Retirement FREEDOM

Equity Release to assist Retirement Planning — Summer 2015

ANDY WILSON
FINANCIAL SERVICES

Equity Release lending figures
£326m in Q1 2015.
Highest start to any year since records began!
(Source: Equity Release Council, Q1 2015 figure)

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Did you know that if you're a homeowner, aged over 55 and looking for additional funds then we may be able to help.

Your retirement years should be a time to settle down and really enjoy life. This could encompass going on dream holidays, achieving tasks around the home and garden that improve your lifestyle, devoting more time to hobbies and interests, and spending time with family and friends.

Of course, you'll still need money to help deliver most of this. Historically, your retirement years would probably have been funded by your pension (both personal and state), other applicable state benefits, along with any investments or savings you may have.

However, life is often never that simple and the economic climate over recent years may have put a dent in some of those expectations. On top of this, the impact of an ageing population is likely to mean that state support can only go so far.

Access to funds

The upside though for many, across the last few decades, is how the value of your home may have increased. This has resulted in a sizeable number being relatively cash poor, but asset rich through property wealth.

If you need extra funds, and are happy to move, then you could downsize and raise the money this way. However, should you wish to remain in your current home, then an alternative exists - an **Equity Release** plan.

There are a number of different options to help meet varying needs, but basically you can raise funds (up to agreed limits), and not even have to pay off any capital or interest at any point during your lifetime, if that's the route which best suits you.

The provider of the loan would reclaim the capital (and any accumulated interest) through the sale of the property, once the final planholder dies or moves into long-term care.

Peace of mind

Of course, there are a number of areas that need to be considered to identify if it's right for you, and that's why you have to take professional advice. And if it's a suitable option, then it may deliver funding to help tackle issues such as:

- Paying off the outstanding amount on an existing standard mortgage loan.
- Money to assist with repairs and renovations to the home.
- Meeting day-to-day living costs and expenses.
- Providing the holiday of a lifetime.
- Or, even helping other family members whilst you're still around to see them benefit from it.

In this issue, we expand on some of the key topics and outline how it may work for you, whilst also setting out other options that may be more suitable. Please do get in touch if you'd like to hear more.

■ Andy Wilson Financial Services Ltd is an appointed representative of TenetLime Limited, which is authorised and regulated by the Financial Conduct Authority. The Financial Conduct Authority does not regulate some forms of mortgage advice and lending.

■ EQUITY RELEASE MAY REQUIRE A LIFETIME MORTGAGE OR HOME REVERSION PLAN. TO UNDERSTAND THE FEATURES AND RISKS, ASK FOR A PERSONALISED ILLUSTRATION.

■ 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 is increasingly becoming an integral part of the retirement planning process.

Do TALK to us...

Pension Freedom and Equity Release

There's been a great deal of interest in the recently introduced pension reforms, which allows those aged 55+ to have free access to their pension pot, meaning they could take it all out at once, if wanted. Although they would need to be mindful of any tax that may have to be paid on it.

But let's put this into perspective. According to the Pensions Regulator, the average defined contribution pension pot is around £25,000. A decent amount, but compare that against the £268,000 average value of a home where an equity release plan has been taken out.

So it's no surprise that equity release is now considered as an additional or alternative funding option. Of course, you can't extract the full value of your home. The limit is around 50%, with about half of that being taken out on average, equating to a loan in the region of £65,000. Obviously, you'll have to decide the best route for your needs, but it does illustrate that an additional option exists. *(Sources: Pensions Regulator, 2013/14 data; Key Retirement, Q1 2015 survey)*

Confronting the myths

The Equity Release Council is the trade body for equity release, and its strict code of conduct is designed to reassure and help protect the borrower. Some of the key points are set out below...

■ Allow customers to remain in their property for life

All Equity Release Council products have a guaranteed security of tenure, so customers will be allowed to remain in their property for life, or until they move into long-term care, provided that the property continues to be their main residence. In the case of a joint policy, then this applies to the last surviving borrower.

