NEW ZEALAND INSTITUTE FOR RESEARCH ON AGEING
Te Pūtahi Rangahau i te Pakeke Haere

Home Equity Release Schemes in New Zealand:

Consumer Perspectives

Final Report on Research for the Retirement Commission and the Office for Senior Citizens

Judith A. Davey and Virginia Wilton

New Zealand Institute for Research on Ageing
Victoria University of Wellington

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Report Outline

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Summary

Background and Methodology

Home ownership rates among older people in New Zealand are high, but their incomes are, on average, lower than for younger age groups, so that many fit the description "asset rich, income poor". Housing wealth can be used in various ways. Trading down may release some equity, but if people wish to stay where they are, there are a variety of commercial equity release (ER) options.

The research aimed to investigate the circumstances, motivations and attitudes of older people in New Zealand who have taken up ER schemes and some who have considered such schemes but decided against them. These findings are used to throw light on attitudes to ER from the consumer point of view, and to inform debate on relevant policies in relation to older people.

The research participants are clients of ER schemes (or enquirers who have approached ER firms) throughout the country. Access to them was gained through two firms which between them have around 97% of the market. Clients and enquirers were sent a postal questionnaire, which produced a 47% response rate, and sixty respondents, in the wider Auckland, Wellington and Christchurch areas, were interviewed face-to-face.

Characteristics of the respondents

The responses included 349 people living alone and 455 couples, plus 42 living in households with people other than a spouse. The average age of male respondents was 75 and of the female respondents 73. The majority have children, with an average of three, and grandchildren, with an average of six. Most are in regular contact with their children and other relatives.

Most of the respondents come into the middle socio-economic levels and have low or moderate incomes: 44% lived on New Zealand Superannuation (NZS) only. Their savings were modest: over half had saved less than $10,000. In addition, almost a quarter reported that they have some debt, mainly on credit cards.

The average house value for the respondents is estimated at $279,000, with over half having houses with rateable values of $250,000 or less. The people who were interviewed had been in residence at their current addresses for an average of 17 years. The majority of interviewees thought their house was suitable for them as they grew older and did not intend to move again.

Comparisons between clients and enquirers are based on very unequally-sized groups, roughly 800 and 50, respectively, because of a low response from enquirers. Rather more clients than enquirers were people living alone, but overall there were no significant differences in age structure between the groups. The enquirers were more likely to have no children, and less likely to be income poor than the clients, but otherwise there were no marked differences.

Setting up the schemes

The majority of respondents first became aware of ER schemes through the news media and advertising. Two-thirds then consulted a legal advisor and a third consulted a financial advisor. But a higher proportion took advice from family and friends. The majority discussed their intention to consider an ER scheme with their children and nine out of ten received a positive response.

Most of the interviewees were happy with their professional advisors, saying that they presented both the pros and the cons of the schemes. However some lawyers knew little or nothing about ER or gave conflicting advice. In only a few cases was the professional advice clearly against the plans, although some enquirers were dissuaded in this way. Two-thirds of respondents had not considered any alternatives to ER but some thought about moving to a less expensive house. Only 17% looked at more than one ER firm. Their main reason for deciding to take up a scheme was to gain access to the funds for specific purposes or to improve their financial situation. The vast majority took the funds as lump sums, sometimes the maximum allowable and sometimes a lesser amount. Three out of every four clients had taken between $10,000 and $50,000. Over a third said that they would not take more: 18% that they would and another third said maybe, depending on circumstances. A wide range of interest rates were cited by the clients with a quarter either not knowing or not stating the rate.

Three-quarters of the interviewees clearly have no worries about the safety or dependability of the ER schemes. However, a few expressed concern about what would happen if the company fails, if they "change the rules" and a few feared losing their property. The main reasons why the enquirers did not go ahead, however, were concerns about interest rates and other costs, age restrictions and the greater attractiveness of alternatives.

Use of Funds

Before taking out their ER scheme, most interviewees could meet their everyday expenses, but many had difficulty with other items of expenditure, especially home maintenance, replacing large household items and holidays/recreation. Being in a scheme had provided them with financial security/freedom, improved quality of life and peace of mind, as well as the ability to stay in their own homes and to help family members.

Postal survey respondents were asked to state their uses for released funds and many combined several uses. Well over a quarter used some ER funds for everyday expenses to eke out NZS. Several interviewees had invested some or all of their lump sums, so that the interest could help with living expenses. Home maintenance ranked with living expenses as a leading use of ER funds. Next came purchasing a new car or car maintenance. Slightly fewer respondents mentioned home improvements compared to home maintenance. These included re-roofing or roofing repairs, as well as major exterior painting. Many of the improvements, especially to bathrooms and heating systems would make housing more suitable for people as they age. One in every five respondents used some of the funds on travel, usually in combination with other uses. This involved visits to family members overseas, sometimes grandchildren and siblings who had not been seen for many years. Several mentioned that it was wonderful to be able to have holidays without worrying about the cost.

Sixteen percent of respondents used ER funding to retire debt, either their own or debt on behalf of family members. Eleven percent said they used ER funds for medical expenses. In many cases this was to have surgery in private hospitals and to avoid long waiting times in the public system.

Satisfaction and Consumer Issues

Two-thirds of postal survey respondents were very satisfied with their schemes, with another 31% fairly satisfied. The 'best' features of the schemes were the availability of funds, how they eased financial worries, and not having to make repayments. High interest rates and other costs were the most commonly mentioned 'worst' feature. Most respondents said they would encourage others to consider ER plans. A good proportion, however, counselled thorough investigation and research and taking financial and legal advice. A range of consumer issues arising from the research are examined in Chapter 5.

Relevance of Inheritance and Intergenerational issues

Attitudes towards inheritance are significant in the discussion of home equity release, as capital tied up in housing is being used rather than preserved for transmission through the generations. The majority of respondents were clear that individuals should decide what happens to the property and wealth which they accumulate. But one in five thought this should be a family decision. When asked "How important to you is providing an inheritance for your children, grand-children or other relatives?" there was a roughly 40/60 division between those who placed little importance on inheritance and those who consider it of some importance or very important. Many respondents said that their children were well off and some had helped family already. Others considered it was better to use the funds for their own benefit and in some cases their children had encouraged them to do this. The majority of interviewees agreed that inheritance is not as important as it used to be.

Equity release can figure in intergenerational transfers in various ways. The research findings included examples where funds were used to help children, paying off their debts and setting them up in business. There were cases where children helped their parents by providing alternatives to commercial ER (for example by offering loans or becoming part-owners of the parental home). Some clients had provided accommodation for adult children and this affected their actions with respect to using home equity. Interviewees often suggested that they would certainly not ask for or expect financial support from their children.

Intergenerational transfers can also take the form of informal care, by and for older people. Attitudes towards such care are relevant to how housing wealth is used and whether it is mobilised during the lifetimes of the holders. Expectations of government support are also pertinent. The interviewees expressed a desire for independence and mostly agreed that the costs of both residential and home care should be shared between the users and the government, on a fair basis. The majority believed that families have some responsibility and care options should be discussed with them. Most had not had such discussions or thought about who would provide care for them if they came to need it.

Policy and other implications

The findings of the survey of ER clients and enquirers have implications for a range of policy areas relevant to older people. These include retirement income, health and other support services and housing. Many clients were using ER funds to improve their living standards and/or to provide some financial reserves for unexpected expenditure. There is some evidence that people are beginning to see equity release as part of financial planning in retirement. The quality of housing contributes strongly to the health, wellbeing and independence for older people and will become crucial to the success of ageing in place, especially as larger numbers of very old people remain living in the community. ER funds may be the only way for low income older people to carry out house maintenance, renovation and adaptation. In the area of health, the main uses of ER funds were to speed up access to elective surgery, reducing pressure on the public system.

Several deeply-held beliefs, about debt, inheritance and independence for older people, influence the acceptance or otherwise of ER. The research identified factors which influence older people's decisions about ER. Government may need to consider the regulation and control of such schemes, the potential for abuse, and information needs. In terms of how ER schemes operate, interest rates loom large as a concern. Other specific issues are the younger age limits, time limited schemes, and the ability to move to supported accommodation.

This research has shown that there are several purposes for which personal financial assets, in the form of home equity can be mobilised to improve wellbeing in later life. Some of these already figure in policy, such as payment or part-payment for long-term residential care. Maintenance of national housing stock and adaptation of housing will be important to support ageing in place. Other options may be considered in time, including payment of home care costs and for long-term care and health insurance.

Chapter 1: Background and Methodology

Background

In New Zealand, home ownership rates increase with the age of occupiers and by retirement the majority of people live in mortgage-free homes. The most common form of significant wealth-holding in New Zealand is home ownership. Asset-holding in this form is concentrated among the older population and for many people it is the only large-scale capital which they have accumulated over a lifetime. At the same time, incomes for retired people are, on average, lower than for younger age groups, so that many fit the description "asset rich, income poor". The findings of the *Living Standards* survey suggest that 85% of older New Zealanders are managing adequately on their current incomes (Fergusson et al 2001). However, most have little chance of enhancing their income and depend mainly on New Zealand Superannuation (NZS), while having considerable wealth tied up in their homes.

Housing wealth can be used in various ways. It can be preserved for inheritance or for a “rainy day” or it can be mobilised to produce income. In this case home owners must choose whether they wish to remain in their homes or move. “Trading down” may release some equity, but if people wish to stay where they are, there are a variety of commercial equity release options. These include reverse mortgages, which are the most familiar type in New Zealand.

In the 1990s, the Housing Corporation launched the pilot *Helping Hand* loans scheme, which released equity for home improvements, but this was never extended. Reverse mortgage products were also marketed through the Invincible Life Assurance Company from 1991. Although take-up of these products was slow, research reported considerable satisfaction among their clients (Davey 1995).

Changes in the social, economic, business and policy environments over the last decade are likely to have affected the prospects for equity release (ER). New firms have entered the market with new products. These changes have been documented in an update of the 1998 report *The Prospects and Potential of Home Equity Release in New Zealand*, commissioned by the Retirement Commission and published in March 2005 (Davey 2005).

Research Aims and Design

The research aims to investigate the circumstances, motivations and attitudes of older people in New Zealand who have entered into commercial schemes to release equity from their homes. It includes a similar investigation of people who have considered such schemes but decided against using them and the two groups are compared. These findings are used to throw light on attitudes to home equity release in New Zealand, from the consumer point of view, and to inform debate on relevant policies in relation to older people.

The research participants are clients of ER schemes (or people who have approached ER firms) throughout the country. Access to them was gained through two Auckland-based firms - Sentinel Lifetime Loans and SAI (which took over the Invincible Life schemes, originating in the 1990s). Independent market information estimates that Sentinel and SAI between them have around 97% of the New Zealand equity release market.[1] SAI and its predecessors have been active in the market for 15 years and Sentinel entered in 2003.

Through Sentinel and SAI, clients and enquirers were sent a postal questionnaire with a letter of introduction from NZiRA and one from the firm, endorsing the research and encouraging response. There was a reply-paid envelope for responses to return directly to NZiRA. It was made clear that this was a university-based survey, commissioned by public sector agencies and independent of the provider firms.

Ethical approval was obtained from the Victoria University Human Ethics Committee. All respondents were given full information about the research and confidentiality, and interviewees signed a consent form at the time the interview took place.

The postal survey asked respondents if they were willing to be interviewed face-to-face to consider issues in more detail, and sixty respondents were followed up in this way. The interview sample was selected to include single people and couples and was clustered, for interviewing convenience, in the wider Auckland, Wellington and Christchurch areas.

A total of 1901 questionnaires were posted out by the two firms in early October 2005. About 10% of these were to enquirers (people who had made serious enquiries about ER schemes, but who had not gone ahead). One reminder letter was sent two weeks later. The total response was 895 (47%), but this included 49 incomplete replies, giving a total of 846 full responses. These were entered into a database for analysis using the SPSS (Statistical Package for the Social Sciences) programme.

Of the full 895, 429 (48%) were willing to be interviewed. Only 60 of these could be included in the interview stage and the rest were sent letters thanking them for their interest. The interviews were carried out by a three mature and experienced interviewers, with audio recording and extensive note-taking. Information from the interviews was added to the SPSS database for the 60 respondents involved and 'vignettes' were compiled to illustrate individual experiences and attitudes (pseudonyms are used to protect confidentiality). These have been used to add colour and life to the report, linking to the more structured findings from the postal survey. Further analysis took place through in-depth discussion between the interviewers to identify and highlight common attitudes and perceptions, linked to the objectives of the research and the wider implications of the findings.

[1] Avon Investments– Lifestyle Security (Christchurch based), which has around 2% of the market, declined to participate in the research. Other firms identified in recent Retirement Commission work (Davey 2005) are extremely small players in the equity release market, with only 1% market share between them (Datamonitor 2005).

Chapter 2: Characteristics of the respondents

Personal Characteristics

The 846 responses included 349 people living alone (109 men and 240 women) and 455 couples; 42 respondents lived in households with people other than a spouse (often adult children on a medium to long-term basis, with or without the clients' grandchildren).[2] Thus around 1300 people provided information for the survey findings (assuming that couples both contributed). Consistent with the older age group in the population, this included more women than men (44% men, 56% women). Of those living alone 69% were women, as were 64% of respondents living with people other than their spouses. The couples/single people division was therefore roughly 56%/44%.[3]

The average age of male respondents was 75 (with a range from 56-90) and of the female respondents 73 (range from 49-91). The average age of men living alone was 77 and women 75. Average age of men in couples was 75 and of women 72. Table 1 shows the percentage breakdown of respondents by age, sex and household composition.

Table 1: Postal Survey respondents – Age, Sex and Household Composition

Age Group	Men living alone	Women living alone	Men in couples	Women in couples	Living with others
under 60	1	0	1	0	0
60-64	5	5	9	3	10
65-69	8	17	24	15	27
70-74	16	23	32	31	43
75-79	29	28	22	31	16
80-84	29	18	9	15	2
85-89	12	8	2	4	2
90-94	0	1	1	1	0
	100	100	100	100	100

There were no significant differences in self-reported health status by gender or by household composition. Overall a quarter of respondents, both men and women, considered their health very good, half good and a quarter fair or poor. Comparing this to the findings of the *Living Standards of Older People* (LSS) data, the patterns of self-reported health status are similar, except that a higher proportion of older women ER clients reported poor health (Table 2) (Davey & Gee 2002).

