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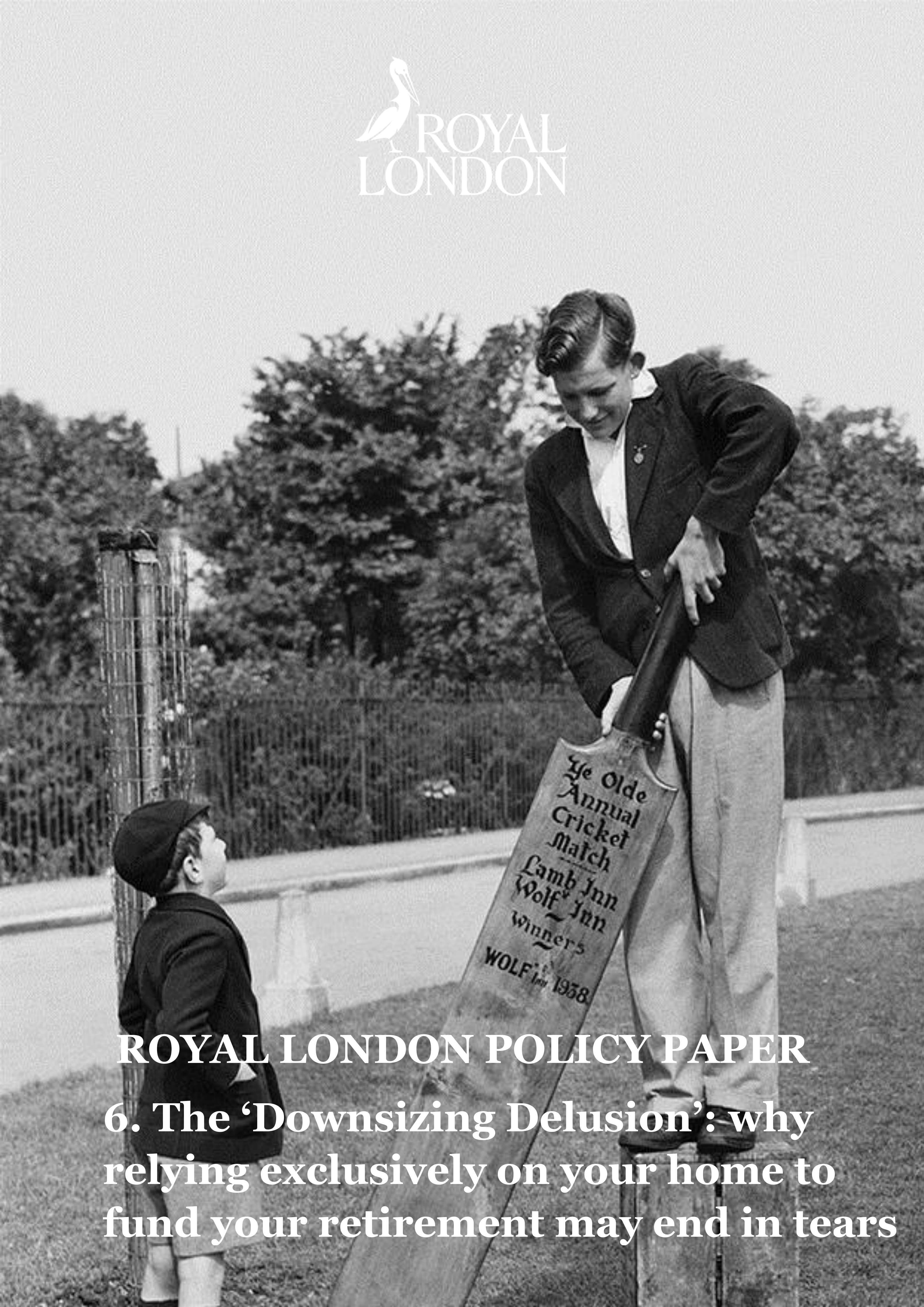

ROYAL LONDON POLICY PAPER

6. The ‘Downsizing Delusion’: why relying exclusively on your home to fund your retirement may end in tears

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THE 'DOWNSIZING DELUSION': WHY RELYING EXCLUSIVELY ON YOUR HOME TO FUND YOUR RETIREMENT MAY END IN TEARS

Executive Summary

A small but growing number of people report that they are planning to fund their retirement not through saving in a pension but through investing in their own home. Their plan is to downsize to a smaller home at retirement, freeing up a large cash sum to sustain them in their later life. But this report shows how this 'downsizing dream' could easily turn into a nightmare.

In Part 1 we show why changes in family life, the mortgage market and the jobs market may mean that the assumptions behind the downsizing dream may be unrealistic. In particular:

- The 'nest may not be empty' – growing numbers of adults are still living at home when their parents reach retirement; it is hard to trade down if the 'spare bedrooms' are not empty;
- The mortgage may not be paid off – growing numbers of people, including first-time buyers – are taking out mortgages past traditional retirement ages; one third of all mortgages lasts beyond the age of 65, and one third of those mortgages is to a first-time buyer;
- You may not be able to afford to stop working; the fastest growing section of the labour market has been among older workers, and more people than ever are working beyond 65;

In Part 2, we look at how much equity would be released by trading down at retirement and how much income this could generate. For the UK as a whole, we find that even if someone traded down at retirement from an average detached house to an average semi-detached house, the equity released – combined with the state pension - would generate an income of barely half of pre-retirement wages. In all parts of the UK outside London the typical downsizer would be left with a standard of living well below their pre-retirement quality of life.

We also show that the volatility of house prices can mean that the timing of retirement is crucial. Whereas those who invest for retirement in a diversified range of assets can smooth out the peaks and troughs of various investments, those who are dependent solely on the value of their family home could find their retirement plans thwarted by a sudden house price drop.

In Part 3, we consider other barriers to the 'downsizing dream' including the lack of suitable property for downsizing and the psychological barriers to moving out of your cherished family home just at the point where you are going to be spending more time in it.

Finally we review other alternatives such as renting out a spare bedroom or using equity release products rather than downsizing. Renting a room could generate a useful income but would not be enough in most cases to replace the value of a pension. Equity release remains a very small market and the typical amounts generated through 'lifetime mortgages' would not sustain the sort of income in retirement to which most people would aspire.

