportion of that age cohort having retired, provides a more meaningful comparison as the median values are drawn from a larger sample.

[25] PPI – Pension Facts November 2016
[26] PPI – Pension Facts November 2016

Percentage of individuals with wealth in pensions in payment and average amount of wealth held in such pensions by age[27]

£

	July 2012 to June 2014		July 2010 to June 2012	
	% with	Median	% with	Median
<50	0	363,200	1	250,700
50-54	7	279,800	7	184,700
55-59	16	268,100	18	226,300
60-64	46	213,700	47	168,600
65-69	64	170,800	62	129,300
70-74	63	115,000	63	86,900
75+	64	50,800	63	42,100
All	19	116,300	19	91,100

Comparing the median pensions that have been built up by those aged 50 to 54 (with £147k) and those aged 55 to 65 (with £184k) against the retired cohorts aged 65 and older it would seem that they are in a relatively strong financial position.

However, when we contrast current pensions in payments with accrued benefits in DC schemes, there is a marked difference in values. The median for occupational DC schemes for 50 to 54 year olds is £14k and for 55 to 64 year olds it is £17k.

For personal pensions the equivalent comparison is £24 and £31k and for preserved pensions this is £30k and £41k.

This would imply that for the 26% of people (2.8 million) retiring between now and 2030, they are likely to maintain broadly the same income levels as earlier cohorts. This also applies to those who have built up good sized pots in preserved pensions.

However, for the 28% (3 million) that are relying upon DC schemes, they are likely to receive significantly less than the currently retired generations. Using the lowest and highest medians from occupational DC and personal pensions above, the size of pension savings compared to the median of people aged 65 to 69 currently in retirement is just 8% and 24%. This implies a significant difference in pension incomes that can be expected and very unlikely to meet the DWP targets for adequacy.

[27] ONS – Wealth in Great Britain 2012 / 2014 – December 2015

Summary of forecasts and conclusions

10.6 million people aged between 50 and the SPA are likely to retire between now and 2030.

9.8 million pension pots:-

- 1.7 million public sector workers in DB schemes with a median worth of £147k for 700,000 people aged 50 to 54 and £184k for 1 million people aged 55 to 64 (2014 values); the median value of these pension benefits for women was only 60% of that for men
- 1.1 million private sector workers in DB schemes with a median worth of £147k for 840,000 people aged 50 to 54 and £184k for 300,00 people aged 55 to 64 (2014 values); the median value of these pension benefits for women was only 60% of that for men
- 1.2 million private sector workers in DC schemes with median worth of £14k for 640,000 people aged 50 to 54 and £17k for 600,00 people aged 55 to 64 (2014 values); the median value of these pension benefits for women was only 50% of that for men
- 1 million private sector workers started DC pensions since 2013 and 2015 as part of the introduction of Auto Enrolment, but this is only likely to provide a modest boost to income at retirement
- 1.8 million people in personal pension DC schemes with median worth of £24k for 820,000 people aged 50 to 54 and £31k for 950,00 people aged 55 to 64 (2014 values); the median value of these pension benefits for women was only 50% of that for men
- 3 million preserved right pensions awaiting payment, being a combination of DB schemes, DC schemes, personal pensions and AVCs. For the 50 to 54 years olds, 41% (1.4 million) have accrued such rights and have a median value of £30,000. 24% of the 55 to 64 year olds (1.6 million) have accrued rights, with a median value of £40,900
- There is a degree of overlap between these pensions and the individuals that have rights to them
- Higher numbers of women in work will boost the number of homes with more than one source of retirement funding

7 million DC schemes and preserved DB and DC pension pots with median values of between £14k and 41k point towards significant levels of under-funding and households that will see a big drop in income compared to previous generations and adequacy targets, albeit that some households will be able to combine pension pots to create more substantial savings.

5.9 million people that are also likely to have not made appropriate savings for retirement include:-

- 2.9 million (27%) who were economically inactive during their working age lives
- 1.7 million (45% of the private sector) who have not been saving into a pension over the longer term
- 1.1 million (66% of the self-employed) who are not saving in a pension
- 200,000 public sector employees not saving into a pension

Some of these individuals categorised above will live in households where a partner shares their retirement income.

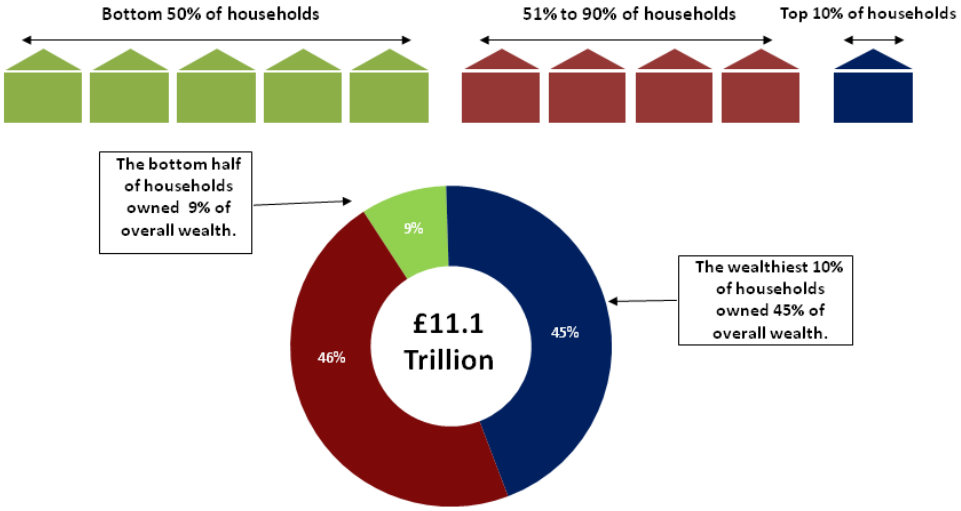
5. Household wealth

Having determined the potential scale of under-saving for retirement, we turn to other household wealth to assess the options that might be available to help boost retirement incomes.

