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Help to Wealth-fare?

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The first headline from this year's autumn Conservative Party Conference was about bringing forward the start of phase two of the Government's ['Help to Buy'](#) scheme. Broadening access to home ownership – help to get more wealth - underpins the Government's desire for everyone to take more responsibility for their own welfare. But where economies are unpredictable, and housing markets remain uneven, asset (or property) based welfare will open up, not close inequalities. .

There are many reasons why Help to Buy is not really addressing the real problem of housing or welfare. The two issues that get most attention are, lack of supply, and insecurity in the labour market. First, houses are too expensive because more people want to buy than there are houses available for purchase. The Help to Buy scheme will not provide the extra supply of housing needed for prices to come down. Secondly, people struggle to raise a deposit because jobs are insecure, people are underemployed and wages are not high enough for families to have a reasonable standard of living and enough money left over to put into a savings account. Helping people to borrow more is not really addressing this issue either.

But the fundamental question that does not get raised is - why has it become so important for people to buy their own home? The simple answer is that housing wealth is being used as a substitute for state provided support.

Balancing the welfare budget is becoming difficult because, amongst other things, more people are living longer. There are currently 10m people in the UK who are aged 65 and over and this number is set to rise to 15.5m in 2033 and 19 million by 2050. This [ageing population](#) has considerable consequences for public services. As the number of older people in the population rises, there has been increasing discussion and debate amongst policy-makers about the best way of financing the pensions, health care and other welfare services that people will need in later life. The key issue is that one way or another goods and services have to be paid for, either through a collective system of taxation, or through private means. Choosing which option to take is no easy task.

Although people are generally living longer and healthier lives it is still the case that the majority of people will at some point call upon health and/or social care services. This will inevitably mean that the cost of providing care will rise. However, as noted above the labour market is less secure than it used to be and on top of this the number of working-age people relative to the number of retired people is also shrinking. This means that the source of welfare funding – taxes paid by working people – is not going to be sufficient to keep up with the rise in demand on these services as well as funding state pensions. In order to square this particular circle, the Government think it is better for people to build up and use their own wealth as

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a means of welfare support in later life, rather than raising the tax burden of the younger working population. Raising taxes is not a vote winner, but helping people to borrow enough money to buy their own home may well be (we shall have to wait and see).

So there is much discussion, if little agreement, in political circles about how to deal with the cost of supporting a growing number of older people. Attention in recent times has come to focus on housing wealth. Housing wealth is the value (or price) of a home minus any debt (usually the mortgage) secured against it. One of the key debates in the UK is the extent to which people who have wealth in their homes, should access it to pay for welfare needs. Strong arguments can be made both for and against using housing wealth in this way.

A house is the most expensive item that most families will buy. When the mortgage is paid off it is the most valuable thing they own. Although house prices may have taken a hit in the last few years, overall the personal wealth that is held in housing has increased dramatically over the past thirty years or so. Housing is the mostly widely held asset in the UK, around two-thirds of all households buy their own homes, and most people in this category are now either retired or close to retirement age. Many of these older owners will have bought their homes many decades ago when house prices were, by today's standards, very low. Since then they will have seen the value of their home rise to many times what they paid for it.

It is this substantial sum (of mostly unearned wealth) that could be used to help support the welfare needs of the older people who occupy that home. This plays to the tune of the 'cash rich, income poor' older owner we hear so much about in the press, or the older owners hoarding all the housing wealth. So on one level the argument seems sound – building up housing wealth is a better financial mechanism than relying on a declining tax base to fund the welfare state. However, as with most aspects of finance and welfare provision the picture is much more complex.

Some families are already finding they have to rely on housing wealth in order to supplement household budgets. Changes to mortgages have for some time made it possible for people to [access some of their housing wealth](#). For example having a mortgage reserve account enables home owners to raise more money simply by writing a cheque - making it easier and cheaper to borrow than through a personal loan or credit card. In fact, more money is released from housing [through increased mortgage borrowing](#) than through downsizing or selling up and moving into rented property. Between 2000 and 2005 around 20% of families who were buying their home increased their mortgage debt for reasons other than purchasing another property ie their mortgage increased although they did not move house.

These '[in-situ' equity borrowers](#) are using their housing wealth to help with household finances when one family member is unemployed, when relationships breakdown and a person may have to live and manage a home with one less income,

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or when families are young, growing and expensive. These home owners are borrowing more money against their home to cover for unexpected loss of income or increase in expenditure that is no longer provided by welfare services or where provision is reduced and increasingly rationed. Where people are borrowing more against their home when they are finding times tough, this puts them in a [very risky position](#). If they fall behind with repayments, they will not only incur additional charges, but potentially could lose their home. People who borrow against their home are one and a half times more likely to [fall behind with mortgage payments](#) or have their home repossessed than people who do not borrow from the equity in their home.

Another argument against using housing wealth for welfare in later life is that very few older people live in houses that are of a high value. Depending on where and when they bought, one survey shows that older owners currently have anywhere between minus £280,000 (negative equity) up to £1m or more in housing wealth. Whilst there are some owners with vast amounts of housing wealth, these are younger not older owners, and they also have vast amounts of other income or investment wealth as well. Over one-quarter of [housing wealth in England](#) is owned by people under 65 who are in the richest households (the top 20% of the population in terms of their household income. Similar figures apply in [Wales](#), [Scotland and Northern Ireland](#). Older owners are therefore more likely to be housing poor and income poor.

In order for sufficient housing wealth to be available for later life, house prices will have to continue to rise at least at the same rate as inflation. But as we have seen recently house prices can fall, and fall dramatically. This means that the amount of wealth you have available for welfare will not depend on your own ability to save or pay into a scheme, but purely on the chances of the housing market. Furthermore rising house prices make it difficult for young people to buy in to this property based welfare system. Hence, they need assistance from the Government to get sufficient for a deposit together. So how sustainable is a welfare system that the next generation cannot access without Government support?

We may be moving from a great financial crisis into a great welfare crisis. But, if we continue down the route of a property based welfare system, we will have a housing crises like no other and that's before we address the demographic shift that could bring a whole new meaning to [location, location, location!](#)

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