Whilst some may believe that house prices are a 'one way bet', with newspaper headlines constantly talking about record house prices, the reality is that relying on one property – your own home – to fund your retirement remains an extremely risky strategy. For too many people, the 'downsizing dream' could turn out to be a nightmare.

Introduction

For most people, their income in retirement will come from a mix of state and private pensions, with any equity in their home being something of a bonus. But according to recent survey evidence[1] a growing minority of people is planning to sell their primary residence to fund their retirement. Around 8% of survey respondents put themselves in this category in 2015, up from 7% in 2014 and 5% in 2013. This would suggest that around 3 million people of working age currently regard their home as their pension.

The purpose of this paper is to highlight the risk that these 3 million people are taking with their future. Whilst no-one can be sure exactly how the future will work out, there are many reasons to think that those who shun more traditional savings vehicles could live to regret it.

The paper starts by looking at recent changes in family life and in working patterns. Whereas in the past it might have been reasonable to assume that someone would have retired from work, paid off the mortgage and had their children leave home all by their mid-sixties, all of these assumptions are much less certain than they would once have been. We set out the evidence on recent trends in the mortgage market, patterns of retirement and patterns of household composition.

Next we look at the financial aspects of relying on your home to provide an income in retirement, whether through 'downsizing' to free up capital or through some form of equity release product. How much housing equity would you need to replace an equivalent pension income? How risky is it to put all your retirement eggs in this one basket? And how does the tax treatment of saving in this way compare with other alternatives.

Finally, we reflect on the other barriers to downsizing at retirement. These include the potential lack of suitable smaller properties in the immediate neighbourhood and the psychological barriers to doing so.

[1] Source: Barings retirement survey, published January 2016 based on a summer 2015 ICM survey of approx. 1500 non-retired GB adults.

1. Trends in family life, working life and mortgage lending

Those who plan to use their home as their pension are probably assuming that there will come a point – let us suppose age 65 for now – at which the following three conditions are true:

- They have a home bigger than their needs, generally because children have grown up and left home, so they can now downsize;
- That they have wholly (or largely) paid off their mortgage and so do not need to service a mortgage debt from their pension income;
- They can afford to stop working and retire;

There is good reason to think that for growing numbers of families, one or more of these assumptions may prove to be unrealistic.

a) Will the nest be empty?

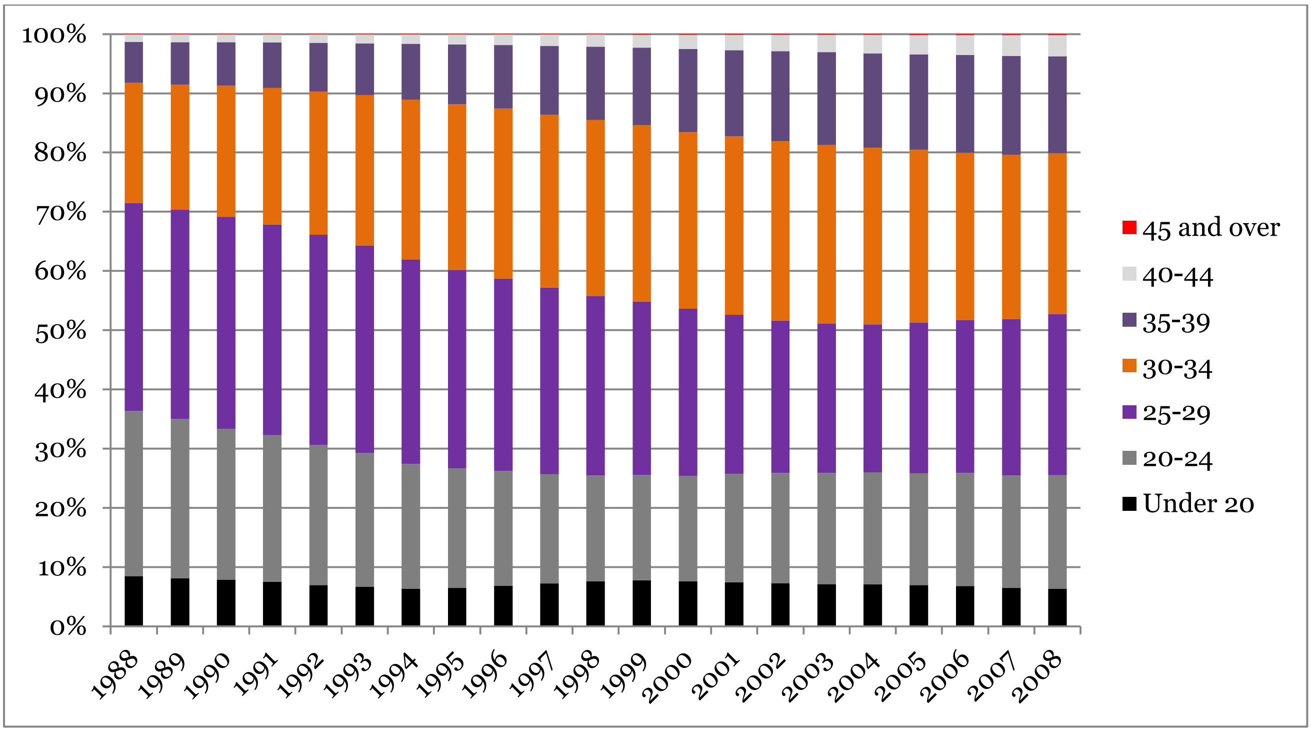
The principle of downsizing is based around the assumption of an 'empty nest' – typically a large family home can be traded for a smaller home with fewer bedrooms because any children will now have grown up and left home. But a number of important social trends mean that this cannot be relied on with any degree of certainty. The main factors are:

i) Starting families later

In recent years there has been a trend towards women having children later in life. The knock-on effect of this into retirement is that it becomes less likely that this child will be grown up and independent in time for the parents to downsize and retire[2]. Figure 1 shows annual data from 1988 to 2008 on the age of the mother of children born in England and Wales.