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2 Although this was not always disclosed through the postal survey, some interviewees were also found to have people living with them. This is probably because of the impermanent nature of such households.

3 This is similar to the 49%/51% breakdown in the 1993 Invincible Life client group (Davey 1995). A 1995 UK sample was more heavily weighted towards single people – 31%/69% - although this was an older group on average (with higher ages of eligibility for entry into the UK schemes at that time) (Davey 1996a, 1996b).

Table 2: ER Survey and LSS Respondents,
% reporting their health as fair or poor

Age Group	**65-74**		**75-84**		**85+**	
	male	female	male	female	male	female
LSS	20	21	34	30	41	38
ER	21	23	30	32	29	53

Family Situation

The great majority of the postal questionnaire respondents have children, with an average of three, many of them being the parents of the baby-boom generation (Table 3). The patterns of family size are similar to those for their age group in general (as shown in the LSS survey), except that a slightly higher proportion – 12% - have no children. The majority also have grandchildren, with an average of six. Sixteen percent have none, 31% one to four, 34% five to nine and 19% ten or more (6% have fifteen plus).

Table 3: ER Survey and LSS Respondents, number of children

Number of children	**ER Survey**	**LSS**
0	12	8
1 or 2	31	30
3 or 4	40	43
5 or more	17	19
	100	100
6 or more	5	10

Contact with children/relatives, including telephone and email contact, is frequent: 35% of respondents are in touch on a daily or almost daily basis and 41% several times a month. Eleven percent contact them less than this and 4% either have no contact or no relatives. These results provide little support for the hypothesis that ER clients will have no children or will have little contact with them[4].

People living alone are slightly less likely to have contact with family members – 22% are in touch less than once a month or not at all, as opposed to 11% of couples. However about the same proportion (35%) of couples and single people have daily contact. This relates to the highest contact frequency. Some people noted different levels of contact with their children/relatives, depending on where they lived, with lower levels for relatives living overseas.

[4] These contact levels appear to be higher than was the case for the 1993 New Zealand clients and those in the UK in 1995 (possibly because email was less common then) (Davey 1995, 1996a).

Socio-economic characteristics

Respondents were asked to state their occupation or occupation before retirement, to provide some indication of their socio-economic status (SES) (using NZSEI).[5] There are difficulties in using self-reported occupation in this way. Occupational descriptions are often vague (such as 'government servant') and many women are described as housewives if they have not had continuous careers in paid work (as many women in the current older population have not). Among the respondents, 23% of the women were classified as housewives. Some older men also described themselves simply as 'retired' meaning there are some missing data. There results show a tendency towards the mid-range of the NZSEI scale. Thus 88% of male respondents were coded to levels 2-4 and 64% of female respondents. In Table 4 women described as housewives are excluded, and a comparison is made with the total New Zealand workforce. The respondents are much more highly clustered in the middle range and few are in the lower SES levels. This is probably related to self-reporting.[6]

Table 4: ER Respondents and Total Workforce – NZSEI SES Classification

SES Level	Male respondents %	Female respondents %	Total NZ Workforce %
1	5	1	5
2	24	24	17
3	42	41	20
4	22	19	22
5	7	16	16
6	0	0	17
Total	100	100	100

Table 5 shows that a high proportion of the respondents have low or moderate incomes: 44% of both single people and couples stated that they live on New Zealand Superannuation (NZS) only. This is comparable to Office for Senior Citizens estimates that just under half of older people had no income other than NZS. Nearly 60% of single people had less than $300 per week income, comparable to single rate NZS, whereas two-thirds of couples were in the $301-500 range (NZS married rate is around $400). The pattern of low to middle incomes among ER clients was also found in earlier New Zealand and UK research, showing that clients were unlikely to have incomes of double the state pension level and fitted the "income poor" epithet (Davey 1995, 1996a, 1996b).

[5] The New Zealand Socio-Economic Index (NZSEI) has been developed using a statistical formulation of the relationship between education, occupation and income. Each occupational group is allocated a score on a continuous from 10 to 90. The data comes from the 1991 Census and includes all full-time workers aged between 21 and 69. The continuous NZSEI scale can be broken down into six "occupational class" categories, from 1 (high) to 6 (low).

[6] There were similar problems in defining SES in ER client surveys in New Zealand and the UK in the 1990s (Davey 1995, 1996a, 1996b). In the UK there were clients in all SES levels. In the New Zealand surveys clients tended to be in the middle to upper SES groups.

Table 5: ER Respondents – Weekly Income by Household Composition

Household	under $300	$301-$500	over $501	not stated	Total %
living alone	58	29	6	7	100
couple only	12	67	17	4	100
other	44	39	11	6	100
Total	33	50	12	5	100

The patterns of sources of income, illustrated in Table 6, do not differ greatly by household type.

Table 6: ER Respondents – Income Sources by Household Composition

Household composition	NZS only	Plus income from savings	Plus other benefit	Plus occupati-onal pension	Plus employ-ment	Plus other	Other	Total %
Living alone	45	17	13	10	4	4	7	100
Couple	44	19	11	10	7	6	3	100
Other	53	11	8	6	8	6	8	100
Total	44	18	12	10	6	5	5	100

Savings, as reported in the postal questionnaire, are also modest: 56% have under $10,000 (including those who said they have none) – 60% of people living alone and 53% of couples. Thirty percent have $10,001 to $50,000 in savings and 7% more than $50,000 (7% did not state a savings total). Couples are more likely to have significant savings than single people – 21% state over $100,000 in savings as against 8% of single people. This is possibly because couples are younger on average, suggesting that decumulation is taking place.

Leaving aside what is owed on equity release, almost a quarter of respondents report that they have some debt (Table 7). The figures are 20% for people living alone, 25% for couples, but 46% for the small group of people in ‘other’ types of household.

Table 7: ER Respondents – Debt

	None	Credit card	Credit card plus other	Other	Not stated	Total %
Living alone	75	15	2	3	5	100
Couple	73	20	2	3	3	100
Other	49	40	3	3	5	100
Total	73	19	2	3	4	100

Housing conditions and residential mobility

Over two-thirds (69%) of respondents live in detached houses; 27% in town houses or ownership units and only nine in apartments, with the same number in retirement villages. Although income patterns show that ER respondents, in general, conform to the 'income poor' stereotype of older people, they are also 'asset rich' in terms of their housing. Over all respondents the average house value is estimated at $279,000.[7] More than half of the respondents had houses with rateable values of $250,000 or less. There was not a great deal of difference in estimated average values between different housing types (Table 8) and no correlation between house value and the age of the respondents. However, average house value increased with the incomes of the respondents (Table 9).[8] House values were higher in metropolitan and rural areas than in main and secondary urban centres and there were significant differences by region, as indicated in Table 10.

Table 8: Estimated average house values ($) by house type

House Type	Average Value
House	283,207
Townhouse/ownership unit	218,571
Apartment	255,555
Retirement village	266,666
Total	279,000

Table 9: Estimated average house values ($) by income of respondents

Weekly income	Average value
under $300	246,000
$301-500	267,000
over $500	326,000

Table 10: Estimated average house values ($) by region[9]

Regional Council	Average value ($,000)
Auckland	331
Bay of Plenty/Coromandel	283
Marlborough	273
Northland	258
Taranaki	257
Wellington	250
Waikato	244
Hawkes Bay/East Coast	238
Canterbury	216
Otago	214
Manawatu-Wanganui	203
Southland	163
West Coast	129

[7] Respondents were asked to record their most recent rateable value. Many also quoted market values, but the rateable value was used in the database and estimated average values are based on these, omitting missing values (N=773).
[8] In both New Zealand and UK surveys in 1990s higher SES people were more likely to have more valuable houses (Davey 1995, 1996a, 1996b).
[9] A comparison between the respondents reported rateable value and the average rateable value by region was not possible due to a lack of data.

Length of residence at current address was asked only of the 60 interviewees.[10] Of these, over 60% had been in residence for 10 or more years, a quarter for between 5 and up to 10 years and 15% for fewer than 5 years. The average is estimated at 17 years. Most were therefore well established in their local areas. In addition, three out of four had moved from within the same town or city (14% within the same suburb).

The reasons for moving varied according to how long ago this had taken place. People who had moved more recently (in the last 20 years, which may equate to movement at or about retirement) mainly talked about moving to smaller houses and sections, moving closer to family, to somewhere with less maintenance and easy access. Many of these may, therefore, already have "traded down". People who had been in residence for 20 years or more talked about their moves being related to marriage, movement to a first/family home, or for employment.

Interviewees were asked how suitable their home was likely to be as they grew older. Two-thirds answered positively, citing the fact that their home was low maintenance, small, close to amenities, single storey and with good level access. Some had bought with these features in mind, as they approached old age. The rest were either not sure how they would manage in the future or realised that there could be problems with the home, mentioning grounds and house maintenance, size (too big) and access.

Overall, 12 (20%) of the interviewees expected that they would move again; 25 (42%) said they would not; 22 (37%) said that either they did not know or that whether they moved was contingent on some other event. Most of these mentioned that health problems could make them move, and the death of one spouse might also lead to relocation. Six mentioned that movement to a retirement village was either planned or possible. Only one ER client mentioned that whether they moved depended on how much equity they had left in their house.

In summary, the largest group of interviewees were those who thought their house was suitable and did not intend to move again. Nevertheless, half of those contemplating a move did find their house suitable – in their case the move would be for other reasons, for example health problems or death of a spouse.

Comparison of clients and enquirers

Although around 200 questionnaires were sent out to enquirers, who had either decided not to go ahead or who were still undecided, only 50 replied fully enough to be included on the database – 6% of total respondents. Comparisons between clients and enquirers are therefore based on very unequally-sized groups and can only be tentative.[11] In the following section only comparisons which show significant differences between clients and enquirers are highlighted.

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[10] In the report "respondents" refers to people who completed the postal questionnaire and "interviewees" refers to people who were interviewed face-to-face.

[11] The ratio of clients to enquirers was roughly 800:50. It is probable that enquirers were less interested in participating in the research than clients. Several may also have subsequently decided to go ahead with the scheme and therefore changed to become clients, as was found when several 'enquirers' were approached at the interview stage.

Rather more clients than enquirers were people living alone (Table 11). While overall there were no significant differences in age structure between clients and enquirers, more enquirers (single or in couples) were women under 65. Several enquirers did not go ahead because of their age (some had much younger spouses), either because the firms excluded them on these grounds or because compounding of interest over a very long period was a disincentive (see below).

Table 11: Clients and Enquirers – Household Composition

	Living alone	Couple only	Other	Total %
Clients	42	54	4	100
Enquirers	36	60	4	100

While 12% of clients had no children, the figure was lower for enquirers, at 4%. Enquirers were also more likely to have families of four or more children. However, there were no differences between enquirers and respondents in whether they had grandchildren or how often they were in contact with their families.

Differences in socio-economic status between men and women, outlined above, were clearer than client/enquirer differences. Income may, however, be a factor distinguishing clients from enquirers – 45% of the former live on NZS alone as opposed to 34% of the latter. While 33% of clients have under $300 per week, this was the case for only 18% of enquirers. Enquirers are less likely to be ‘income poor”. There was little difference in house values between the two groups, even though enquirers were slightly more likely to have houses valued over $250,000 (54%) as against clients (46%). There were no differences between clients and respondents in terms of housing types.

Chapter 3: Setting up the schemes

Knowledge of ER Schemes and prior investigations

The majority of respondents first became aware of the existence of equity release schemes through the news media and advertising. This applied to both clients and enquirers. Magazines, including the newsletters of organisations like Grey Power and the RSA were the main source – 18% mentioned magazines only and 38% mentioned them either alone or in combination with other sources.[12] TV and radio advertisements were also important sources of information about ER schemes. Family and friends were a more prevalent source than professional advisers (Table 12).

In the case of both the UK and NZ surveys of clients in the 1990s, the sources were similar – articles and advertisements in newspapers and magazines (but TV and radio not mentioned).

Table 12: Source of initial information on ER schemes (n=836)

Source	any mention %	sole source %
TV	25	15
Magazine	38	18
Newspaper	12	9
Radio	15	11
Professional advisor	7	3
Family and friends	20	7
Family	21	7

Two additional themes emerged from the interviews in relation to the initial source of information. Firstly, several of the interviewees had come from the UK, which has a longer history of ER plans, and mentioned that they had been aware of these for some time. Mr DE, although he did not proceed with the ER scheme said that he had heard positive things about them from his sister-in-law in the UK. The second theme that emerged was the trustworthiness of the source. While it can be expected that family and friends were considered trustworthy, several of the interviewees mentioned organisations as reliable sources of information. For example, for Mr VK a write up about ER in the RSA magazine was seen as an endorsement from a trusted source.

Respondents were asked who (if anybody) they approached for advice on ER schemes: 59% consulted professional advisors only, 29% consulted these advisors in combination with family and friends and 7% consulted family and friends only (these three categories together account for 95% of the responses). Overall two-thirds of respondents consulted a legal advisor (32% consulted only a legal advisor) and 27% consulted a financial advisor (including accountants). A high proportion took advice from family and friends, but frequently in combination with professional advisors. The patterns of seeking advice were similar between clients and enquirers.

[12] It was not always clear from the questionnaire responses whether the source of the information was advertisements, articles (such as financial advice columns) or “advertorials”. This point can also be made of the response radio, whether it was an advertisement, interview or financial advice programme.

The Public Trust was cited by 5% of respondents as a sole source of advice and by 7% in combination with other sources. The Public Trust acts openly as an agent for one of the ER firms, but several interviewees continue to regard it as a source of independent advice. Mrs LF heard about ER from a friend and she enquired through Public Trust and their man handled everything and "he was very good".

Two thirds of respondents discussed their proposal to consider an ER scheme with their children. This rises to 75% if people without children are excluded (16% recorded "not applicable" and 21% did not respond to the question). Only 30 enquirers responded, but it appears that a higher percentage of these found that their children did not respond favourably (Table 13). This opposition from children may be a reason why they did not proceed. In some cases the enquirers indicated that their children suggested an alternative, such as providing financial assistance, instead of an ER scheme (see below).

