

Can assets or bequests fill the pensions gap?

Karen Rowlingson
University of Bath

Pensions Commission considered possible role of non-pension wealth in later life

- Liquidation of assets in later life unlikely to be significant
 - Economic rationality
 - Emotional ties to the family home
 - Desire to bequeath
- Receipt of bequests
 - *'Over the long-term, the inheritance of housing equity may play a significant role in funding retirement for many people'*

Study was mainly quantitative

- JRF funded study began with literature review and desk research
- Four focus groups with home-owners
- Nationally-representative survey of 2,008 members of the British public aged 18 plus
- Fieldwork carried out by MORI. Data are weighted.
- Joint work with Stephen McKay, Bristol

Three key messages

1. People are generally keen to liquidate assets in later life
2. There is some interest in liquidating housing equity but also some barriers
3. Bequests help those most who need them least

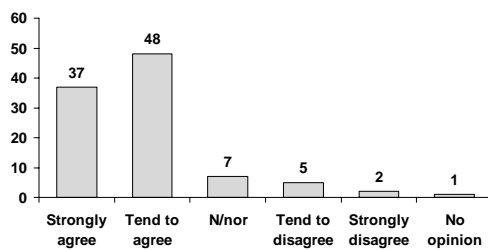
The Actuarial Profession
making financial sense of the future

Message 1

People are generally keen to liquidate assets in later life

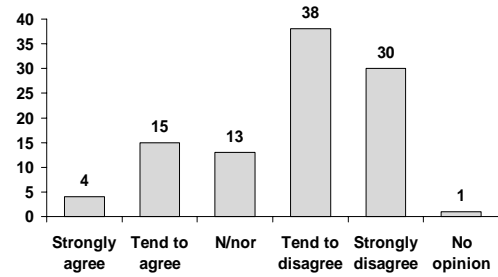
The Actuarial Profession
making financial sense of the future

More than 8 in 10 agree
'I would like to be able to leave an inheritance'



The Actuarial Profession
making financial sense of the future

About 7 in 10 disagree that
*'Older people should be careful with their money
 so that they can leave an inheritance'*



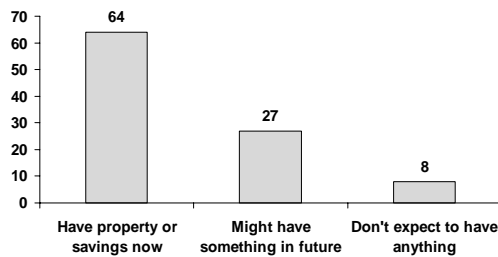
The Actuarial Profession
 making financial sense of the future

No desire to 'live poor to die rich'

*'Savings and that, I would just use up, wouldn't go wild
 but I don't see the point of scrimping and saving if I've
 got money. Why should I leave money to somebody
 else if I've sort of - I've only got one bar on the fire
 because I can't afford the electric and things like that? I
 would say, 'fend for themselves.'*

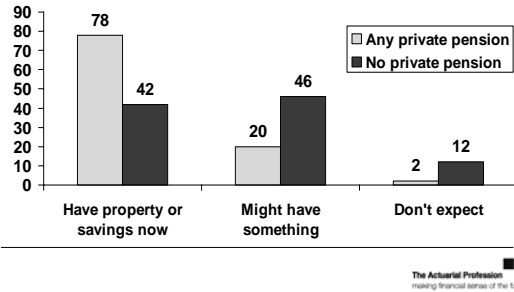
The Actuarial Profession
 making financial sense of the future