[2] Logically, the relevant age for the purposes of this paper is the age of the mother when the last child is born rather than when any child is born, but data on trends in the age at which family formation is 'completed' is not readily available.

Figure 1: Age of mother of children born in England and Wales 1988-2008



Source: Office for National Statistics, Series FM1.

The most striking feature of Figure 1 is the big drop in the proportion of mothers aged under 25. At the start of the period more than one child in three was born to a woman aged under 25, but in just a decade that proportion had fallen to around one child in four and has been broadly stable at that level since then. The biggest growth has been among mothers aged over 30 where the proportion rose from around 30% in 1988 to nearly 50% in 2002 before edging back slightly thereafter. The proportion giving birth over 35 doubles from under 10% in 1988 to around 20% in 2008.

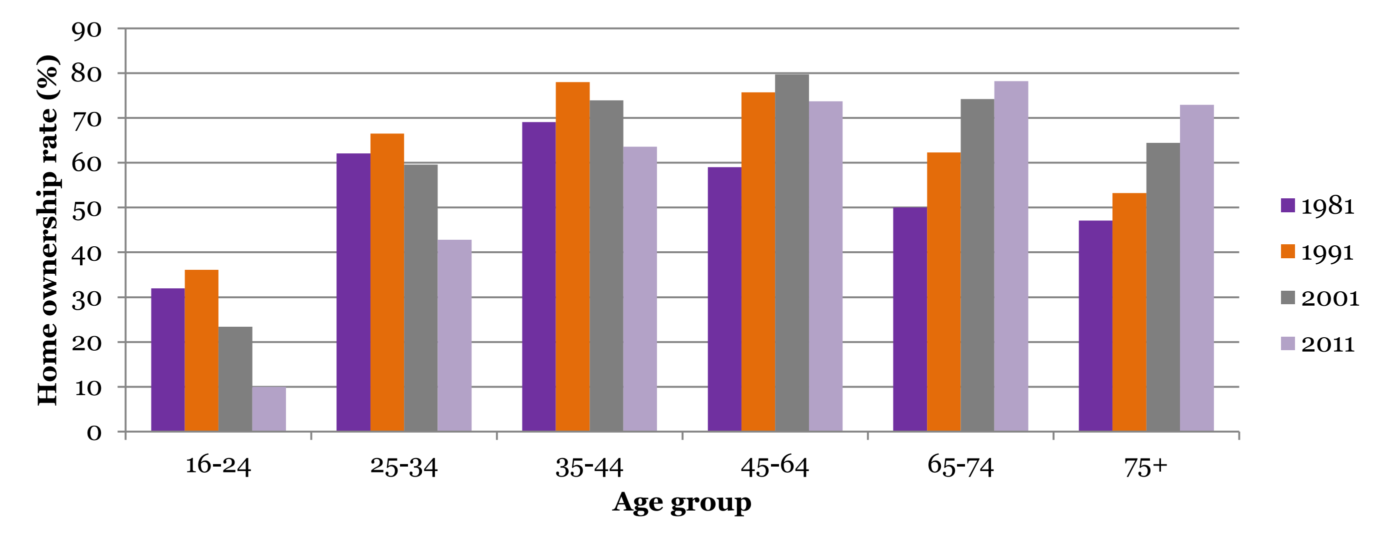
Clearly any particular family will know how old their children are and will be able to form a view as to how likely it is that their adult children will have left home in time for their parents to downsize at retirement. But as the gap between pension age and age of parenthood declines, the chances of this happening are diminishing.

i) *Increased age at which young people can afford to leave home and rent or buy a home of their own*

The average age of a first-time buyer in the UK is now estimated to be 31, and that age is rising each year. The total number of young adults aged 15-34 living with their parents has increased by one million since the late 1990s, from a low of around 5.5 million in 1998 to just over 6.5 million in 2015.

This trend is reflected in Figure 2 which shows data for England for 1981, 1991, 2001 and 2011 with home ownership rates for each age group.

Figure 2: Home ownership rates by age group: 1981,1991,2001 and 2011



Source: English Housing Surveys, various years, Department for Communities and Local Government

As this Figure shows, whilst home ownership rates have risen markedly amongst successive cohorts of older age groups, not least through the introduction of 'right-to-buy' legislation in the 1980s, the opposite trend is seen among younger age groups, a trend which has accelerated since 2011. For example, as recently as the start of the 1990s, around one in three people aged 16-24 was a home owner, whereas this proportion had fallen to barely 1 in 10 by 2011. Even amongst the 25-34 age group, only a minority were home owners in 2011. This strongly suggests that parents approaching retirement are far more likely than in the past to find that those 'spare' bedrooms are not so spare after all.

i) Increased frequency of divorce / separation amongst adult children, leaving some to return to the family home as adults

A small but growing phenomenon is what has become known as the 'boomerang' generation – those who do actually leave home but then return for a variety of reasons. This can include being unable to afford living in rental accommodation or a relationship breakdown which means that an adult child needs to return to the family home, often later in life. Whilst hard evidence on the scale of this issue is hard to come by, long-term increases in divorce and separation rates suggest that even older parents cannot be sure that the spare room in their home will not be needed again for their offspring.

In 2015, the Office for National Statistics estimated that 1 in 12 people in their early 30s was still living at home with their parents, 1 in 5 of those in their late 20s and just under half of those in their early 20s[3]. This will be due to a range of factors, but amongst older age groups this is likely to include some who have previously left home but now returned because of relationship breakdown or the loss of a job.

a) Will you have paid off your mortgage?

