When pensions fall short: how property wealth can support retirement planning

By James Northard, Retirement Key Account Manager at Aviva

For many clients approaching retirement, the financial landscape has changed. People are living longer, the cost of living has increased, and individuals are now taking responsibility for funding their retirement rather than relying on employers or the government state pension.

As defined contribution pensions have become more common, clients are taking on more of the risk when it comes to funding their later life. As an adviser, this means you're increasingly working with clients who are unsure whether their pension savings will be enough to support them throughout their retirement.

At the same time, many of these clients hold significant wealth in their property. When considered as part of a broader plan, this can play an important role in supporting better retirement outcomes.

A common client scenario

You may recognise clients like this:

- Early 60s and planning to retire soon
- Pension pot of around £90,000
- State Pension due at age 67
- Limited additional savings
- Mortgage-free home worth £350,000

For many in this position, the main concern is whether their income and savings will last throughout retirement. A large share of their wealth is tied up in their home rather in savings or income they can easily access. This can create both a challenge and an opportunity when considering how to fund later life.

Why early decisions matter

One of the key risks in retirement planning is sequencing risk. This is the risk that poor investment returns occur early in retirement, while your clients are making withdrawals from their pension.

In practice, this can lead to:

- withdrawals continuing while fund values fall
- losses being locked in

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- less capital available for recovery
- faster depletion of pension funds.

This is particularly important at the point of retirement, when clients begin to rely on their savings for income.

For advisers, managing this risk is an important part of delivering sustainable outcomes.

Where a lifetime mortgage can play a role

A lifetime mortgage lets clients aged 55 or over access some of the value tied up in their home, usually without the need for regular repayments. When used appropriately, it can form part of a wider retirement strategy alongside pensions and other assets.

It is important to be clear with your clients that:

- a lifetime mortgage is a long-term commitment
- interest is charged on the total amount borrowed and the interest already added which quickly increases the amount owed
- it will reduce the value of the estate
- the loan and interest built up is normally paid back upon death or moving into long-term care, subject to terms and conditions – from the sale of the property
- it can affect eligibility for certain welfare benefits
- it will not be suitable for every client
- they must be a UK homeowner aged 55 or over

It goes without saying that these clients will need to understand the risks, costs and benefits and so will need full advice, and a full suitability assessment will be essential.

Five ways property wealth can support retirement planning

1. Reducing pressure on pension withdrawals

Instead of relying solely on pension income, some clients may choose to reduce withdrawals when markets are volatile, supplementing their income with cash unlocked from their property. By giving their pension investments more time to recover, this could help you manage sequencing risk and improve income sustainability over time.

2. Providing a flexible safety net

Drawdown lifetime mortgages let clients access funds in stages. This means they only pay interest on what they use, and funds are available when needed. It gives your clients the ability to respond to changing circumstances, subject to terms and conditions.

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This flexibility can help avoid unnecessary or poorly timed pension withdrawals.

3. Supporting a gradual transition into retirement

Retirement is no longer a single event for many clients. Property wealth can support a phased approach by providing income to top up reduced earnings. It lets your clients delay pension access, giving them more control over when and how they retire. In turn, that lets you design a more tailored and manageable retirement journey.

4. Helping clients stay invested

Market volatility can lead to reactive decisions, such as moving into lower-risk assets at the wrong time. Having access to an alternative source of funds can reduce the need to sell investments during downturns, support long-term investment strategies and give your clients more confidence to stay invested.

5. Supporting broader planning goals

In some cases, property wealth may also support planning for later life costs. It helps to preserve pension funds for future needs, letting you and your clients manage how and when to pass on wealth.

As always, your client's objectives and overall financial position will guide these conversations.

Equity release can offer flexibility when it's needed

Inevitably, some clients will find that their pension alone is not enough to deliver the retirement they want.

For homeowners, property wealth can provide additional flexibility. When used carefully and as part of a wider plan, a lifetime mortgage can:

- support income sustainability
- help manage sequencing risk
- reduce pressure on pension withdrawals
- provide greater financial flexibility

And, of course, the focus should remain on suitability, long term outcomes and delivering good customer results.

Explore more with Aviva

If you are supporting clients who are balancing pension income with property wealth, we can help.

Visit our equity release page to access practical guides, tools and product information.

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