In previous surveys of ER clients, similar patterns of consultation and approval were found: 73% of postal survey respondents in the UK had discussed their schemes with their children and four out of five received a positive reaction. Similar results were found in the earlier New Zealand surveys (Davey 1995, 1996a, 1996b).

Table 13: Clients and Enquirers – Attitudes of children towards ER

	Clients %	Enquirers %
Agreeable	91	63
Not agreeable	2	20
Mixed	7	17
N	519	30

Interviewees were asked additional questions about seeking advice prior to making their decision about equity release. The majority (48 out of 60) considered it important to seek independent advice and did so, mostly from their lawyers, but some from Public Trust or from financial advisers. They were asked what they thought about the advice which they received. The general response was that it was helpful and sound. Many said that their advisors, and also seminars sponsored by ER firms, fairly presented both the pros and the cons of the schemes ("cautious, but didn't discourage us"). On the other hand, there were lawyers who knew little or nothing about the schemes or who gave conflicting advice. Sometimes the potential clients provided them with brochures and other paperwork. Mr YM suggested the legal profession needs to "get up to speed" as he had to supply information to his lawyer who then charged for the time required to study it. Sometimes lawyers collected information and came back to their clients (possibly again incurring costs in the process). For example, the lawyer acting behalf of Mrs VL compared all the ER plans and advised her which would best suit her requirements.

In only a few cases was the professional advice clearly against the plans, although some enquirers were dissuaded in this way, for example Mrs CD. She was encouraged by her lawyer to consider alternatives, which she did, but is unsure whether or not she made the right decision. Another enquirer, Mrs WM, after hearing about ER from a mortgage broker, consulted her trusted lawyer who was "appalled" at the interest rate. He arranged for two mortgages – one of $100,000 to repay an existing mortgage and debts and cover essential maintenance and one of $50,000 to pay the interest on the new mortgage. This arrangement was expected to last for about 6 years, by which time Mrs WM did not expect to be able to continue to live independently. Mrs WD, after consulting two lawyers, decided not to go ahead because they told her that she was too young and that if she lived for another 10 to 12 years her house would no longer belong to her.

Several interviewees entered into ER plans despite discouragement from lawyers. Mrs SG's lawyer discouraged her by saying she "was giving away her house", but she decided to proceed. Mrs TK knew her lawyer would not approve so sought advice from a financial advisor and presented her lawyer with a fait accompli. And Ms DG knew that her lawyer was conservative and simply avoided his disapproval/discouragement by approaching a "younger, more switched-on" one, thereby avoiding what she identified as a potential problem.

Occasionally, lawyers offered alternatives, such as bank loans, which were taken up by some enquirers, but rejected by clients, mainly on the basis that they could not afford the repayments for an orthodox loan or mortgage. Mr and Mrs AG provide an example of a client rejecting an alternative suggested by a lawyer. Their lawyer tried to talk them into a loan, but they decided to "do it our way".[13]

Interviewees were asked if they knew anyone else who was a client of an ER scheme, either before they entered (or considered it) themselves, or subsequently: 88% knew no one. There appears to be some reticence and even embarrassment in admitting that one has such a scheme. Several interviewees made remarks such as "one doesn't talk about these things." One recalled that they had gone to an ER seminar only to find some people they knew there. There was embarrassment and then laughter –"we always thought that they were well off." The issue of not wanting others to know about their involvement in the ER plans was highlighted by a telephone conversation from someone who had received the postal questionnaire. He sought clarification surrounding issues of privacy. The caller was very concerned that it might become known in the small town where he lived that he had taken out an ER plan. He thought that this information might impinge unfavourably on his business. It seems that people may see taking out an ER scheme as evidence of not being able to cope financially and this is not socially approved. On the other hand, several satisfied interviewees talked about having passed on information about ER schemes to their friends and relatives.

Alternatives to equity release

As part of exploring the decision-making process, respondents were asked if they had considered any other ways (apart from equity release) to use the capital which was tied up in their homes. Several options were presented as well as space for comment. Sixty-four percent of respondents had not considered any alternatives (Table 14). The most popular alternative, for both clients and enquirers, was to move to a less

[13] Both firms in this study recommend that clients seek independent financial and legal advice before entering the plan and it is a condition of the loan that clients receive independent legal advice before accepting the loan offer.

expensive house, but few had considered a retirement village: 25 people had thought about rates postponement but only nine had considered moving in with family. Overall the enquirers were more likely to have considered alternatives than the clients, especially a smaller house, retirement village or sale of assets. The low level of consideration of alternatives to ER may come from the desire to remain in the home.[14]

Table 14: Clients and Enquirers – Alternatives to ER

Alternatives to ER	Clients %	Enquirers %	N
None	66	43	471
Less expensive house	17	24	124
Retirement village	5	10	35
Less expensive house & retirement village	4	2	25
Rates postponement	2	2	16
Asset sale	1	5	11
Less expensive house & sell assets	1	5	7
Other combinations	4	9	48
N	695	42	737

Choice of Firm

Only 17% of all respondents had considered more than one ER firm, so there was little evidence of comparisons having been made. Out of the 790 respondents who became ER clients, 83% had considered only the firm they eventually took up with. Enquirers were more likely to have made comparisons (33% did, as opposed to 17% of those who went ahead).

All respondents were asked to state their main reasons for deciding either to go into an ER scheme or not. Half of those who went ahead mentioned the use which they had for the funds, a further 19% said to improve their financial situation. Other reasons were to improve their standard of living, to retire debt or pay a mortgage and to retain their home. The emphasis was on the benefits which the release of home equity would bring, rather than attributes of the schemes themselves. In earlier New Zealand and UK surveys, acquiring funds was also the main reason, in this case additional regular income from annuities (Davey 1995, 1996a, 1996b).

Forty-three enquirers gave their reasons for not going ahead. These are considered in more detail in a later section of this chapter.

Setting up the Plan

In most cases the plan was set up by the provider firm or their agent (40% of clients). Adding in Public Trust increases this to 50%. For another 11% of clients the firm worked with a professional advisor to set up the scheme. Taking combinations into account, 37% of clients said that their legal advisor had been involved in setting up

[14] In the UK and NZ surveys of ER clients in the 1990s, four out of every five respondents had not considered alternatives (Davey 1995, 1996a, 1996b).

the scheme (Table 15). This compares to only 16% who took legal advice at an earlier stage.

Table 15: ER Clients – Setting up the scheme

	sole use %	sole or in combinations %
Firm/agent of firm (includes Public Trust)	21	59
Legal advisor	22	37
Financial advisor	11	16

Over 90% of clients had taken out their scheme within the last two years. Those who had taken it out longer ago were all SAI clients, some having schemes initially with Invincible Life. The great majority had taken lump sum loans from their home equity; about half of these using the maximum allowable and the rest a lower sum (Table 16). Those who had taken out annuities or lump sum/annuities were all SAI/Invincible clients, as these are the options currently offered by this firm. The vast majority of those who had taken out an annuity were aged 75 or older (this includes both partners). There was not much difference in the age patterns of those who had taken the maximum or lower level lump sums.[15]

Table 16: ER Clients – How released funds were taken

	%
Maximum lump sum	46
Lump sum, not maximum	46
Annuity	2
Lump sum & annuity	3
Not stated	3
Total	100

Table 17: ER Clients – House values by amount of funds released

	House Value ($) (column percentages)					
Money released	**Under 150,000**	**150-250,000**	**251-350,000**	**351-450**	**Over 450**	**Total**
less than $10 000	3	2	3	1	0	2
$10 001 - $30 000	66	53	41	28	21	45
$30 001 - $50 000	28	34	34	29	17	31
$50 001 - $100 000	1	9	22	35	40	18
$100 001 - $200 000	2*	1	1	5	16	3
more than $200 000	0	1*	0	1	7	1
	100	100	100	100	100	100

* They figures were as reported by postal questionnaire respondents

[15] The sums available for release relate to the age of the applicant(s) in most schemes. For example, for Sentinel clients, at age 60 (youngest borrower) 15% of the house value can be taken and at age 75, 30%. The percentage of the house value increases by 1% per year to a maximum of 45% at age 90 (Sentinel 2006). For SAI clients the percentage of house equity able to be released is determined on a case by case basis, taking into consideration factors such as life expectancy (Carolyn Wrightson, personal communication, 17 May 2006).

The average amount of money which the clients had taken out of their homes was estimated at $42,000. Three out of every four clients had taken between $10,000 and $50,000. There is a correlation, as would be expected, between the values of the houses in question and the amount of funds released. This relates to the scheme provisions in that the funds released are a proportion of the value, depending on the age of the client. Hence people with house values up to $250,000 mostly borrowed up to $50,000 and the people who released over $100,000 were almost all living in houses valued at over $350,000 (Table 17*)*. The correlation between amount released and age of client is not as clear cut but the tendency is for larger sums to be withdrawn by older clients (Table 18).

Table 18: ER Clients – Age by amount of funds released

	Age of clients (years) (column percentages)					
Funds released	**Under 65**	**65-69**	**70-74**	**75-79**	**80-84**	**85 plus**
Under $30,000	64	52	49	38	40	40
$30-50,000	19	29	30	39	28	28
$50-100,000	15	15	14	20	25	23
More than $100,000	1	4	7	3	7	8
	100	100	100	100	100	100

Interviewees were asked whether they would take out further lump sums, if this was possible under their scheme. Some had taken as much as they were allowed, but others had the opportunity to release further funds, either now or in the future. Over a third (37%) said that they would not take more: 18% said that they would, although some set limits, such as “only for health reasons”. Another third said maybe they would, depending on circumstances. Several interviewees had not been aware that taking more was possible and some could not do this in any case because of the scheme requirements.

Those who were adamant that they would not take out further sums tended to have taken out an ER plan for a very specific purpose. Mrs MP used the funds for some home maintenance and to help her daughter pay off debt. She would not draw down further sums as it would be too much money to pay back and is keen to sell her home and repay the debt. The only reason Mrs NL entered a plan was to release funds for re-roofing and bathroom renovations. Moreover, she set a limit on the time she would stay in the plan and calculated that after five years she would still have enough equity to move to a retirement village. And she cautions that ER funds should not be used for frivolous purposes such as travel and purchasing new cars. This point was also emphasised by Mr VK who stated that “the schemes look inviting, but they con old people to go on trips and buy cars”. Mr HP thought they may take out further sums from their home, but not for luxuries, new cars or world trips. Mr PL did not think he would require a further draw down but said it was good to know it was available if needed for an emergency. This sentiment was echoed by Mr and Mrs ML who thought they may take out a further lump sum but only if the funds they invested proved to be inadequate in years to come. Others agreed with this sentiment.

The final question, in terms of setting up the schemes, was to ask clients what interest rate they were paying on their loans. A quarter of the respondents either did not know or did not state an interest rate. The rest quoted a wide range of rates, from 8% to

11.75%, reflecting the variable nature of the rates charged: 37% said 10.25% (the prevailing rate for Sentinel at the time).

Gender differences

Some of the clients interviewed had very little knowledge of their ER plans and these were generally women whose husbands had arranged everything, but had since died, or single women who did not have a business or professional background. Mrs LF said "perhaps I am complacent" because she did not know a lot about the scheme or the interest rates, or drawing down several lump sums. Similarly, Mrs IR did not know the interest rate of her loan, as her husband arranged everything to provide her with financial security. However, clients, more usually male, who came from financial or business backgrounds, generally had well-developed knowledge of all aspects of the ER plans, particularly the impact of compounding interest. Mr DW, while not making comparisons before entering a plan, now keeps a close watch on new schemes and new developments regarding ER, including interest rates.

Safety and perceptions of risk

Discussion of equity release schemes in the news media often focuses on the risks involved, and internationally there have been examples of "mis-selling" such schemes. In the interviews, the question of scheme safety and perceptions of personal risk were raised. Three-quarters of the interviewees clearly have no worries about the safety or dependability of the ER schemes. They emphasised the fact that there is no risk to their home ownership, even if the company "folds"; no liability on their part and in fact the risk is with the provider. Mr BC felt secure because "the property is in my name"; Mr ML because the contract had been "tied up" legally and Mr and Mrs JM said "the firm would not get their money back". Mr DC was adamant that he would not have entered the plan if he perceived that there was any risk. Mr MD credited Public Trust's involvement as being proof that the scheme was safe.

A few respondents expressed concern about what would happen if the company fails, if they "change the rules" and a few feared losing their property. Others said that being involved in an ER scheme made them feel less secure. One example was Mrs BN, who felt that she was forced into the scheme because of urgent repairs needed on her home. She knew the interest rate on her loan and said "it's a high rate of interest, but it depends on how long I live." She further commented that the plan now reduced her choices and her ability to leave inheritance.

Like the clients, some of the enquirers also entertained no concerns about the safety of the schemes. Mrs WD thought the schemes were safe because so many people were taking them up. But other enquirers suggested that there could be problems. Mrs WM expressed a general distrust of financial institutions as they could collapse or have financial difficulties that would impact on their clients. Mr KL doubted the safety of the scheme because they "changed the rules" on him.

A linked question was whether government should be involved in equity release schemes in any way. Several interviewees thought that the government should stay well out of them, because this was not necessary, because it would cause more expense, or because there is too much regulation already.

Quite a high proportion of interviewees (39%) thought that government should play an active part, in funding, guaranteeing and in publicising equity release schemes. One-fifth thought that there should be parallel government schemes, considering that special rates could be given, say to older people living alone. Another group called for government regulation of the schemes - “Government should keep an eye on them” - with suggestions of a code of practice, consumer protection measures and an ombudsman for older people.

The enquirers and why they did not go ahead

Earlier sections have compared the characteristics of the clients and enquirers, and their approaches to decisions about equity release. This section explores why this group made the decision not to go ahead. A total of 43 enquirers provided information in the postal questionnaire on this matter. Their reasons can be placed under several headings, although some suggested combinations (Table 19, figures in brackets indicate how many enquirers gave each type of response).