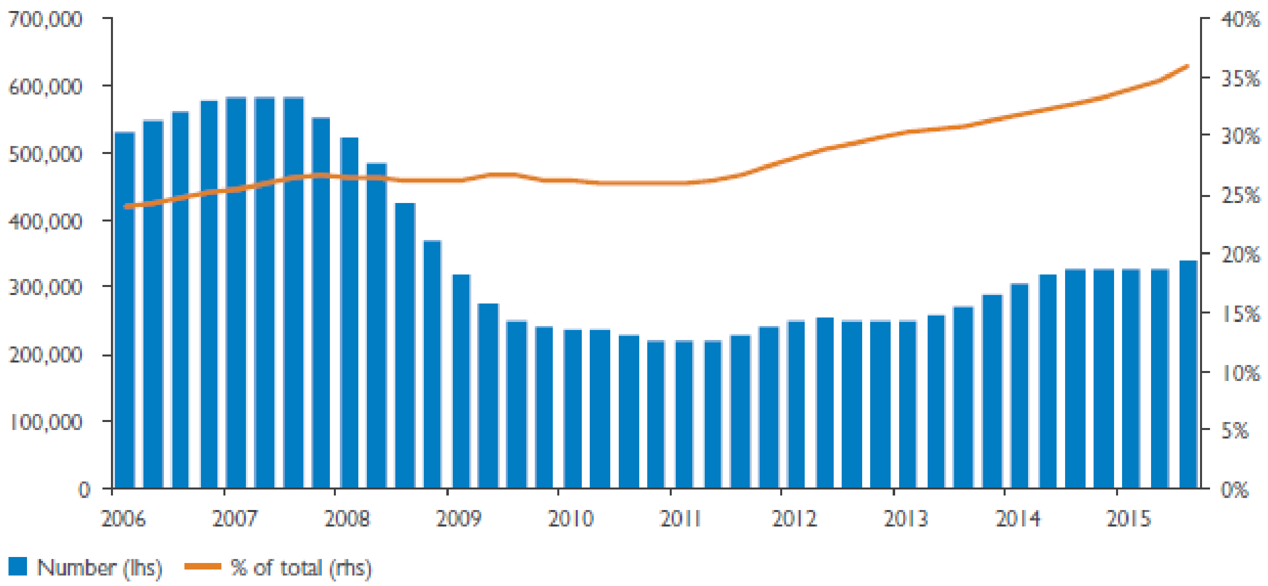
In the past, a reasonable working assumption would be that you would buy your first home in your late 20s or early 30s, take out a 25 year mortgage and have it paid off comfortably before your 65th birthday. As a result, you could retire and downsize knowing that any income you drew from your housing equity only needed to cover day-to-day living expenses and not an outstanding mortgage. However, recent trends in home ownership and mortgage lending have radically changes this picture.

An important report[4] by the Council of Mortgage Lenders published in late 2015 highlighted major changes in mortgage lending, with more mortgages extending into retirement, more mortgages lasting longer than 25 years, and even first time buyers taking out mortgages going past traditional state pension ages.

Key findings included:

- The proportion of mortgages being taken out today which are scheduled to continue beyond the age of 65 has risen from 1 in 4 a decade ago to 1 in 3 today; this is shown in Figure 3:

Figure 3: Number and proportion of mortgages extending to age 65 and beyond, 2006-2016



Source: CML regulated mortgage survey

[3] ONS Statistical Bulletin: "Families and Households 2015", www.ons.gov.uk
[4] "Retirement Borrowing Report", Council for Mortgage Lenders, December 2015

- The proportion of first-time buyers taking out mortgages of more than 25 years has doubled from around 30% ten years ago to 60% today; a combination of an increase in the average age of first-time buyers and an increased length of mortgage means that more people will find that they have not cleared their mortgage by the point at which they want to retire;

Will you have stopped working?

A key part of the downsizing dream is to be able to stop work at a decent age, move to a smaller home and live off the proceeds of the house sale. But options for moving home will be much more limited if you continue to need income to pay off your outstanding mortgage and/or to top up the income generated by trading down.

There is clear evidence that more and more people are finding that stopping work at state pension age, or even retiring early, is a luxury fewer people can now afford. Long-term data shows that more and more people aged over pension age are now finding themselves in paid work. For example, looking at men in the 70-74 age group, the employment rate has nearly doubled in the past ten years alone, from just over 5% to nearly 10%. The absolute number of such men in employment has risen from 124,000 to 258,000.

Figure 4 shows employment rates among men over 50 in five year age bands, whilst Figure 5 shows the same information for women.

Figure 4: Employment rates for men aged over 50 in five year age bands, 1984-2014

