

# Can equity release help older home-owners improve their quality of life?

Solutions  
Lessons for policy  
and practice

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## What's the issue?

Around a million older home-owners have at least £100,000 of housing equity, yet their incomes are so small that they qualify for means-tested benefits<sup>1</sup>. If these people could draw on their housing equity easily and safely they could afford practical help which would improve their quality of life and make it possible for them to continue to live in their own home.

## Ways forward

The Joseph Rowntree Foundation (JRF) has been working with interested local authorities, the equity release industry and their representative body SHIP<sup>2</sup>, and voluntary bodies representing older people, and taken advice from relevant government departments including the Department for Work and Pensions (DWP), to find a solution.

Three local authorities are now piloting equity release schemes, to be independently assessed by JRF. These are expected to run until summer 2011.

Key features of the pilot schemes are:

- *The involvement of the local authority* in drawing attention to the scheme and providing training for those likely to be talking to older people about it;
- *The availability of relatively small sums* (compared with other equity release loans), which can be drawn upon on demand, thus broadly matching the sums needed;
- *Minimising the risk of adverse effect on entitlement to benefits*, by allowing initial drawings well below the savings threshold at which adverse effects begin and by allowing further drawings on demand; and
- *Ensuring that financial solutions other than equity release are examined*, including checking that the customer is claiming all the benefits to which they are entitled.

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# The case for change

- Many older home-owners on Pension Credit need to raise money to pay for additional help at home.
- Equity release products are viewed with suspicion by many older people, and are relatively costly to set up, if the sums required are small.
- Some equity release products are not suitable for people on benefits as they are at risk of becoming worse off.

## The way forward

- JRF wanted an equity release product to be developed for home-owners on Pension Credit so that relatively small amounts would be available, without adversely affecting their benefits.
- JRF set up the Equity Release Task Group to nurture development of such a product without public subsidy.
- With the help of the trade body, SHIP, Just Retirement offered to develop a suitable commercial product, the Home Cash Plan, for piloting in collaboration with local authorities.
- Three local authorities are running pilots, helping older home-owners to decide what options they might consider to resolve their financial concerns.
- Where the older home-owner decides to explore equity release, they would be told to consult a regulated financial adviser who would ensure they were claiming all benefits to which they are entitled. They would also be told that one regulated adviser, Just Retirement Solutions, had access to the Home Cash Plan developed especially for the pilot scheme.

# The pilot schemes at a glance

The pilot schemes are taking place in:

- *The Royal Borough of Kensington and Chelsea* from November 2009;
- *Maidstone Borough Council* from January 2010; and
- *The London Borough of Islington* from January 2010.

A special equity release loan, the Home Cash Plan, has been developed for the pilot schemes by the equity release provider, Just Retirement, at fees significantly less than typical in this market.

There are local variations in the ways the pilot schemes are being run. These reflect the wider aims of the authority and local practicalities, but the general approach is on the following lines:

- Initial contact with people is likely to be mainly through the local authority and local voluntary bodies. They would discuss a wide range of possibilities without offering advice on any particular product.
- If someone wants to examine equity release more fully, they would be told to consult a regulated financial adviser. They would also be told that the regulated financial adviser, Just Retirement Solutions (JRS), has access to the Home Cash Plan, available only under the pilot scheme.
- If the person consults a regulated financial adviser such as JRS, they would have their financial position and needs examined in detail. This examination would draw attention to a range of ways in which their needs might be met, including claiming all the benefits to which they are entitled. If they chose to consult JRS, and if JRS recommended the Home Cash Plan as the most appropriate for them, an application for the Plan would be made to Just Retirement<sup>3</sup>. Clients would be strongly advised to involve family or friends. They are also required to consult their own solicitor before committing themselves.

JRF is undertaking an independent assessment of the pilots and expects to publish the assessment report in autumn 2011.

The pilots will be deemed successful if they have helped older home-owners raise extra funds needed, whether they do so by increased benefits, help from family, or by taking out a Home Cash Plan.

# About this *Solutions*

Part 1 of this *Solutions* looks at how the product was developed, how the three pilot authorities devised their schemes, and how the assessment will be carried out.

Part 2 provides a toolkit for local authorities interested in pursuing equity release schemes in their own areas.

# Part 1: Developing an equity release product

## What's the issue?

Decades of growth in home-ownership mean that almost three-quarters of retired households in England now own their home<sup>4</sup>. But a significant number of these older home-owners have little income, even though they may live in a valuable property. Around a million older people who own their home are “income-poor” despite being “asset-rich”; their incomes are so low that they qualify for means-tested social security benefits, yet they have at least £100,000 of housing wealth<sup>5</sup>.

Previous JRF evidence<sup>6</sup> shows that older people wish to be supported to stay at home, but are often unable to have access to the type of help they want with perhaps gardening, pets and window-washing which can make such a difference to the quality of their lives. If these older home-owners could draw on some of the equity in their homes, they could afford the relatively modest extra cost of this additional help, and make it possible to live for longer in their own home. They may need only perhaps £20-30 a week for help with shopping or gardening for example, but cannot afford this out of their very limited income of, typically, barely £200 a week.

## What the barriers are

These older home-owners on low incomes currently face three major deterrents to drawing on the value in their home ('equity release'):

- reluctance to reduce the amount they can leave to their family;
- anxiety that drawing on their housing equity is risky, not good value for money, and complicated; and
- concern that it may reduce their entitlement to means-tested benefits, thus making it not worthwhile.

### *Reluctance to reduce inheritance*

Reluctance to reduce the amount that can be left reflects individual priorities. There is evidence that concern about inheritance is greatest amongst the “oldest-old”, with the “younger-old” showing noticeably less concern<sup>7</sup>.