Table 19: Enquirers – Reasons for not going ahead with ER

Age or other restrictions imposed by firm (10)	Applicant and/or spouse too young House value too low
Interest rates or costs (12)	High interest rates High set up costs Return payment (with compound interest) too high
Took up alternatives (10)	Family provided needed money Borrowed from bank instead Child purchased 5% of property Moved to less expensive property Sold asset
Fears about losing home/equity (5)	Feared would lose home Would lose too much equity Not enough equity left to move later
Other (9)	May proceed in future, not suitable at present Didn't like lack of control Changed our mind Misleading advice from firm’s agent Advised against ER by legal adviser Concerns about inheritance

Further detail on the stories behind these reasons came from interviews and from following up enquirers in other ways.[16] Enquirers expressed concern about the lack of control on interest rates; of high compounding interest rates; high set-up costs and uncertainties about future house prices. More than one summed up the situation by stating "There is no such thing as a free lunch!" There was a considerable amount of cynicism - "Read the fine print and do the maths three times – Don't trust anybody!" As in the examples below, some felt that they were too young, but might re-consider ER later, "when not so much equity in the home will be used up." Even though they did not go ahead at this time, several still made positive comments about schemes even though they were not for them. The following vignettes provide a more detailed picture about how the enquirers came to their decisions and what alternatives they adopted.

House value too low, but subsequent fears. An orthodox mortgage used instead.
Mr KL, aged 86 and not in good health, was interested in ER as a way of helping his adult daughter, who lived with him, to buy her own house. He was told initially that the house, valued at less than $100,000, was not valuable enough. Later the ER firm said that he could be accommodated, but this raised worries in Mr KL's mind. "If they changed that they could change other rules" and he lost confidence in the idea. Instead, he took out an orthodox mortgage on his house and his daughter bought a larger unit, more suitable for them both to live in. They now live in the new unit and Mr KL's original house is rented out on a short-term basis. It will soon be sold and the mortgage mostly repaid.

High interest rates, costs and the rising loan deterred couple in their sixties
Mr DE heard about ER schemes in Britain, where a relative had taken one out, and on the radio in this country. He and his wife thought they could release some equity for finishing their drive, doing work on their house and to travel. When he made enquiries he was shocked to have to pay $600 for inspecting their house and also deterred by the interest rate. They realised that taking an ER scheme out in their 60s would create a very large build-up as the interest compounded. They may consider ER again if they feel they need the cash and when they are considerably older.

Lawyer advised against ER and a daughter offered an alternative
Mrs CD is not in good health and is receiving home care services. She first heard about ER from 'Coronation Street". She thought it would help her to get money "as I was feeling rather poor." She badly needed a new car and wanted work done around the house. She looked at two ER schemes and they seemed 'pretty good." The people were very pleasant and helpful. However her lawyer suggested alternatives and she didn't go ahead. She had to pay for a valuation and also quite a bit to the lawyer. In the end her daughter bought 5% of Mrs CD's property for cash, but she is not quite sure if she made the right decision.

[16] Comparatively few (25) enquirers were willing to be interviewed, probably feeling a low level of commitment to the research. Of these only 11 were in the interview areas and several had either changed their minds about their availability by the time they were approached or had become clients. Ultimately only five enquirers were interviewed. In order to increase the material available on this group, special attention was given to comments which they added to the questionnaire and those who had e-mail addresses were approached for further comment, using some of the interview schedule questions. This produced three more responses with material similar to that obtained through the interviews.

Widow keen on ER but put off because of her age and used a bank loan instead
Mrs WD is 68, but has a number of health issues. She lives on NZS only and has very limited savings, but needed money to fix her house. "There is a hole in the dining room ceiling and I would have loved a new garage." She didn't want to move house or to sub-divide, although this was possible, because she would lose privacy and didn't want the mess. She was encouraged to consider ER by her three children. Two years ago she looked at two schemes, getting her house valued (cost $400) and incurring legal costs ($600). After consulting two lawyers, she decided not to go ahead. They told her that she was too young and that if she lived for another 10 to 12 years her house would no longer be hers. She was "a bit upset, because I had set my mind to doing this (ER). But she threw numbers at me and I thought – Oh dear."

After her enquiries into equity release, Mrs WD took out a $10,000 bank loan which costs her $86 a fortnight. She still owes over $9,000, but half of the money is invested. She still felt that she needed a bit of money and the bank said "no problem". She got new tyres for the car and there is some money left for her funeral.

Relocation as an alternative
Mr and Mrs FC had thought of using equity release for maintenance and upgrading of their residence, but decided instead to sell it and purchase another home, "leaving us with savings plus a capital asset". The compounding interest rate was another factor in their decision not to go ahead.

Concern about misleading information from ER firm
Mrs LP, aged 68, looked at three ER scheme providers. "My solicitor was very much against me going ahead with the applications. I did so anyhow after having reassurance from the company that if I later wished I could put my house up for sale. The terms and conditions, which were not available to me until I had applied, did not back this up. I then enquired from my second choice of company if I would be able to see a copy of their terms and conditions if I was considering doing business with them and got a very cool response after having been 'courted' up to that point." Mrs LP was still angry about having to pay $650 for a house valuation "for nothing."

Concern about inheritance
Mrs OC's family thought that ER would be a good idea for her, but she considered that, at 64, she was too young. "If I lived to my 90s what would be left by then? My family say they don't want my money but it would be nice to leave something. I feared it would be eaten up by the interest and I don't think I am wrong."

Mr RK and his partner had both been married previously and neither could buy a house on their own. Between them, they managed to buy an ideal retirement home, but needed more capital for repairs. The bank would not give Mr RK a mortgage because of his age (81) and low income (NZS only). He investigated ER but did not go ahead because of amount of interest that would have built up if he lived to be 96 "like my grandfather. My children need not expect an inheritance, but I feel an obligation to my partner's children." Mrs RK's lawyer then advised him to try for a small mortgage, and he took our bank loan of $30,000. "In 10 years it will be repaid instead of owing (ER firm) over $100,000."

Chapter 4: Use of Funds

The effects of equity release on income and living costs

Before taking out their ER scheme, most interviewees were managing to meet their everyday expenses. But a good proportion had difficulty with other items of expenditure, especially home renovations, but also maintenance, replacing large household items and holidays/recreation. After acquiring ER funds, their situation with respect to everyday expenses tended to remain about the same. But there was significant improvement in their ability to afford house renovations and to replace large household items. In some cases the interviewees' own financial situation did not change, because the released funds were used for external purposes, such as helping family members. Examples of this are set out below. These findings mirror those from the 1990s research on ER clients in New Zealand and in the UK (Davey 1995, 1996a, 1996b). In these surveys the respondents' main income concerns were replacing household items, home repairs and improvements.

The vast majority of the recent interviewees have no worries about their future income or had not thought about it. Their only concern would be changes to NZS. The minority who express concerns do so about increasing costs, having to go into residential care, and how their spouse would cope if they die first. Worries about the effects of their ER schemes did not figure among their concerns.

In order to summarise, interviewees were asked "How would you sum up the effect that being in the equity release scheme has had on your lifestyle? The most common responses, in order of the number of times they were mentioned, were financial security/freedom, improved quality of life, peace of mind and freedom from worry, being able to stay in their own home, and the improved situation of family member(s). Only three interviewees said that ER had had no impact and one quoted a negative impact - "no equity to buy another house". Overall, the respondents saw the effects as positive. UK and earlier New Zealand surveys also recorded generally significant and positive effects on lifestyles, mentioning improved or maintained standards of living and reduced financial worries (Davey 1995, 1996a, 1996b).

Use of equity release funds

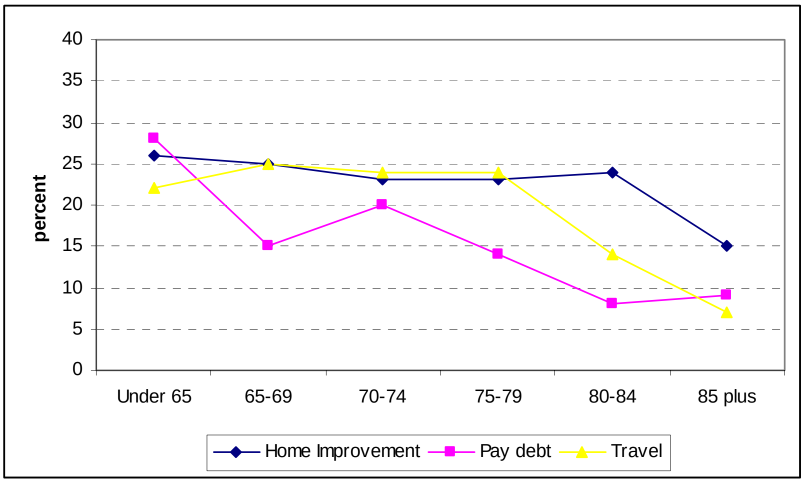
Postal survey respondents were asked to state the main use for released funds and also other uses. Many included more than one purpose, so the range of combinations was very large. Table 20 records the percentage of clients who mentioned the specified uses, either alone or in combination, ranked in order of magnitude. The New Zealand surveys in the 1990s showed a high level of use for everyday expenses, possibly because the funds were then released mainly in the form of annuities (Davey 1995). Next came house maintenance and holidays, investment and savings.

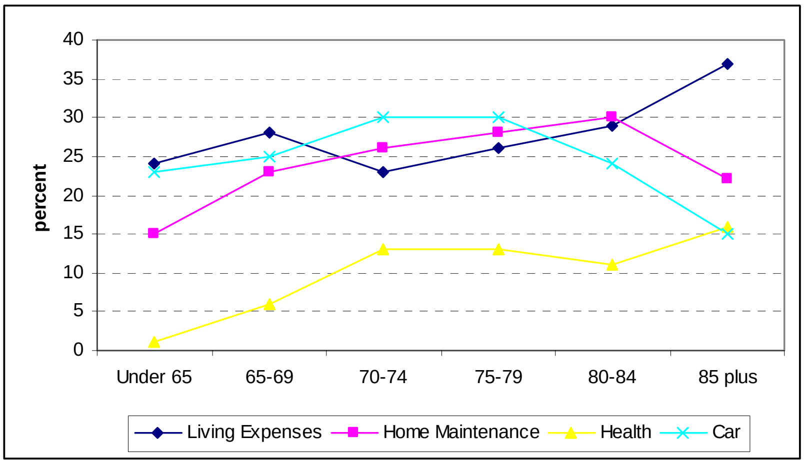
Table 20: ER Clients – Use of Funds

	% of respondents
Living expenses	27.5
Home maintenance	26.9
Car	24.4
Home improvement	23.0
Travel	20.2
Retire debt	15.7
Health	10.8
Appliances	5.3

The analysis did not show any significant differences in use of funds by sex, but there were variations by age (taking all mentions, sole and in combination for first and other uses). Figure 1 shows a decrease with age in the proportions using the funds for home improvements, to service debt and for travel.

Figure 1: Use of ER funds by age





There are increases with age for living expenses and health care (Figure 1). The patterns for the use of ER funds for home maintenance and car purchase are inverted u-shapes. Spending on cars peaks for clients in their seventies and spending on home maintenance peaks among people in their early eighties.

The following section goes into more detail on how ER funds are used, taking the various uses in order of importance (Table 20, page 28) and giving examples drawn from the interviews.

Living expenses

Well over a quarter of respondents used some of their released funds for everyday expenses and 11% cited this as their first and only use. There was mention of keeping up medical insurance, paying increasing rates and house insurance, taking the cat to the vet and as a general income "top up", usually to eke out NZS. Mr PR explained that he had set up a separate bank account with some of the ER funds and had arranged automatic payments for phone and power. When the amount of funds in this account dwindles, he arranges for funds from the term deposit to be transferred.

Several interviewees told how they had invested some or all of their lump sums, so that the interest could help with living expenses. Mrs FL has improved her social and cultural life (going to theatres, concerts, lectures, meals out) and paid for some medical treatment. Mrs KM's main reason for entering the plan was to maintain her standard of living by enabling her to pay increasing rates and insurance. Mr and Mrs JM deposited their funds in a bank, to supplement income but also to repay a loan on their car, for a holiday and for new furniture.

In some cases interviewees had previously found that their expenses were exceeding their outgoings and whatever savings they had were being eroded. Mr GL said "I was using capital every year to live." Most of their $25,000 draw-down was placed in a term deposit to supplement income and to protect their nest-egg.

Mr and Mrs YB wanted more cash to get them 'over the financial hump" as Mr YB had just retired (again) from his post-retirement job. They had been 'scratching on' with NZS and very little savings. They took out a combination of annuity and lump sum and used the money for overseas travel, some home maintenance and as an income top up.

Having extra income in this way provided many with greater financial security and peace of mind. Mrs HP, who is clearly the money manager in their household, said - "It made things much easier, now I don't worry about the bills and clearing off credit card debt." Mr PL commented that while he continues to live frugally he no longer worries about whether he can afford to purchase new clothing and has no concerns about his future income.

Home maintenance

Home maintenance ranked with living expenses as a leading use of released funds and 12% of respondents cited this as their first and only use. Home maintenance is defined as regular work needed to maintain housing quality. Repairs, interior redecoration and small painting jobs were frequent examples of maintenance tasks. In some cases such work had become urgent. Mrs AM said "I couldn't leave the house in that state." Ms EF needed a better fence to keep her precious pedigree cats contained. Mrs ST took up her ER scheme when she had her house on the market because there were urgent repairs to be done which she could not afford, having no savings, debts on her credit card and borrowings from relatives. As Mr AG was no longer able to do as much house maintenance as before but "could not let the house go". A large part of the funds were used to keep the property in order and make it a pleasant home. Mrs GT has no close relatives so she "didn't have to consider anyone else". One of the main reasons for releasing her home equity was to get maintenance work, such as interior painting, done. Mr and Mrs NH entered an ER plan, in part, so as to be able to complete the maintenance on a rental property.

Car purchase or maintenance

Using ER funds to purchase a new car or car maintenance was cited by 11% of the respondents as the sole use of their ER funds. Mrs DL used some of the funds buy a new car more suitable for her needs. At 91, she is proud of having recently passed another driving test. "The instructor told me I was a B… marvel!" Ms DG, used some of the ER funds to purchase a new car as "mine was on the point of collapse". Similarly, Mr BC replaced his 25 year old car with the funds. Mrs VL has had her daughter and son-in-law plus children living with her for two years. She bought a car, as her previous one was unreliable and too small for the 'school run'. Mrs SG was especially concerned about high costs of keeping her car on the road, and had incurred bills for $2000 then $150 and took out a bank loan to cover these costs. But the repayments were $50 per week so she entered into an ER plan. She used some of the funds to discharge the debt and to purchase a second hand car - "I now have no niggly worries about the car. Every time I get into it I feel good." Mr and Mrs GY also purchased a (newer) second car.