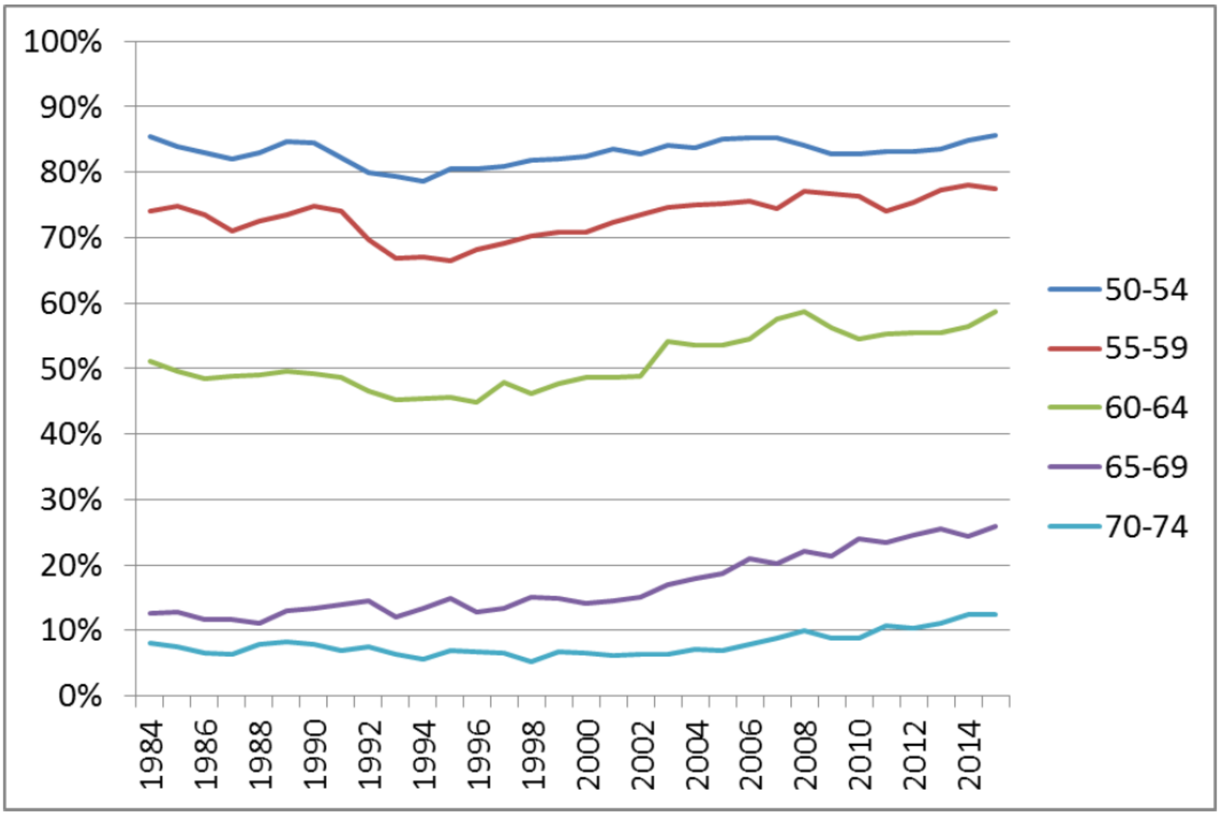
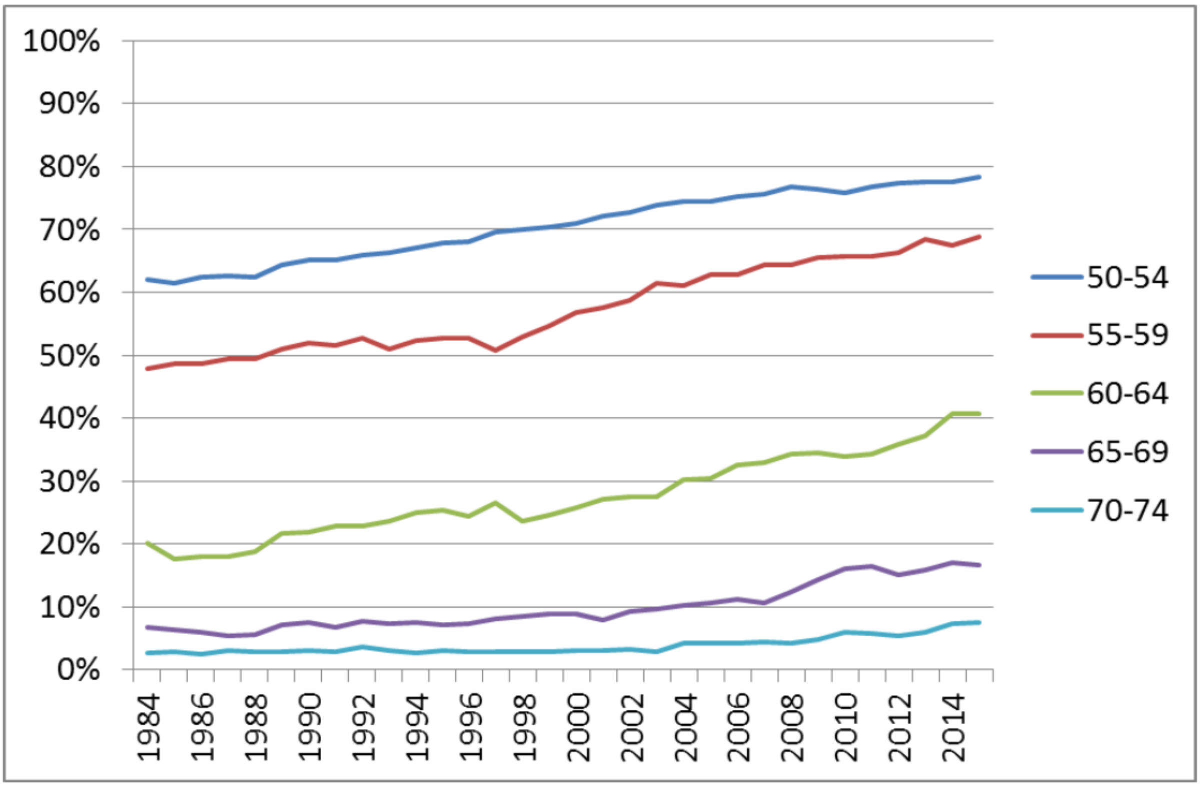


Figure 5. Employment rates for women aged over 50 in five year age bands, 1984-2014



The final years of data in Figure 5 start to show the impact of the rise in women's state pension age which rose from 60 in 2010 to 61 in 2012 and 62 in 2014. This appears to have reinforced the long-term upward trend in participation rates among women in their early sixties. Major increases in state pension ages are scheduled for men and women with equality at 65 reached in 2018, at 66 in 2020 and at 67 in 2028 with further increases likely. This will further reduce the feasibility of retiring at 65 and living off the proceeds of a house sale to top up a state pension.

2. Financial Aspects of the downsizing dream

In this section we look at the financial wisdom, or otherwise, of a retirement strategy based around living off the proceeds of downsizing rather than relying on pension saving. We consider first the amount that you would need to save for this to be a viable option, and second the potential uncertainty and volatility associated with relying on the price of a single asset (your home) as the centrepiece of retirement planning.

a) Will you be able to generate enough income?

Let us consider the simple case of someone who plans to retire at 65 and rely wholly for their income in retirement on the combination of a state pension and the proceeds of downsizing. How much equity would they need to free up for this to be a viable option and how realistic is this?

To give a very rough idea of the income that might be needed and the potential housing equity that might be released by downsizing, we work through the following steps for data at the UK level and also separately for each nation and each English region.

a) Assume someone earns the average full-time wage for where they live[5];

b) Assume that they need around two thirds of their pre-retirement income in order to maintain their standard of living in retirement;

c) Assume a full basic state pension (just over £8,000 pa) and deduct this from the target income

d) Assume that 'downsizing' means moving at retirement from an average detached house in that nation/region to an average semi-detached house; ignore costs such as stamp duty on the new purchase, legal fees, removal fees etc.;

e) Assume that the equity freed up is converted into an income by means of an annuity paying 5%; note that this would provide no protection against inflation through retirement;

f) Compare the total income (annuity plus state pension) from this strategy with the target income of two thirds of pre-retirement gross wage;

The results of this analysis are shown in Table 1.

