Retirement FREEDOM

Equity Release to assist Retirement Planning

Spring 2014

ANDY WILSON
FINANCIAL SERVICES

Andy Wilson Financial Services Ltd

18 Dorchester Way
North Hykeham
Lincoln LN6 9HH

Tel: 01522 590015
Email: andy@andywilsonfs.co.uk
Web: www.andywilsonfs.co.uk

Bridge the GAP

Releasing equity from your home may deliver the additional income you need to help you across your retirement years.

With the luxury of time, it's likely you'll be able to spend more of it around your home and garden, and with the family too. It'll also enable you to devote more energy to existing interests and hobbies, as well as possibly picking up one or two new ones. And don't forget the holidays you always meant to go on, but couldn't due to work commitments.

Historically, your retirement years would have been largely funded by your pension (both personal and state), other applicable state benefits, along with any investments or savings you may have.

However, the impact of the population living longer, poor returns on annuities and savings rates in recent years, the general economic climate, and the increased pressure on state funding, has meant many now have to look elsewhere to help bridge the gap.

Home help

At the same time, we've seen a massive growth in the value of the homes we live in. For example, 30 years ago the average house price was around £28,000, which equated to under 3.5 times average earnings. Today, the average house price is around £176,500 and almost 5.5 times the earnings figure!

(Source: Nationwide / Office for National Statistics, to January 2014)

It is no wonder then, that an increasing number of homeowners feel that they are 'cash poor but equity rich' and look to release some of the value in their home.

Many would simply decide to downsize, and raise the necessary funds this way. However, an alternative exists - **Equity Release** - which will enable you to remain in your home if you meet certain criteria, and are aged over 55.

Staying put

In the latest annual review of the attitudes of over-50s to retirement - undertaken by LV=, an equity release provider - it gives an insight into why a sizeable number may want to stay put. According to LV=, the over-50s have spent an average of £30,000 creating their perfect home and almost two out of five (38%) said that they want to stay there for the rest of their lives. This figure rises to nearly one in two, when solely asking the retirees.

In fact, more than half of the working homeowners aged over-50 now plan to use the equity in their home to help fund their retirement years - compared to just 28% in the same survey in 2012.

(Source: LV= HIPpies 'home is pension' survey, Sept. 2013)

The options

There are two main types of equity release plans - you can either borrow money, which

➔ **(contd on back page)**

■ **Lifetime Mortgages and Home Reversion Plans are the two main types of Equity Release.**

■ **An Equity Release plan will reduce the value of your estate and as a result there may be no value left to pass on. Equity Release will not be suitable for everyone and may affect your entitlement to State benefits.**

■ **As Equity Release is a complex area only specially qualified advisers can give advice on these schemes.**

Equity Release can sometimes be viewed as a product of last resort, but many also turn to it for positive reasons.

It's Your wealth!

Helping family and friends

Let's cover the issue of inheritance first. This has tended to be the Holy Grail, with the home being viewed as something the family would inherit.

The equity in your home may represent a sizeable amount of your overall capital - but there may also be savings and investments which, it's largely accepted, should be used to help fund the retirement years. But why exclude the home from the same thought process? Although, in this respect, it may make sense to consult with your family in order to manage their expectations.

With the home, it's possible that there's also an emotional attachment, even though it's likely that it would then need to be sold swiftly to help share out the value of the estate after meeting any applicable inheritance tax demands.

However, attitudes do seem to be changing from both the homeowner and the potential family members that will inherit. There's a desire to see funds used to benefit people whilst the 'giver' is still around. The most obvious route is supporting the grandchildren with education costs or deposits to help them get their foot onto the property ladder.

The alternatives...

Equity Release can be the best solution for some, but to arrive at that point we must consider the alternatives. This may replace the need for an equity release plan, or reduce the size of the loan required.

Downsizing your home

This offers an easy way to raise the funds you need at this stage - and the option to take up equity release at a later date would still be there.

Existing or potential State Benefits and Local Authority Grants

If you're already claiming benefits, and these are means-tested, then raising funds elsewhere may affect your ability to continue to claim (or reduce the regular payments). Additionally, there may be some benefits that you should be claiming for, but are not aware of.