Instead of purchasing a new car some of the interviewees used the funds to carry out much need maintenance on their vehicles. Mrs PS used the funds to ensure her car remains reliable, and Mr PR to maintain his 21 year old car, of which he is most proud.

Home Improvements

Home improvements are generally larger pieces of work than home maintenance, required on a less regular basis. They include renewal of the housing fabric and services, such as major exterior painting, new roofs, re-carpeting, rewiring, adding rooms, renovation of bathrooms and kitchens. Slightly fewer respondents mentioned improvements compared to home maintenance, but 9% gave this as their first and only use for released funds. In some cases the improvements, especially to bathrooms, would make them more suitable for people as they age, even though the respondents did not express this overtly. Improved heating and insulation was commonly mentioned, especially the installation of heat pumps in Christchurch.

Mr and Mrs OM had an extensive programme of home improvements using their ER funds, which included carpets and floor coverings, blinds, bathroom and kitchen improvements (as well as a new car). Mr and Mrs PR purchased carpets, flooring and drapes for the whole house and renovated the bathroom and they both believe that their home will continue to suit their requirements. Similarly, Mr and Mrs OM refurbished their home and renovated the bathroom and kitchen.

Re-roofing or roofing repairs, as well as major exterior painting was mentioned by several of the interviewees. For example, Mrs NL's roof needed to be replaced and releasing the equity in the house was the only way that this could be carried out. Mrs BN’s home needed roof repairs and “the bath was falling through the floor”. She felt she was forced into the scheme by these circumstances.

Extensions were a less common use for ER funds, but several clients added and furnished conservatories. Mr and Mrs ML extended the house and Mr and Mrs MD added an extra room and an ensuite bathroom. Mr DW has plans for adaptations which will make things easier for Mrs DW, who has reduced mobility. Mrs EF intends to build a ramp and rails at her back door to make it easier for access to the clothes line.

Travel

One in every five respondents used some of the funds from their ER scheme on travel, but this was usually in combination with other uses. Only 5% used the funds solely for travel. In many cases this involved visits to family members overseas, sometimes grandchildren and sometimes siblings who had not been seen for many years. Mr and Mrs ME used some of the funds for visiting family and to help family visit them. They still have “quite a bit” left for future trips. Similarly, Mr and Mrs AG have a large family with many members living overseas and have used most of the funds to visit them. Mr NP used some of the funds to visit relatives in the USA and the UK. Many interviewees were clear, however, that they would not use their equity for luxuries such as overseas travel. Only a few, like Mr BC, went on a cruise “on impulse”. Several mentioned, however, that it was wonderful to be able to have holidays without worrying if they can afford them.

Debt

Sixteen percent of respondents used ER funding to retire debt and for 8% this was as their first and only use. In some cases the debt was their own, sometimes credit card debts and sometimes the remains of a mortgage. Mr and Mrs MK took a lump sum which was used to clear debts and medical bills (they had to give up their medical insurance cover because of the cost) and to provide a small emergency fund for funerals and unexpected expenses. Mrs SG used the funds to pay off a bank loan, which was taken out to keep her car on the road. Mr and Mrs JL took a sizeable lump sum out of their property and paid off a remaining mortgage.

Mr PJ had accepted an interest-free loan from a friend in order to rehouse himself in the area where all his friends were located. This concerned him and played on his conscience, so he followed up adverts he had seen about equity release and took out the maximum lump sum. This allowed him to repay the loan and remove his guilty feelings.

In other cases the debt was incurred to assist family members, For example, Mr and Mrs SH took a lump sum from their home equity to pay off credit card debt and for some financial security as they had loaned money to their son on the security of their house. Mr VK used his house as security for a loan to set his daughter up in business, but was very worried that his house might be in danger as the business was not successful and only a small proportion of the money invested will be recoverable. He took out the maximum lump sum to repay most of the loan, adding some of his own savings.

Health care
A minority (11%) of respondents said they had used ER funds for medical expenses and 5% stated that this was the only use. In many cases this was to have surgery in private hospitals and to avoid long waiting times in the public system. Mr and Mrs ME took out the maximum lump sum allowable and have used the funds for Mr ME's cataract treatment ("Why have money and be half blind?"). Mr and Mrs MD took out a mortgage to pay for Mrs MD's hip operation, to avoid long delays. When they could not sustain the repayments, they used ER funds to repay the loan. Mrs TG had been on a waiting list for an operation for 18 months and getting more and more pain. "I had been waiting too long and couldn't wait any longer". They used the ER funds for the operation and associated costs (wheelchair etc.).

There were also examples of funds being used for items such as hearing aids and mobility scooters. Other clients said that the funds would be kept for medical requirements as they arose.

Home appliances
Many people had replaced home appliances and white ware at or around the time of retirement, but these now required replacement and many are 'big ticket' items for pensioners. Replacing the TV, fridge, washer and dryer was frequently mentioned by the 5% who cited this use for released funds.

Mrs BN, although feeling forced into an ER plan to carry out house repairs also purchased new kitchen gear "things which I needed and had never had – electric frying pan, computer, video. Not everyday things – I could cover that." Ms CX purchased a new stove "to make things easier for my age as I grow older". Mrs DG had several old appliances which finally "gave up" and was able to replace them. Mr and Mrs FM were able to replace their TV, fridge, washer and dryer, all of which were over 20 years old at the time. The purchase of a new computer was mentioned by several interviewees, often to keep in touch with family and organisations. Mr PL was also taking lessons to get the most out of his purchase.

Other uses
Other uses for released funds included investment, financial gifts to family members or to pay for a family occasion such as a wedding.

Several of the interviewees commented that some of the released funds were invested, but this was usually secondary to the main purpose. Mrs FL invested most of a considerable lump sum from her home so that she could live off the interest. Mr and Mrs PR put half of the funds on term deposit to be used when required. Mr PR explained that he had set up a separate bank account with some of the ER funds and had arranged automatic payments from it. This account is also used for expenses such as rates and insurance but Mr PR writes cheques for these so he can keep an eye on outgoings.

A more common strategy is to invest some of the funds as a buffer or emergency fund. Mr and Mrs GY did this to improve their financial security, as did Mrs IR, using the interest to top up her NZS. In a different approach, Mr and Mrs ME, used their ER funds to protect their emergency fund. Mr DC put his $25,000 lump sum into a bank account. “I don’t really need it, but now I have a nest egg and I feel more relaxed and more secure.”

A small percent of respondents cited helping family as the main use for the release equity (3%). Some interviewees used the funds to retire family member’s debt (see above). Mrs TK wanted to help her grandchildren now rather than leave a bequest, as her daughter had been recently widowed. Mr YM’s sole reason for releasing equity from the house was to lend the funds to his adult son to purchase a property.

Mr EV provides an example of multiple uses for ER funds. He took out $80,000 and used $55,000 to pay off his mortgage. Some of the rest he used for new carpet and furnishings, interior painting, a new TV (and Sky TV) and a stereo player. He also has had overseas trips to see family.

Chapter 5: Satisfaction and Consumer Issues

Satisfaction with the schemes and scheme information

Two-thirds of ER clients replying to the postal survey stated that they were very satisfied with their scheme, with another 31% fairly satisfied. This left under 2% not satisfied, although 1% entered "don't know" and 8% did not answer the satisfaction question. High levels of satisfaction were also found in earlier New Zealand and UK research on ER clients (Davey 1996a, 1996b).

Only 40 clients, however, responded to a request to expand on their replies - 30 mentioned something to do with interest rates or other costs. Their concerns centred on high existing rates or possible future rises. Interest rates and the effects of compounding interest were clearly major issues affecting consumer satisfaction with the schemes, and these are returned to later in the chapter.

Respondents were asked to suggest the best and worst features of the schemes from their experience. There were a wide range of responses. Most of the 'best' features concerned the availability of funds, how the released funds contributed to quality of life and eased the financial situation of the respondents (Table 21). Not having to make repayments was another important benefit. Some mentioned the quality of service provided by the firms. The same features were mentioned in earlier New Zealand and UK equity release surveys (Davey 1995, 1996a, 1996b).

Table 21: ER Clients – "Best' and "worse" features of scheme

Best Feature	%	**Worst Feature**	%
Availability of funds/income	39	High interest/costs	55
No repayments	19	Reduces choice (incl. bequest)	10
Contributes to quality of life	12	Concern about debt	4
Quality of service	10	Uncertainty/costs/interest/prop value	2
Eases financial situation	7	Other	5
Other	13	None	24
Total	100	Total	100

High interest rates and other costs were the most commonly mentioned 'worst' feature. Although a quarter of clients specifically recorded no 'worst' features and many who did not reply may also have been of this opinion. Uncertainties about the future were mentioned by a minority of respondents, relating to property values, interest rates and costs associated with the scheme. Others were concerned about taking on debt. In the UK survey in the 1990s a much higher proportion listed no "worst' features (Davey 1996a, 1996b). The respondents were also concerned about loss of house value, plus the effects of inflation on their annuities.

The recent respondents were then asked to comment on how they found the information provided by ER firms. Most said that the information was either clear (28%) or very clear (69%). Only 55 responded to a request to comment on their opinions. Of these only 11 were critical, with the others commenting positively on either the information itself or the staff/agents of the firms who provided it. Several said that the information was thorough or well presented, that the staff were ‘always helpful’ and good/honest people to deal with.

The rare negative comments related to lack of clarity in the information on the compound interest effect and insurance details; feelings that some of the information was inaccurate, difficult to understand, absent or long-winded; and perhaps some of the claims stated in the brochure were not well founded.

Respondents were asked where they would go if they had further questions about their ER plan. Most commonly they would approach the provider firm or their agent, sometimes in association with their legal advisor (Table 22). The Public Trust is included separately in the table, but acts as the agent of Sentinel. More respondents would seek further answers from their legal advisor than from financial services.

Table 22: ER Clients – Who to ask further questions

	Sole source %	**In combination %**
Firm	44	54
Legal	22	31
Public Trust	10	11
Financial	9	13

Advice to others

A final question on satisfaction asked clients what their advice would be to people considering a home equity release plan. There was a huge range of suggestions. Over a third of respondents were unequivocally encouraging – “go for it” – or a similar expression (Table 23). Others were less enthusiastic, but said the schemes were worth considering. Mr MD’s advice is “look at the loan according to what they need rather than what they want – it is easy to be seduced by a big offer.” A good proportion counselled thorough investigation and research and taking financial and legal advice, including attending a seminar on the schemes.

Table 23: ER Clients – Advice to others

	%
Unequivocal encouragement	36
Consider thoroughly	26
Take advice	17
Qualified - depends	10
Use specific firm	3
Other	8
Total	100

Qualified answers related to the prospective client’s age – “do not take one out when you are younger”, family situation “go ahead if no dependants”, consider equity and property value. Several counselled others to consider the needs of their families and the implication for inheritance and to discuss the proposition with them; to consider their own needs in the future and to examine other options. Some of the advice was contradictory – to take the maximum amount or not to borrow too much.

Only a few respondents said they would counsel other people against the plans (2 people) or to use them only as a last resort (9 people), although some did not feel qualified to advise others. One suggested asking family for help and another to take a fixed interest loan instead. These comments are very few, however, against much greater encouragement and enthusiasm about the schemes. Similar levels of unequivocal endorsement of ER schemes and encouragement to others was found in the UK and New Zealand surveys of clients in the 1990s (Davey 1995, 1996a, 1996b).

Consumer Issues

In the rest of this chapter a range of consumer issues, many of them already mentioned, are examined in more detail.[17]

Concern about interest rates and compounding
These issues figured significantly among the concerns of clients and were often the most significant factor in why enquirers did not go ahead. Interviewees talked about being appalled by high interest rates and how compound interest would accumulate, especially if they took out the scheme at a young age. Control on interest rates or interest rate subsidies were suggestions for government action. Several clients talked about how they closely monitored the effects of compound interest, some intending to pay back their loans before their owings become too great. However, others could see that rises in house values would make it possible to cope with compounding interest and still have some equity left.

Mr DW keeps very close watch on the state of his loan and interest and has made comparisons with new ER schemes as he hears about them, so he knows how much equity will remain at specific points in the future. Mr PJ would like to leave some money to friends and to charities. He will watch closely how the compound interest is going, compared to the house value, and may sell and repay the loan in a few years. As their equity is now estimated at 70% of the house value, Mrs GY is concerned that, when she and her husband come to sell, the equity might be too small to "do anything" (rehouse themselves) and they have discussed this with an estate agent. It all depends on the housing market. Up to now they have been supported by rises in house values. Mr MD made a careful study of the effects of borrowing and compound interest on the house equity and could see that they were likely to have some equity left for their son and daughter.

Concern about other costs
Others clients mentioned high set up costs, which were also a deterrent to enquirers. Figures of around $400 for house valuations or "inspections' were mentioned by interviewees and around $600 for legal costs. These were payable even if the scheme was not taken up. If it was, then the costs were added to the loan. One of the

[17] Some of the examples have already been referred to, but are repeated here in the specific context of the issue under discussion.

respondents commented that this did not suit him as then he had to pay interest on these costs.

Costs deterred several enquirers from going ahead with an equity release scheme as indicated above.

Consideration of alternatives to ER

The results of the postal survey, quoted in Chapter 3, show that two-thirds of ER clients had not considered any other alternatives in order to release some of their funds or increase their retirement incomes.

Downsizing was not always attractive or feasible, and several interviewees had already done this. For example, Mr DC had moved from a two bedroom unit to a one bedroom unit to release capital (and to gain more garage space for his motor-cycle). Mr and Mrs MD recently moved to “an equal house at less value” in a smaller centre. Others had considered downsizing. To increase her income Mrs SG thought about selling her house, but it was her grandson’s home too; so she opted for releasing the equity and staying there.

