CHASM | Centre on Household Assets and Savings Management

Briefing Paper

Equity release: what role does it play? What role should it play?

Despite the recent fall in house prices, housing equity remains the largest single source of personal wealth, particularly for those over the age of 65. Given the 'pension crisis' and concerns about the increasing burden of providing social care, it's not surprising that governments across the EU have looked to housing assets as a potential source of funding. The recent European Commission's Green Paper on adequate, sustainable and safe European pension systems posed the question of whether the EU's "Internal Market could ....be helpful in extending access to additional sources of retirement income beyond pensions, such as reverse mortgages". Reverse mortgages are a type of equity release product that allow home owners to get access to the equity tied up in their homes without having to move. The UK equity release market is the largest in the EU yet even here such a product is taken up by only around 2 per cent of owner occupiers over the age of 65. So equity release does not play a major role in retirement funding.

What are the main barriers to expanding the market? The current equity release market does not typically reach those with low incomes and limited housing assets, in part because providers impose minimum house values and relatively high start up costs. But there is also evidence that, following earlier mis-selling scandals, some do not trust providers and are concerned about value for money and the potential complexity and riskiness of the products.

Some form of government subsidy might help to overcome these barriers. Indeed there might seem little point dedicating considerable resources to helping people accumulate housing wealth, as former governments have done, if little is done to help people decumulate that wealth later on. Another possibility is the involvement of respected third sector organisations, like Age UK.

But there is also an issue about the special place of home ownership, making it quite unlike other forms of wealth. The psychological attachment to the home means that people prefer to rely on financial savings and assets to meet their needs in old age, preserving some, if not all, of their housing wealth. This is also associated with the desire to pass on something to the children, even though attitudes to this appear to be changing (particularly among younger age groups). Even if these barriers are overcome, it is important to recognise that housing wealth can only ever be part of the solution; it wouldn't contribute to the income needs of non owners and in any case would need to be part of a more holistic approach to retirement funding.

Louise Overton, Doctoral Researcher and John Doling, Professor of Housing Policy, Social Policy
Centre on Household Assets and Savings Management
November 2010