Nearly two-thirds say they have assets now and a
 quarter might in the future

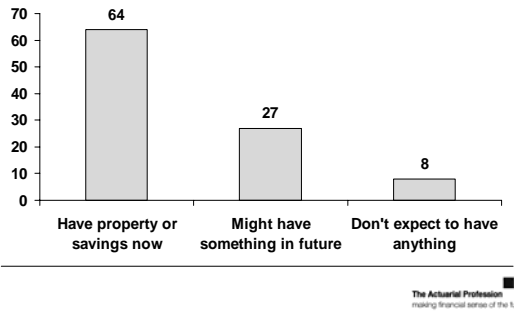


The Actuarial Profession
 making financial sense of the future

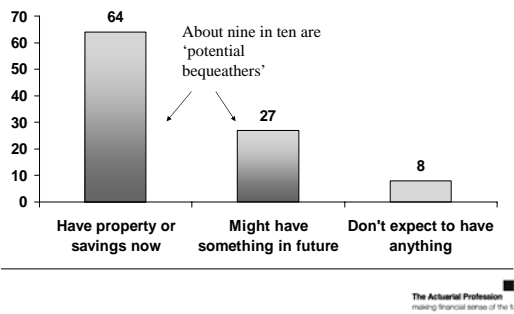
Those with private pensions more likely to also have property and/or savings (all working age)



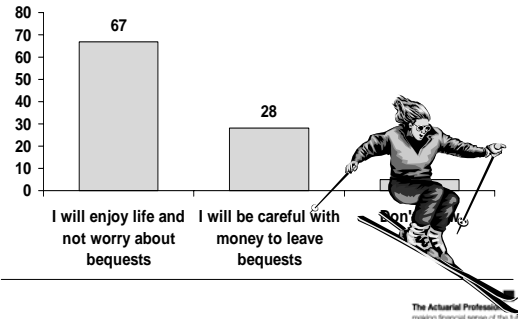
Nearly two-thirds say they have assets now and a quarter might in the future



Nearly two-thirds say they have assets now and a quarter might in the future



Most potential bequeathers say they will enjoy life



Children deserve financial support...
but not too much!

'If they need it, you give it to them'

'If you have children, you support them'

BUT...

'You're depriving them of the opportunity to fend for themselves'

'You don't appreciate it if it's given you, not like if you earn it'

The Actuarial Profession
making financial sense of the future

Generational tensions: older people's current needs are greater than younger people's current needs

'Because of the pension now, that's where you're gonna have to get your money – from out of the house'

'The money that I've got, I'm gonna try and even out but the system of pensions ... is so low, no way could I keep my house on what they're paying me ... the house is my back-up should I not manage'

The Actuarial Profession
making financial sense of the future

Generational tensions: younger people's needs (and costs) are greater

'Relatively, younger people earn a lot more money comparatively, to my parents when they were a lot younger, but things like education – it's a lot harder for us to get a decent education and a decent education doesn't mean as much as it used to. The housing market is incredibly difficult to get on the property ladder ... My parents' house is worth seven times what they paid for it...'

'Both my parents earn far more than I do and I could definitely do with some. They're quite well off.'

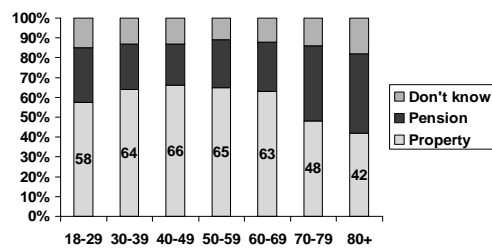
The Actuarial Profession
making financial sense of the future

Message 2

There is some interest in liquidating housing equity but also some barriers

The Actuarial Profession
making financial sense of the future

People believed property was better than pension for making financial provision for retirement



The Actuarial Profession
making financial sense of the future

Incidence of releasing equity among current or former owner-occupiers

	%
Borrowing against value of home	12
Moving to smaller, less expensive home	8
Moving to a less expensive area	4
Selling and renting	3
Taking out Home Reversion Scheme	1
Selling share of home to family	*
None of these	75