### *Anxiety about equity release*

Anxiety about pursuing equity release is widespread. Equity release is very widely known about among older home-owners but, when surveyed in 2004 and 2005, around half of them do not trust the deals, and/or the providers, so rule it out<sup>8</sup>.

The perception that equity release is not good value for money arises largely from the interest rates on which such deals are based. Equity release contracts normally run for many years; the relevant interest rates are based on the corresponding long-term rates in the market. These are normally higher than the short-term rates governing savings and the interest on variable rate mortgage loans. Currently<sup>9</sup>, the gap is particularly large<sup>10</sup> as short-term rates are at an all-time low and the interest rate on an equity release loan is for the life of the deal, which could be for more than 25 years. Additionally, almost all equity release transactions provide a guarantee that the amount to be repaid will never exceed the proceeds from the sale of the property<sup>11</sup>; this additional risk for the lender has to be allowed for in what is charged.

It appears that improved consumer protection introduced over the last few years appears is not widely known about. The sale of equity release products is now governed by detailed requirements of the Financial Services Authority (FSA). These are significantly more extensive than those applied by the FSA to the sale of mortgage loans for house purchase. Additional consumer protection is provided by the code of conduct<sup>12</sup> required of equity release firms that are members of SHIP (which account for about 90 per cent of the equity release market).

### *Effect on means-tested benefits*

Older home-owners on low incomes are right to be wary of adverse impacts on their entitlement to means-tested benefits if they conclude an equity release deal. They could conclude a deal that provided them with a regular additional income, but this would typically lose them similar sums in Pension Credit, leaving them worse off. If instead they drew a lump sum, and added it to their savings, this too could lead to reductions in their Pension Credit, if it took their total savings beyond £10,000<sup>13</sup>. Structuring an equity release arrangement that has little or no adverse effect on entitlement to benefit has been possible, but far from straightforward.

## The work of the JRF Equity Release Task Group

In April 2008, JRF gathered bodies together that seemed most able to achieve progress on the areas of concern, rather than just discuss the issues, to make up an Equity Release Task Group. This work builds on the JRF report, *Obstacles to Equity Release*<sup>14</sup>. The follow-up to that report confirmed that older people's organisations and other voluntary bodies, and central and local government, all agreed that it was desirable that older home-owners on low incomes could draw more readily on the equity in their homes without putting their entitlement to benefits at risk.

DWP had confirmed that, with careful structuring of the equity release deal, amounts could be drawn without loss of benefits. Because of concern about precedents, they were not prepared to change the rules to make equity release more straightforward for home-owners on benefits.

What was absent was action. The Task Group sought to bring about an equity release product suitable for older home-owners on benefits; to find ways of addressing the anxieties of home-owners; and to identify at least one local authority, and an equity release provider, willing to pilot such arrangements.

The work of the Task Group fell into two periods:

- From April to October 2008, two working groups examined the attributes of the equity release product required, and what was needed to deal with the negative perceptions of equity release amongst older people, their friends and relatives, and professional people they might seek advice from.
- From October 2008 till late 2009, a new working group brought together three local authorities<sup>15</sup> that had expressed interest in piloting a scheme. They developed the specification for an equity release product for SHIP<sup>16</sup> to take to the equity release market. One equity release provider responded, together with a provider of regulated advice to prospective equity release customers. These five organisations, and another local authority, have been working together on developing individual pilot equity release schemes with a number of common features.

In the latter period, the working group examined, and sought to resolve, the detailed issues that arose in putting in place a local equity release scheme targeted at older home-owners on benefits. Each local authority, with its own officer champion, has designed its pilot scheme to meet its objectives, taking into account the practical implications for the authority, its voluntary sector partners, the equity release provider, and the provider of advice.

## The equity release product

The focus of JRF's work has been on older home-owners with low incomes (and hence potential reliance on means-tested benefits) who need relatively modest amounts to pay for additional help at home. This requires an equity release product that will not affect the person's entitlement to benefits and that can accommodate:

- most kinds of property;
- a minimum initial drawing sufficiently small that it will not involve the person having to borrow significantly more than they need in the first year or two, nor drive the home-owner's savings beyond the threshold (now £10,000) at which savings start to abate entitlement to Pension Credit; and
- a right to draw further sums on demand<sup>17</sup>, in relatively small amounts (e.g. £2,000), at relatively frequent intervals (e.g. at least annually) with no additional fees.

The pricing of the product<sup>18</sup> needs to be no greater than that for most comparable equity release products, and preferably less.

The equity release market fluctuates considerably. There have been periods in which products that met some, or even all, of these requirements have been available. But what is available currently<sup>19</sup> in the market is limited. Local authorities will find that equity release providers, like providers of mortgage loans for house purchase, will lend only on the types of property that they consider offer adequate security; the valuation is not the sole consideration. This may be the most critical area for negotiation.

The product developed by Just Retirement (JR) for offer under the equity release pilot schemes – the Home Cash Plan – fully meets the requirements:

- A wide range of properties can be offered as security for a loan<sup>20</sup>;
- The minimum initial drawing is £5,000; and
- Further sums of at least £2,000 can be drawn on demand.

The pricing is more favourable than for the most comparable alternatives. Whilst interest rates are broadly similar, the provider is willing to offer significantly reduced fees for setting up each loan.

