

Equity Release Council

The Pension / Property Paradox: revisiting the retirement confidence gap



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Introduction



Early in 2020, our report ***The Pension / Property Paradox*** examined the retirement funding challenge facing the UK’s ageing homeowner population. With generous final salary pension schemes on the path to extinction, it showed how multiple pressures – including day-to-day living costs, mortgage payments and financial dependents – are impacting many people’s ability to save on their journey into later life and provide the level of retirement income they aspire to.

Our findings highlighted the growing need for a multi-asset approach to financial planning: one that factors in property wealth alongside pension savings and other assets. They also demonstrated the challenge for industry to facilitate more joined-up thinking at an earlier stage of the retirement planning process and reflect the new realities of funding later life.

This follow-up paper looks in more detail at the retirement confidence gap among older homeowners and how it varies depending on gender and life stage. It also considers the impact of the Covid-19 pandemic on this demographic’s personal finances, savings habits, retirement income prospects and what this means for their financial futures.

Our initial research uncovered widespread doubts among older homeowners (aged 55 and over) about their financial outlook for later life. One year on, the uncertainty caused by the Covid-19 pandemic has suppressed confidence levels even further.

Key findings

Revisiting the retirement confidence gap

- Homeowners who are not yet retired are twice as concerned as those who have about the risk of running out of money in later life (44% vs. 22%)
- Female homeowners remain more likely to be concerned than men about running out of money in retirement (35% vs. 32%). This is despite the broad impact of Covid-19 causing a sharp rise in concerns among men, from 23% last year (vs. 31% for women)
- Older homeowners' confidence in funding retirement has been impacted over the last year in many areas. This includes a nine percentage point rise in those worried about falling ill and having to fund care (from 39% to 48%)
- Women who are not yet retired are in the most challenging position as they look to the future with almost half (48%) worried about running out of money when they retire, compared to 41% of men. The majority of non-retired women (53%) are also concerned about falling ill and having to pay for care compared to just 20% of men

Later life savings squeeze

- Women are 50% more likely than men to have stopped saving altogether in the current climate because they can no longer afford to
- Pressure on household finances is intensifying, with one in ten older homeowners having to use some of their savings to support themselves as a result of the Covid-19 pandemic
- A growing proportion of people expect to be less financially comfortable than their parents were in retirement, with women (29%) who are yet to retire affected the most

Attitudes to retirement planning

- Just 41% of women are confident they will be able to afford to choose when they retire, compared with 56% of men
- Nearly one in four women (24%) do not know where they would look if they found themselves needing extra retirement funds
- More than one in four (27%) homeowners aged 55+ would consider a later lending product secured against their home, yet women are less likely to do so (23%)

Revisiting the retirement confidence gap

Our initial research a year ago uncovered widespread doubts among older homeowners about their financial outlook for later life. One year on, the uncertainty caused by the Covid-19 pandemic has suppressed confidence levels even further.

The proportion of homeowners aged 55+ who are not confident they will save enough to afford a comfortable retirement has risen from 16% last year to 22% in Q3 2020. Other indicators have been similarly impacted: older homeowners have become more concerned about the prospects of facing ill-health or a savings shortfall in later life, along with the risk of having to sell their home.

Indicators of retirement confidence among homeowners aged 55+

	Q4 2019	Q3 2020
Worried about falling ill and having to pay for care	39%	48%
Worried about running out of money	27%	34%
Worried about not knowing how much they are going to need in retirement	22%	27%
Worried about having to sell their home	18%	24%

Comparing trends between genders suggests the retirement confidence gap has narrowed as economic conditions have declined. Nearly one in three female homeowners (31%) were worried about running out of money for retirement in Q4 2019, compared to one in four (23%) male homeowners. This gap has since reduced as both genders have seen their worries increase.

Men have been most affected by the loss of confidence, with one in three (32%) now concerned about running out of money in retirement – a nine percentage point increase. But despite this spike, women remain more likely to be affected by this (35%) and other concerns about their retirement prospects.