Sometimes people had taken out loans through lawyers or banks as an alternative to ER, but were not able to keep up their repayments out of NZS. ER loans were sometimes substituted, as they do not require regular repayments. Mr BC took out a bank loan five years ago but found the repayments caused a financial strain. He used half of his ER funds to retire the loan. Mrs SG had a bank loan of $15,000, but this meant paying back $50 per week. She thought about it for a considerable time and eventually took a lump sum of $30,000 and used this to discharge her loan.

Another possible alternative is assistance from children. When interviewees were asked whether they could rely on their children to help them financially if they needed it, there was a split opinion (52% agreed, 43% disagreed). Several interviewees were clear that this should not be expected or required (or they hoped it would not be required) and many said that they certainly would not ask for financial support. This was often because their children/relatives were not in a position to give such help. Some said that money flowed in the opposite direction. There were others who said that they would get such help if needed and examples were cited where this alternative had been suggested, had occurred, or had been offered.

Mr and Mrs YB have 2 sons and 4 grandchildren. They don’t place a very high importance on bequests. In fact, their son has helped them with a loan for medical treatment, saying – “The money is there, get it done”- which they paid back. Both their sons have said “if we need it we should just use it”. The children offered to pay off Mrs PS’s mortgage, but they wanted joint ownership and Mrs PS was apprehensive that she might be outvoted, so they took up an ER scheme instead. Mr and Mrs ME, aged 80 and 77, have four children, but only one living in New Zealand. They had asked their family if they would like to buy the house, allowing their parents to stay and pay rent, but this wasn’t acceptable.

Some of the respondents who were enquirers stated one of the reasons that they did not proceed with the ER plan was that they received help from family members. Mr and Mrs JL were exceptional in having looked at several alternatives. They looked at a loan from a financial institution, but felt that the interest was too high and the repayments onerous. They considered retirement villages, but they were not for them – "we couldn't get out quickly enough." The family wanted to help financially but Mr and Mrs JL didn't think that was appropriate. Then they saw TV adverts and heard about ER from a friend. The family were in favour and so they consulted their lawyer, their financial advisor (a daughter) and went to a seminar, which led to their taking out a scheme.

Comparison of ER schemes

Only 17% of clients had looked into more than one scheme, frequently not knowing that there were others to choose from. Similar findings arose from the interviews. Over half of the interviewees made no comparisons and 16% said that they didn't know there were any other firms. Several explained their lack of comparisons because they took the advice of their lawyer, or because they trusted the people fronting the particular scheme. Those who made comparisons did so on the basis of the benefits and guarantees offered, but more frequently because there were aspects of one scheme which did not suit them – "Higher interest and they did not offer an annuity"; "Firm did not seem reliable"; "Time-limited plan did not suit"; "Wasn't offering what we wanted." Some respondents drew on their business experience to make comparisons. One example was Mr MK, who said he had heard of the ER concept 30 years ago, but more recently responded to an advert in a senior citizens' newspaper and briefly made comparisons between the schemes available before deciding on one whose founders he trusted. Mr and Mrs YB, both in their late seventies, heard about ER schemes from a magazine and then went to a seminar and contacted the firm. They made some comparisons between schemes and chose the one which seemed to meet their requirements.

Information gaps

Although many respondents and interviewees indicated that they had no further questions about their ER schemes, some information gaps were apparent and one respondent maintained that the final policy was different from what they had been led to believe from a brochure. Mrs EF didn't know about the no negative equity guarantee. Her concern was 'whether there will be enough money to pay (the loan) back." Mrs LF did not know that she was able to draw down several lump sums.

Several widows found themselves with schemes that had been set up by their husbands and sometimes they were 'in the dark' about the details. How the scheme was arranged and how her husband first become aware of their existence are facts which Mrs IR is not quite sure about. However, she believes that her husband arranged the scheme to ensure that she would be financially secure. Mrs MC's husband, now deceased, had been researching ER schemes for several years. They had discussed ER schemes, but Mrs MC thought they were "just sums of money" and none of the other options appealed to her. She was in a hurry and "unable emotionally to make decisions about the various plans and the saleswoman seemed honest!" Mrs GW's husband took a lump sum out of their house in 2004 and the funds were used for painting work, installing heating, replacing the car and topping up income. However, after her husband died, Mrs GW realised that the costs of the scheme and interest rates had risen. Her lawyer advised her to pay off the loan and interest, given that she wanted to move. Even though this is within five years of taking out the scheme, Mrs GW has been assured that she can do this.

Concern about aspects of the schemes

While overall levels of satisfaction were high and for most of the respondents their ER schemes were working well and meeting expectations, there were a few instances where problems or potential problems were apparent. Two interviewees had taken out time limited schemes in the 1990s[18]. Ms GT is 84 and has lived at her present address for 17 years. In the early 1990s she took out a reverse annuity scheme with a lump sum, in order to do work on her house (carpet, painting, kitchen). However the scheme was for ten years only. When the ten years were up, a roll-over for another five years was negotiated. Ms GT is left with a small annuity for life but rapidly decreasing equity in her home. This now stands at $75,000 and will be reduced to $8,000 when the extension on her scheme expires. She will not have enough capital to rehouse herself and is considering applying for a city council flat, possibly fairly soon before her assets are totally depleted. Ms GT now suggests that she was naïve and didn't think enough about the implications of the scheme.

Mrs AF is now 77. In the early 1990s she was living in the family home where they had been since the 1950s. Her husband was terminally ill and he took out an ER scheme in order to have a lump sum for house repairs and income for his wife. Money from their business had already been settled on their grandchildren. Mrs AF was also ill at this time with a condition likely to 'flare up." In the late 1990s, Mrs AF sold her house and repaid her maturing ER loan. She moved to a smaller house and section which is much better situated for shopping and other amenities. However, the new house needed some 'finishing off' and Mrs AF took out a new ER scheme (with another lump sum and annuity) which will terminate in 2008. At that stage she is quite prepared to move into a rest home.

Ms CX has a time limited loan, but this is only one of her concerns about the scheme. She was hesitant about ER at first but she "braved up" and rang the agents. She has been quite assertive with the ER provider to ensure she understands - "I'm not satisfied unless I know every bit of it," Ms CX has taken two lump sums from her home equity, but is somewhat dissatisfied that she cannot get more for four years and also with the charges which were incurred. She realises now that she should have taken this in one sum to avoid the extra charges. The scheme is time-limited and lasts for 21 years or until Ms CX is 91 (she is now 74).

While ER schemes can frequently be transferred to other accommodation, and even to retirement villages, a problem arose for Mr BD on account of his age. Mr BD is only 66, but very unwell and requires almost constant care. He has his name down for a small unit in a retirement village, but had been told that his scheme was not transferable because he was under 70 and it would have to be repaid unless he moved to "approved" accommodation. This was causing him considerable stress as his house is already on the market.

Balancing the effects of compounding interest against trends in house prices led several interviewees to think about the implications if they wished to rehouse themselves. Some felt confident. Mr and Mrs MK have seen the value of their home

[18] These schemes were taken out through Invincible Life, whose clients have been "inherited" by SAI. SAI is open to re-negotiating mutually acceptable extensionf of originally time-limited schemes.

increase over recent years and their plans are to sell and downsize eventually, probably when they are in their eighties. They believe they can rely on inflation to take care of their ER loan and interest and they will still have enough for a one-bedroom unit or an ownership unit in a retirement village. Mrs KM did not use any of the funds to do maintenance or home renovations as she believes that she will only remain in her current property for another two years. The stairs are becoming increasingly difficult to navigate. She intends to enter into a rest home close to one of her daughters and has no intention of drawing down any further amounts.

Others were less sure. Mrs CD has some doubts about her scheme and worries that eventually her whole asset will disappear if she lives long enough. Mrs GY is concerned that when she and her husband come to sell the equity might be “too small to do anything” (rehouse themselves) as it currently stands at around 70% of the house value. They feel that much depends on how house prices go.

Taking more

While a third of the interviewees said they would not take further draw downs, 18% indicated that that they would if they needed to. Mr MD made a careful study of the effects of borrowing and compound interest and could see that they were likely to have some equity left for their son and daughter (they think that leaving some money is very important). However they were cautious and took less than offered. They may borrow more in the future if they need major repairs on the house. In the meanwhile, by not having repayments, they have more freedom and more discretionary cash. Mr MD is comforted to know that if he dies first (he describes his health as fair) his wife will have a guaranteed home.

Mr HM took early retirement two years ago, has part-time work and lives on income from his savings and a teacher’s superannuation. His house is situated close to the city centre, worth around $200,000, but is not in very good order. He has no intentions of moving. Having no children, and siblings who are well off, Mr HM was attracted by information about ER schemes in a local newspaper and his lawyer agreed that it was a good idea in his situation. Mr HM has taken $20,000 out of his house and used it for home improvements – “bits and pieces” – and to buy a mountain bike. He has plans for travel and further enhancements to the house. Overall, he feels he now has ‘more flexibility and is more relaxed – superannuation is not enough.” He might well draw down further on the scheme in future.

Issues related to advisors

Levels of satisfaction with professional advisors were high among postal questionnaire respondents, as already shown, and problems in this area did not loom large in the stories told by the interviewees. There were, however, some cases in which lawyers, in particular, acted as barriers to taking up ER schemes, or gave conflicting advice. Previously, her lawyer had suggested a loan with repayments, so, knowing he would not approve, Mrs TK presented him with a fait accompli and took a sizeable lump sum from her home equity.

Mrs FL, aged 70, was left with few assets when her second husband divorced her, on the instigation of his children, to preserve their inheritance. She consulted several lawyers who gave her conflicting advice and family members also offered alternatives, which led to delays. Eventually, Mrs FL took a considerable lump sum from her home and most of it has been invested, so that she can live off the interest.

Use of ER as part of debt management

Around one in every six clients who responded to the postal survey used the funds released to pay off debt. This group included people in a variety of situations.

Some people, like Mrs ST, had borrowed to attend to urgent matters and had exhausted other options. Before she took up her ER scheme she had her house on the market because there were urgent repairs to be done which she could not afford. She had dispensed with her car, sold jewellery, china and furniture. Her lawyer agreed that she had no other alternative to equity release if she wanted to stay in the house which she loved, which was conveniently located for shops and bus routes and "had lovely memories". The $30,000 lump sum allowed Mrs ST to pay off her bills and loans, repair the spouting, paint the house and settle her funeral plans – "So that the family have no problems planting me!"

To increase her income Mrs SG arranged a bank loan of $15,000, but this meant paying back $50 per week. Her lawyer was discouraging, thinking 'I was giving away my house." But she thought about it for a considerable time and eventually took a lump sum of $30,000, which she used to discharge her loan, buy a new (second hand) car, make some home repairs and take a trip to Australia to see her grandchildren.

For others, the debt was wholly or partly to assist family members, and examples of this are quoted above.

Intentions to repay

Some of the interviewees intended to repay their ER loan, mainly to enable them to move. Mrs BN thinks that having the loan "has taken away my choice, because if I stay too long it will take all the equity when it is sold. So I am forced to sell a lot earlier than I wanted too and find somewhere much cheaper. I feel it's a high rate of interest, but it depends on how long I live. I used to think that owning a home would be the greatest thing, but now it's a scary business. I am not so confident."

Mrs NL entered an ER plan two years ago after discussing it with family members. Her only reason was to release funds to undertaken some major work that was needed on the property. Mrs NL considered the pros and cons of the plan thoroughly and decided to proceed having first set a limit of five years on the time she will remain in her home. She decided that her present home would continue to meet her needs for that period. She calculated the costs of repaying the loan and made the decision that there would still be enough equity in the property to move into a retirement village in another area to be closer to her children.

Chapter 6: Relevance of Inheritance and Intergenerational issues

Attitudes towards inheritance are significant in the discussion of home equity release, as capital tied up in housing is being mobilised and used rather than being preserved for transmission through the generations after the deaths of the owners. Inheritance can be seen as the final act of parents 'providing' for their children and a way of giving younger people assets to enhance their own lifestyles (Davey 1998). Hence, people who place an emphasis on leaving an inheritance for their children may be less likely to enter ER schemes. This is the rationale for including several questions about inheritance in the postal questionnaire and interview schedules.[19]

Postal questionnaire respondents were asked who should decide what happens to the property and wealth which people accumulate in their lives - should it be a family or individual decision? Overall 76% said individual and 19% said family. These results are very similar to those from the earlier survey of New Zealand ER clients (Davey 1995). A quarter of the 2006 respondents made some comment, with a variety of replies, but many said that there should be discussion with family or that family circumstances should be considered (Table 24). There were no significant differences between clients and enquirers although more of the latter suggested that the assets should be used for themselves (2 out of 11).

Table 24: Clients and Enquirers – Comment on disposition of property

	Clients %	Enquirers %
Discuss with family	41	37
Consider family circumstances	15	18
Already provided for family	1	0
Use assets for ourselves	10	18
Other	33	27
N	218	11

Respondents were then asked – "How important to you is providing an inheritance for your children, grand-children or other relatives?" Table 25 shows few differences between enquirers and clients. There was a roughly 40/60 division between those who put little importance on inheritance and those who considered it of some importance or very important. Earlier New Zealand and UK surveys of ER clients show similar balances between these two points of view.[20]

Of those who commented on the inheritance question, one-third said that their children were well off (and didn't need an inheritance) and some that they had helped family already. Examples include Mrs GW, who felt that giving their four children an

[19] The most common pattern of inheritance in New Zealand is for children to inherit equally from their parents. This may occur when the first marriage partner dies, but more commonly the surviving spouse inherits initially and the property then descends to the next generation, in a two-step process, only when the surviving spouse dies. This pattern is enshrined in law in New Zealand under the Family Proceedings Act 1955 Thorns (1995).

[20] In the case of the New Zealand clients the balance was 40/53 between those who put little importance on inheritance and those who considered it of some importance or very important. For the UK postal respondents the balance was 25/55 (with 19% saying not relevant) (Davey 1995, 1996a, 1996b).

education and helping grandchildren with university fees was their inheritance and the children agreed. Mr and Mrs HP had difficulty in managing on NZS alone but now they were able to afford family visits, gifts for their (12) grand children, redecorating and new soft furnishings. They place some importance on leaving an inheritance but feel that their children "often need help now rather than later."

Quite a few, especially of enquirers, still expected to leave something and thought there would be some funds left. Others felt that it was better to use the funds for their own benefit and in some cases their children had encouraged them to do this.