The Home Cash Plan has the following attributes:

- *Age of home-owners.* The product is intended for home-owners aged 65 and over on Pension Credit<sup>21</sup>.
- *Interest rate.* The interest rate incorporates a margin of 0.5per cent points above the interest rate on JR's standard product, reflecting the additional costs to JR of the pilot schemes<sup>22</sup>. On each tranche of funds drawn, the interest rate will be fixed for life, but the interest rate on one tranche might differ from that on another tranche of drawing (see Drawdown interest rate, below).
- *Compound interest.* Interest is compounded annually<sup>23</sup>.
- *Valuation.* A free valuation is offered for the duration of the pilots.
- *Provider set-up fees.* The normal set-up fee of £500 has been reduced to £275 for the pilots.
- *Advice fee.* The normal once-only advice fee of £749 has been reduced to £299 for the pilots. Advice fees are to be charged only if the Home Cash Plan is taken (whereas the market sometimes charges them whether or not a loan is concluded). It is envisaged that advice will be provided by phone, or face-to-face (as the person wishes), with the possibility of local 'drop-in' centres trialled during the pilots. JR has alerted the pilot authorities that, following advice, some customers will make other arrangements, such as receiving help from relatives. They have allowed for this in their plans. They have confirmed, from their previous experience, that almost half of those who have had a first meeting with an adviser to discuss equity release were advised to pursue another solution.
- *Legal fees.* The customer is required to take independent legal advice<sup>24</sup>; £425 is the average amount of legal fees. Most solicitors charge once the customer instructs them to go ahead with a loan, but certain specialist solicitors charge only if the loan is completed. It should be noted that the use of independent legal advice protects the local authority and the provider, as well as the customer. It should also be noted that there is a new solicitors' alliance<sup>25</sup> specialising in equity release. It might be possible to minimise customers' legal costs through some relationship with that alliance.
- *Total costs.* Total costs to be charged to customers taking the Home Cash Plan are expected to be around £1,000. These costs can be added to the initial amount drawn.

- *Drawdown facility.* An upper limit of £30,000 (less the initial drawdown) is intended to provide some protection against the customer exhausting their funds quickly. In addition, JR envisages offering cautionary guidance to a customer who intends to draw surprisingly heavily on the facility. Drawings beyond the £30,000 limit would be possible (assuming that there was scope for doing so within JR's normal lending criteria<sup>26</sup>), but this would be treated in the same way as a fresh loan .
- *Drawdown fee.* No fee will be charged for further drawings within the £30,000 facility.
- *Drawdown interest rate.* The interest rates prevailing at the times of subsequent drawings will apply. Thus each tranche of drawings might be at a different interest rate. But for each tranche, the interest rate on that tranche will be fixed for life.
- *Early repayment fees.* Repayment of the loan is required only when the home-owner (or the second of a couple) dies, or moves permanently into residential care or to live with relatives. There is no fee for such repayments. But if the home-owner chooses to repay some or all of the loan sooner, early repayment fees may apply. If the customer moves to a cheaper property, the lifetime mortgage will be transferred in full to the fresh property so long as JR's normal loan-to-value criterion is met. However, if some of the loan were to be repaid on moving house, there could be an early repayment fee, but it would reflect only the amount of early repayment.

The pilot authorities have involved older people's organisations and older persons' forums in the development of their pilots to ensure that the process and the product are appropriate for the client group. JR has advised the authorities that the typical time between first contact with the customer and completing the loan is likely to be about ten weeks.

The Home Cash Plan has been scrutinised by DWP. They have confirmed that the great majority of older home-owners entitled to Pension Credit would be able to use this equity release loan in the way envisaged without loss of Pension Credit. Nevertheless, each home-owner would, as a matter of course, have their entitlement to benefits checked in detail by the regulated financial adviser. This would ensure that any unclaimed benefit entitlements were identified and pursued. It would also verify that, in the particular home-owner's case, there would be no adverse effect on their entitlement to Pension Credit.

Local DWP benefit offices in the pilot areas have been advised about the pilot schemes and the Home Cash Plan, to try and ensure that any older person who does take out an equity release product in the pilot schemes will not experience any adverse impact on their benefits.

## The advisory process

It is essential that older home-owners contemplating using equity release receive the fullest and most competent financial and legal advice before they commit themselves.

There would typically be three stages in the process.

- An initial contact with an officer of the local authority and/or of a local voluntary body. In this contact, a wide range of possibilities would be discussed for tackling the client's difficulties, of which equity release would be only one. It would be essential that this discussion is entirely informative and does *not* involve the offering of advice on particular products; such advice is regulated by the Financial Services Authority and can be given only by a qualified regulated adviser.
- If a client feels that equity release is an option they wish to examine further, they will be advised to consult a regulated financial adviser. They will also be told that the regulated financial adviser for the pilot schemes (JRS) is able to provide access to an equity release product available only under the pilot scheme (the Home Cash Plan), although JRS would also consider a wider range of possibilities.
- Any regulated financial adviser would examine a range of ways in which the client might meet their financial needs, including by claiming all the benefits to which they are entitled. If they choose to consult JRS, and *if* JRS recommends the Home Cash Plan as the most appropriate solution for that client, an application for the Plan will be made to Just Retirement. Clients are strongly recommended to discuss their decision with family and/or friends (and JRS advisers are happy to discuss with others, but only if the client so wishes). The home-owner is required to consult their own solicitor before committing themselves to the Home Cash Plan.
- JRS expects to have at least two meetings with customers. The first would be primarily a fact-finding meeting; the second would be when recommendations were offered. In practice, some (possibly many) customers are expected to need more than two meetings. Helpfully for the older person, the fees are unaffected by the number of meetings.

