Retirement FREEDOM

Equity Release to assist Retirement Planning Autumn/Winter 2014

ANDY WILSON
FINANCIAL SERVICES

No place like HOME

Equity Release latest

£375.5m lent in 3rd quarter of 2014. Largest quarterly amount ever and a 32% year-on-year growth!
(Source: Equity Release Council, October 2014)

Are you a homeowner, aged 55+, and looking for additional funds? Then we may be able to help...

If you're either retired, or moving towards retirement, then there will be a number of issues on your mind, as you may well enjoy the prospect of 20 years or so of retirement.*

This should enable you to undertake many of the tasks you were unable to fulfil across your working life. But, and there's often a but, you may need to consider how you'll fund all of it.

*(Source: *Office for National Statistics 'ONS', National Life Tables 2010-2012, released March 2014)*

Healthy property prices

If you have a sizeable pension pot, and other investments and savings, then you may be in an excellent position to meet ongoing costs. And with the imminent changes afoot from April 2015 in the pension marketplace, you may decide that those developments could help meet your initial needs.

However, the tough economic conditions of the last seven or so years, may have put a dent in your nest egg.

Or, worse still, consider the fact that a third of all employees surveyed back in 2010-2012 didn't have any private pension savings at all. A figure that rose to nearly half of all those that were self-employed! And relying on the state pension may also not be the answer.

(Source: ONS, Statistical Bulletin, September 2014)

However, there's positive news too. After the fall in house prices following the 'crash' back in 2007, there's been sizeable annual growth in the average UK house price - up 9% in the year to October 2014. It's currently standing at around £189,000 (surpassing the 2007 peak, although it's the second consecutive month where the size of annual growth has fallen), and there continues to be wide price variations throughout the UK.

(Source: Nationwide House Prices, October 2014)

Desire to release equity

This growth has meant that many home-owners are sitting on a sizeable investment. An issue that's reinforced by the latest survey by LV=, an equity release provider. In its annual HIPpies 'home is pension' report, 60% of 50+ homeowners (up from 44% in 2013) are planning, or considering, using money locked in their property to fund their retirement through options such as downsizing, equity release, or moving to a less expensive area.

(Source: LV= HIPpies 'home is pension' survey, September 2014)

Many will have an emotional attachment to their home, and perhaps be keen to remain close to family, friends and local amenities. In this scenario, staying put may be the preferred option for them. If that's the case, then **Equity Release** - will enable them to remain in their home if they meet certain criteria, and are aged over 55.

With year on year lending for equity release showing a sizeable 32% growth,

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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

Equity Release may not be the most suitable option for everyone, so it's essential to seek professional advice.

Avoid confusion

Equity release is a topic that's increasingly covered in the media, so it's quite likely that you would have heard at least something about it as an option to help fund your retirement years, or perhaps as a way of supporting the needs of family members.

The increasing interest in raising equity from your home could be simply explained by looking at the size of the pension pot that someone may have at the end of their working life. On average, a pension fund of around £39,000 was placed in an annuity in the second quarter of this year, with half having a fund of less than £25,600. Position this against the equity that may sit in the home - an amount which could be substantially larger. *(Source: Association of British Insurers, Q2 2014 statistics)*

Explore the options

Whilst it could prove to be the solution for you, raising money from your home is not something that should be undertaken without exploring the other options on offer. And that's why it's essential that you take advice - from the financial adviser, a solicitor, possibly an accountant, and perhaps even involve family members too.

Our role as a financial adviser means that we can handle much of this process, by liaising with the various parties, and being readily available to answer your questions.

Not all financial advisers are qualified to advise in this area, and those that can have had to secure additional qualifications, as the industry is quite rightly mindful of ensuring it delivers the most suitable advice to the potential planholder. The following are just a few examples of where we can provide support:

The issues and alternatives

In many cases, there may be better options out there for you. The most obvious ones are utilising existing savings and investments, or to downsize your current home, in order to raise funds. Or perhaps you could generate extra funds by taking in a lodger.

We would also need to consider if taking out an equity release plan affects any existing (or available) state benefits or local authority grants. If it does, you'll then need to weigh up the pros and cons of either route.