Families at the lower end of the income range have significantly less assets than richer households who have the means to purchase more expensive properties and household goods and still have the capacity to save. TISA research[28] indicates a tipping point of £17,000 of annual income, below which households are living day by day financially and above, which the ability to save becomes more viable. Indeed, the lowest income decile are spending 110%[29] of disposable income on non-mortgage/rent items, with the second and third deciles spending 100% and 95% respectively.

This implies that those households in the bottom, second and third deciles have very limited capacity to save and will be dependent on the State in retirement, as indeed many of them are today. Some of these households will be encouraged to participate in Auto Enrolment and may well not be able to afford the levels of saving suggested.

Distribution of total household wealth[30]



Total household wealth is very unevenly spread with the lower end of the spectrum having very limited collective wealth. It is also apparent that relatively small changes in income have a material impact on the amount of wealth that households possess.

[28] TSIP – Our Financial Future – March 2014
[29] TSIP – Our Financial Future – March 2014, source FSA
[30] ONS – Wealth and assets survey 2012-2014 – December 2015

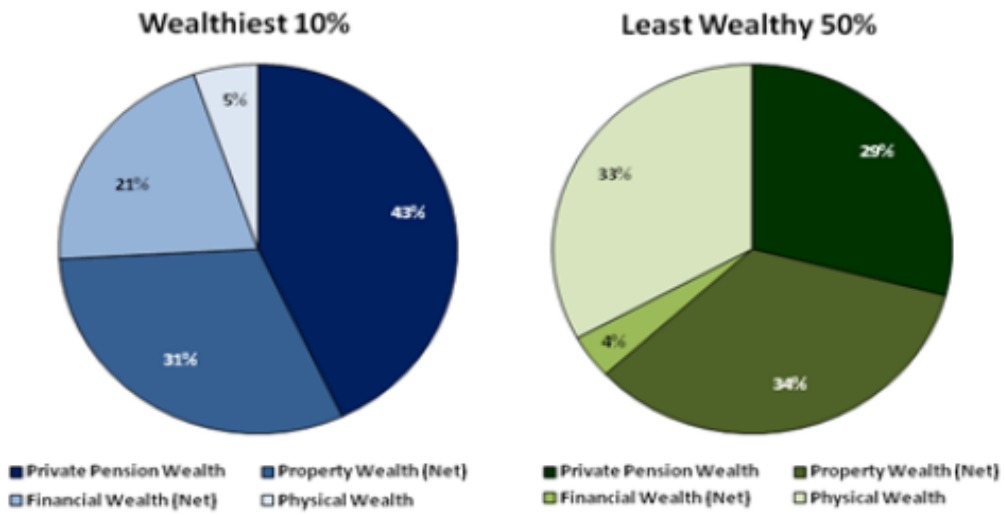
Distribution of total household wealth and equivalised income, by percentiles[31]

Great Britain

	£		
	Total Household net equivalised Income	Total Household Wealth	Difference (Ratio)
10th	12,100	12,600	1 : 1.0
20th	15,700	34,600	1 : 2.2
30th	18,900	82,400	1 : 4.4
40th	21,800	147,000	1 : 6.7
50th	24,900	225,100	1 : 9.0
60th	28,600	321,900	1 : 11.3
70th	33,100	451,000	1 : 13.6
80th	39,400	657,500	1 :16.7
90th	50,400	1,048,500	1 : 20.8

Households typically have 4 elements of wealth, being private pension(s), property, financial wealth and physical wealth[32]. For the least wealthy 50% of households, property, pensions and physical wealth are spread pretty evenly, with very limited financial wealth to fall back on. This implies that managing available income and minimising credit costs are a higher priority than saving into pensions for the lower end of the income and wealth spectrum.

Breakdown of household wealth by components [33]



26% of 45 to 54 year olds and 17% of 55 to 64 year olds are in a net debt situation. A further 40% and 36% respectively have less than £25,000 in non-pension savings. It therefore seems unlikely that these households can turn to non-pension savings to significantly boost retirement income.

[31] ONS – Wealth and Assets survey 2012-2014 – December 2015
[32] Physical wealth refers to cars, furniture, paintings, etc.
[33] ONS Wealth and Assets Survey 2012 - 2014

Individuals by age by households net financial wealth [34]

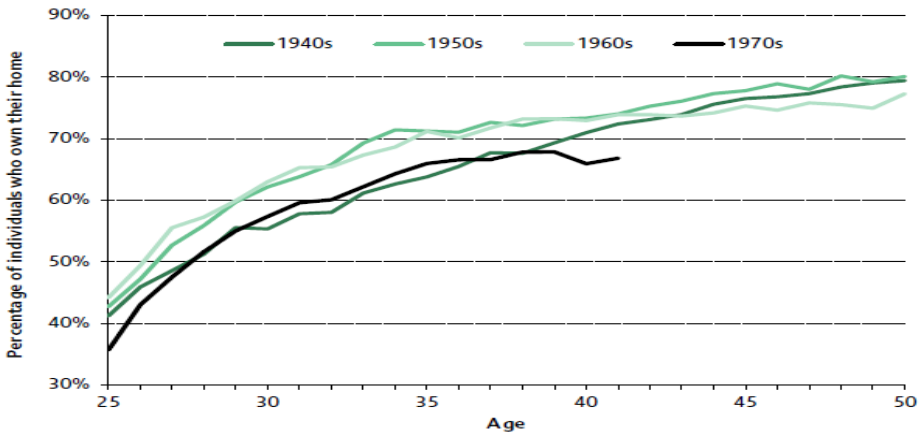
Great Britain, July 2014

Percentage (%)