## The local authority pilot schemes

Each of the local authorities pursuing a pilot scheme has a distinct focus:

- *The London Borough of Islington* is particularly concerned about the health and well-being of older people who bought their home from the council, possibly many years ago, who are now finding it difficult to afford continuing as home-owners. They are also interested in assessing the viability of equity release as a sustainable option that enables older people to stay in their homes for longer before needing care.
- *The Royal Borough of Kensington & Chelsea* is particularly concerned about older home-owners who do not come to the attention of council services, but whose circumstances are becoming increasingly difficult. There are possibly many who could benefit from extra income, particularly if they are found to be entitled to benefits that they are not claiming, or if they could draw on the equity in their valuable properties.
- *Maidstone Borough Council* sees facilitating equity release as a valuable service for the well-being of its older home-owners. As a district council, Maidstone Borough Council does not have responsibility for social care. It is nevertheless co-ordinating its pilot scheme with all partner agencies, as it believes it is relevant to a wider range of people than those in contact with social services.

The Royal Borough of Kensington & Chelsea launched their pilot scheme in November 2009. Maidstone Borough Council and the London Borough of Islington launched their pilot schemes in January 2010.

## Equity release case studies

Clients' needs will mean that they require:

- extra income (typically to pay for additional help at home, with shopping, gardening, and the like); and/or
- a lump sum (typically to pay for improvement to their home).

The best solutions are likely to differ between clients. The major differences arise from whether the client is entitled to means-tested benefits and the amounts wanted.

- Clients entitled to means-tested benefits need first to be advised whether they are entitled to additional benefits they are not claiming, such as Attendance Allowance. Such a check is a standard part of consultation with JRS advisers (and other regulated financial advisers). If they need to consider equity release, they must take great care not to enter into an arrangement that would leave them no better off. The arrangements developed for the pilot schemes are designed to ensure that there should be little or no adverse effect on entitlement to benefits.
- Clients wanting amounts of at least £10,000 can obtain them from the equity release market at large. Those wanting smaller amounts would need to consider the arrangements developed for the pilot schemes.

### Extra income

A client needing a modest amount of extra income would first check whether this could be obtained by drawing benefit entitlements not claimed hitherto. If this does not provide a sufficient amount, they could look to the equity release scheme as a means of drawing the balance from the value in their home.

### Example 1: Extra income

- Client couple are aged 80 and 75
- Client's home is worth £120,000, debt-free
- Client needs £30 a week for additional help at home
- Client has savings of £3,000
- Client is entitled to Pension Credit

*Client would draw £5,000 initially (of which £1,000 would cover the costs of the deal); this would cover their needs for more than two years. They would then draw a further £2,000, which would cover their needs until late in year four, when they would draw a further £2,000, and so on.*

*Had the clients simply arranged to receive a regular income from the value of their home, they would have risked losing a similar amount in Pension Credit.*

### Lump sum

A client needing a lump sum would also be advised whether this could be obtained by drawing on benefit entitlements not claimed hitherto. If they wished to carry out home improvements, they would also check whether any grants were available to them from their local authority for such works<sup>28</sup>.

For lump sums in excess of £10,000, a client could consider equity release deals with most providers in the market, with the help of a regulated financial adviser. For sums between £5,000 and £10,000, the equity release scheme for the pilot authorities could help.

### Example 2: Lump sum

- Client couple are aged 80 and 75
- Client's home is worth £120,000, debt-free
- Client needs a £10,000 lump-sum
- Client has savings of £3,000
- Client is entitled to Pension Credit

*Client would draw £10,000, using whichever equity release deal their independent financial adviser identified as most suitable for them. At least £3,000 (less the costs of the deal) would have to be spent straight away if a loss of benefits were to be avoided (as savings in excess of £10,000 give rise to a reduced entitlement to Pension Credit).*

If such a client on Pension Credit requires the money to pay for what DWP regard as “essential” works, it is likely that the cost of those works would better be borrowed on an interest-only loan, rather than an equity release deal, as the interest-only loan would qualify for Support for Mortgage Interest (SMI) from DWP.

## How the pilots will be assessed

All three equity release pilots are being assessed together, independently by JRF. The assessment will be over a twenty-month period from November 2009 to June 2011, with six-monthly reviews in July 2010, January 2011, and July 2011. An assessment report will be written after the July 2011 review meeting and published by JRF.

The assessment relates to the aims of the individual schemes. The principal aim of the pilots is to enable less well-off older home-owners to feel able to draw on the equity in their home simply, cost-effectively and with confidence, so enabling them to substantially improve their quality of life. This aim is seen as contributing to a widening of choice for older people and an increase in their control over their lives. The pilot authorities have supplementary aims, which the assessment also seeks to cover.

The assessment of the pilot schemes is being carried out by analysing information supplied by the local authority at the outset of its pilot and then from quarterly or half-yearly returns provided by those running the schemes: the local authority, its partners in the voluntary sector that are involved in the pilot, and JRS, the specialist financial adviser available to clients. The form of the initial return, the quarterly/half-yearly returns, and the returns required at the end of the pilot schemes, can be viewed at [www.jrf.org.uk/publications/equity-release-2010](http://www.jrf.org.uk/publications/equity-release-2010)

The assessment will consider seven main aspects:

- the local authority’s view of the availability of advice, and an appropriate equity release product, for low-income older home-owners before the pilot and the extent to which this has changed;
- how the pilot schemes are being brought to the attention of those older people who might benefit from them, and the effectiveness of differing approaches between the local authorities;
- identifying what has prompted the older person to make an appointment with JRS to discuss how they might be helped (by the Home Cash Plan, or otherwise);
- the solutions advised by JRS following discussions with the individual, and the extent to which these have included the Home Cash Plan;

- where the Home Cash Plan has been advised, the willingness and ability of the individual to conclude a deal;
- the attributes of the individuals and their properties where the Home Cash Plan has been taken out; and
- the customer’s view, a while after the Home Cash Plan has been taken out, and the lessons to be learnt.