Table 25: Clients and Enquirers – Importance of inheritance

	Clients %	Enquirers %
No importance	14	12
Little importance	19	28
Neutral/don't know	3	0
Some importance	41	36
Very important	16	20
Not relevant (no children/close relatives)	7	4
N	768	50

Only six respondents mentioned the needs of their grandchildren – with four suggesting that they would like to assist with their education costs. A small number expressed negative feelings towards their children or their partners; stating that it was better to think about their own requirements or that providing an inheritance was not a priority for them. Some said that they themselves had not inherited, with the implication that their family members should not have expectations in these areas "Inheritance is a bonus" one said "Only the rich can think about leaving an inheritance". From the postal survey results therefore, it appears that attitudes towards inheritance had not constituted major barriers to take-up of ER. This was also the conclusion from the earlier surveys in New Zealand and the UK.

Attitudes towards inheritance were expanded on in the interviews. Interviewees were asked to respond on a five point scale - strongly agree, agree, no opinion or don't know, disagree, strongly disagree – with several statements.

- It is important to leave some of your assets to the next generation. (split opinion, 41% agree, 52% disagree)

People commented that this would be a nice thing to do but was not important or necessary, especially where children were well off financially. Several commented that their children were not expecting an inheritance and others that they themselves had not received anything in this way.

- My children/relatives are quite comfortable and do not need my money. (majority – 82% - agree)

Not many interviewees commented on this statement, although the great majority agreed with it. "They are doing OK". A few pointed out that one or more of their children did, in fact, need some financial assistance and examples of equity release funds being used to help children are included Chapter 4.

- I think it is better to use my assets to help me in my old age than to leave them to other people. (strong agreement – 94%)

Only three interviewees disagreed with this statement ("older people can be selfish" said Mrs KM), although few added any other comment. They backed up their agreement with comments such as, "Otherwise we could become a burden"; "Looking after ourselves saves them money" and "Our children agree with this." These comments illustrate strong attitudes in favour of independence for older people. Those who disagreed said that it depended on the circumstances and also that they wanted to leave their children as much as they could.

- Older people should think more about their children and grandchildren's future than about their own comfort. (strong disagreement – 84%)

Consistent with the response to the previous statement, most interviewees disagreed with this. Some felt that older people should look after themselves first and that it was better to be independent, although some acknowledged that this could be seen as a selfish attitude. Those that agreed with the statement felt that parents often take this attitude, i.e. depriving themselves for their children. Others concluded that the children would "get what's left over."

- I think it is important to help grandchildren make their way in the world by leaving them some money. (mixed response – 33% agree, 56% disagree, with several having no grandchildren)

People who supported this statement thought that it was a good idea and 'nice' to leave money to their grandchildren, if money was available. Some mentioned that helping them with their education, especially student debt, was a good idea. People who disagreed (a majority) mainly felt that it was a parental responsibility rather than a grandparental one; that grandchildren must 'make their own way" and some felt that such inheritances might not be used responsibly.

The final question of the set was intended to summarise broad view on the importance of inheritance.

- Inheritance is not as important as it used to be. (majority agree – 80%)

There were a variety of comments on this statement, although the majority agreed with it. Several interviewees pointed out how much better young people were 'doing these days" and how they had more opportunities. Others felt that it was good to leave money, or that it was still expected, even though they themselves may not have benefited from bequests. Others reiterated their children's views that they had no expectations and that it was a shame for older people to do without just to leave money when they die. Many of the interviewees took a while to work out their attitudes to this question.

Some interviewees discussed their plans for bequests of gifting, illustrating a variety of points of view. Mrs AM would like to bequeath to her four children and seven grandchildren, even though they encourage her to spend and she thinks that her attitude is “old fashioned and foolish”. She has one daughter in the area and has arranged, with the family’s agreement, that she will get a larger share of Mrs AM’s estate, as she does a lot for her mother. Mr and Mrs AG, both in their seventies, have a large family with whom they are in frequent touch, even though some live overseas. It was their adult children who first brought ER to their attention and also changed their views on inheritance. Previously they were keen on preserving their assets for bequest but the children pushed them to change their minds, especially as it meant they could travel to see family and keep up their contacts.

Both of Mr and Mrs GH’s children are earning well as professionals. They would like to bequeath, but also agree that they should use their assets to help themselves. “If you educate then they should be able to make their own way”. “I was concerned about using up my children’s inheritance” said Mrs WM. Her daughter said “It would be a great relief to me not to have to worry about you.” Nevertheless, Mrs WM would like to leave inheritances and to help her grandchildren even if it meant depriving herself. Mrs LF has three daughters, all of whom are quite comfortable. “If they’re well off (inheritance) is not important. I think everybody likes to leave something to their family.” Part of the reasons for updating her home was to gain a good resale value as a bequest.

Table 26 summarises these results and provides comparisons with earlier surveys of ER clients. The similarities of attitudes are quite striking.

Table 26: Statements on inheritance and intergenerational transfers – New Zealand and UK ER surveys

	% of respondents in agreement		
Statement	**NZ 2006**	**NZ 1993**	**UK 1995**
I think it is better to use my assets to help me in my old age than to leave them to other people.	94	97	100
My children/relatives are quite comfortable and do not need my money.	82	73	74
Inheritance is not as important as it used to be.	80	57	59
It is important to leave some of your assets to the next generation.	41	53	44
I think it is important to help grandchildren make their way in the world by leaving them some money.	33	13	41 *
Old people should think more about their children and grandchildren's future than about their own comfort.	6	13	9

* Respondents with grandchildren

Intergenerational Transfers

Flows of financial assistance can take the form of bequests, as outlined above, or other types of financial assistance between living family members (Rowlingson and McKay 2005). Earlier chapters on the uses of equity release and on consumer issues have outlined several ways in which ER can figure in intergenerational transfers. These include transfers of money down the generations, for example using ER funds to help children, paying off their debts and setting them up in business. Children were also able to help their parents by providing alternatives to commercial ER, for example by offering loans or becoming part-owners of the parental home. Examples of this have been referred to in Chapter 5.

Interviewees were asked for their opinions on the statement – "I can rely on my children/relatives to provide me with financial support if I need it". Half agreed and half disagreed that this applied to them, with similar opinions among men and women. The proportions were higher among people with children and higher for those who had daily or very regular contact with their children (as was also the case in earlier ER surveys). There was some difference by age. Among respondents under 75, 32% agreed with the statement, but this rose to 61% for the older group. Perhaps the children of the older respondents are better established and therefore in a better position to help.

Interviewees who commented on their answer often suggested that they would certainly not ask for or expect any financial support from their children. One hoped they would not have to ask and one said they "shouldn't have to ask". Four people said that their children were in not position to help them, but two cited instances where they had been helped. Two people suggested that financial help flowed in the opposite direction, i.e. to their children rather than to them.

Intergenerational Care

As well as financial assistance, intergenerational transfers take the form of informal care, by and for older people. Patterns of caring differ from family to family and are clearly influenced by social factors such as availability, time resources, income, health and feelings of closeness to older parents. Gender issues loom large on both sides of the caring relationship (Davey & Wilton 2006). In this context, the interest is in how ER might play a part in pattern of family care.

Attitudes towards the provision of care for older people, once they become dependent, are relevant to how housing wealth is used and the extent to which it is mobilised during the lifetimes of the holders. Expectations of government support are also relevant. If older people prize their independence highly, but do not expect to rely on government or on their families, then they may be more willing to use their housing wealth to purchase care when they come to need it. Those who expect government or their families to provide will be less willing to use their own funds.

Leading in to this topic, interviewees were asked whether they agreed or disagreed with the statement "I can rely on my children/relatives to care for me physically if I become dependent." There was a mixed response, with equal agreement and disagreement. In the New Zealand ER survey of the 1990s, more than half of respondents disagreed. In 2006, most of the comments arose from people who disagreed. Several interviewees would not like to have to rely on their children/relatives and several would certainly not ask for care, expect or even accept it. These responses again illustrated a desire for independence, as was the case with respect to financial assistance. Sometimes potential carers did not live nearby, were not in close contact or were not seen as appropriate "No daughters - you can't expect this from sons."

Coming closer to the issue of equity release, interviewees were asked whether they thought that people should use home equity to pay for residential care, as is the case at present in New Zealand.[21] Seven out of 60 interviewees (13%) agreed; 9 (16%) said no; 5 (9%) said there was no option. However, the majority – 35 (61%) – were in favour of some kind of shared payment, considering this "fair", as providing protection for some assets at least, or expecting better-off people/families to make some contribution.

An extension of the principle of asset-testing for residential care would be to expect home equity to be used to pay for care of older people at home, in line with ageing in place policies. The cost of home care services can be substantial and are currently provided, following clinical assessment, through the health system. This was therefore somewhat of a hypothetical question for the interviewees, several of whom found the concept difficult to grasp. When asked about using home equity to pay for home care and health services –

- 11 interviewees (20%) said yes, people should use their assets, in order to remain independent, but one person added that high interest rates mean that assets "would not go far".
- 10 (19%) said no - government should pay to keep people in their own homes.
- 21 (39%) opted for shared payments, based on individual means - "pay something, not total cost"; "only if you can (pay)".

Other had qualified answers. Some said it should be a personal choice, not compulsory to release funds in this way.

Families were brought into the discussion by asking – "Do you think that families should discuss the options for providing care (for older people)?" The majority (56%) said yes and 20% thought that families should have some responsibility. However, this depends on the family, meaning financial circumstances, family relationships and location. Only four interviewees said that families should not be involved in discussions about care – "No, they have no idea about our needs", "My decision, nothing to do with family." The majority of respondents in the earlier New Zealand surveys of ER clients agreed that families should be involved in discussing care options for older people.

Several of those interviewed had had or currently had experience of eldercare, which influenced their current attitudes. Mr and Mrs SH's views on the use of home equity have been coloured by the fact that Mr SH's mother is still alive, at 96, and in residential care. This has meant that all her assets have been used up. Thus Mr and Mrs SH agree that it is better to use their assets while they are independent, even though it 'would be nice' to leave something for their three children. Mr and Mrs MK moved a lot during their working lives, but returned to their home town four years ago to care for both their elderly mothers. Both mothers and also aunts have lived with them from time to time, representing quite a drain on Mr and Mrs MK's resources in terms of heating, washing, food and transport, given that NZS is their main source of income. This was a reason why they needed to release some of their home equity.

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[21] Legislation to raise thresholds for asset testing of users of residential care was introduced in 2005. These thresholds will increase annually, so that asset testing will be progressively removed.

Mrs TK lives alone. She and her husband moved to their current house after he had a stroke. She cared for him for 15 years and then he moved into residential care just over a year ago. Having had adaptations to the home for his condition, Mrs TK will be in a good situation if she also needs them and this should help her to remain in her home. If she becomes very dependent, Mrs TK plans to move into a new home with her widowed daughter. She would not want to go into a rest home as she is critical of some aspects of her husband's care. Ms CX has no children or close relatives. However she thinks that people should consider their families first "If I had had a family I would not have done this (take out an ER scheme)", while not making things hard for themselves. However, Mrs CX left a good job to care for her mother for four years and she thinks that families should do this.

Other questions in this section related more to the personal situations of the interviewees rather than their general opinions. They were asked if they had thought about who would provide care for them if and when they came to need it. Half of the interviewees did not know or had not thought about this. The others had a range of responses including relying on family members, going into residential care or a retirement village, staying at home as long as possible and "relying on the public system." Very few respondents had settled on a plan for their care or had talked to their families about what might happen if they required a high level of care. Many respondents seemed to be avoiding thinking about the prospect. Information from the interviews therefore seems to indicate that ideas about inheritance or frequency of contact with children have little to do with attitudes towards how older people should be cared for or about their own care.

Given the general opinion that families have some role in the discussion of care options, it is possible to suggest a trade-off. On the one hand families could provide care for older people and then inherit their assets. On the other hand, if families either cannot or are not willing to provide care, then they can expect housing capital and other assets to be used to pay for it. This suggestion was raised in the interviews but seemed to be a difficult concept to grasp. Mr and Mrs SH thought that it may work out that way naturally, and this seems to be a common response. However there was awareness that this would be difficult to work out in practice because, as Mrs MC noted, there were so many "ifs and buts". Some people do not have family or none living locally. Mrs YM said that that a trade off would not be fair because an adult child may wish to help provide care but lived overseas or had work and family commitments. Mr NP suggested that there could be a temptation for a trade-off to become a form of blackmail. And Mrs NL said that while people say they will care for the older people in their family they don't tend to. Given the low level of communication with family members on issues related to care, it seems unlikely that a trade-off could be seriously debated. This has implications for policy, as indicated in the following chapter.

Support for younger people

Examples of how funds from equity release were used to assist adult children and grandchildren have already been cited. In some cases, this resulted in some hardship and worry for the older person. For example, Mr VK is 91 and in only fair health. He would like to have left some money to his two daughters, but at the moment he is supporting one of them who lives with him and has used ER funds to meet her debts. This means that his NZS and disability pension is barely enough to live on. He hopes that his daughter will have saved enough to re-establish herself soon. Mr YM’s sole purpose in entering the ER plan was to lend an adult child the money to purchase a property. He has, however, taken a hard-headed view of the situation. Mr and Mrs YM entered into a legal contract with this adult child and fully expect to be repaid within several years. However, they have made arrangements through their will so that, if the money is not repaid, their other children will receive a larger legacy. They both believe that this is important so as to treat all their children equally.

There were several examples where clients had provided accommodation for adult children and this affected their housing options and actions with respect to the use of their home equity. Mr and Mrs FM are in their seventies and have a daughter and grand-daughter living with them. They have only NZS and very limited savings. They had considered ER and also a bank loan, but not down-sizing, given their four-person household. Mrs SG is a widow in good health and her grandson has been living with her for ten years. Perhaps when he leaves home she might consider moving to another house which is smaller and with a smaller garden. Perhaps the most extreme example was that of Mrs VL, who is 67 and has had a family, her daughter and son-in-law plus children, aged 8 and 10, living with her for two years. They moved from another city and are saving for a house, although Mrs VL “doesn’t pry into their affairs” and hasn’t taken rent from them, although they offered it. They pay for the food, power and phone but Mrs VL feels she should provide a ‘roof over their heads.” She used ER funds to buy a car better suited to being a school shuttle and has postponed home improvements because of the children’s presence.