Gender perspectives on retirement risk in Q3 2020 – % who share this concern

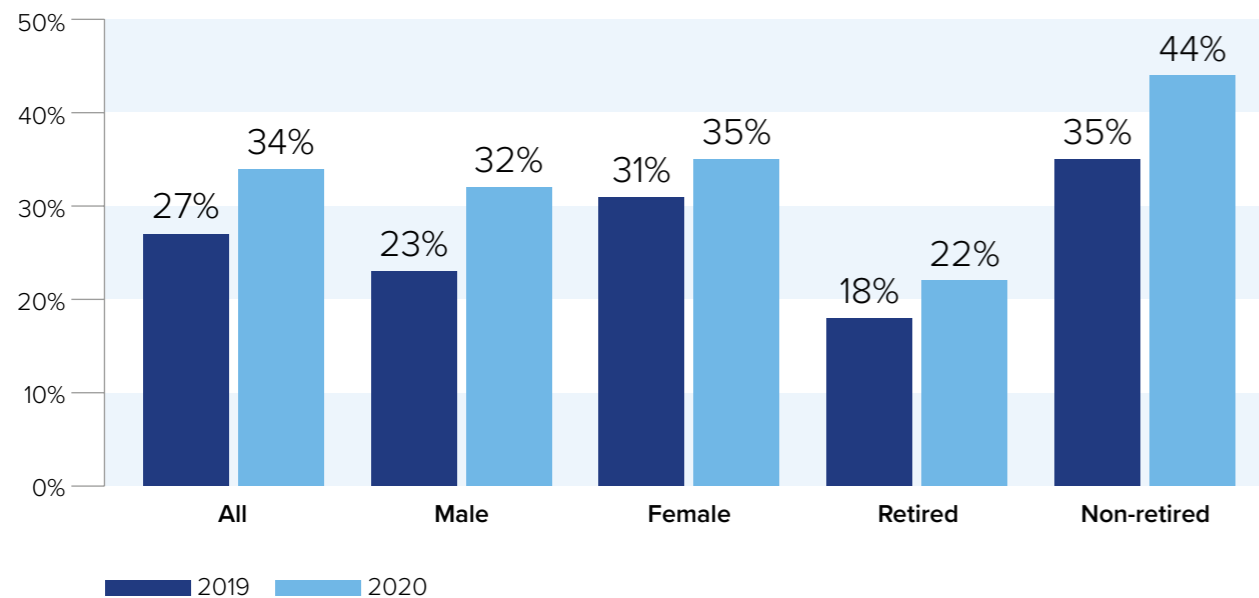
	Women	Men
Falling ill and having to pay for care	51%	45%
Running out of money in retirement	35%	32%
Having to sell their home	26%	21%
No concerns about funding retirement	19%	25%

Events of 2020 have also reinforced the confidence gap between the retirees of today and tomorrow. Homeowners who are still working or looking for work are twice as likely as their retired counterparts (44% vs. 22%) to worry about running out of money during retirement, with concerns rising from 35% and 18% a year earlier.

The combined effect of gender and life-stage leaves women who are not yet retired in the most challenging position as they look to the future. Almost half (48%) are worried about running out of money when they retire, compared to 41% of non-retired men, 23% of retired women and 21% of retired men.

This is likely to be influenced by longer average life expectancies, with twice as many women as men now living beyond 90¹ – creating uncertainty over the long-term viability of their retirement finances. Many in this group have also been impacted by delayed access to the state pension. The majority of non-retired women (53%) are also concerned about falling ill and having to pay for care, compared to just 20% of non-retired men.

Proportion of people worried they will run out of money in retirement



Later life savings squeeze

A rise in economic pressure caused by the pandemic is impacting older homeowners' personal finances. September saw household savings for all ages across the UK decline at the fastest pace since December 2013.² Our research shows many homeowners aged 55+ are having to withdraw money from their savings to help support either themselves or family and friends.

One in ten (10%) have had to stop saving altogether because they can no longer afford to, rising to 14% of those who are not yet retired. Comparing between genders, women are more likely to be in this situation: 12% have had to forgo saving compared with 8% of men.