Information about those who do not conclude a deal will be as relevant to the assessment as information about those who do conclude deals.

Each of the pilot authorities and JRS will meet separately with the assessors before the review meetings in July 2010 and in January and July 2011 to ensure that the assessors have understood correctly the information received on the quarterly/half-yearly returns. The assessors will then produce six-monthly outputs to record progress and to inform ways of improving the schemes so that more of the intended beneficiaries can be helped. They will assess the extent to which the availability of the special equity release product developed for the pilots has improved the ability of older home-owners to control and exercise choice over their lives. These outputs will be discussed at a review meeting of all the pilots, together with JRS and the provider of the Home Cash Plan (JR).

The information to be collected for the assessment falls into three main groups:

- the position at the outset of each pilot scheme;
- progress during each pilot scheme (reported quarterly or half-yearly); and
- views formed by the end of each pilot scheme (18 months after the start of the pilot, unless terminated early).

The assessment report will be informative for local authorities who may be interested in replicating the scheme in their area, with whatever local variations are needed for their circumstances.

## Part 2: A toolkit for further local authority equity release schemes

The JRF Equity Release Task Group was set up because there was no straightforward way for older home-owners on benefits to pay for additional help at home by releasing equity from their home. Now that an appropriate product has been developed and is being tested in the pilots, other local authorities can see what is possible. If the assessment report in autumn 2011 demonstrates that the obstacles have been largely overcome, it is hoped that other local authorities will then decide to pursue equity release schemes in their own areas.

It has taken two of the three pilot local authorities over nine months to develop their pilot schemes. Maidstone Borough Council was able to implement theirs more quickly through learning from the experience of the others. This toolkit is intended to reduce the time needed by local authorities who would like to have their own equity release scheme.

The toolkit is directed to local authorities. Authorities will need to engage with relevant partner bodies locally, in both the public and voluntary sectors. Liaison with the local office of DWP will help to ensure that those using the scheme experience no adverse effects on their entitlement to benefits.

If the pilots are successful for the equity release product provider, the product might be offered in other areas in eighteen months to two years' time. It is likely that the provider would still look to the local authority and voluntary bodies in the area to be supportive and put time into staff training – particularly so that staff know what they can and cannot discuss with older people, about the advisory process and the product itself.

### Examining how equity release schemes can support local authority policies

Before getting involved with equity release providers, a local authority will need to examine the roles equity release schemes could play in support of the authority's policies. Two possible roles are:

- helping more older people stay in their own home as long as possible by enabling them to draw on the equity in their home to pay for additional help; and

- improving the well-being of older residents.

The local authority will need to consider whether these roles are relevant to what the authority is seeking to achieve and decide whether or not to be proactive.

The sales process for equity release is regulated by the Financial Services Authority (FSA). All potential customers have to get advice from a suitably qualified adviser regulated by the FSA. Local authorities and voluntary bodies will not have suitably qualified personnel; so although they can give *information* about an equity release product, they cannot give *advice*. If a local authority is going to encourage a qualified equity release provider to be active in its area, the authority will need to ensure that its staff and those of local voluntary bodies receive basic training on the product and what they can and cannot say to their clients about it.

The case studies described earlier in the paper are intended to be helpful in showing how an equity release product can bring beneficial solutions for some potential customers. The advice process will ensure that the person is claiming all the benefits to which they are entitled. There may be cases where Support for Mortgage Interest (SMI) can be obtained for a home improvement loan, or a family member may come forward with financial support instead.

### Agreeing objectives with elected Members and stakeholders

If officers think it is worthwhile to have an equity release product available for older home-owners on Pension Credit, they will need to identify a champion to take it forward locally. Early on, they will need to discuss their objectives with local voluntary organisations and other stakeholders. Some of these organisations may not be aware of the equity release pilots.

The authority may choose to do this by presenting their proposals for an equity release scheme for home-owners on Pension Credit to decision-makers within the authority and to local interest groups. The authority would seek views on the approach, and on how support through the process could be made available for those who might need it. The authority would hope to achieve general support for the proposals at this stage.

If these organisations are positive about having an appropriate product and about the advice process, officers in the authority will need to consider how and when it should be discussed with elected Members. Some may decide to make significant progress first with the development; others may involve relevant

Members at an earlier stage. Whichever approach is taken, formal objectives for an equity release scheme will need to be agreed internally and externally.

## Identifying a project manager

The authority will need to consider which part of its organisation should lead on the equity release scheme. Although social care is obviously relevant, the scheme will probably be offering assistance more widely. This would link it with themes such as community well-being, regeneration, or income maximisation. In some authorities, there might be links with benefit advisory services. The authority might choose to have an inter-departmental project team, including representatives from finance and legal departments, to ensure that there are links to more than one part of their organisation, including their customer care service.

It will be helpful to identify a project manager for the scheme at this stage, to work on a project initiation document (PID) and to maintain momentum. The PID framework used by one of the pilot authorities can be viewed at [www.jrf.org.uk/publications/equity-release-2010](http://www.jrf.org.uk/publications/equity-release-2010). The project manager would be responsible for initiating a risk assessment of the scheme for the authority.

In the pilot schemes, the principal risk was thought to be that of relatives claiming in the future that their relative had been misled, and that this had deprived them of some of their inheritance. This risk can be mitigated to some extent by involving family members in an individual's decision on using equity release. However, some commentators consider it condescending to press older people to involve others if they seem competent to make decisions for themselves. Some older people are very clear that they do not wish others to be involved.

