Knowing how much equity release you can write

For CFOs and heads of pricing, capital and investment at life insurers that back annuities with lifetime mortgages: what limits equity release capacity, what a capacity model should show, and how often to refresh it.

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IN BRIEF

The problem

For an annuity writer, equity release volumes are often set as a sales target, when the real limit sits in annuity sales, capital and the board's appetite for property risk.

Why it happens

Each limit is owned by a different team and moves with different things, so the firm may not see which one will bind next until it does.

What to do

Model all three limits together, show which binds under realistic scenarios, and refresh the model at least as often as the PRA reviews its Effective Value Test parameters.

01

Why capacity is a board question

For an annuity writer that holds lifetime mortgages to back its annuities, equity release isn't a standalone business. How much it can lend depends on how many annuities it sells, how much capital the lending uses, and how much property risk the board is prepared to hold.

Getting the number wrong is expensive in both directions. Set it too low and the firm turns away lending it could have held well, at the cost of yield on the annuity book. Set it too high and the firm writes loans it can't hold efficiently, or finds the capital they use crowding out other business.

The market is steady rather than booming. Lending was £2.57bn in 2025, up 11% on 2024, and £597m in the second quarter of 2026, according to the Equity Release Council's market reports of January and August 2026.

02

The three limits

Backing for annuities. Lifetime mortgages held to back annuities in a matching adjustment portfolio, usually after being restructured into notes, have to fit the cash flow profile of the annuities they back. So the amount a firm can usefully lend is tied to its annuity sales, and falls when they fall.

Capital. The no-negative-equity guarantee means the lender, not the borrower, bears the loss if the property is worth less than the loan when the loan is repaid. The PRA's Effective Value Test (supervisory statement SS3/17) checks the value placed on these mortgages using a minimum deferment rate and a property volatility assumption. The PRA raised the minimum deferment rate in steps from 2.0% in September 2022 to 4.5% in September 2025, and kept it there at its March and September 2026 reviews. Each rise in that floor tightens the test, and can reduce how much lending the same capital supports.

Appetite for property risk. The board's limits on total exposure, concentration by region, and lending by loan-to-value and age band set a ceiling of their own.

Capacity is the lowest of the three, and which one binds changes with house prices, interest rates and annuity sales.

ILLUSTRATIVE EXAMPLE

Equity release capacity under three scenarios

Limit	Today	House prices 10% lower	Annuity sales 30% lower
Backing for new annuities	£375m	£375m	£263m
Lending the capital budget supports	£300m	£240m	£300m
Room under the property risk limit	£350m	£350m	£350m
Capacity: the lowest of the three	**£300m**	**£240m**	**£263m**

Illustrative: new annuity sales of £1.5bn a year; new lending may back up to 25% of them; a £30m capital budget, with each £1 lent using 10p of capital, rising to 12.5p if house prices fall 10%; £350m of room under a limit set on the loan balances of the whole lifetime mortgage book.

Today the capital budget binds. A fall in house prices tightens it further. A fall in annuity sales moves the binding limit to annuity backing, and a sales team told only to grow volumes would not see that coming.

03

What a capacity model should show

- **Capacity under each limit, and which binds.** One number is less useful than three, with the reason the lowest one is the lowest.
- **How each limit moves.** House prices, interest rates, annuity sales and the Effective Value Test parameters, alone and in combination.
- **Experience against assumptions.** Loans end through death, moves into long-term care and voluntary early repayment. Compare actual redemptions with the pricing and valuation assumptions, by cause.
- **The pipeline.** Loans approved, offered and completed, so the board can see capacity being used before it is gone.

Refresh the model at least as often as the PRA reviews the Effective Value Test parameters, which it does at the end of March and September.

FROM EXPERIENCE

At Partnership I built the equity release capacity model the CFO relied on, ran the firm's first equity release experience analysis, and delivered a new equity release dashboard for the CEO and CFO. I worked with Capital Economics on property risk, and supported the Solvency II response, including responses to PRA challenge on equity release provisioning.

The lesson I took from that work is that a capacity number on its own tells a board less than knowing which limit will bind next, and what would move it.

04

The distribution side

Capacity planning also depends on what happens in distribution. The FCA launched a market study into later-life mortgages in March 2026 (MS26/1), including the commission and referral fees providers pay advisers, with interim findings due in the fourth quarter of 2026. A lending plan that depends on today's distribution terms is worth testing against a change to them.

Questions for the board

01 How much lifetime mortgage lending can we write this year, and which limit binds first?

02 How does that change if house prices fall 10%, if annuity sales fall, or if the PRA raises the deferment rate floor again?

03 When did we last compare actual redemptions, by death, moves into care and early repayment, with our assumptions?

04 How much property risk will we hold, by region and loan-to-value, and who set that limit?

05 Does our pricing for new lending reflect the capital it uses today, or the capital it used when the rates were last set?

06 How would the outcome of the FCA's later-life mortgages market study affect our volumes and distribution costs?

Capacity planning turns equity release from a sales target into a decision about how much to write, at what price, and what would change the answer. A single view of the three limits gives the board something to steer by.

If this is on your table, a 30-minute conversation is usually enough to tell whether I can help.

Talk to Mark

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ABOUT THE AUTHOR

Mark Woodruff is a Chartered Actuary (FIA) and Chartered Financial Planner (FPFS). He spent 15 years pricing and building products at Aviva, Prudential, Partnership and St. James's Place, then more than seven years founding and running advice firms through to a substantial sale. Through Mark Woodruff Consultancy he works with financial services firms on product, pricing, distribution and governance.

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