[5] Given that most people reaching pension age do so as part of a couple, the income generated by the downsizing would actually have to support two people, so might need to be correspondingly larger. On the other hand, the partner might have state pension or other income to contribute to the household. To keep things simple, we have therefore focused solely on replacing one average wage.

Table 1. Estimates for UK, nations and English regions of potential income from downsizing as percentage of target level

	UK	East	East Mids	Lond	North East	North West	South East	South West	West Mids	Yorks	Scotl	Wales	NI
Detached £,000s	**310**	386	243	854	199	249	512	349	280	233	235	207	180
less													
Semi £,000s	**197**	267	155	560	124	154	322	231	168	145	147	135	113
gives													
Equity £,000s	**113**	119	88	294	75	95	190	118	112	88	88	72	67
generates													
Annuity (£k pa)	**5.7**	6.0	4.4	14.7	3.8	4.8	9.5	5.9	5.6	4.4	4.4	3.6	3.4
plus													
State Pen (£k pa)	**8.1**	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
makes													
Total (£k pa)	**13.7**	14.0	12.5	22.8	11.8	12.8	17.6	14.0	13.7	12.5	12.5	11.7	11.4
Wage (£k pa)	**27.4**	26.9	24.9	34.3	25.4	25.4	28.7	25.6	25.6	25.3	27.4	24.6	25.2
Repl Rate	**50%**	52%	50%	66%	47%	51%	61%	55%	53%	49%	46%	48%	45%

Sources:

House prices: UK Land Registry, House Price Index: http://landregistry.data.gov.uk/app/ukhpi/explore

Wages: Median full-time gross weekly earnings by region, UK, April 2015 (ONS)

Looking first at data for the UK, the equity released by downsizing from an average detached house to an average semi-detached house would be around £113,000. With an annuity rate of 5%, this would generate an annual income for life of just under £5,700. Together with a state pension of £8,100, this gives a combined income at retirement of just over £13,700. With a median full-time wage of £27,400, the final row of table 1 shows that the typical person would have to live in retirement on an income of half their pre-retirement wage if they adopt this strategy. For most people, this would represent an unacceptable slump in their standard of living.

Looking across the UK, trading down from the average detached house to the average semi-detached house at retirement would generate less than two thirds of pre-retirement income everywhere in the UK outside London and the South East. Even in the South East of England, where property prices are well above the national average, this illustrative downsizing only generates around three fifths of pre-retirement gross income.

The only area where this strategy appears at first sight to be viable would in London, where this stylised example generates around two thirds of pre-retirement income – normally regarded as a reasonable target for income in retirement. This is because those who have retired no longer have to pay National Insurance Contributions on their income, no longer have travel to work costs and are assumed to no longer be paying off a mortgage or saving for a pension.

However, it is in London that the assumptions made in Table 1 are stretched to breaking point. We have assumed that a person on an average wage for the region can reach retirement owning the average detached house, in this case worth £854,000. In reality it seems unlikely that the typical London wage-earner on £34,000 per year can aspire to a property of this sort. The influence of overseas buyers of London property may well be driving London prices up to a level which is beyond the reach of those on average earnings, and it seems reasonable to suppose that the 'typical' London downsizer would release far less equity than shown in Table 1.

It is also worth noting how conservative are the assumptions which underlie this analysis. In particular, the annuity rate which we have used is for a 'level' annuity which does not rise in line with inflation. This means that the 'target' income level which we have specified would only be attained in the year of retirement. Thereafter, as prices rose and the annuity level remained static, real living standards would decline year on year. Arguably therefore, a more realistic target would be to purchase an index-linked annuity, where the rate might be nearer 3.5% than 5%. Against this yardstick, all parts of the country, including London, would fail the test by a considerable margin.

In summary therefore, in most parts of the country it is wholly unrealistic to think that trading down will generate a capital sum anywhere near large enough to buy an income for life of the sort of level that most people would want in retirement.

b) How will you cope with volatility?

One of the great unknowns when you plan to live in retirement from the proceeds of selling your home is how much your home will be worth at that point. For many years, house prices have seemed like a one-way bet, but periodic house-price crashes have meant that someone who retired a few years before a crash would have had a wholly different experience from someone who retired a few years after one.

In general, good practice in long-term investing is to diversify – between different types of asset (eg stocks and shares, bonds, property, commodities etc.) and between different markets at home and abroad. Pinning your retirement hopes on your home is the exact opposite of this – investing in a single asset class (residential property) in a single market (your local housing market). What would you do, if your retirement coincided with a property downturn, or if local factors (eg new high-speed rail line, planning permission for 'fracking' etc) caused a dip in local house prices?

Whilst all investment to generate a return has a level of uncertainty attached, the general rule is that more diversified investments will tend to generate less volatility over the long-term.

This is illustrated in Figure 6, which compares the option of using £100,000 in the mid 1990s to invest in residential property against investing in a balanced fund of stocks and bonds over a twenty year period. Note that this is a period over which house prices performed relatively strongly.

Figure 6 shows a number of interesting results:

a) Although there are individual years in which investing in residential property would have produced a better outcome, in most years, the diversified investment in stocks and bonds performs better; over the period as a whole, the 'Balanced Fund' generates a pot of around £500,000 compared with around £350,000 from residential property;

b) Although both property prices and share prices suffered a slump in the crash of 2008, share prices recovered much more quickly; house prices stayed depressed for several years, which would be a real issue for someone who had planned to retire in the run-up to 2010; if their health meant that they could not simply work on until they were seventy, they could be forced to sell their house at a depressed price; with the Balanced Fund, even if retirement was required shortly after the slump, it would have been possible to drawdown a modest income from the Fund whilst going on investing; this partial withdrawal is much more difficult – and expensive – with releasing housing Equity;