The Actuarial Profession
making financial sense of the future

Incidence of releasing equity among current or former owner-occupiers

	%	Peak age
Borrowing against value of home	12	20-39
Moving to smaller, less expensive home	8	60-69
Moving to a less expensive area	4	50-59
Selling and renting	3	40-49
Taking out Home Reversion Scheme	1	60-69
Selling share of home to family	*	20-29
None of these	75	80-89

The Actuarial Profession
making financial sense of the future

Use made of equity

	%	
Pay for property repairs/impvts	39	
Pay bills/debts	28	
Spent on essentials	23	
Spent on non-essentials	11	
Give to family/friends	6	
Retire early	6	
Pay for care	1	
Buy annuity	*	Bought another property
Other	17	Invested/saved
		Bought out partner's share of property

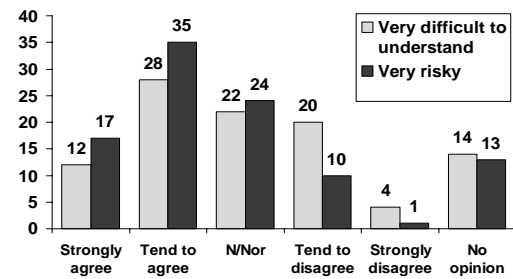
The Actuarial Profession
making financial sense of the future

Ever consider any of these?
(current owner-occupiers)

	%
Moving to smaller, less expensive home	26
Moving to a less expensive area	11
Borrowing against value of home	11
Selling and renting	7
Taking out Home Reversion Scheme	5
Selling share of home to family	5
None of these	11
Don't know	45

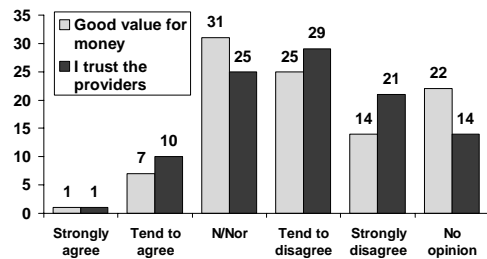
The Actuarial Profession
making financial sense of the future

People think Equity Release Schemes are
difficult to understand and risky



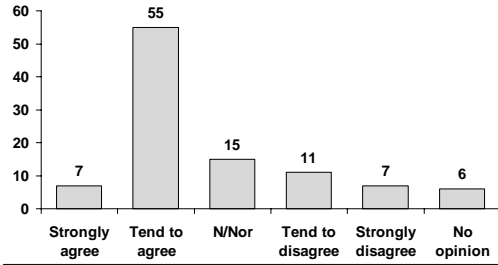
The Actuarial Profession
making financial sense of the future

People find it difficult to judge VFM and do not
trust the providers of Equity Release Schemes



The Actuarial Profession
making financial sense of the future

People think that Equity Release Schemes are a 'good idea in theory'



The Actuarial Profession
making financial sense of the future

Mixed views about equity release:
some dislike principle itself

'My children have grown up in the house. I've worked to acquire the house, to keep it, maintain it and run it and I've spent a considerable part of my life doing that so the thought of giving part of it away to a financial company just so I can live a little bit more comfortably – it would have to be very critical before I would go down that route.'

The Actuarial Profession
making financial sense of the future

Mixed views about equity release:
some dislike the current schemes/providers

'There are those nasty equity release schemes... 'we'll let you live in your home and only charge you 86% interest''

'very, very dangerous ... scams'

'you usually get caught out with these sorts of things ... it's never straightforward'

The Actuarial Profession
making financial sense of the future

Mixed views about equity release:
some might consider if non-profit provider

'If someone like Rowntree was doing this sort of thing where they wouldn't be ripping you off then yes, I'd seriously think about it if it meant enjoying my latter years'

The Actuarial Profession
making financial sense of the future

Mixed views about equity release:
some take pragmatic approach

'It's a balance between being able to live independently, not excessively, but independently and under those circumstances I would consider dealing with a company.'

'There is a body now that oversees certain things. I don't think they can get away with as much as they used to.'