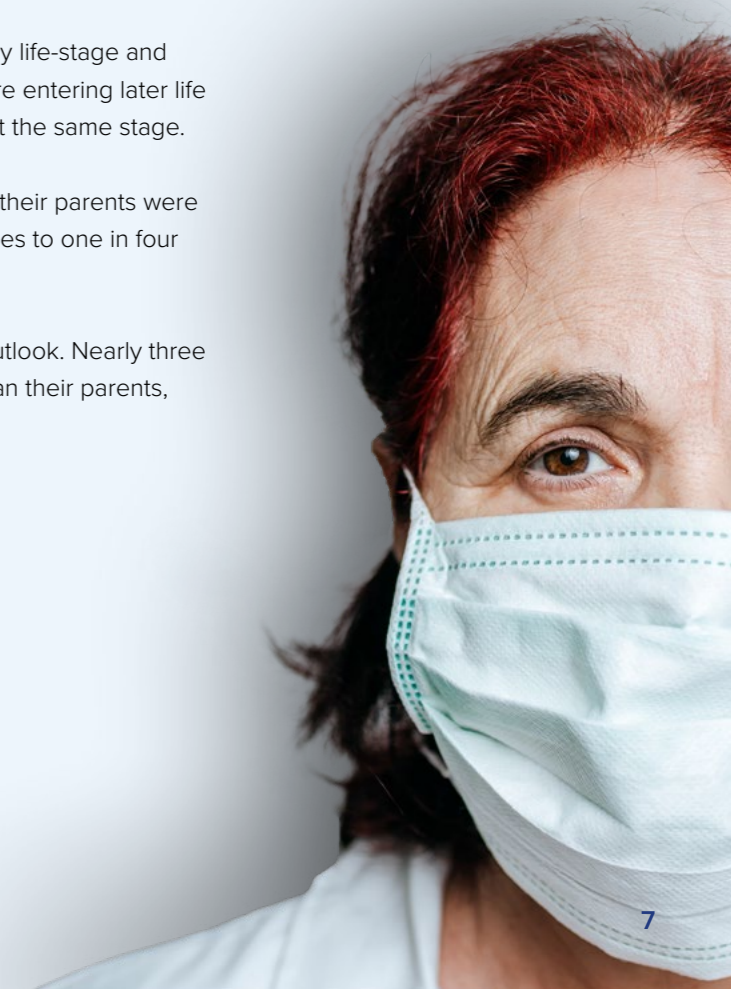
Impact of the pandemic on older homeowners' savings habits

	All	Male	Female	Retired	Non-retired
I'm having to use up some of my savings to support myself	10%	10%	10%	7%	14%
I've had to stop saving altogether because I can no longer afford to	10%	8%	12%	5%	14%
I've had to reduce how much I save to cope with short-term pressures	6%	6%	6%	4%	10%
I'm having to use up some of my savings to support family/friends	6%	5%	7%	5%	7%
I've had to postpone my plans to retire	4%	4%	3%	0%	9%

People's expectations of their retirement prospects also differ by life-stage and gender. A considerable proportion of homeowners aged 55+ are entering later life anticipating greater financial difficulty than their parents faced at the same stage.

One in five (20%) expect to be less financially comfortable than their parents were during their retirement, up from 17% last year. This proportion rises to one in four (25%) of those who have not yet retired.

As before, non-retired women are least confident about their outlook. Nearly three in ten (29%) expect their experience will be less comfortable than their parents, compared with 21% of non-retired men.