	Less than £0	£0 but < £500	£500 but < £5,000	£5,000 but < £12,500	£12,500 but < £25,000	£25,000 but < £50,000	£50,000 but < £100,000	£100,000 or more	All households
Under 16	34	8	21	10	8	7	5	7	**100**
16-24	34	9	15	9	8	9	7	9	**100**
25-34	37	6	19	11	8	7	5	6	**100**
35-44	31	7	17	12	9	9	7	8	**100**
45-54	26	7	14	10	9	11	10	13	**100**
55-64	17	6	11	9	10	12	13	22	**100**
65+	6	6	15	12	11	13	14	23	**100**
All Persons	**26**	**7**	**16**	**11**	**9**	**9**	**8**	**13**	**100**

The largest asset for many households is the home itself. The cohorts aged 50+ have very high levels of home ownership with those aged 56 to 65 having around 80% home ownership and 77% for those aged 46 to 55.

Home ownership rates by age and birth cohort[35]



There is considerable wealth in property owned by the 50+ age group.

- 20% of 45 to 54 year olds and 14% of 55 to 64 year olds have between £50,000 and £125,000
- 25% of 45 to 54 year olds and 30% of 55 to 64 year olds have between £125,000 and £250,000
- 11% of 45 to 54 year olds and 15% of 55 to 64 year olds have between £250,000 and £375,000

[34] ONS Wealth and Assets Survey 2012 - 2014
[35] IFS

Property wealth by age[36]

Great Britain, July 2012 to June 2014

%

	Do not own property	Less than £50,000	£50,000 but < £125,000	£125,000 but < £250,000	£250,000 but < £375,000	£375,000 but < £500,000	£500,000 or more	All Households
Under 16	36	17	20	14	5	2	5	100
16-24	41	8	15	19	8	4	6	100
25-34	39	24	17	11	4	2	2	100
35-44	29	17	25	17	6	2	4	100
45-54	24	8	20	25	11	5	7	100
55-64	19	4	14	30	15	7	11	100
65+	22	1	13	31	18	6	9	100
All Persons 3	30	11	18	21	10	4	6	100

Source: Wealth and Assets Survey, Office for National Statistics

8.9 million people aged between 50 to the SPA have equity in their property:

- 635,00 people with up to £50,000 in equity
- 1.9 million with between £50,0000 and £125,000
- 3.2 million with between £125,000 and £250,000
- 1.5 million with between £250, 000 and £375,000
- 700,000 with between £375,000 and £500,000
- 1 million with between £500,000 or more

Given that it is the low and middle income families that will most likely be faced with the biggest challenge of meeting retirement income shortfalls, it is encouraging that a large number of this group are property owners and that they have material equity value that could be used to enhance their lives in retirement.

Saving through the home

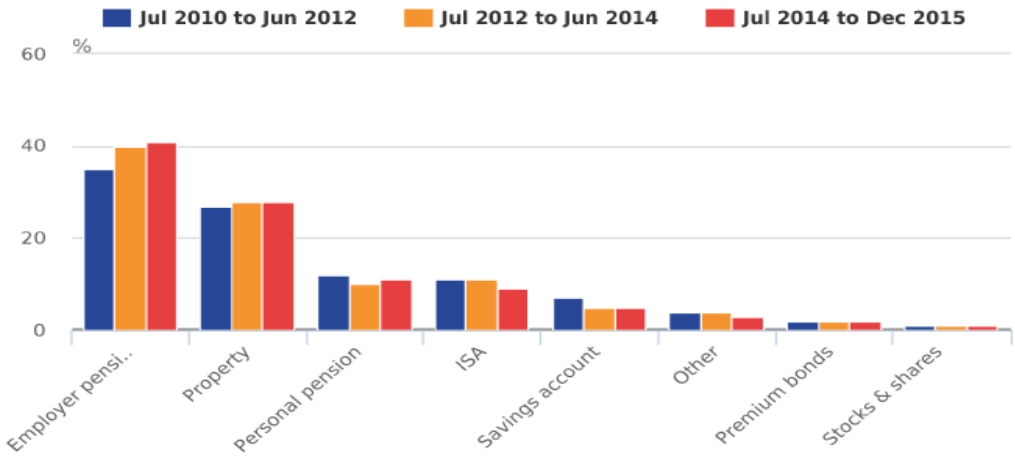
Another growing trend is the view that people can save for a retirement income by creating equity value in their home (e.g. with a view to down-sizing when they need to boost their income).

According to the ONS, a growing number of people, currently 28%, think that property is the safest way to save for retirement and 23% would use their property to downsize and raise cash. In a separate survey by BlackRock[37], 25% of millennials expressed an intention to use the wealth tied up in their home as an asset to draw income from at retirement. The evidence therefore points towards a growing number of people that consider their home as being an asset that they will use to enhance their retirement income. For many people closer to retirement and who have failed to save enough into their pension, this could become a key part of their retirement income solution.