Trace any lost pensions, investments or savings

Across your lifetime there's a good chance that you may have forgotten about a long-held investment, or a small pension from a past employer. You can talk to us, or visit the various websites to search for yourself (see story on page 3).

Look at your existing investments and savings portfolio

You'll need to take professional advice to decide if raising funds this way is a better option.

Consider taking in a lodger

If you don't have an issue with someone else living in your home, then this too could be an option.

Home and Garden improvements

For sizeable initiatives, this would be viewed as another positive reason for using equity release. Any added value to the home may also benefit those inheriting down the line, quite apart from the homeowner having a better environment to live in.

Assistance with regular bills, and paying off loans and credit cards

Worryingly, almost two million retired adults have less disposable income than the average weekly pocket money of an 11-year-old child (£8), once essential living costs are accounted for!

(Source: LV= State of Retirement report, June 2013)

So it's no wonder that helping to supplement their retirement income is still probably the biggest reason for opting for equity release. Even in this instance, it needn't be just for negative reasons, as many will use the extra funds to simply help enjoy a better lifestyle across the retirement years.

Clear the outstanding mortgage

This is a growing reason for considering equity release. For example, the average balance at maturity for an interest-only mortgage was £60,000 in 2012, but is expected to rise to around £110,000 by 2020 - with about 150,000 loans maturing each year across the current decade. In some cases, the borrower may not have the investments in place to fully repay the loan.

(Sources: Financial Services Authority, Retail Conduct Risk Outlook, March 2012, and Mortgage Market Review, October 2012)

Funding care costs

Not exactly a positive reason for raising funds, but could be an essential one - which may enable the homeowner to remain in their own home and receive daily visits. The alternative could be to possibly sell up and use those funds to cover care home costs - which could amount to circa £28,000 a year vs. around £13 an hour for home visits.

(Source: Equity Release Council, Long-term Care report, October 2013)

Treating yourself

Some homeowners may decide to raise funds for the trip of a lifetime, or the car they've always wanted.

Please get in touch to find out more.

The Equity Release Council (ER Council) is the industry trade body which, over time, has introduced a number of initiatives to help safeguard the needs of borrowers.

Reassurance for YOU

The lenders - who are members of the Equity Release Council - represent 90% of the overall marketplace, and have a commitment to observe a stringent Code of Conduct.

These safeguards have recently been further reinforced with additional rules and guidance. Overall, the initiatives are designed to ensure that every customer understands the level of service and support they are entitled to receive, along with a clear explanation of the loan they take out.

Furthermore, some of the established principles of the Code, which was set up in 1991, should also deliver a decent degree of comfort for the potential borrower, such as:

- **You won't lose your home.** Irrespective of whatever is owed on the loan (even if it exceeds the value of the property), the planholder(s) will be allowed to remain in the property for life, or until they move into long-term care, provided the property remains their main residence.

Additionally, this means that there is a 'no negative equity' guarantee - resulting in no subsequent debt for the planholder's family.

- **The right to move to another suitable property without any financial penalty.** Although they may have to repay part of the Lifetime Mortgage loan, if moving to a cheaper property, the opportunity to move remains.

An additional factor to consider is if both you and your partner are planholders. Take the issue of care, for example, where your equity release scheme will usually carry on unchanged if care is provided in your own home, or if just one of you moves into a care home. If you both move permanently into a care home, the scheme will usually end.

And on the death of the first planholder, the arrangements will continue, if the other planholder remains in the home.

So, as you'll see, much has been done to ensure that if you do opt for equity release, there are plenty of safeguards in place, in addition to both Lifetime Mortgages and Home Reversion plans being fully regulated by the Financial Conduct Authority.

Do talk to us to discuss your needs.

DID YOU KNOW?

In the last year, 12% of over-50s (not yet retired) have cut back on what they are putting away for life after work, in order to help live in the 'here and now'. This equates to a massive £2.3bn in lost retirement savings, and may pose problems down the line.

(Source: LV= State of Retirement report, June 2013)

Useful links

We can help you through the decision-making process, including some of the areas below, but you may also be keen to do a bit of initial research yourself. So here are a few handy websites to check out...

How much is your home worth?
It's obviously important that you have a feel for what your home may be worth, as that will have an impact on the amount you may be able to raise. Aside from getting it valued, you can also get an idea by checking out the sale prices of comparable properties in your area on this website: www.nethouseprices.com

Tracing lost or mislaid...