Additionally, we may need to establish the situation with any Wills and Trusts that may already be in place.

Impact upon your family

Whilst attitudes seem to be changing with regard to inheritance - with some children actually being the catalyst to get their parents to consider equity release - issues do still remain.

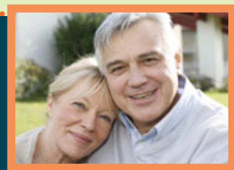
So it may make sense for us to explain the equity release process to family members too, and set out how it could result in less of an inheritance for them.

The balance here is that, in most cases, the planholder does not have to pay back anything until such time the final planholder either dies or moves into long-term care - at which point the lender would recover the money owed from the sale of the property. So that's good news, as it's one less expense. And as we show below, there is also protection in place to ensure you do not pass on any debt.

As equity release is not a 'one size fits all' product, there are various options on offer. So do get in touch to find out more.

EQUITY RELEASE COUNCIL
Incorporating SHIP Standards

Protection for you



The Equity Release Council (ER Council) is the industry trade body, of which its lender members represent over 90% of all equity release lending. And it has a number of rules in place to help safeguard the needs of borrowers, such as:

You will never lose your home

Even if the money owed on your loan eventually exceeds the value of your home, the planholder(s) will be allowed to remain in the property for life (or until the final planholder moves into long-term care), provided the property remains the main residence.

You can still move elsewhere

The freedom to move remains, without payment of any financial penalty. Although, you may need to repay part of a Lifetime Mortgage loan, if you move to a cheaper property.

No debt for the dependants

A 'no negative equity' guarantee exists, which means that whatever the amount builds up to over the lifetime of the plan (loan + the accumulated interest), there will be no subsequent debt for the beneficiaries of the estate.

... and further regulatory protection

In addition to the role played by the ER Council, the Financial Conduct Authority regulates both Lifetime Mortgages and Home Reversion plans - the two main forms of equity release.

These days there's no 'typical' equity release customer, or typical use for the funds raised.

Who opts for Equity Release?

Issues such as the changing attitudes to leaving an inheritance, the desire to see family members benefit whilst you're still around, and the continuing impact of the financial crash are just some of the reasons why both the typical client and how an equity release loan is used has widened markedly over recent years.

It's no longer right to simplistically view it as a product of last resort, as instead, it now plays an increasingly important role within the whole retirement planning process, such as the following...

Baby boomers (and their 'standard' mortgages)

A recent development for equity release is the recognition that a number of standard mortgage loans were on an interest-only basis. And at the end of the term there may not be enough in the way of investments to settle the loan. In this instance, an equity release loan may make up the difference.

Funding care needs

At the other end of the spectrum are those that want to use equity release to help fund their care needs, enabling them to stay put and receive care in their own home.

Meeting existing costs

Of course, plenty of borrowers will want to use the loan to help cover everyday costs, or simply to enable them to undertake one or two improvements around the home. Or for those special purchases, such as a new car, or covering the cost of a holiday of a lifetime.

Helping the family

In some cases, the planholder may not require funds for their own needs, but are keen to help out family members now (rather than through any inheritance). This may cover, for example, university & school fees, or assistance with a deposit to get on the housing ladder.

So who's the typical borrower?

The typical customer releases less than a quarter of their property wealth, with the 65-74 age group accounting for 56% of loans, and the 55-64, and 75-84 age groups, take 17% and 23%, respectively. Married/co-habiting couples form the majority of those that take out plans (66%), widowed (16%), divorced/separated (10%), with singles making up the rest. And with the oldest person taking out a plan in the first half of 2014 being 102, and the youngest 55, it shows that equity release could be for everyone.

(Source: Equity Release Council, Autumn 2014 Market Report, 1st half 2014)

DID YOU KNOW?

People in their 60s own a quarter of all property wealth in the UK, equating to £993bn!!

(Source: LV= HIPpies 'home is pension' survey, September 2014)

Lifetime Mortgages

Ok, it's not entirely 'have your cake and eat it' - as the loan (+ interest) does have to be repaid - but it can ease your financial concerns.