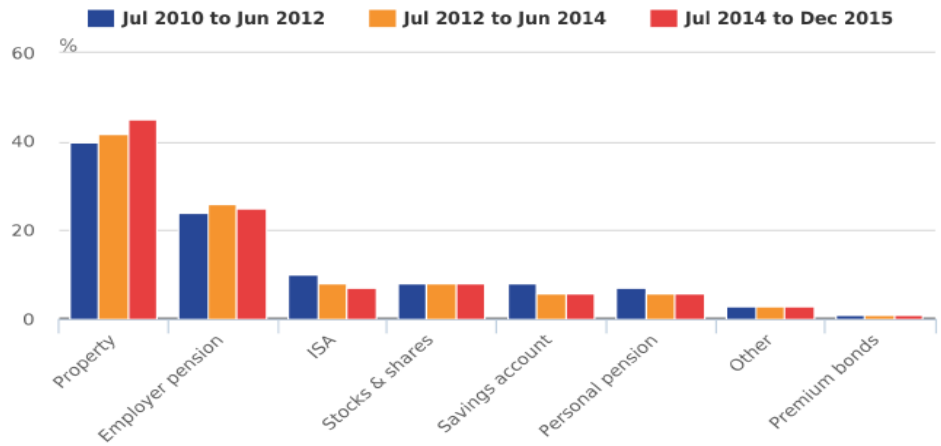
[36] ONS – Wealth and asset survey 2012 to 2014 – December 2015

[37] BlackRock – Investor Pulse – November 2015

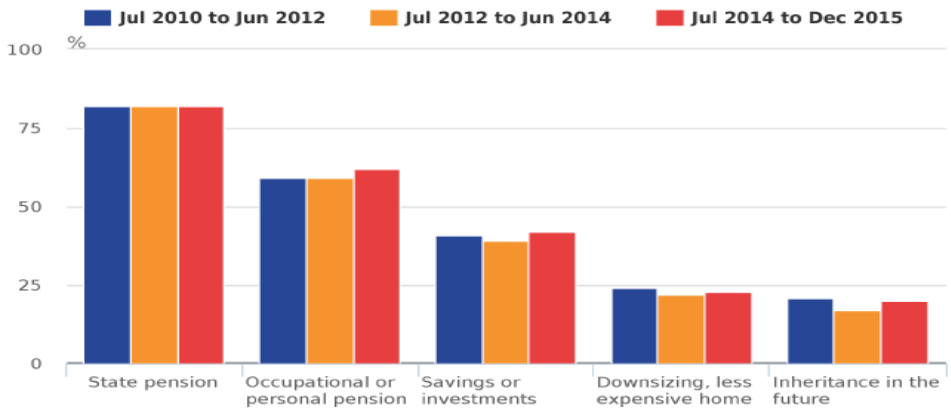
Safest way to save for retirement[38]



Which option would make the most of your money?[39]



Which option do you expect to use to provide an income in retirement?[40]



[38] ONS – Early indicator estimates from the Wealth and Assets survey, December 2015 – October 2016
[39] ONS – Early indicator estimates from the Wealth and Assets survey, December 2015 – October 2016
[40] ONS – Early indicator estimates from the Wealth and Assets survey, December 2015 – October 2016

Whilst we are not advocating this as a solution (i.e. given the risk of placing a high proportion of savings into a single asset), we are pragmatic in recognising and responding to the fact that for some people their home will become a significant part of their future income. Indeed, for lower income families, there may be limited scope to afford both the cost of purchasing a house and contributing to a pension sufficiently to meet future income needs.

Equally for people closer to retirement that have not saved enough, this may be one of the few options available to them.

Annuity rates

The table below sets out a sample of annuity rates from the Hargreaves Lansdown website. For someone aged 65 (not taking into account personal factors) with a £100,000 lump sum they might expect to receive an income of between £2,968 and £4,965 per annum depending on their choice of single or joint life, a guaranteed term and either increasing to accommodate inflation or being a flat amount for the duration of the annuity.

	Age				
	55	60	65	70	75
Single life, level, no guarantee	£3,932	£4,322	£4,965	£5,850	£7,030
Single life, level, 5 year guarantee	£3,930	£4,314	£4,955	£5,808	£6,918
Single life, RPI, 5 year guarantee	£1,907	£2,329	£3,003	£3,755	£4,872
Single life, 3% escalation, 5 year guarantee	£2,428	£2,780	£3,372	£4,222	£5,349
Joint life 50%, level, no guarantee	£3,666	£4,047	£4,534	£5,197	£6,148
Joint life 50%, 3% escalation, no guarantee	£2,212	£2,505	£2,968	£3,633	£4,579

Turning equity in the home into income

Whilst 2.5 million people aged 50 to the SPA have between £1k and £125K of equity in their home and a further 4.7 million people have between £125k and £375k, this does not necessarily mean that they have the ability to downsize and extract a significant amount of capital from their home. For some, the option of a life-time mortgage may be their preferred option.

On the assumption individuals within the above group were able to raise between £100k from their property, this could be used to create an income using an annuity or other means, and using the

example of an annuity, this would provide an annual amount of between £3,000 and £5,000 per annum.

The section above on pensions points towards potentially large shortfalls in retirement income for millions of households. Depending on the scale of the shortfall, using equity in the home may provide the required boost. However if the shortfall is significant, unless there is considerable equity in the home it may be very challenging to provide an adequate retirement income.

Given that there are millions of people approaching retirement that have under-saved and that there is a growing number of people that expect to use equity in their home to fund retirement, we believe it is critical that advisers and guidance services help consumers to gain realistic expectations of the extent to which their home will meet their income requirements.