■ All Equity Release Council plans carry a no negative equity guarantee

This means regardless of the value of the home or how long the customer lives, they will never owe more than the value of their home and no debt will ever be left to the estate.

■ The right to move their plan to another suitable property without any financial penalty

Customers have the right to move, although you may have to repay part of a lifetime mortgage loan if moving to a cheaper property.

■ Customers will be provided with a fair, simple and complete presentation of their plan

This will ensure that they're fully aware of both the benefits and limitations of a product.

Take advice

It's no wonder that the enthusiasm for equity release seems to be growing, with lending across the first quarter of 2015 representing the highest start to any year since records began.

(Source: Equity Release Council, Q1 2015 figure)

However, to fully understand the benefits and pitfalls you need to take advice. From us, from a solicitor, and perhaps your accountant too, as well as possibly sounding out your family members.

We would listen to your needs, identify the options, and if you want to proceed, we'd then undertake a lot of the legwork.

In some cases, an equity release plan may not be the best route for you, at this stage. It might, for example, affect any existing (or available) state benefits and grants if too much is taken out at any one time.

Also, across your lifetime you may have forgotten about a long-held investment, or a small pension from a past employer, so it could make sense to ensure that you're fully up-to-date in this respect.

We'd also discuss if it is important for you to remain in your own home, as selling up and downsizing may be a better option for raising any needed funds.

And, if you do want to remain in your home then the amount you may need to borrow could be reduced if you're prepared to consider additional revenue streams, such as taking in a lodger.

We also recognise that whilst it's your home, it's possibly your family's future inheritance. So you may wish to involve family members as mentioned earlier.

In some cases, the future inheritance might be very important to them, although a number of borrowers do use funds to help their family now, when they may possibly need it, rather than as a beneficiary of your estate. Conversely, some family members take the view that it's your money, and that you should be the one that benefits from it. You'll know best in this respect.

As you can see, it's a fairly complex area, and that's why we have to secure additional qualifications to advise on equity release. So if this is something you'd like to explore further, then please get in touch.

Equity release can meet a multitude of needs. At one end of the spectrum it could cover long-term care costs, at the other it's increasingly being used to help pay off a standard mortgage loan.

Remain in your HOME

The tighter regulations for standard mortgage lending introduced over a year ago, seems to have had an effect on older borrowers. With the need to assess affordability, some lenders may now be less enthusiastic about lending on a mortgage term that will run into the borrower's retirement years. For this reason, some people are turning to equity release to help pay off the loan, should they be unable to remortgage.

Additionally, some borrowers on interest-only mortgages and nearing the end of their mortgage term, but sensing that there may be a shortfall in investments to pay off the loan, may also turn to equity release to make up the difference.

Interest-only mortgages

This a problem that is unlikely to go away. According to the Financial Conduct Authority around 600,000 interest-only loans will mature by 2020. Just under half of the borrowers are expected to be unable to pay off some, or all, of the outstanding loan. And with a third of them, the shortfall is expected to be over £50,000.

This scenario then creates two key choices. Sell up and downsize to raise the required cash to pay off the loan. Or retain the home and perhaps opt for equity release to raise those funds (if taking out a new mortgage loan, or extending the existing one is not an option).

So it probably comes as no surprise that recent figures from the Equity Release Council have shown that equity release loans for the 55-64 age group now accounts for 20% of all lending - albeit the overall average age for take-up still sits at around 70.

(Sources: Financial Conduct Authority, Aug 2013; Equity Release Council, 2nd half of 2014)

Repayment mortgages

Whilst the new standard mortgage lending rules may reduce loan arrangements into the retirement years, a sizeable number of mortgage deals would have already been in place, and they too could present a problem. For example, continuing to pay off the loan each month when retired may put a strain on the borrowers reduced income. So again, equity release may help to meet any shortfall.