Chapter 7: Policy and other implications

The findings of the survey of ER clients and enquirers have implications for a range of policy areas relevant to older people. These include retirement income, health and other support services and housing. Other policy issues which will be discussed in this concluding chapter are the regulation and control of ER schemes, barriers and problems inherent in the use of such schemes, information needs, relevance to family and informal care of older people. A final section examines the wider implications of equity release for social policy.

Retirement Income

Along with a high proportion of older people in general, many of the survey respondents are dependent for their incomes on NZS alone, on NZS plus other supplementary benefits, or on NZS plus some income from savings. In terms of adequacy, the Periodic Report Group report of 2003 showed that NZS provides a reasonable replacement rate for middle to low income people (PRG 2003). The 2001 *Living Standards of Older New Zealanders* survey showed that a low proportion of older people were suffering material disadvantage (Ferguson et al. 2001). Similarly, most of the respondents said that before they took out the ER schemes their incomes were adequate for day-to-day expenses.

However, many, especially those reliant solely on NZS, indicated that their incomes had not been sufficient to sustain a quality of life much above basic levels (but which most New Zealanders would expect to be able to afford), or for extras which might improve living standards. Examples cited included: buying new clothes, participating in social activities, running and replacing a car, travelling to visit family/relatives and friends, including people living at some distance or overseas, keeping up basic house maintenance and replacing essential household items. Other items, which might be seen as helping to maintain social connectedness included club memberships and computers.

Many people, especially older people, like to feel that they have some financial reserves for unexpected expenditure. Several of the respondents said that, before they entered the ER scheme, they were eroding their “nest eggs” through day-to-day spending and several went into the schemes to create “something to fall back on”, “for a rainy day.” Reserves were needed for unexpected costs especially in the areas of health expenditure (such as needing an operation which they would have to wait a considerable time for through the public hospital system), house maintenance and repairs (especially big-ticket items), emergency travel (for example in the event of family illness) and holidays.

There is some evidence from the research that people are beginning to see equity release as a part of financial planning in retirement. Its use to provide a reserve has already been mentioned and many respondents were investing all or part of the released funds to produce supplementary income. This was despite the fact that the interest produced might well be at a lower rate than what they were paying on their

ER loan.[22] The difference was that they did not have to repay the latter at present. There were also several examples, detailed in previous chapters, where people were using ER funds to repay debt, including mortgages, credit card debt and debt incurred by family members. This can be seen as prudent financial management where the interest rates on the ER loan were lower that what are being charged on credit cards, with the additional advantage of not having to make repayments. Many of the respondents counsel against taking out ER funds at too young an age, being well aware of the effects of compounding interest. Some enquirers indicated that they would defer taking up a scheme for this reason. This again suggests that ER may be seen as a tool to be adopted late in retirement, when other assets may have been used up.

Health and Support Services

Equity release funds are used in variety of ways to improve the health and wellbeing of the clients. Some household uses of ER funds could be related to health, such as installing better heating, dealing with dampness (de-humidifiers), repairing roofs, windows (draughts) or making adaptations to improve access, bathrooms and kitchens. Help in these areas is very limited from public sources and usually subject to income-testing. Obtaining household help may also improve wellbeing when an older person can no longer undertake such tasks because of illness or disability. There were several examples of ER funds being used to pay for gardening, but less frequently for housework, as this can be obtained through public health services and sometimes from voluntary agencies (on a short or long-term basis). Several respondents already were receiving home help, nursing and other services from public sources and there was little support for the suggestion that ER funds should be used to pay for these (on the same basis as for residential care).

Although there are extensive public sector health services available to older people, elective surgery was a significant use for ER funds, usually to avoid long periods (sometimes up to years) on hospital waiting lists. ER funds were extracted to pay for operations, such as cataract removal and joint replacement, but also to replace loans taken out for these purposes, but which could not be serviced on limited incomes. An alternative to full private payment for such operations is health insurance. Many people may see this as a basic requirement, equivalent to house insurance, but several respondents mentioned having given it up because of the cost of premiums, which have risen significantly in recent times. There were examples where ER funds were used to keep such premiums up-to-date.

A further use of ER funds in the health area was to pay for items such as dentures and hearing aids, which for many older people are essential everyday items contributing significantly to quality of life. Another health related item was mobility scooters which enabled the older person to remain active in their community.

[22] Some currently available ER schemes in New Zealand, not included in this research, incorporate investment in a fund, the returns on which are used to repay the reverse mortgage as well as producing additional income (Davey 2005).

Housing

Home ownership, especially mortgage free ownership, provides people with an asset, which allows them to have options in later life (Davey et al. 2004, Chapter 1). These options include trading down, intensification of use and equity release through commercial schemes (Chapter 1). Significantly increased house prices in many parts of New Zealand recently have made people feel wealthier, and, as the examples from the interviews show, have encouraged equity release because people feel that they can extract some of their capital and still have large sums in reserve or to preserve for inheritance. These trends may also have fuelled expectations of future rises, which may or may not be justified, suggesting that the intentions and plans related by the respondents might not be realised.

Trends in the housing market and in financial markets, expressed through interest rates, will significantly affect the attractiveness of ER schemes in the future. A detailed analysis of such issues is beyond the scope of this report, but the research findings showed ample evidence that many, but not all, of the older people involved were aware of such influences. They figure less prominently, however, among their concerns than the future reliability of NZS.

The quality of housing contributes strongly to the health, wellbeing and independence of older people and will become a crucial factor to the success of ageing in place, especially as larger numbers of very old people, often with significant disabilities remain living in the community (Davey 2006). Funds released through commercial schemes may be the only way for low income older people to carry out significant house maintenance, renovation and adaptation. Many examples of the funds being used in this way appear in the findings of both the postal and interview surveys. In fact these were the leading uses.

Issues related to the operation and take-up of ER schemes

The previous sections pointed out ways in which ER schemes can assist older people in improving their lives and wellbeing, basing this on the research findings. If these advantages are real, then why has take-up been comparatively low in many countries? Should the schemes be promoted or at least facilitated through policy initiatives? In the New Zealand context, this and earlier research has identified deeply-held beliefs which work against the acceptance of the equity release concept. These include:

- It is important to be debt-free
- A mortgage-free home is a strong aspiration and part of New Zealand “psyche”
- It is ‘nice’ to leave an inheritance for one’s children
- Older people should not be seen as not coping, they should be independent
- Older people are entitled to support from society through government, ‘It is my turn now’.

Using funds released from one’s home, after a lifetime of struggling to become mortgage-free can be seen as contradicting these beliefs. Many of the respondents have had to come to terms with these contradictions in accepting that ER was for them.

The research has also identified factors which influence older people's decisions about ER – about whether they accept or reject the concept:

- Professional advice
- Attitudes of family and friends
- Openness to new ideas
- Understanding of the implications.

It is possible that there will be cohort differences as on-coming generations move into later life, with changed attitudes towards debt, greater financial knowledge and fewer differences between men and women in this respect. There may be greater use of family trusts, new forms of tenure and changes in home ownership rates. Inheritance may become less important and possibly more contested by fractured families, and there could be more emphasis on decumulation of assets as people become more accepting of private provision in retirement or as government reduces its level of support.

These are future speculations. The research has identified some specific problems relating to the take-up and operation of ER schemes in the current context. Later sections look at the regulation and control of such schemes and the information needs emerging from the research. In terms of the schemes' particulars, interest rates loom large as a concern. Other specific issues are the younger age limits, especially related to a younger spouse, time limited schemes, and the ability to move to supported accommodation (with age as a factor).

Although no overt indications were detected in the research, it is clear that older people could be open to financial abuse or exploitation through the use of ER schemes. Financial gifts made to younger relatives may have arisen through subtle (or not so subtle duress) and transfers of funds in anticipation of inheritance might occur against the wishes of the older person. Any tendencies in this area would raise alarm bells, but will be very difficult to detect, given the need to respect the autonomy of older people and privacy within the family.

Regulation and Control of ER Schemes

There are some parallels between the growth of the retirement village industry in recent years and that of equity release schemes. The former was eventually subject to government regulation and legislative provisions. The interviewees were divided on whether government should be involved in the control and regulation of ER schemes. While there was some general support for consumer protection, roughly one-third of interviewees supported a "hands off" approach by government; a third supported some regulation and a third were interested in government becoming involved in their own ER schemes, with lower interest rates, subsidies and guarantees. Enquirers were not deterred by lack of regulation, but much more by the interest rates associated with ER loans and the attraction of alternatives.

Few concrete suggestions for government intervention emerged from the interviews. Codes of practice were mentioned only by people with special knowledge of business or finance. Most people were more interested in the ethical standards of the providers, about what information needs to be supplied to whom, by whom, when, how often and the clarity of such information. Concern was expressed that uninformed people could be vulnerable to unethical schemes. Levels of satisfaction with the schemes are very high according to the 2006 and earlier studies of ER clients in New Zealand and in the UK. However, it is impossible to judge satisfaction among non-respondents.

Information needs

Knowledge of equity release schemes and of the options available to older home owners to use their housing wealth to improve their standards of living is still not widespread among the New Zealand public, although the topic appears more commonly in media and other discussion than was the case in the early 1990s when commercial ER schemes first appeared in this country. Several of the respondents talked about information from a trusted source being given especially weight. In this context the RSA and the Public Trust were seen as reliable. None of the respondents or interviewees made reference to the Retirement Commission's *Sorted* website,[23] which has extensive and accessible information on equity release and many other topics relevant to retirement income.

The findings of this research could, however, be used by the Retirement Commission, through its website and advertising, and by the Office for Senior Citizens, through its community networks, to disseminate information and improve consumer awareness. The production of a basic brochure, to be distributed through Citizens' Advice Bureaus and organisations such as Age Concern and Grey Power would be useful to convey basic facts about ER.[24] The leading firms already do this with respect to their own products.

Based on the findings of this research, such a brochure or information pamphlet could usefully:

- Encourage consideration of/knowledge of alternatives to commercial ER to release housing capital
- Emphasise the importance of seeking independent professional advice
- Promote discussion with family about ER and other options, as well as about expectations of inheritance
- Promote discussion with family about options for care if the older people ever require this
- Encourage planning about how assets will be used in retirement
- Encourage rational debt management, given that income levels usually reduce on retirement
- Explain the effect of compounding interest, the importance of a no negative equity guarantee, the ability for funds to be released in several tranches

[23] http://www.sorted.org.nz/

[24] A brochure advising older people on how to meet their transport needs when they no longer drive or have access to private transport was produced after the completion of the *Coping without a Car* study (Davey 2004) by the Office for Senior Citizens and extensively circulated. This might provide a model.

- Present information on the uncertainties inherent in current ER schemes – interest rates changes, house price trends
- Explain what safeguards there are for consumers, who may be concerned about the possible calling in of debts and about companies "folding".

Consumer education of this type may need to be directed not only at people who are already retired but also at those approaching it to encourage well-informed and considered financial planning. It may also help alleviate the fears of adult children whose older parents are considering entering into ER plans. Another challenge is to confront gender disparities in financial power and financial knowledge. The interviewers for this study were very aware that it was most frequently the husband/male in a partnership who was the money manager, and sometimes widows were left with little knowledge of their financial circumstances or of arrangements entered into by their partners. Sometimes the women "did not want to know", possibly through lack of self confidence. There were also instances where partners differed in their opinions about how assets were to be used and frequently the women's concerns had been over-ridden. These gender disparities may become less apparent among on-coming cohorts of older people, in which the women have generally had more financial independence. They are, however, an important issue for the present.

The need for information about equity release and the current schemes on offer was not confined to consumers. Interviewees frequently related how their advisers, especially lawyers, were not fully informed, or had prejudices either against ER schemes or in favour of other alternatives. It should not be necessary for professional advisers to educate themselves about ER schemes at the expense of their clients (such instances did arise in the interviews).

Both the potential clients and their advisors require full disclosure of the terms and conditions of ER schemes. In a few instances interviewees reported that these were not easily available and that they were required to incur expense in advance of being given the information in full.

Relevance to Policy

This research has shown that equity release, now and in the future, has the potential to improve quality of life of older people through:

- greater financial security
- health security
- housing quality
- social contribution and involvement – supporting social connectedness
- support to older people ageing in place.

Flexibility in the use of funds tied up in housing can play a part in helping older people to fulfil their strong desire for independence and to assist their families.

In summary, there are several purposes for which personal financial assets, in the form of home equity can be mobilised to improve wellbeing in later life. Some of these already figure in policy and others may be considered in time:

- Payment or part-payment for long-term residential care
- Informal transfers within families and charitable donations
- Payment of local authority rates[25]
- Payment of long-term care and health insurance premiums
- Direct payment of health costs, especially hospital and surgical costs
- Payment of home care costs
- Maintenance of national housing stock and adaptation of housing to assist ageing in place.

At present in New Zealand, equity release is possible through informal means (trading down or informal arrangements within families) and through several commercial firms, which differ in size and in terms of how their schemes operate. The research showed some support for such schemes to be offered in the public sector or with government guarantees, and this has been part of previous policy agendas (Chapter 1).

These discussions cut to the heart of beliefs about family expectations and housing wealth, which the research has shown to have social, economic and political implications. The policy of using housing wealth for residential care may be accepted on a cost-sharing basis but its use to pay for health and home care services is a new idea, which may provoke resistance. Most people have yet to grasp or accept the concept of a trade-of between family care and inheritance. Set against this are the strong feelings which older people expressed in the research: that they do not want to be dependent on their families, that they should use their housing wealth to help themselves and that the decision is theirs. Equity release not only allows older people to do this but also to contribute to their families in the ways illustrated in this report.

Any policy initiatives made in these areas must recognise the strength of these aspirations. Most housing wealth is preserved for transmission to younger generations through inheritance, but there are a range of actual and potential uses for it during the lifetime of those who have accumulated it, and for inheritors. These uses have the potential not only to improve wellbeing but, if carefully handled, to reduce fiscal demands on governments, as the older population grows.

[25] Some territorial local authorities allow rates payments to be ‘rolled-up’ against home equity (Davey 2005).

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