6. Consumer research - attitudes to using the home to fund retirement

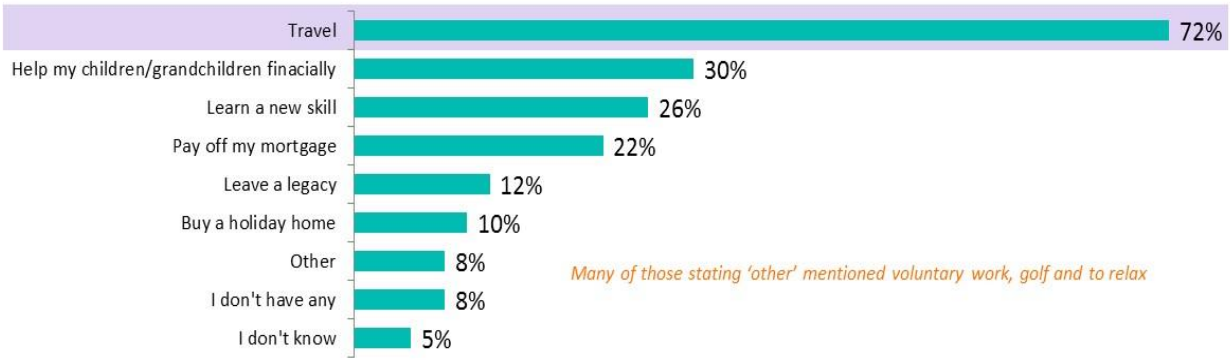
TISA commissioned The Wisdom Council in August 2016 to undertake primary research with over 1,000 consumers, exploring their attitudes with a view to understanding what expectation they had about using their home as a means of boosting income in retirement.

The consumer group were aged between 50 and 70, were all active in the workforce, split equally between men and women and the majority had a household income of under £50k.

Planning for retirement

Over half the group expected to retire around the time of the SPA, with 60% anticipating a period of semi-retirement prior to the SPA. 80% of respondents had a clear idea of what they wanted to do in retirement, with 72% wishing to travel as the most popular goal. Interestingly, 22% seek to pay off their mortgage but the number of people who want to do this decreases as they get older, possibly as they near paying down the mortgage anyway.

Goals and plans in retirement



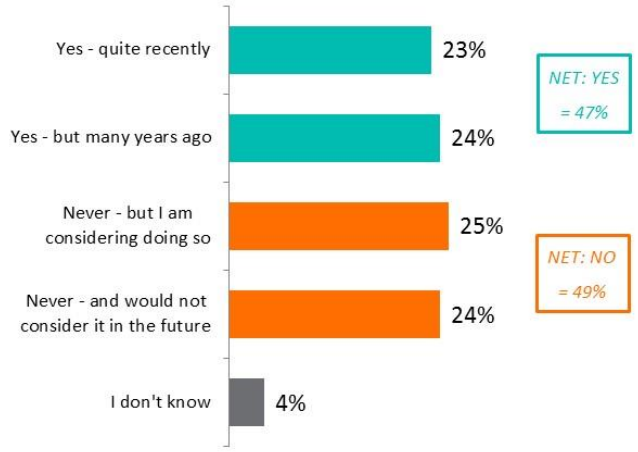
We believe that there is a high degree of optimism rather than planning that underpins many of these goals given only half of the respondents feel confident about funding their future and 40% are still not even thinking about how to fund retirement event though this is rapidly approaching for this group. Whilst this is not uncommon, it does point towards the need for a higher level of planning, which if applied universally would help to address the savings gap that individuals currently face, many not even being aware that there is a problem.

Over half the respondents were confident about retirement funding despite only 23% having recently sought advice and a further 24% having done so many years ago. 49% had never sought professional advice and did not seem concerned about planning for their financial future.

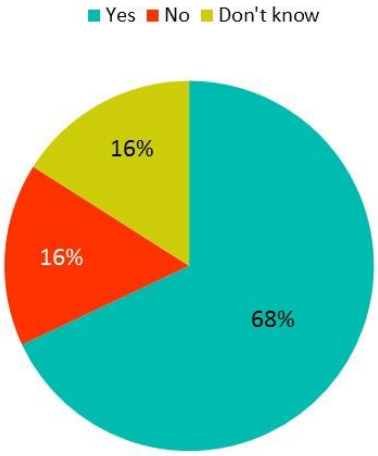
On the basis that an increasing number of people are considering using property as part of their retirement funding, we asked if the role of the home as an asset should be included in financial planning and 68% responded "Yes". Currently the home is not included and we think that both

Government and industry need to correct this as a matter of urgency with increasing numbers of people either planning to or needing to use their home to help fund retirement.

Sought professional advice on retirement planning



Include housing in planning



When asked about key assets they had or planned to have, plus how they might be used to fund retirement, the greatest response was 72% had savings and investments, 59% had a work pension (which is broadly in line with longer term member participation rates) and half had equity in their home, which was low by national standards. Also of note were the 22% that planned to start a pension which, given their age would not make a material difference unless they made significant contributions in the limited time ahead of retirement.

Have or plan to have assets

Proportion of retirement funding

0%	1 - 20%	21 - 40%	41 - 60%	61 - 80%	81 - 100%
11%	69%	14%	5%	1%	0%
3%	33%	25%	22%	2%	4%
45%	40%	10%	4%	1%	0%

There was a strong reliance on non-pension savings with 69% expecting that their savings and investments would form a fifth of their retirement funding. 55% also thought the State pension would fund only one fifth of their retirement, so either had a low expectation of the State pension or high expectations of their other retirement funding options. A further 35% thought the State pension would fund between 40% and 60% of their retirement income, so much lower expectations on other funding.

There was a strong sense that equity in the home would not be used by 45% of people who were not expecting to use this option. However, 40% thought equity in their home might fund up to a fifth of their retirement with a small percentage of people expecting home equity to play a significant role.

Only 13% had already received an inheritance and a further 23% expected an inheritance in the future. This is an interesting position given the high level of home ownership in their parents cohorts, which unless spent on old age care could come down to the children.

Despite a large increase in buy to let, only 12% had such assets and another 6% intended to acquire buy to let properties, plus the income from buy to lets was only expected to fund a fifth of the retirement income for two thirds of respondents.