Regulated financial advisers can be expected to use a number of consumer protection measures and these should be discussed with the local financial adviser. In the pilots, clients of the regulated financial adviser are encouraged to consider whether to involve others, but are free to decide not to do so. All clients are required to be advised by their own solicitor before they conclude a contract.

## Understanding products and how advice would be given

Understanding all elements of the product and advisory process will be helpful, before talking to potential providers and advisers. The product description above, together with the description of the advisory service, should enable an authority to consider the terms of

an equity release product in general without having to make extensive soundings in the market.

There may be features and terms the authority would like to differ from those of the pilots, possibly for both the product and for the advisory process. These can be discussed with the organisations involved in the pilots and with others in the equity release market. SHIP<sup>29</sup> will be able to advise which firms are currently active in the equity release market.

The FSA sets detailed, mandatory provisions for consumer protection when a customer is contemplating an equity release transaction. This is supplemented by the code of conduct required of trade body SHIP members. The Pilots' Working Group fully supported such consumer protection. But it was aware that its cost to the customer is significant<sup>30</sup>, especially if the amount to be borrowed initially is relatively small, as is envisaged for customers in the pilot schemes.

It was unrealistic for the local authorities to reduce the cost by providing the extensive advice<sup>31</sup> required by the FSA themselves, or through their local partners. JR offered the services of their separate company, Just Retirement Solutions (JRS), which is a regulated advice firm<sup>32</sup>. They offered to charge much lower fees<sup>33</sup> during the pilots, while both they and the authorities were gaining experience of working with the homeowners for whom the pilots were designed. JR agreed that the whole of such fees could be added to the amount borrowed, together with legal costs, so that the customer would not have to draw on their existing means to pay for setting up the equity release loan.

The Pilots' Working Group had some concerns initially about using an adviser linked to the equity release product provider. Would the advice given be entirely objective? They felt sufficiently reassured by evidence from existing customers of JRS. This demonstrated that 44.6 per cent of those who met with JRS in the six months to June 2009 were recommended not to use equity release at all; and a panel of providers, in addition to Just Retirement, is considered by the advisers at JRS. JRS has also analysed the extent to which its advice had increased the social security benefits of customers; this amounted to £368,000 in one year, or approximately one in four customers (even though their existing business would not normally deal with as many people entitled to benefits as are expected through the pilots).

If the local authority considers changes to the terms of the equity release product described above (the Home Cash Plan), it would be worthwhile to discuss these with DWP officials. It will be important to get their assurance that the updated product would interact with benefit entitlements in the ways envisaged.

## Identifying equity release providers and appropriate providers of regulated advice

If the pilots are successful for the equity release provider, it is likely that others will want to enter the market. If, however, most potential customers in the pilots are found other solutions than equity release, the provider may not wish to keep its product on the market.

SHIP will be able to advise the authority on whether the product being offered in the pilot areas is still unique, or whether there are others who might be interested in providing a product that meets the authority's requirements. SHIP can make the necessary introductions to its member companies. Each potential provider will have a preferred way of ensuring that appropriate regulated financial advice is available.

## Seeking legal advice on the relationship between authority and providers

An equity release provider will be investing considerable resources in targeting low-income households, rather than their normal customer base for larger transactions. They may therefore seek a formal agreement with the authority to ensure that potential customers are identified for them by local organisations. However, this has not been deemed necessary for the pilots.

It will be for the local authority to seek its own legal advice on the proper relationship between the authority, an equity release provider and an advice provider. Issues that might be relevant include:

- Whether the local authority is identifying a service, or procuring a service? If it is procuring, procurement requirements must be followed;
- Whether the authority is introducing a service, or promoting the product? If it is promoting, the requirements of FSA regulation must be followed; and
- Whether there needs to be an exclusive arrangement.

## Finding customers

The local authority will need to be clear about its role in the scheme. Because of the strict FSA requirements relating to the provision of financial advice, the authority will need to restrict its role to imparting information. It will almost certainly want to help identify potential customers for the advisory service and will

need to train its staff to be able to do this (see section on training below).

The authority will know, from its objectives for the scheme, the characteristics of people who might be helped by the scheme. They will need to give some thought as to how the initial contact with potential customers will be made. It is likely to be through various channels of the local authority and local voluntary organisations. The Primary Care Trust may also be involved. If the authority wishes to help people not normally in contact with council services, the voluntary sector will be essential partners.

The initial contact will need to involve a trained individual who understands the advisory process and the basics of the equity release product. The training should include the dos and don'ts of sign-posting; guidance on this can be viewed at [www.jrf.org.uk/publications/equity-release-2010](http://www.jrf.org.uk/publications/equity-release-2010). They will have a discussion with the person, sufficient to enable them in one or two meetings to decide whether it would be appropriate to mention the equity release scheme and give them a leaflet.

## Agreeing the role of voluntary bodies

The authority will need to agree the role in the scheme of local voluntary bodies. Because the same restrictions on providing financial advice apply, the role is likely to be similar to that of the authority. Staff who are likely to be in contact with potential customers will need training, both to be able to identify such customers and to know what they can say.

## Avoiding financial abuse

A concern that has been raised within the pilot schemes is the risk of financial abuse of elders. This risk has been recognised, so several measures are in place to minimise it. The financial adviser is applying its existing protective measures, which include strong encouragement to involve relatives and friends, and training on how to identify any signs of financial abuse. The adviser would satisfy themselves that the client had the capacity to give informed consent, or has a third party acting in their interests. There is also the independence of the client's solicitor.

