Executive summary

Housing wealth is important, and it will become more so. Historically, it has been an excellent investment for those who have been able to own, and, by 2003, accounted for just over 50 per cent of net personal wealth (HM Revenue and Customs 2006b).

But the role that housing wealth can play has been overstated. To improve access to housing wealth, the priority for government should be building an assets ladder, rather than a housing ladder:

- If the motivation is *fairness and equality*, the first task should be to help those at the very bottom.
- If the motivation is helping people to *acquire wealth*, homeownership is less profitable and more risky for those on lower incomes.
- If the motivation is helping people to benefit from the *psycho-social effects of owning wealth*, financial assets appear to offer clearer gains than housing wealth, for both individuals and communities.

Therefore the Government should ensure that people on low incomes have decent incentives to save, rather than looking at homeownership in isolation.

In the past, homeownership has been profitable largely because of windfall increases in land value, redistributing wealth from non-owners to owners. Preventing this requires a renewed commitment to regional policy, using the charged issue of homeownership to increase its public priority. And it requires a clear argument from government that recent house price gains have created losers as well as winners, and the taxation of windfall housing wealth is a fair way of paying for the measures needed to address the gap.

Later in life, many look to their home to provide income in retirement. In fact, one fifth of retired people living in poverty own more than £100,000 of housing wealth. This amounts to 440,000 retired people, 4.4 per cent of the overall retired population, each owning an average of £177,000 of housing wealth, or £77.1 billion in total.

The potential of housing wealth to meet other needs is relatively restricted. A house provides rent-free living in retirement, but, for the vast majority of homeowners, a house should not be thought of as a pension. That said, for those who do want to release wealth from their home in retirement, there are important barriers that government can help to overcome.

- *Means testing* in the benefits system unfairly penalises the transfer of wealth from housing to liquid savings, and should be reduced. Almost a million pensioners, 8.2 per cent, own more than £100,000 of equivalised housing wealth, but are on means-tested benefits. Previous research from ippr has shown that a fairer system is possible (Brooks *et al* 2002).

- *Financial advice* available to older people wanting to buy equity release products is expensive and often of low quality. As such, there is a strong argument for government provision of generic financial advice for older people in order to fill this gap.
- *A lack of suitable properties to move into* hampers older people's ability to trade down. Half of low-income retired homeowners live in 'larger homes', meaning at least three rooms, in addition to a kitchen, bathroom(s), one bedroom for the first one or two household members and one further bedroom for each additional member.
- *Logistical problems* associated with moving house, particularly for the 'old old', can trap asset-rich, income-poor pensioners in unsuitable homes.

Aside from these four sets of actions, there is not a strong case for government actively supporting the market for equity release.

Summary of key recommendations

To help younger households, the Government should:

- ensure that those on low incomes have decent *incentives to save*, perhaps through a national rollout of the Saving Gateway pilots.
- use the charged issue of homeownership to increase the priority the public gives to *associated issues*, especially regional policy, the transmission of wealth inequality across generations, and the taxation of windfall housing wealth, which should be defended as a fair way of paying for the measures needed to help those who are made worse off by house price inflation.
- exercise caution in how *mixed communities* are achieved in existing social housing developments. Artificially shifting tenants into homeownership cannot be expected to deliver the benefits of mixed communities: mixed tenure is a condition, not a cause, of mixed communities.

The case for government support of equity release is weak, and releasing housing wealth will remain expensive. But there are actions that the government should take.

To reduce benefit disincentives, the Government should:

- tackle the arbitrary penalties to releasing wealth from the home for pensioners on benefits, as part of pensions reform following the Pensions

White Paper in May 2006. Previous research by ippr has shown that it is possible and desirable to eliminate Pension Credit and replace it with a non-means-tested British State Pension at the level of guarantee credit (£114.05 per week for a single pensioner in 2006-07) (Brooks *et al* 2002, Paxton *et al* 2005).

To improve advice, the Government should:

- establish a *generic financial advice service*, 'MoneyDoctor', to cater specifically for older people. This should provide a combination of telephone and face-to-face advice, and carry strong independent branding. It could be augmented by providing the infrastructure for *pro bono* work by independent financial advisers, and by encouraging contributions from firms who would benefit from reducing public distrust of equity release. It could also include financial health checks at retirement that include looking at housing options, and making clear, where appropriate, the benefits of moving early.
- make available a free, online *benefits calculator* for pensioners so they can calculate the effects of increasing their income or capital on their benefit eligibility. This should be simple and transparent, so it can be used by individuals as well as financial intermediaries.
- undertake an annual *mystery shopping exercise* of financial advisers offering advice on equity release, through the FSA. This would act as a deterrent to advisers who may be cutting corners, and provide regular snapshots on the quality of advice.

To increase the supply of housing suitable for older people, the Government should:

- give a stronger focus to older people in the new version of the *Planning Policy Statement 3*, and an explicit focus in the revised *Section 106* agreements between local authorities and developers.

To help older retired people trade down, the Government should:

- provide *logistical help trading down*, building on the lessons learnt in the 'Should I Stay or Should I Go?' pilots and elsewhere. This means that the Supporting People budget must be fairly allocated to services that meet the needs of retired low-income homeowners. The 2005 Pre-Budget Report cut the budget for the fourth year in a row.
- widen *adaptation grants*, by extending the remit of home improvement agencies to include housing options and move-on services.

Housing is an asset like no other. It has fed wealth inequality, transmitting disadvantage from one generation to the next. At the same time, those who do want to use housing wealth in older age face high costs to doing so. This book argues that the answer does not lie in subsidies at either end of the lifecycle, either to support first-time buyers or to subsidise the release of equity. Instead, the Government should be prioritising an assets ladder over a housing ladder, to ensure that the asset buffer that is necessary for sustainable homeownership is more easily obtainable for those on low incomes; and it should facilitate the release of wealth by reducing the tangled complexity of the benefits system. Housing wealth can provide many benefits, and be spent on many things, but it cannot do everything. For too long, its potential has been overstated.