<u>**Figure 6: House price appreciation versus return from a Balanced Fund**</u>

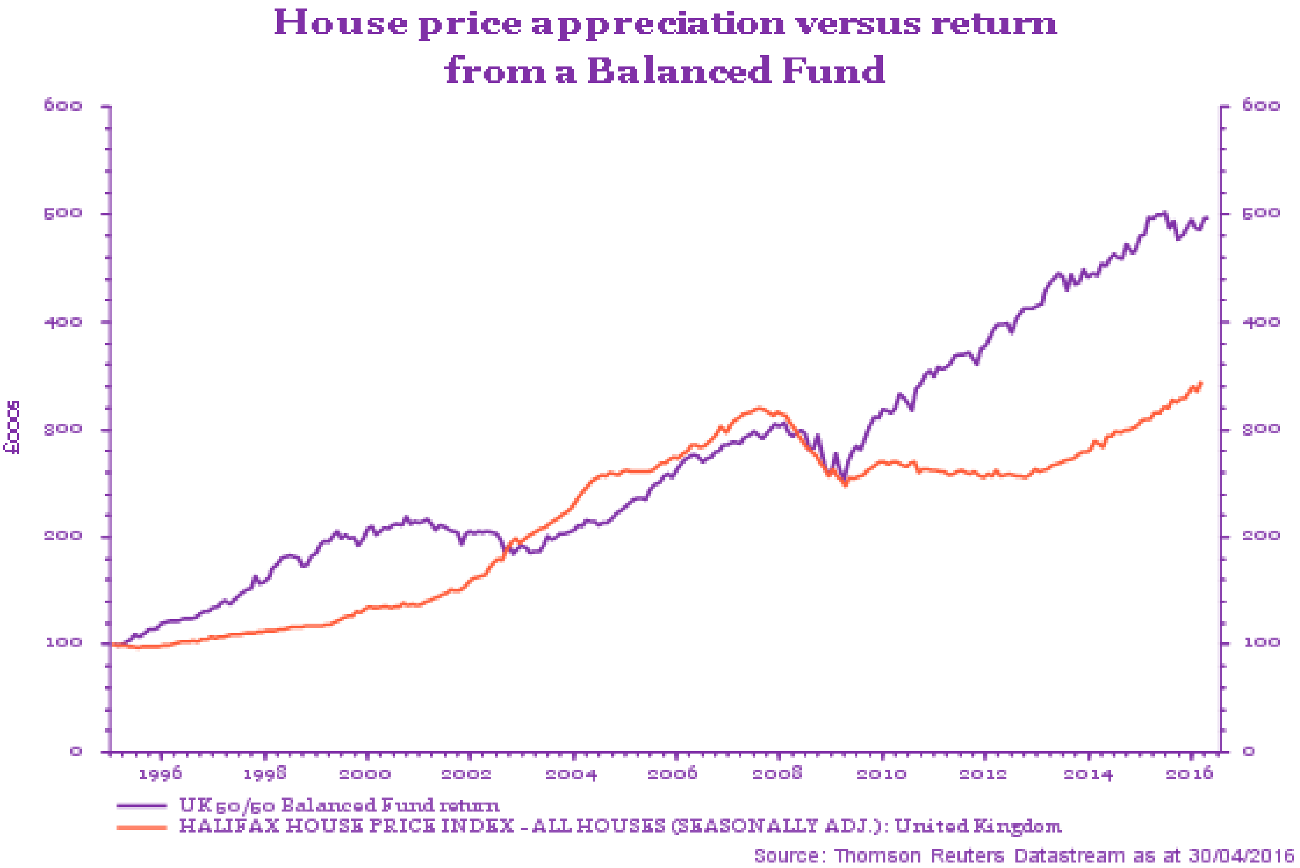


Chart 6 is obviously a simplified comparison. The investor in residential property such as buy-to-let would generate a rental income which could be re-invested. But the focus of this report is on those who put all their investment into their own home. Unless they choose to rent out any spare rooms then there would be no rental income from this investment.

It should be added that Chart 6 does not show the tax advantage of investing in a Balanced Fund inside a pension scheme. Whereas investment into your own home is made out of post-tax income, contributions into a pension would generally attract tax relief. A cumulative investment of £100,000 into a pension would only cost the saver £80,000 if he or she qualifies for standard rate tax relief, providing a further boost to the rate of return compared with investing in your own home.

3. Other barriers to the downsizing dream

We have so far considered the reasons why the notion of retiring at 65 and downsizing a family home with spare bedrooms and a paid off mortgage may not be as easy as it first looks. We have also shown that for most people the amount of money that would need to be realised from such a trade would be unrealistic. But these are not the only barriers to trading down at retirement. In this section we consider some of the other reasons why, for all that people expect when they are younger, surprisingly few people do actually undertake major downsizing exercises at retirement.

a) Availability of suitable property

In our calculations so far we have assumed for simplicity that someone would trade down from an average detached house to an average semi-detached house in the same area. But this assumes that the right sort of property is in fact available. In urban areas there might be greater choices of properties for downsizing, but in more rural areas this can be a particular challenge. Individuals who have built up their social lives in a particular community and who have strong ties to that community may be very reluctant to move away in search of the right property for downsizing. Yet planning restrictions may mean that very limited new-build housing can take place. It is no surprise that there are significant levels of 'under-occupation' of large family homes in rural areas in particular, as elderly couples and widows/widowers go on living in a home which appears to be far in excess of their needs but who have been unwilling or unable to 'trade down' to a house in the same community that would be more appropriate for their needs.

b) Psychological barriers to donwsizing

As well as the lack of suitable housing for 'downsizing' there are also considerable psychological barriers to giving up your family home at retirement in order to generate an income.

In the UK in particular, 'getting on the property ladder' is seen as a key goal for young adults, and there are close links between social status and housing status. Those pursuing the 'downsizing dream' are, by definition, likely to invest more in their home than others, so as to generate sufficient spare housing equity to fund retirement. Just at the point that they stop work and will be spending more time in their family home, on which they will have lavished considerable investment, the 'downsizers' are expected to move out to something much more modest. The psychological barriers to doing so are not hard to see.

In fact, research by the Joseph Rowntree Foundation found that death is more important than downsizing in 'releasing' larger homes. Researchers found that 85 per cent of homes with three or more bedrooms are 'released' by older people due to death rather than a move to a smaller home[6]. Whether this is because of a lack of suitable alternatives or because of emotional attachment to the family home, this suggests that individuals may want to think carefully about whether downsizing to fund retirement is a realistic plan. It is one thing to sell up buy-to-let properties which have essentially been commercial investments, but selling up your own home and potentially moving out of the area is a different prospect.