If you have (or expect to face) issues with your standard mortgage loan, then it's obvious that you're not alone and, if wanted, do contact us to see if an equity release plan could deliver the solution for you.

Property as an ASSET

A key reason why equity release is increasingly seen as an integral part of retirement planning is down to how property values have grown.

The demand for, and the value of, property has risen over the years due to a number of factors, such as:
- the continuing desire to be homeowners.
- population growth that's outstripping the number of new homes being built.
- government initiatives that are creating an environment where more people are able to become property owners, thereby also fuelling demand.

This may help to counter a concern that some may have with equity release, which is the roll-up aspect. This is where the interest is not paid off and added to the money owed. The majority of equity release planholders opt for this 'interest deferral' approach, and this could mean, for example, that a £50,000 loan with a 6% interest rate would have doubled to around £100,000 after 12 years (if opting to drawdown all of the money immediately).

However, if the maths work in your favour, this may balance out or, at least, be lessened by any growth over the same period in the value of your home.

Whilst there's no guarantee that prices would continue on an upward trajectory, and could just as easily drop, the historic evidence has shown that if we looked back 12 years, then the average house price would have been around £120,000. Twelve years on (covering a period that encompasses the financial crash) it's still increased in value by 57% (+£68,500 for the average UK house price), and now sits at about £188,500.* Comparatively, the current average value of a home taking out an equity release plan sits at about £268,000.**

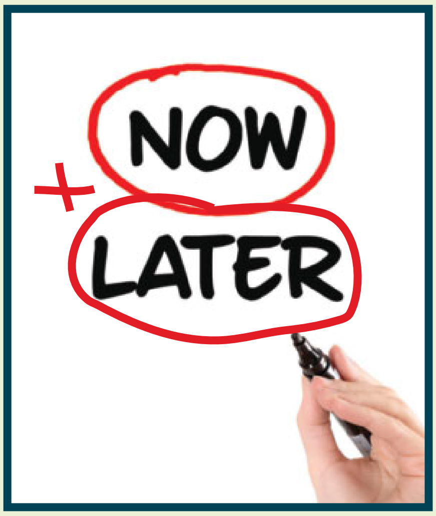
*(Sources: *Nationwide house prices to Q1 2015; **Key Retirement, Q1 2015)*

This demonstrates that property has delivered a decent return over the years. And should there be future growth, then that may help to lessen the erosion of the inheritance that could be passed on.

Lifetime MORTGAGES

Lifetime Mortgages account for around 99% of all equity release plans and can offer flexibility to meet your needs.

(Source: Equity Release Council, Q1 2015 data)



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.

The amount of value that you can extract from your home tends to be largely influenced by the age of the youngest planholder and the 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+.

Roll-up of the interest owed

The benefit of not paying off the interest as you go along, is that it may free up much needed funds for other use, and it is one less regular payment to worry about. The downside is that the interest 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.

Drawdown

Drawdown enables you take out an initial lump-sum to meet your immediate needs and then you have the option to drawdown a further agreed amount at a later stage against set time constraints. About two-thirds of all plans taken out opt for drawdown.

(Source: Equity Release Council, Q1 2015 data)

The obvious benefit is that it will lessen the impact of roll-up if you don't release all of the money at the outset. There's no point having interest added to borrowings that you don't need at that particular moment in time.

An additional benefit is that by taking out your loan in smaller blocks it may enable you to also stay within limits for means-tested benefits.

However, do remember that the interest rate applicable when you do 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 do come to act.

Repaying the plan

In much the same way as with 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.

Useful LINKS

How much is your home worth?

Aside from getting it valued, there are sites such as the following, where you can check out the sale prices of comparable properties in your area:
www.nethouseprices.com

Tracing lost or mislaid...

■ **Pensions**
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 Ass.)
Building Society account:
020 7520 5900 (Building Societies Ass.)
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:
www.gov.uk/dwp
0800 88 22 00

■ **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.**

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