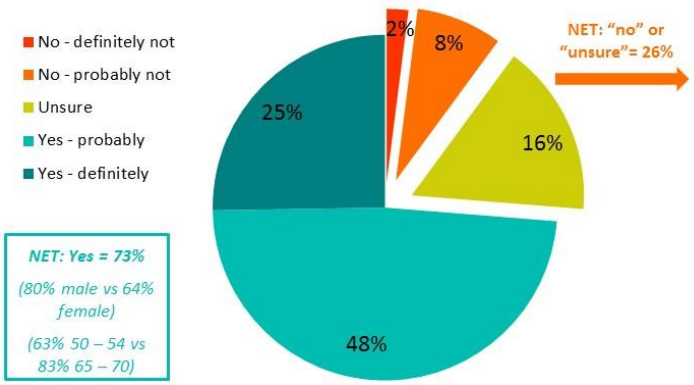
Expected income and meeting shortfalls

Three quarters of respondents expect their household income to decrease from £45k to £29k, a drop of 35% and reasonably in line with DWP recommendations. This also gives a good indication of the size of DB and DC schemes and other savings required to fund their expected lifestyle in retirement.

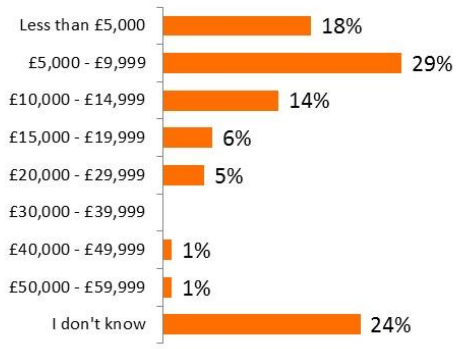
Despite almost half being confident earlier about their retirement planning, only 25% definitely now thought they would have enough to fund retirement as expected. Half thought they were probably OK, even though according to earlier responses many of these people have done no planning at all.

Where people were unsure, we asked them to forecast the likely shortfall in annual income and the average was just under £11,500 per annum.

Confident about planned funding



Expected funding shortfall



We then explored how respondents might meet the expected shortfall. The leading response was to continue working part time to raise create additional income, albeit this would still probably leave a shortfall when they did eventually retire. The second most popular answer at 44% was sell the home and downsize. Of the people that elected for this option, two thirds would do this first rather than continue working.

For the group that has selected down-sizing as a potential option to meet funding shortfalls, we tested their expectation regarding how much they might release from their property as well as how much income this might generate for them.

Generally, the group who responded were realistic both about the amount that they expected to realise and the income this might generate for them. Those people that expected to have a property worth less than £250k anticipated raising £57k and those who had a property worth between £250k and £500k expected to raise £113k. The average that the group expected to raise was £102k and from this they would be able to receive an annual income of £4,500, which is broadly correct if they were to purchase a fixed rate annuity.

Average house value at the time of retirement = £294,801
(Under £250k = 44%, £250 - £500k = 41%, over £500k = 16%)

8 in 10 will have no mortgage
Of those that do have a mortgage, the majority (69%) have less than £50,000 remaining

Respondents expect an average capital of £102,630 through downsizing
(House value of under £250K = £57k average, £250 - £500k = 113k average, over £500k = £211k average)

They believe this will produce an average annual income of £4,511

We asked the same questions of the small number of people that had elected to consider equity release as an option of extracting equity from their home. Their answers were broadly similar in terms of equity that could be raised, being £107k. They were rather more optimistic with regards the income that this might produce and over-estimated the potential income by a third.

Average house value at the time of retirement = £317,856

8 in 10 will have no mortgage
Of those that do have a mortgage, none exceed £50,000

Respondents expect a lump sum of £107,143 through an equity release mortgage

They believe this will produce an annual income of £6,607

An important learning point from this exercise is that the average home is unlikely to generate enough to make up significant shortfalls in retirement income. For the millions of people that are relying on predominantly DC schemes, raising equity from the home may be sufficient to top up their income to an acceptable level. For those that have made no pension provision, it is unlikely that raising equity from the home alone will provide sufficient funding to meet their needs.

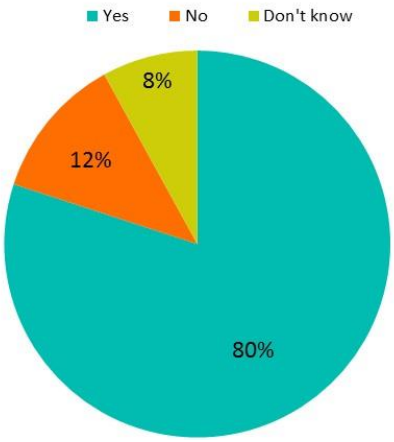
Another key point is that where the equity in the home is not sufficient to meet the shortfall, it would be better to have identified this early on and to have continued saving in some form to ensure that there were adequate savings at the point of retirement.

Equity release

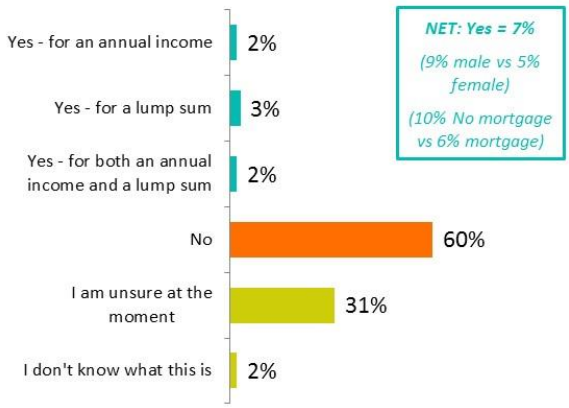
Only 6% of people would select equity release as an option to boost retirement income and only 7% of those would select it as their first option. Of the other small number of people that would consider equity release, half said they would turn to this option only after having tried something else first.