6 "Older people's housing: choice, quality of life, and under-occupation" (JRF, 2012) https://www.jrf.org.uk/report/older-peoples-housing-choice-quality-life-and-under-occupation

4. Alternatives to downsizing

Throughout this report we have assumed that the only way to live off the equity in your own home in retirement is to release it through trading down. Whilst this is the 'cleanest' way of cashing in on the value of housing equity, it is not the only one, and the other main alternatives warrant a mention.

a) Renting out a spare room

Assuming that you have reached retirement with a house that is larger than you need for your own family, one way of generating income for retirement would be to rent out a spare room. This is actively encouraged by the Government under its 'Rent a Room' scheme which allows individuals to earn £7,500 per year in rental income tax free. This could be an option earlier in retirement, especially if the property market was weak just at the point that you had previously planned to downsize.

In terms of the amounts that could be generated, the property website 'Spareroom' suggested that lodger landlords can earn, on average, £8,335 a year in London, and £6,071 across the rest of the UK[7]. In most parts of the UK, the rental income from one room would still be inadequate as the only source of retirement income on top of the state pension.

There are however a number of problems with assuming that you can fund your retirement through renting out a spare room in your own home:

- Whilst rental income is not taxable up to £7,500 pa, there will be costs such as drawing up tenancy agreements, additional heating/lighting/insurance costs etc., which means that the actual net income achieved from renting out a room could be significantly lower than the headline rent; mortgage lenders and insurers may also wish to review their terms if the householder plans to rent out a spare room on a long-term basis;
- At retirement, when you will be spending more time in your own home than previously, you may be less enthusiastic about having a stranger living with you, especially if facilities such as kitchen etc. are shared;
- Whilst a good, long-term tenant will generate a reliable income, over a retirement of two decades or more, the landlord is likely to have their fair share of void periods, tenants who miss rental payments etc., and this could generate financial pressure if rental income is a key part of retirement planning;
- Dealing with a lodger may be more acceptable earlier in retirement than later on when the homeowner may have their own needs;

[7] https://www.theguardian.com/money/2015/jul/13/rent-out-your-spare-room

Clearly, renting a room does provide an option to supplement income in retirement, and may be a workable solution for some. But even a spare room rented out consistently throughout retirement not generate enough to replace a pension for those seeking a comfortable retirement.

b) Equity Release[8]

There are two main types of equity release product:

a) Lifetime Mortgage

The most popular form of equity release is a Lifetime Mortgage. Under this approach you retain ownership of your property but take out a mortgage on part of its value to free up a lump sum. You can repay the interest as you go, or you can let the interest roll up. The mortgage is paid off when the property is sold, such as when the homeowner dies or goes into residential care.

Modern 'Lifetime Mortgage' products generally have a 'no negative equity' guarantee which ensures that there is no outstanding debt when the property is finally sold. However, this also limits the proportion of the property value on which it will be possible to secure a loan. An upper limit of borrowing 60% of the value of the property is normal.

b) Home Reversion

Under this approach you sell all or part of your property to a provider in return for a lump sum or an income stream. You continue to live in the property and have to maintain and insure it. When the plan ends and the property is sold, the value of the property is split between the householder and the home reversion company in proportion to their share of ownership. Typically, a home reversion plan will cover between 20% and 60% of the value of a property.

Equity release is currently a very small part of the overall mortgage market. Research by the Council of Mortgage Lenders published in 2015 found that:

"…lifetime lending is still a relatively small market segment… last year 20,100 new lifetime mortgages were advanced, with a value of £1.1 billion. This is about 2% of the number of all regulated mortgages advanced in the year, but the amount advanced represented only 0.7% of the value of those loans. Note, however, that the £1.1 billion of new lifetime loans is the value of the initial advances*, and so excludes any subsequent drawdowns on such products after completion"*[9].

Whilst the scale of equity release is growing, and may be expected to continue to do so particularly as the income available from traditional final salary pensions starts to decline, it remains a relatively limited

[8] For more information about equity release see: https://www.moneyadviceservice.org.uk/en/articles/equity-release
[9] https://www.cml.org.uk/news/news-and-views/lifetime-borrowing-a-maturing-market/

option. There are a number of reasons why relying on existing equity release products to fund retirement may be a less attractive option compared with saving through a pension.

One of the main challenges is that these products can be relatively expensive as a way of funding retirement. In particular, interest rates on a 'lifetime mortgage' can be significantly higher than on a traditional mortgage. Current 'best-buy' rates on such products are currently around 5%. Over a long retirement, the cumulative cost of interest on equity release can wipe out most or all of someone's housing equity. If the householder wants not only to support themselves in retirement but also to have something left to bequeath to children or grandchildren, taking out a lifetime mortgage could significantly undermine this goal.

For most people, the amounts of housing equity currently released through lifetime mortgage products are far less than the amounts of equity that would be released by trading down as shown in Table 1 earlier in this report. The Council of Mortgage Lenders finds that the typical 'lifetime mortgage' releases equity of just £58,000, compared with the £113,000 that would be released by trading down from a detached house to a semi-detached. The income potential from such a lump sum would be just a small fraction of the income needed for a comfortable retirement.

These figures could, of course change, and there are signs of growth in the equity release market. But the typical amounts being withdrawn, even after a period of rapid housing market growth, suggest that the scope for relying exclusively on this avenue for income in retirement may be limited for most people.

Conclusion

A small but growing number of people report that they are planning to eschew pension saving in favour of relying exclusively on their home to generate an income in retirement.

This report has shown very clearly that this is a risky strategy which is likely to lead to disappointment. Even before any housing market downturn triggered by the recent EU referendum, placing all of your retirement eggs in the single basket of your own home is a high risk strategy. Across the UK as a whole, and particularly outside London, the amount of income that could be generated by downsizing at retirement is likely to be only a modest fraction of the amount needed for a decent retirement.

For those wanting a good quality of life in old age, investing consistently in a pension with the benefit of tax relief and an employer contribution is likely to be by far the best strategy. The alternative, of a 'downsizing dream' could easily turn retirement into a nightmare.