It would also be proper to consider whether financial abuse might be involved in requests for substantial further drawings. For the pilots, there is the provision for JR to query requests for drawdowns that appear inconsistent with the client's original needs. Authorities' 'safeguarding' responsibilities extend to vulnerable adults at large, not just to those already known to local social services. Authorities might differ in their views on the extent to which there should be any

hesitation in allowing unfettered access to further equity release drawings. Where an authority feels that some intervention is appropriate, it will be necessary to discuss a realistic process with the loan provider and the adviser. Encouragement to clients to discuss their plans for a further drawing with a suitable voluntary organisation, or perhaps with the local authority's 'one-stop shop', might be possibilities; this would echo an approach taken by many of the Partnerships for Older People Projects .

However, to put this risk in perspective, anyone wishing to carry out financial abuse would find it more advantageous to encourage the use of a mainstream equity release product. This would have none of the constraints on drawings that apply to the product offered in the pilot schemes.

## Financial implications

The pilot authorities have minimised the financial implications for the local authority. The principal costs are the project manager's time, the cost of producing and distributing literature about the scheme, and the cost of training.

The financial benefits relate principally to the residents being advised. For example, they may find that they are entitled to more benefits than they are claiming, as under-claiming occurs predominantly among owner-occupiers . It is hoped that use of the product will enable older people to stay in their own home for longer, so reducing the need for residential care. It will be several years before it is possible to evaluate this.

## Getting literature designed, printed and distributed

The project manager will work with the regulated financial adviser to agree the literature required for the scheme. They will also agree who will arrange to have it printed and who will pay for it. The local authority will probably choose to take responsibility for distributing the literature.

The literature is likely to include a question and answer leaflet about the scheme for all participants of the training sessions. See the question and answer leaflet being used by one of the pilot authorities:  
[www.jrf.org.uk/publications/equity-release-2010](http://www.jrf.org.uk/publications/equity-release-2010)

## Putting documentation and procedures in place

The project manager will probably want to keep a record of those in the organisation, and in the various voluntary organisations, who are successfully making referrals to the regulated financial adviser. This can be done by initiating a procedure for marking literature given out about the scheme with the name of the organisation doing so. The procedure can require the adviser to ask the client for the name of the organisation on the leaflet about the scheme.

The project manager will agree the documentation that the adviser will provide to the authority each month or quarter.

When the equity release scheme has been developed, it could be helpful to make the local DWP office aware of the scheme. Their staff can be invited to training sessions.

## Training

The project manager will work with the regulated financial adviser on the training programme for front-line staff in the local authority departments and from voluntary organisations. They will need to identify staff likely to need training.

It will be helpful to attendees if they can take away a question and answer leaflet about the scheme.

## Launch

The local authority will wish to consider how best to handle the launch of its equity release scheme. It may wish to get as much local publicity as possible at the outset, or it may prefer to wait until some local 'success stories' are available. But in either case, the authority's press office should be primed, at the outset, with information and given answers to 'standard' questions that can be expected from journalists.

## Review

Whether or not there is a formal arrangement with the equity release provider, and/or the regulated financial adviser, the equity release scheme will need to be reviewed regularly. The assessment report of the pilot schemes (envisaged for publication in autumn 2011) may provide a steer as to how often that might usefully be and what might be covered.

# Conclusion

JRF's Equity Release Task Group and its working groups brought experts together to overcome barriers to equity release that had been identified in earlier JRF research. This independent forum, with its targeted focus, achieved results by getting the right people together from the public, private and voluntary sectors in a timely way. JRF consultants acted as facilitators throughout the process and helped to maintain the momentum.

Once local authorities took an interest in piloting an equity release scheme, the private sector was prepared to invest time in developing an appropriate product. With an embryonic product in place, DWP officials were able to scrutinise the details and offer comments on implementation to minimise the risk that customers could lose benefits.

With an appropriate product to discuss, which met the specification drawn up by the working groups, the local authorities approached local voluntary organisations for their support. All the pilot authorities are working closely with voluntary organisations to make the scheme known to local residents. The toolkit in Part 2 gives other local authorities an indication of the pilot authorities' practical experience so far.

The pilots will find out whether negative perceptions to equity release can be overcome by the combination of reassuring involvement of the local authority and voluntary organisations, the offer of an introduction to a regulated financial adviser, and an equity release product designed especially for home-owners on Pension Credit. The pilots will be deemed successful if they help older home-owners to raise the extra funds they needed, whether they do so by increased benefits, help from family or taking out an equity release loan.

JRF will publish an assessment report in autumn 2011. If this demonstrates that obstacles have been largely overcome, it is hoped that other local authorities will decide to pursue equity release schemes.

## About this paper

This paper was written by Rachel Terry and Richard Gibson.

## Notes

1. In this paper, 'benefits' refers to state benefits, with particular focus on Pension Credit.
2. Safe Home Income Plans (see [www.ship-ltd.org](http://www.ship-ltd.org)).
3. The advice service is provided by Just Retirement Solutions Ltd and the Home Cash Plan (Equity Release) product is provided by Just Retirement Ltd.

