Retirement FREEDOM

Information about **Releasing Equity** in your **Property** Winter/Spring 2019

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Almost £4bn
2018 was another record year for Equity Release lending (£3.94bn), up 29% on year prior.
(Source: Equity Release Council)

Both Enjoy & Bank on your HOME

Property wealth can play an increasing role in delivering the money needed both ahead of, and into, the retirement years...

The old-established view that income in retirement will be largely based on pensions may not hold true anymore. Fortunately, other funding options do exist, and one route is through **property wealth,** where homeowners could:

- **downsize** to a cheaper property to raise funds.
- **remortgage** their existing home (if they meet the age and affordability criteria) via a later life mortgage product - which would require monthly payments.
- take out an **Equity Release mortgage** (if the homeowner is 55+), which provides funds, and allows them to stay in their home.

- **No affordability criteria** to meet.
- Can opt to **not make any monthly payments** against a, generally, **fixed interest rate** deal.
- You can potentially benefit from a better deal if you have a **qualifying medical condition.**
- 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.
- There are also **client protections in place** if a plan is taken out via a lender aligned to the Equity Release Council (see page 2).

Whilst we focus on equity release in this newsletter, it may not be the best route for everyone, and other options do exist (see page 3).

Equity Release marketplace

If you want to get a feel for the total property value out there, UK property wealth held by homeowners aged 55+ stands at almost £3 trillion.* To put this figure into perspective, **all** outstanding regular mortgage lending is less than half that amount, at £1.4 trillion!**

So, it probably comes as no surprise that an increasing number of lenders are now entering this sector. This has resulted in a wider range of product offerings, with a sizeable part of those efforts targeted at the equity release arena.

Use of the funds - You decide

If it's relevant for you (or perhaps your parents), it allows, for example, those aged 60 to borrow up to around 25% of the home's value, rising to about 55%, if aged 90+. Also, do consider involving your children in the decision-making process, if applicable, since an equity release plan would reduce the value of your estate.

As for the funds you raise, you can then use the **tax-free money** for anything you like, such as:

- help to clear an outstanding mortgage.
- enable much-needed home improvements.
- settle debts.
- assist with regular bills.
- secure money to adapt the home for care needs, or to help with ongoing care costs.
- gift money to family and friends.
- use it to fund a number of special treats, such as the holiday-of-a-lifetime, a new car or fully indulging in your interests and hobbies.

*(Sources: *Office for National Statistics, Wealth and Assets Survey, July 2014-June 2016 period, released February 2018; **UK Finance, November 2018)*

Do read on, or get in touch to hear more.

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Tailored to your needs

If you've previously considered Equity Release, or are looking at your current Equity Release plan, then you may be pleasantly surprised by the number of options now on offer.

Put simply, a **Lifetime Mortgage** (which accounts for almost all equity release plans and enables you to retain 100% ownership of your home), provides **tax-free funds for 55+ homeowners,** at a generally **fixed interest rate,** for you to use however you want.

Obviously, do remember that irrespective of any sizeable house price growth you may have benefitted from over the years, you (or your estate) are not being given 'free money' against the value of your home.

You do, however, have the option of 'freedom' from any monthly payments, if wanted. The outstanding capital (and also any interest owing) would be redeemed when the final planholder dies, or moves into long-term care, with the amount never being more than the value of the home, if taken out with a lender member of the Equity Release Council (see below).

Advice on the best route

You can, though, influence at the outset what you or your beneficiaries may face down the line. There are a multitude of options we could discuss with you, such as:

- **Interest Payments** - if you opt to make no payments at all, then the rolling-up of the interest can, for example, generally double the amount owed in around 15 years. Should you want to minimise this, you can make full or partial interest payments each month, and can revert to roll-up at any time.
- **Voluntary/partial repayments** - paying back some of the capital borrowed, is also feasible, although rules will apply.
- **Drawdown facilities** - you could opt for taking the whole amount at the outset, or receive a smaller amount, with an agreed drawdown facility to use, as and when needed. The drawdown approach would also reduce the build up of interest owed.
- **Inheritance guarantee** - this would reduce the maximum loan amount, but enables a fixed percentage of the property value to be ring-fenced as a minimum inheritance, regardless of the total interest accrued.
- **Fixed Early Repayment Charge (ERC)** - ERC is a fixed percentage of the loan that would have to be paid during an initial set period of time, should you want to pay back the loan. Typically, the ERC decreases on a sliding scale, with none payable once the fixed period has passed.
- **Downsizing protection** - this allows plan-holders to downsize to a smaller property and repay the loan without incurring an ERC. Typically there's a qualifying period of five years before this feature applies.