The Actuarial Profession
making financial sense of the future

Mixed views about equity release:
some keen to spend the kids' inheritance

'Why shouldn't we [release equity to enjoy ourselves]? We've worked. It's our money. Our kids have got more money than us. Why shouldn't we use the money from our homes for ourselves?'

The Actuarial Profession
making financial sense of the future

Message 3

Bequests help those most
who need them least

The Actuarial Profession
making financial sense of the future

Real value of all inheritances

	Percentage
No inheritance	54
Value not known	10
No financial value	2
Under £1,000	6
£1,000-4,999	8
£5,000-9,999	5
£10,000-24,999	5
£25,000-49,999	4
£50,000-99,999	2
£100,000 plus	3

The Actuarial Profession
making financial sense of the future

Real value of all inheritances

	Percentage
No inheritance	54
Value not known	10
No financial value	2
Under £1,000	6
£1,000-4,999	8
£5,000-9,999	5
£10,000-24,999	5
£25,000-49,999	4
£50,000-99,999	2
£100,000 plus	3

The Actuarial Profession
making financial sense of the future

Real value of all inheritances

	Percentage	
No inheritance	54	
Value not known	10	
No financial value	2	
Under £1,000	6	} 19% less than £10K
£1,000-4,999	8	
£5,000-9,999	5	
£10,000-24,999	5	} 9% £10-50K
£25,000-49,999	4	
£50,000-99,999	2	
£100,000 plus	3	} 5% £50K plus

The Actuarial Profession
making financial sense of the future

Real value of all inheritances

	Percentage	
No inheritance	54	
Value not known	10	
No financial value	2	
Under £1,000	6	} 19% less than £10K
£1,000-4,999	8	
£5,000-9,999	5	
£10,000-24,999	5	} 9% £10-50K
£25,000-49,999	4	

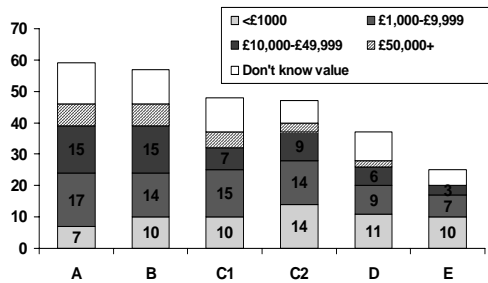
The Actuarial Profession
making financial sense of the future

Real value of all inheritances

	Percentage	
No inheritance	54	
Value not known	10	
No financial value	2	
Under £1,000	6	} 19% less than £10K
£1,000-4,999	8	
£5,000-9,999	5	
£10,000-24,999	5	} 9% £10-50K
£25,000-49,999	4	
£50,000-99,999	2	
£100,000 plus	3	} 5% £50K plus

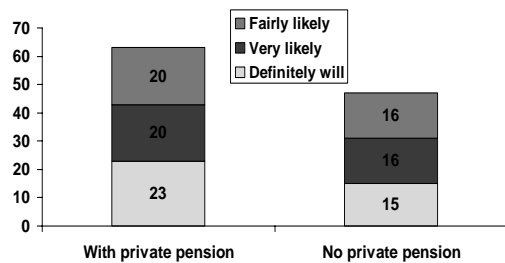
The Actuarial Profession
making financial sense of the future

Receipt of inheritance varies by social class



The Actuarial Profession
making financial sense of the future

Expectation of receiving property as a bequest in the future (all working age)



The Actuarial Profession
making financial sense of the future

Assets and bequests cannot fill the pensions gap ...at the moment

- *Liquidation of assets in later life*
 - Those with most need of assets in later life have least
 - Among those with assets, people are keen, in theory, to draw on non-pension assets in later life
 - But there are barriers to doing this
 - Poorer groups are least keen to draw on non-pension wealth
- *Receipt of bequests*
 - Bequests fail to reach those that need them most

The Actuarial Profession
making financial sense of the future