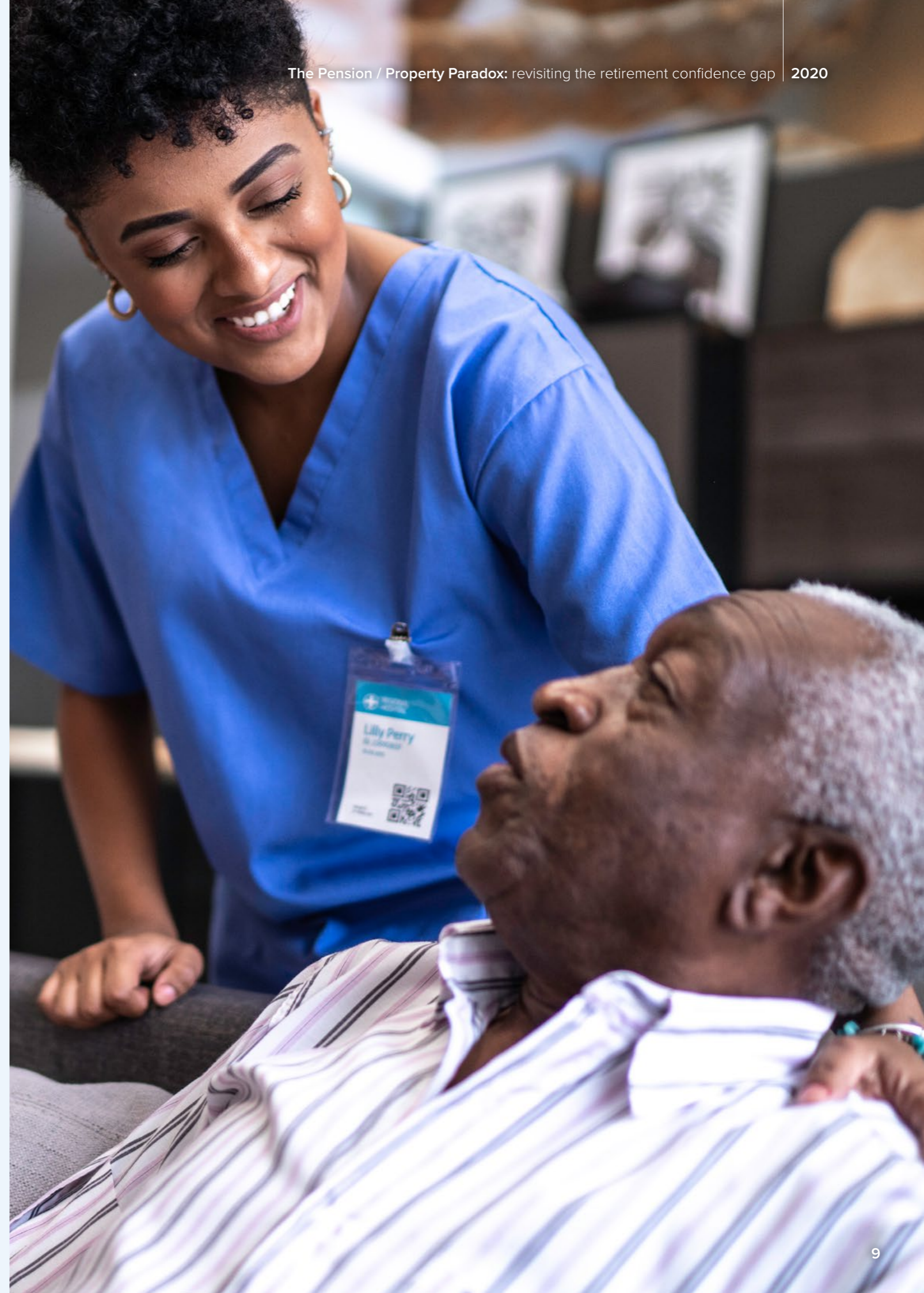
¹ ONS: *Estimates of the very old, including centenarians, UK: 2002 to 2018*

² IHS Markit: *UK Household Finance Index*, September 2020

Proportion of people who think they will have a less comfortable retirement than their parents



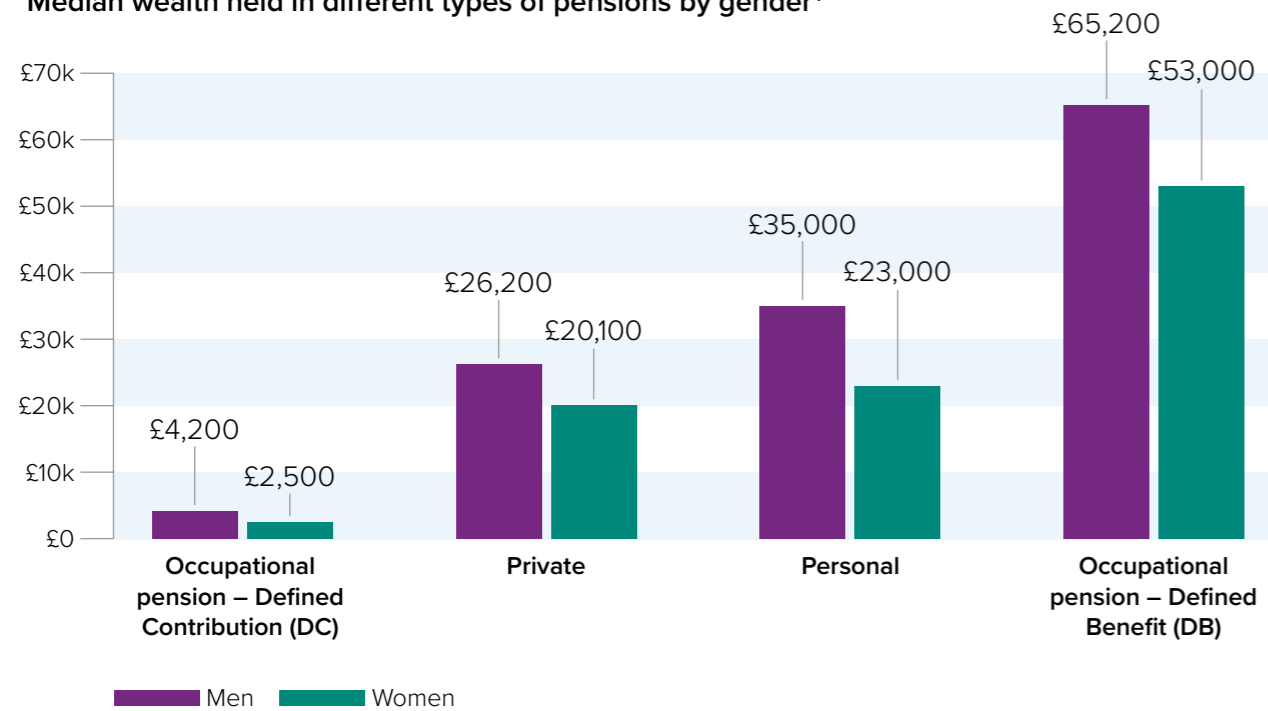
What concerns older homeowners about paying for retirement?