We think this provides compelling evidence regarding the unpopularity of equity release in general. Our initial test group were also very against equity release, which seemed to hark back to some years ago. As a result of their initial feedback, we introduced some additional questions and a short true/false test into the quantitative test.

Aware of ability to release home equity



Planning on using equity in the home

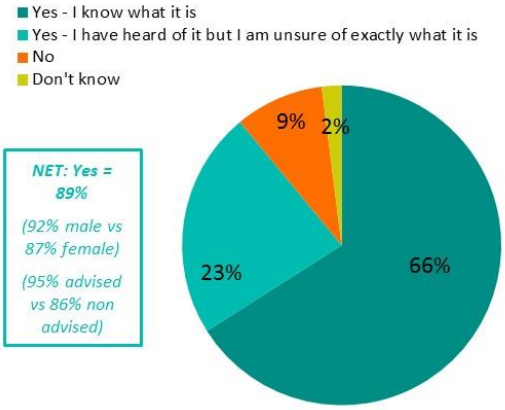


There is a high level of awareness of the ability to raise equity in the home and this this could be used to boost retirement income, however only 7% of people plan to use this option.

When testing their knowledge regarding equity release, 66% claimed to know what it was and a further 23% said that they had heard of it. However, when faced with thirteen relatively simple questions about equity release, as a group with the majority getting the question right, they only

managed to answer three correctly. Given that up front, only 11% admitted to not knowing about equity release, 9 out of the 13 questions had responses to which half the respondents replied they don't know the answer rather than attempt to select true or false.

Do you understand release home equity?



Two thirds answered more than 50% incorrect when asked whether statements about equity release were true or false

In most cases, over half did not even feel confident to answer true or false and instead selected 'don't know'

Females and younger respondents were more likely to select 'don't know'. This pattern occurred for every single statement that they were shown.

STATEMENT	% CORRECT	% WRONG	% DON'T KNOW
a) If you take out an equity release loan, legal ownership of your home passes on to the equity release lender (false)	29%	32%	39%
b) You can take out an equity release loan even whilst keeping an outstanding mortgage (false)	14%	31%	55%
c) If you take out an equity release loan, you will need to make monthly repayments for the rest of your life (false)	43%	14%	43%
d) If the value of your equity release loan (including rolled-up interest) becomes greater than the value of your home, your home will need to be sold and you will need to make alternative living arrangements (false)	28%	22%	50%
e) Your equity release loan will need to be repaid when you die or when you move into long-term care. (true)	55%	9%	37%
f) With equity release loans, there is always a time limit to the maximum number of years you can remain living in the property, which differs depending on the provider. (false)	40%	12%	48%
g) Upon time of repayment, if the rolled-up amount of your equity release loan is more than the value of your home, the lender will have a right to claim the difference against your estate (false)	16%	36%	48%
h) The loan amount you can take out using equity release is dependent on the value of your property (true)	72%	3%	26%
i) The older you are, the greater the loan amount you will qualify for (true)	29%	24%	46%
j) You can specify a minimum amount to be left with your loved ones to provide a level of inheritance protection (true)	42%	9%	50%
k) When taking out an equity release loan, you can draw the loan as a single lump sum amount (true)	59%	5%	36%
l) When taking out an equity release loan, you can draw the loan as multiple drawdown amounts, as and when required (true)	45%	6%	49%
m) When taking out an equity release loan, you can draw the loan as a fixed income for life (false)	9%	45%	46%

Base: All respondents, n = 1000 = Over 50% correct = Over 50% wrong or don't know

We think that the lack of understanding creates a real barrier for consumers not because we seek to advocate the use of equity release products, but because for many who have failed to make adequate retirement provision, equity release might be a more attractive option that initially thought, for instance where people want to stay in their home but increase income.

Furthermore, it may well be the case that for many people down-sizing is not an option for a number of reasons, but should at least be aware of the potential to use such a product.

7. Obstacles facing consumers wanting to access their housing wealth

Social stigma

Compared to down-sizing, there is still a social stigma amongst consumers about using life-time mortgage products to access their housing wealth. As our consumer research highlights, equity release products in particular are still largely seen as a solution of last resort. This perception stems both from the negative impressions consumers have of the equity release industry as well as the emotional attachment consumers have to owning their house, which is understandable given the decades consumers spend making their mortgage repayments to buy their home. TISA believes that going forward, an increasing number of consumers entering or in retirement will choose to access their housing wealth or be compelled to do so out of necessity. Indeed with the cohort aged from 50 to the SPA having an estimated 5.9 million people without a non-State pension and potentially many more having too little in their pension funds, it seems highly likely that consumers will benefit from options that help them lead their preferred lifestyles. For some of these consumers, life-time mortgages will be a better option than down-sizing and hence the social stigma of equity release should be challenged. We recognise that of the 5.9 million people that do not have a non-State pension, that there is a sub set that will benefit from pensions held by others in the same household.

Another negative stigma suffered by life-time mortgage products in particular is that consumers believe that they are expensive relative to traditional mortgages. What tends not to be appreciated by consumers is the value of having an interest rate that is fixed for life no matter how long the eventual term of the life-time mortgage. Consumers need appropriate guidance/advice to understand the benefits of a fixed interest rate for life.

Lack of guidance and holistic advice

At present, the primary mechanism through which consumers are learning about how to access their housing wealth in retirement is through the marketing efforts of specialist distributors who advertise equity release products. This is being achieved via television advertising campaigns and leaflet mail-outs. The Government's Money Advice Service also provides guidance on its website on equity release products, where the products are positioned as a standalone solution for long-term care.