A Lifetime Mortgage is similar in principle to a standard mortgage, with the main difference being that with most schemes there are no monthly repayments to make and the loan (and accumulated interest) is redeemed when you, or the final planholder dies, or moves into long-term care.

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.

And within lifetime mortgages the most popular option is 'drawdown', which accounts for around 60% of all plans by value. *(Source: Equity Release Council, Q3 2014 figures)*

Instead of opting for the full lump-sum at the outset, drawdown allows you to take what you need within certain agreed amounts and time constraints.

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, as there's no point paying interest on money you don't need at that moment in time.

To gauge the impact of roll-up, if the rate of the lifetime mortgage loan is 6%, for example, a £50,000 loan (with the accumulated interest) would have doubled to around £100,000 after 12 years.

However, do remember that the interest rate applicable when you drawdown further funds would be at the prevalent 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.

Please call us to find out more.

Real Lives

Examples of how it's worked for others...

Improving their quality of life

Some of today's retirees are concerned about how they will cope with unexpected expenses and whether they will be able to also afford some of the nicer things in life, such as holidays and home improvements.

Mr & Mrs S, from Worcestershire, were pondering this problem, as they were keen to stay close to their remaining family in the UK, but also wanted to be able to visit other family members in Australia, without worrying how they'd pay for each trip.

They also appreciated that as time went on, expensive items would need replacing, such as carpets or the family car, and their current retirement income would not be sufficient to pay for these one-off expenses.

"Go for it, we don't want your money!"

They talked to their children about the possibility of releasing equity, and found them all to be extremely supportive.

So they approached a local specialist adviser, of which Mrs S said: *"He wasn't loud or pushy and explained the pros and cons very clearly. I had heard some bad stories about equity release in the past, and he put our minds at rest."*

Quick turnaround

Mr & Mrs S took out a flexible drawdown Lifetime Mortgage against their property which was at the time of application valued at £240,000. They released an initial cash lump sum of £20,000 with a fully guaranteed reserve of a further £40,000, available as and when they required.

They were also very happy with how quickly they were advanced their initial loan and have already recommended the same course of action to their daughter-in-law's parents.

More than just a house

As the cost of utility bills continues to rise, many of today's retirees are struggling to cope with the day-to-day costs of running their home and also finding it difficult to put money aside to cope with those larger, more unexpected expenses.

Mrs D, from the Midlands, found herself in this situation. She had lived in her property for almost 40 years, and staying in the place where she brought up her family was extremely important to her.

As time went on, Mrs D was finding that things were beginning to need repairing or replacing. She had also seen her energy bills rise dramatically, and after a round of price increases in late 2013, she decided that enough was enough.

Supportive family

Mrs D had seen adverts for equity release and was introduced to a local specialist equity release adviser by her son's financial adviser. At first, her children were sceptical about equity release, having heard some negative stories in the past. But after hearing about the products available today and the consumer protections that are in place, they were happy for Mrs D to investigate further.

Mrs D was extremely happy with the depth and quality of the advice she received, and the adviser ensured that she only borrowed the amount she needed now, by choosing a flexible drawdown Lifetime Mortgage.

Her property was valued at £180,000 at the time of application and she released an initial cash lump sum of £16,000, with a fully guaranteed reserve of a further £32,000 to drawdown as and when she required.

Do get in touch to see if equity release could be a suitable option for you too.

Both case studies were supplied by LV=. Photographs are posed by models.

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it is now proving to be a popular route for many.*

The options

There are two main types of equity release plans - you can either borrow money, which is secured against your home (Lifetime Mortgages), or sell part, or all of your home (Home Reversion schemes). The former accounts for the vast majority of all plans that are taken out.

Most plans start at about £10,000 and, on average, around £67,500 is raised.*

And, of course, before you proceed with an equity release plan, there are a number of issues to consider to ensure that it's the most suitable route for your needs (and perhaps those of your family too).

That's why it's vital that you take professional advice.

*(Sources: *Equity Release Council, Q3 2014 figures)*

So do have a read through this issue and let us know if you would like to find out more.

■ 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.

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