Attitudes to retirement planning

Official figures show women's typical pension savings are consistently lower than men's across all pension types. This is influenced by differences including average earnings and employment patterns during working life. The trend has long-lasting implications for retirement, where the gender pension gap is claimed to be more than twice as wide as the gender pay gap (40.3% vs. 17.3% in 2018/19)³.

Median wealth held in different types of pensions by gender⁴



Among homeowners aged 55+, fewer than half of women (49%) are confident about saving enough to enjoy a comfortable retirement, compared with 57% of men. For those who are yet to retire, this weighs heavily on their minds and impacts their sense of control over their futures: only 41% of non-retired women are confident they will be able to afford to choose when they retire, compared to 56% of men.

Our previous research⁵ has shown a majority of older homeowners want to live in their property for as long as they can, including 77% of those aged 65-74 and 89% beyond the age of 75. However, the increasing challenge of funding retirement creates a need to consider other sources of wealth and assets, beyond pensions, to sustain finances in later life.

Asked where they would be most likely to look if they needed extra money in retirement, more than one in four (27%) homeowners aged 55+ would consider a later lending product secured against their home, such as a lifetime mortgage or retirement mortgage.

Where older homeowners are most likely to look if they needed extra money in retirement

	All	Male	Female	Retired	Non-retired
Equity release / lifetime mortgage / retirement mortgage	27%	31%	23%	27%	29%
Don't know / not sure	20%	15%	24%	17%	22%
State benefits	18%	19%	17%	14%	22%
A family member or friend	11%	11%	11%	10%	13%
A credit card	8%	8%	8%	7%	10%

However, despite women typically having lower pension savings and greater concerns about their ability to fund retirement, they are less likely than men to consider later life lending products to unlock capital from their home (23% vs. 31%). In addition, nearly one in four women (24%) do not know where they would look if they found themselves needing extra retirement funds.



³ Prospect, *What is the gender pension gap?*

⁴ ONS: *Pension wealth in Great Britain: April 2016 to March 2018*

⁵ Equity Release Council, supported by Key, *Beyond bricks and mortar: the changing role of property in later life financial planning*, June 2019

What this means for consumers



David Burrowes
Chairman of the Equity Release Council



“ David Burrowes, says;

Everybody deserves a comfortable retirement, and these findings highlight the need to support people experiencing acute concerns about funding later life. It's clear that concerns about retirement finances continues to fall disproportionately on women's shoulders. The combination of longer life expectancies and gender differences in earnings, savings and working patterns mean many women face more obstacles to achieving financial security once they retire. Despite this, women are less likely to know where they would look if they found themselves needing extra retirement funds.

“People approaching retirement also experience more intense fears over maintaining living standards than those who have already retired. The diminishing role of generous final salary pensions has put an extra onus on individual savings, at a time when many households struggle for disposable income to save at the best of times, let alone in the current climate.

“However, we do know the majority of older homeowners want to live in their property for as long as they can, so the increasing challenge of funding retirement creates a need to consider other sources of wealth and assets, beyond pensions, to sustain finances in later life.

“Looking ahead, there are important steps we can take to help strengthen people's confidence in retirement finances. Ensuring people are prompted to consider all retirement funding options available to them could improve their prospects of achieving greater financial security. The scale of untapped potential in the UK's property wealth⁶ is considerable and has an important role to play, but it is vital that consumers are supported to make decisions that will suit their needs in both the short- and long-term.”



Will Hale
CEO of Key



“ Will Hale, says;

While the UK is working hard to eradicate the gender pay gap, much less time is being spent on managing the natural result of this inequality – the gender pension gap. This report clearly highlights the impact of this with women have smaller average pensions and therefore more concerns about running out of money in retirement.