A key challenge for people in planning for retirement is the lack of realistic expectations in terms of how their home is going to achieve their desired outcome. Unlike planning for a pension, there are no publicly available tools for projecting the value of a property in the future, estimating costs of down-sizing or pointing out the social and familial impacts of moving to another part of the country. Blind luck appears to be the planning mechanism being adopted by most people today.

It therefore seems sensible that this cultural and (often) practical approach to using a home as a means of saving for and providing a retirement income should be included within the scope of financial guidance and advice in the future.

We would advocate that as part of the work on FAMR that a new guidance framework is developed that includes using the home as an asset in retirement to help establish some realistic expectations. We are also supportive of the proposed single body for guidance and would wish to see housing wealth embedded within the other pension guidance that is offered to the public. Ideally consumers

would be able to access this guidance freely from multiple sources and help replace blind optimism with pragmatism regarding their financial future.

A further concern is that using housing wealth tends not to be proactively considered by financial advisers when providing retirement planning advice to consumers. Equally, if a consumer seeks advice from a mortgage broker when exploring options around raising wealth from their home, it makes sense for this conversation to be undertaken as part of planning for their other assets as well.

The lack of guidance and holistic advice leads to the following twin risks:

- Firstly, the risk that the housing wealth of consumers will be kept separately from their other assets in retirement, leading to sub-optimal retirement planning decisions being made
- Secondly, the risk that equity release products will be seen as a panacea for all retirees and used inappropriately

TISA believes that consumers need appropriate guidance/holistic advice so the "middle ground" can be found between the twin risks above, for the benefit of consumers.

Part of the issue is that life-time mortgages can only be transacted by appropriately qualified advisers. To be qualified under the Chartered Insurance Institute ("CII") and the London Institute of Banking and Finance ("LIBF"), mortgage brokers and financial planners need to complete additional qualification units as set out below:

	Additional units required by mortgage brokers	**Additional units required by financial planners**
CII	Certificate in Equity Release	Certificate in Mortgage Advice & Certificate in Equity Release
LIBF	Certificate in Regulated Equity Release	Certificate in Mortgage Advice and Practice & Certificate in Regulated Equity Release

In order to advise consumers on the full spectrum of life-time mortgage solutions available, financial planners (and mortgage brokers) would need the FCA permissions for mortgages and home reversion products. Whilst there is a large number of financial planners who have the qualifications to transact life-time mortgages, there are far fewer who have the requisite FCA permissions. According to the CII for instance, they have over 5,000 advisers with the qualification to transact life-time mortgages. However, there are just over 400 advisers who have the requisite permissions and are registered with Equity Release Council, being the major industry body for the industry.

The lack of financial planners in the UK who transact life-time mortgage products means they need to have in place handover arrangements (i.e. with appropriately qualified advisers) to allow them to provide consumers with the type of holistic financial advice that would take into account their housing wealth. To the extent that financial planners are reluctant to enter into such handover arrangements, housing wealth receives less focus as a result.

Given the significant expected increase in consumers who will need to draw from their housing wealth to address a lack of pension savings, it is important that the Government and the FCA help to

facilitate guidance and advice being offered as proposed above as well as distributors ensuring that advisers are qualified and services are developed that meet the evolving needs of their clients.

We need to ensure that consumers are supported in making financial plans that meet their needs and that potential retirement income shortfalls are identified early and measures put in place to provide adequate savings by the time they retire.

Niche nature of the industry

The industry for providing solutions for consumers to access their housing wealth is still dominated by equity release product providers and is still very niche. For instance, in the 3rd quarter of 2016 there was £572 million[41] of life-time mortgages written compared to £37,100 million[42] for the traditional mortgage market (excluding re-mortgages). Whilst there are just nine life-time mortgage providers who dominate its industry, the Council of Mortgage Lenders have 139 member firms with the permission to enter a mortgage contract.

A common constraint amongst providers of life-time mortgage products is a lack of funding for the mortgages they write. This poses a significant concern for the industry and the consumers of the future. The long time scales of such mortgages coupled with their uncertain term (i.e. the mortgage lasts till the consumer either dies or moves into long-term care) means that traditional fixed term bank funding is not appropriate. Funders to the industry therefore tend to be annuity firms that have the long-term/life-time liabilities that match the term of life-time mortgages. The drop off in annuity sales that accompanied the announcement of pension freedoms in the Government's 2014 budget has therefore placed a significant constraint on funding. Given the enhanced growth we anticipate in this sector, it is important that distribution does not outstrip lending capacity.

There are constraints and obstacles for the entry of new funders as well, including the following:

- There is still some lack of regulatory clarity in relation to the future capital treatment of life-time mortgages as an asset class by Solvency II. NB: The Prudential Regulatory Authority is currently consulting with the industry following its release of DP1/16: Equity Release Mortgages in March 2016
- There is a need to look at capital and accountancy implications for mainstream lenders as the market will grow materially with their entry
- Funders have concerns that the distribution of life-time mortgages in the industry is somewhat expensive, largely controlled by just two firms and they would like to see wider distribution
- To some extent, life-time mortgages still suffer a tarnished reputation as an asset class stemming from mis-selling scandals from prior decades and a perceived conflict of interest in the industry's distribution model, given that the distributors' sole form of remuneration is from transacting such mortgages
- There is a perceived risk amongst some funders that there could be a future ban on early repayment charges of life-time mortgages, which are deemed necessary by those funders

TISA believes that regulators and the advice industry can play an important role in attracting new funders to the industry and this would help drive innovation and lower costs for consumers.

[41] Equity Release Council
[42] Council of Mortgage Lenders