Knight Frank Finance

Later Life Finance

EQUITY RELEASE COMES OF AGE | Q3 2021

Equity Release comes of age.

More than half of homeowner mortgage lending in 2021 has been for terms that extend beyond the main borrower's 65th birthday, and some 90% of customers would recommend equity release to family and friends.

Market update

Data released during the third quarter reveals the extent to which the UK's modern equity release market has come of age.

Banking industry body UK Finance revealed that 52% of mortgage lending to homeowners in 2021 came with terms that extend beyond the main borrower's 65th birthday. This is the first year the proportion has exceeded 50%. It was as low as a third as recently as 2014.

This is partly down to longer mortgage terms and the rate at which the population is aging. However, UK Finance noted that the growth of lifetime mortgages in the past seven years had been a significant factor, and added that later life lending both now and in the future will be imperative as existing homeowners look to access equity as they get older.

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This shift has taken place amid a slow but steady change in attitudes that has been particularly pronounced among the high net worth population. Past generations have viewed property as a separate asset which needed to be ring-fenced. The generation approaching retirement today take a different view; they see their property as part of their whole financial make-up, rather than an isolated asset. Later life products are strategic tools that enable homeowners to include their property within a more holistic view of their finances.

Key surveyed 600 equity release customers and found that 90% of respondents would recommend it to family and friends. The findings

Gilt yields are climbing as the economy recovers

Equity Release products are fixed for life and move in line with long-term gilt yields, suggesting rates are set to climb

Source: Macrobond

indicate that perceptions of later life finance are changing, thanks in part to measures to improve the quality of advice given to consumers.

Equity Release Council data revealed that market activity neared pre-pandemic levels during the third quarter, with some 19,300 new and returning customers opting to access their property wealth.

Other demographic shifts are also changing how later life finance products are used over the medium term. Data from 4 million L&G pension scheme members puts the gender pension gap at 17% at the beginning of women's careers, before increasing to 56% at retirement.

Growing numbers of women are opting to use equity release products as a result. Almost a third of new drawdown plans, for example, are being taken by single female borrowers, which is the largest proportion in two years, according to data from more2life and Canada Life.

These are just some of the factors driving the growth of the modern equity release market. Latest figures from the Equity Release Council revealed that current market activity has surpassed previous years, with new and returning customers set to put the market on track for over £4bn of activity this year.

This comprises of £1.15bn of equity unlocked during the third quarter, down 2% from Q2 but up 19% on the same period last year, during some of the worst months of the Covid-19 crisis. Lifetime mortgages with a drawdown facility remained the most common type of new plan agreed, at 57% of the total.

The sector does face some headwinds, one of which is rising costs for customers. Unlike standard mortgages, equity release products including lifetime mortgages are fixed for life and rates move in line with long-term Gilt yields. Those Gilts are effectively bets on the future health of the economy and are also climbing (see chart).

As a result, rates for market leading lifetime mortgage products have risen dramatically in recent months to nearly 3% at the time of writing, up from 2.22% in October 2020.

Property, then, offers a viable route to boosting income from pensions and savings – particularly for the wealthy, says David Burrowes, Chairman of the Equity Release Council, who adds that it is within this group that the council is seeing the most significant growth.

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At a glance

£1.15bn

Property wealth unlocked by over 55s in Q3

56%

The gender pension pot gap at retirement

19,300

The number of new and returning customers who opted to access property wealth using an Equity Release product in Q3

30%

Proportion of new drawdown plans being taken by women, the highest proportion in 2 years

52%

Proportion of 2021 mortgage lending that extends beyond the main borrower's 65th birthday

£3.46bn

Property wealth accessed by over 55s so far in 2021, putting the market on track to double in size since 2016.

Sources: Knight Frank Finance, UK Finance, L&G, more2life and Canada Life, Equity Release Council

Need to know

How equity release can help with pension planning and retirement

Pension pots have come under increasing pressure during the last 18 months. A total of 383,000 people withdrew from their pensions during Q1 2021 – up 10% on the same quarter the previous year and representing a sizeable £2.6bn.

Fuelled by the pandemic, as a growing number of people look to replace lost income, support their family, or shore up their business, the trend has raised concerns that borrowers may see shortfalls in their pension when they need it later in life.

The long-term picture is concerning too, with older homeowners facing an £18,000 shortfall in their annual retirement income, according to an Equity Release Council report. It shows that generous final salary pensions are expected to be extinct for most people by 2050, and that pension income growth has stalled, increasing by just £7 a week over the last decade.

Lifetime mortgages can be part of the solution to these growing challenges – providing welcome funds to plug temporary financial pressures, or longer-term shortfalls in income during later life. And with a number of big pension funds entering the equity release market, including Standard Life and Scottish Widows, customers now have more products to choose from.

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There are three typical options available to homeowners to unlock equity with a lifetime mortgage:

1. They could set up a drawdown facility (also known as a reserve facility). This is a pre-agreed amount of money secured on a property that homeowners can withdraw when needed. This could be on a regular or ad hoc basis, with zero interest paid until the money is withdrawn, making it a good option for those who need flexibility. Money drawn down is not taxed as income because it is borrowing, although it can be an efficient top up to, or replacement for, pension income.

2. There are products that also pay a fixed amount of "income" each month, over a fixed term. The only downside is the payments don't take account of inflation and can't be extended if the homeowner finds they need the additional money for longer.

3. Finally, homeowners could borrow a lump sum for a quick cash injection. Though interest rates for lifetime mortgages have risen in recent months, they remain low by historic standards.

In addition to providing customers with an important financial boost, borrowing against a property rather than withdrawing from a pension can also have tax advantages. For example, as the money released is not regarded as taxable income, homeowners are not at risk from stepping into a higher tax income bracket by using their property wealth. Homeowners who are claiming means-tested benefits should proceed with caution, however, and should speak with an adviser to check there are no adverse impacts.

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How it works in practice: a simple scenario

Mrs Zhao is 83 and owns a cottage in Hampshire. It is worth £1,500,000. She has been enjoying a comfortable income from three separate sources; the state pension, a final salary pension from her years in employment, and by drawing down from a self-invested personal pension (SIPP) fund. However, the SIPP fund is almost exhausted, and she is now facing a drop in income of around £32,000 per year.

The solution

By raising a lifetime mortgage secured on her home, Knight Frank Finance set up a drawdown facility with a lifetime mortgage provider that enables her to access small amounts at any time in the future, subject to minimum withdrawals of £2,000.

Mrs Zhao plans to draw up to £10,000 every three months. The facility we have arranged is large enough to cover her income shortfall for at least the next 15 years, even with inflation taken into account. Mrs Zhao now has peace of mind for the future.

Want to know more?

Contact the Knight Frank Finance Later Life Team

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Knight Frank Finance is a whole-of-market mortgage broker, able to support clients at all levels of the market. Our Later Life Finance team are all qualified in the field of equity release and provide market-leading advice specifically for clients over the age of 55. The team also specialise in high net worth equity release lending, regularly securing and managing loans of over £1,000,000. We have extensive experience of advising clients with complex financial circumstances, involving inheritance tax and estate planning.

Knight Frank

Proud to be a Member of the Equity Release Council