- **Pensions.** You could start with the Pension Tracing Service: www.gov.uk/find-lost-pension 0845 600 2537
- **Bank, Building Society, or National Savings accounts.** www.mylostaccount.org.uk
  Bank account:
  020 7216 8909 (British Bankers Association)
  Building Society account:
  020 7520 5900 (Building Societies Association)
  National Savings account:
  0500 007 007 (National Savings and Investments)
- **Insurance policies, pensions, unit trust holdings and share dividends.** www.uar.co.uk
  0844 481 81 80 (The Unclaimed Assets Register)

Information on State Benefits
To see what you may be entitled to, go to the Department for Work and Pensions website:
www.gov.uk/dwp 0800 88 22 00

Do let us know if you have any questions.

Lifetime Mortgages account for the vast majority of all equity release plans. And the most popular form of Lifetime Mortgages is Drawdown...

(Source: Equity Release Council, 2013 data)

Lifetime MORTGAGES

What is it?

A Lifetime Mortgage is similar in principle to a standard mortgage, with the main difference being that there are normally no monthly repayments to make and the loan (plus the monthly interest owed) is redeemed when you die, or move into long-term care.

What's the maximum I could raise?

It's largely dependent on the age of the youngest planholder and value of the property. As a rough guide there are differing percentages from aged 55 upwards. Broadly, it's 20% of the property value aged 60, 30% aged 70, 40% aged 80 and 50% aged 90+.

Take all the money at once, or when I need it?

You can do either. Instead of opting for the full lump-sum at the outset, drawdown allows you to take up to the agreed amount against the set time constraints.

Drawdown is becoming increasingly popular and around two-thirds of all lifetime plans are now set up this way. The effect of this approach is that it may enable you to stay within limits for means-tested benefits. It will also lessen the impact of the 'rolling-up' of the interest that's not being paid on the loan.

(Source: Equity Release Council, 2013 data)

However, do remember that the interest rate applicable when you drawdown further funds may be at a different rate. Additionally, do consider products that guarantee the drawdown facility, so that you'll know it won't be an issue whenever you come to act.

What is roll-up?

If you don't make monthly payments to pay off the interest, then the interest owed is added to the capital that you originally borrowed. To gauge the impact of 'roll-up', if the interest rate for the lifetime mortgage loan is 6%, for example, a £50,000 loan (with the added interest) would have doubled to around £100,000 after 12 years. That's partly why drawdown is popular, as there's no point having interest added to borrowings you don't need at that particular moment in time.

What if I want to cancel the plan?

In much the same way as a standard mortgage, there may be an Early Repayment Charge against certain timescales - the terms of which would vary across the providers.

As this is a complex area, it's essential that you take advice, so do get in touch to find out more.

➔ (contd from page 1)

is secured against your home (Lifetime Mortgages) - see story above - or sell part, or all of your home (Home Reversion schemes). The former accounts for the vast majority of all plans taken out.

The average amount raised is around £57,000 - and with a lifetime mortgage an increasing number are not taking all the money at once, but drawing it down when it's needed (within an agreed timeframe) - to help avoid paying interest on money that's not required at that particular stage.

(Source: Equity Release Council, 2013 data)

The maximum you can borrow depends on the age of the youngest planholder and the value of your property. Broadly, this ranges from 20% of the value of your property if you are 60, up to around 50% if you are 90 or over. The reason for this is that providers, who are members of the Equity Release Council (equating to most of the marketplace), allow the final planholder to remain in the home until they die, or go into long-term care, irrespective of when the loan was taken out, or what is owed.

It's vital that you take professional advice, so do have a read through this issue and let us know if you'd like to take it further.

■ For Equity Release, we can either be paid a fee of £990 plus commission from the company that lends you money or buys your home, or a fee which will typically be £2,395 and we will refund any commission received from the company that lends you money or buys your home.

■ The contents of this newsletter are believed to be correct at the date of publication (January 2014).

■ Every care is taken that the information in this newsletter is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The articles are for information only and do not constitute advice. You should seek professional advice tailored to your needs and circumstances before making any decisions.

Published by BlueStone Publishing.
Email: info@bluestonepublishing.co.uk