These are separate companies, both owned by the same parent firm (Just Retirement (Holdings) Ltd). Both Just Retirement Solutions Ltd and Just Retirement Ltd are authorised and regulated by the Financial Services Authority (FSA). Just Retirement Solutions Ltd provide specialist equity release advice from a range of different equity release providers. Where a customer's need cannot be met by this range of providers, Just Retirement Solutions will use its access to the whole of the market to obtain a suitable equity release solution.
4. CLG Table 803: *Household characteristics: economic status of household reference person, by tenure*, 2008, downloadable from [www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/householdcharacteristics/livatables](http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/householdcharacteristics/livatables)
5. Derived from an analysis of the first wave of the English Longitudinal Study of Ageing in 2002-03, reported in Sonia Sodha, *Housing-rich, Income-poor; the Potential of Housing Wealth in Old Age*, IPPR, October 2005.
6. *The Report of the Older People's Inquiry into 'That Bit of Help'* edited by Norma Raynes, Heather Clark, and Jennifer Beecham. Published by JRF in 2006 and downloadable from [www.jrf.org.uk/publications/report-older-peoples-inquiry-bit-help](http://www.jrf.org.uk/publications/report-older-peoples-inquiry-bit-help)
7. Karen Rowlingson and Stephen McKay, *Attitudes to Inheritance in Britain*, The Policy Press for JRF, July 2005, downloadable from [www.jrf.org.uk/publications/attitudes-inheritance-britain](http://www.jrf.org.uk/publications/attitudes-inheritance-britain)
8. From a survey in 2005 by YouGov for Scottish Widows Bank, reported in the Bank's paper, *A 2005 Guide to the Equity Release Market*. There were similar findings in a survey in 2004 by BMRB for the Council of Mortgage Lenders (CML), reported in the CML's quarterly, *Housing Finance* in Autumn 2004.
9. January 2010.
10. In January 2010, rates for equity release were typically about 6.5 per cent per annum, whereas Bank Rate was 0.5 per cent per annum.
11. Such a guarantee is required from firms that are members of the trade body, SHIP (see item 6 at [www.ship-ltd.org/shipguarantee.aspx](http://www.ship-ltd.org/shipguarantee.aspx)).
12. The code of conduct is set out at [www.ship-ltd.org/shipguarantee.aspx](http://www.ship-ltd.org/shipguarantee.aspx)
13. On any savings (including their equity release drawings put into their savings) in excess of £10,000, they would lose £1 a week for every £500 (or part) in excess of the £10,000 threshold.
14. A JRF report by Rachel Terry and Richard Gibson, published in October 2006, and available at [www.jrf.org.uk/publications/overcoming-obstacles-equity-release](http://www.jrf.org.uk/publications/overcoming-obstacles-equity-release)
15. The three authorities were Hampshire County Council, the London Borough of Islington, and the Royal Borough of Kensington & Chelsea. Maidstone Borough Council was added as a fourth authority in June 2009. Hampshire County Council decided in August 2009 not to pursue a pilot scheme on the lines that had been developed by the JRF working group; it is working with third sector organisations in Hampshire on a local solution.
16. The trade body for equity release providers - Safe Home Income Plans (see [www.ship-ltd.org](http://www.ship-ltd.org)).
17. Drawings must be on demand, rather than pre-determined; pre-determined drawings would lead to substantial reductions in entitlement to Pension Credit.
18. 'Pricing' refers to the interest rate to be charged, together with the provider's fees in setting up each home-owner's arrangement.
19. January 2010.
20. A few kinds of properties with particularly uncertain values will remain excluded. Each local authority will need to discuss their local situation with the product provider.
21. It can be made available to anyone aged at least 60, where necessary.
22. In January 2010, the interest rate (including the 0.5 per cent margin) was 7.09 per cent.

23. Simple interest is charged daily, and added to the outstanding loan ('compounded') once a year. (Some providers compound monthly, which increases the outstanding debt more quickly.)
24. For all members of SHIP, it is a requirement that they insist on their customers taking independent legal advice before concluding an equity release deal.
25. The Equity Release Solicitors' Alliance, comprising six firms initially (see [www.ersalaw.co.uk](http://www.ersalaw.co.uk)).
26. Notably relating to the value of the property and the ages of the occupiers.
27. Thus requiring a fresh fact-find, and advice. The fees for this would probably be Just Retirement's standard fees, rather than the reduced rates charged for the pilot schemes.
28. The authority will need to brief the regulated financial adviser about the availability locally of grants.
29. Safe Home Income Plans (SHIP, [www.ship-ltd.org](http://www.ship-ltd.org)) can be contacted at [info@ship-ltd.org](mailto:info@ship-ltd.org), or at 83 Victoria Street, London SW1H 0HW; phone 0844 669 7085.
30. Between £1,300 and £2,500 charged by the provider, plus around £400 for the customer's own legal expenses.
31. The individuals giving such advice are required to have specific financial qualifications, specialising in equity release.
32. Just Retirement Solutions is a fully regulated financial advice firm, which recommends products from a panel of selected providers. Where this panel cannot meet the need of the customer, Just Retirement Solutions offers solutions from the whole of the equity release market.
33. Their fees would be £574, compared with the £1,300 to £2,500 normally charged by providers and advisers. Customers would still have to meet their own legal fees of around £425.
34. In the main equity release market, the average transaction is for around £40,000.
35. Details of the Partnerships for Older People Projects are available at [www.dh.gov.uk/en/SocialCare/Deliveringadultsocialcare/Olderpeople/PartnershipsforOlderPeopleProjects/DH\\_080122](http://www.dh.gov.uk/en/SocialCare/Deliveringadultsocialcare/Olderpeople/PartnershipsforOlderPeopleProjects/DH_080122)
36. Chapter 2 of *Income Related Benefits: Estimates of Take-up, 2007-08*, published by DWP, June 2009. Around 4 out of 5 of the estimated 1.1 million to 1.7 million people entitled to Pension Credit who do not claim it are owner-occupiers (Table 2.1 and Figure 2.4).