“The current pandemic also means that they are unlikely to make up this lost ground as they are 50% more likely than their male counterpart to have stopped saving – potentially due to the fact that they are more likely to work part-time or in industries such as retail or hospitality which have been particularly hard hit. These factors are only going to exacerbate the stark differences between not only what men and women expect from retirement but also how they approach it.

“As with the gender pay gap, there is much more that needs to be done to encourage retirement parity and there is no quick fix. That said, the pandemic has also hit men's confidence with 32% now worried about running out of money in retirement – a sharp increase from 23% at the start of the year.

“This clearly highlights that both genders need to take an active interest in managing their retirement finances and consider all their assets when they are planning. The average equity release customer releases in the region of £72,000 – which is almost 40% more than many over-55 women and 10% more than most men have in their occupational pension schemes.

“However, fewer women (23%) than men (31%) would consider equity release if they needed extra money in retirement. While we can't close the gender pension gap immediately, we can encourage all retirees to consider all their options and make sustainable choices which mean that they are far less worried about the prospect of retirement.”

⁶ Office for National Statistics: *Early indicator estimates from the Wealth and Assets Survey: attitudes towards saving for retirement, pensions and financial situation*, April 2018 to March 2020

Recommendations

The Equity Release Council recommends:

- The Money and Pensions Service (MaPS) should signpost retirees to consider home finance options and later life lending products as part of a joined-up retirement planning approach – promoted via a public information campaign. This should include tailored guidance based on people’s life experiences and circumstances – recognising the impact of events such as divorce, separation and caring responsibilities on individuals’ retirement prospects.
- The Department for Work and Pensions should build on the Pensions Dashboard initiative to facilitate a broader retirement dashboard that supports a holistic view of all assets and options.
- The Financial Conduct Authority should continue to see how best to break down silos within the regulatory framework, which create an increasingly artificial separation between specialist forms of advice and contribute to consumer safeguards in different areas of the later life market. The industry needs to lead the way on this by building stronger referral pathways to break down these silos. This will ensure consumers consider the full range of available products based on their current and future needs, whatever their entry point to retirement planning conversations.
- The adviser community needs to come together to aid learning and the passing on of experience to meet growing consumer demand. This includes working with regulators and qualifications bodies to embed and promote minimum standards of knowledge across the entire retirement income and later life lending space.
- Government should appoint a Minister for the Elderly, who can ensure broader social and financial issues are recognised and co-ordinated across all Government Departments.
- A cross-party later life commission should be established to help meet the long-term needs of people in later life, including via the potential uses of property wealth and balancing intergenerational needs.

About this report

This report was developed by the Equity Release Council with support from Key, drawing on public data where indicated and independent research among 3,415 UK homeowners aged 55+ across two waves – the first by Censuswide in October 2019 and the second by Opinion Matters in September 2020. All figures quoted are for September 2020 unless otherwise stated. While care is taken in the compilation of the report, no representation or assurances are made as to its accuracy or completeness.

About the Equity Release Council

www.equityreleasecouncil.com



The Equity Release Council is the representative trade body for the UK equity release sector equity release sector with over 550 member firms and 1,350 individuals registered, including providers, funders, regulated financial advisers, solicitors, surveyors and other professionals.

It leads a consumer-focused UK based equity release market by setting authoritative standards and safeguards for the trusted provision of advice and products. Since 1991, over 500,000 homeowners have accessed over £30bn of housing wealth via Council members to support their finances.

The Council also works with government, voluntary and public sectors, and regulatory, consumer and professional bodies to inform and influence debate about the use of housing wealth in later life and retirement planning.

About Key

www.keyadvice.co.uk



Part of Key Group, Key is the UK’s largest specialist equity release broker – committed to high levels of customer service and the belief that advice is key to ensuring people make smart sustainable choices around how they use their housing equity.

With over 60 industry and consumer awards under their belt, the Key team offer advice on equity release, later life mortgages and retirement interest-only products. The company also provides support with estate planning including wills and lasting power of attorneys.

Key is committed to putting customers at the heart of what it does and is rated ‘**Excellent**’ on Trustpilot, with a score of 4.9 out of 5 – based on over 15,000 reviews.

Based in Preston, Key is committed to being independent, transparent and straightforward.

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CHECK THAT YOUR CHOSEN PLAN WILL MEET YOUR NEEDS IF YOU WANT TO MOVE OR SELL YOUR HOME OR IF YOU WANT YOUR FAMILY TO INHERIT IT. ALWAYS SEEK QUALIFIED FINANCIAL ADVICE.

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