With the complexity of what's on offer, it makes sense to take advice.

Reassurances for **YOU...**

Some people have concerns about taking out an Equity Release plan. However, customer protections put in place by the The Equity Release Council - the industry body - should dispel some of those worries (some examples are below). These are applicable if the plan goes via one of their lender members - which covers most plans out there.

Q: Can the provider take away my home?

A: All products from Equity Release Council lender members 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.

Q: Can either my beneficiaries (or me) end up owing more than the value of my home?

A: Plans from Equity Release Council lender members have a **no negative equity guarantee.** This means that 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.

Q: Can I still move home?

A: Customers, who've taken out an Equity Release plan, **have the right to move,** subject to the new property being acceptable to the product provider. Part of a lifetime mortgage loan may need to be repaid, if moving to a cheaper property.

Q: Can I be confident that all aspects of the plan will be explained to me?

A: Customers will be provided with a fair, simple and complete presentation of their proposed plan, ensuring that they can identify its benefits and limitations.

Something for **ALL...**

Due to the extensive range of uses that the funds are put to, the customers for Equity Release are wide-ranging and varied.

However, the common issue for all is that the UK has an ageing population, which will simply increase the financial pressures on the State, and accelerate the need for those nearing, or in retirement, to take action. For example, let's look at the trends for those aged 65+ in the UK:

- Back in 1991, this amounted to 9.1m (15.8% of the population).
- In 2016, it had increased to 11.8m (18% of the population).
- By 2041, it's projected to be **20.4m (26% of the population)!**

(Source: Office for National Statistics, Living Longer survey, August 2018)

The Equity Release borrowers

To illustrate how wide-ranging the borrowers can be, some are **coming to the end of their interest-only mortgage term,** and want to remain in their home, but don't have the money in place to pay off the mortgage. Others require the funds to **modify the home for health and mobility reasons,** and may also want to cover the cost of 'at-home' care. Equity release could help in both cases.

Whatever you require the money for, Drawdown is the most popular route. This is where you take an initial amount and then have the option to drawdown further amounts down the line. Lump Sum relates to taking the full amount at the outset.

	New Drawdown plans	**New Lump Sum plans**
Aged 55-64	56%	44%
Aged 65-74	66%	34%
Aged 75-84	75%	25%
Aged 85+	77%	23%
All	**65%**	**35%**
Average % released of home's value (All)	**29.3%**	**30.8%**
Average £ amount released (All)	**£103,300**	**£96,207**

(Source: Equity Release Council, Autumn 2018 Market Report, 1st Half 2018 data)

Some lenders now offer this

- **A similar product to Equity Release applies to both Buy-to-Let properties and Second Homes, in most parts of the UK.**
- **Instead of securing lump sum amounts, you could opt to receive regular monthly payments.**

Amongst other benefits, these options could overcome inheritance concerns about the main home, with regard to the former, and help to lessen the roll-up effect with the latter. **Please get in touch to find out more.**

The Alternatives

Equity Release may be the best solution, but you should consider other options. This might replace the need for an equity release plan, or perhaps reduce the size of the plan required.

Downsize your home
This offers a relatively easy way to raise the funds you need now - with the option to take up equity release at a later date, if wanted. Of course, you'd need to consider both the emotional attachment you (and your family) have with your current home, plus the cost of moving, which sits at a UK-wide average rate of around £9,000. *(Source: comparemymove.com, October 2018)*

Borrowing from family members
This is an avenue that you should consider.

Other borrowing options
Lenders recognise that we have an ageing population and are starting to provide different mortgage options for those entering, or who may already be in, their retirement years. These increasing options are good news. The downside is that you'll probably need to meet the affordability criteria to show that you can pay either the monthly interest, or the interest plus capital repayments.

Existing or potential State Benefits and Local Authority Grants
If you're already claiming benefits, and some of those are means-tested, then raising funds 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.

Consider taking in a lodger
If you don't have an issue with someone else living in your home, then this could be a revenue source.

Look at your existing pensions, investments and savings portfolios
You'll need to take professional advice to decide if securing money this way is a better option. Also, 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 take a look at the useful links on the last page.

Retirement Interest-Only MORTGAGES

The later life lending marketplace is not only seeing a raft of new lenders, there are also new product options to give customers increased choice.

Retirement Interest-Only mortgages (RIO) are one such example, and are a relatively new introduction. They provide an opportunity to take out a new mortgage into your retirement years.

A RIO requires borrowers to **pay the monthly mortgage interest** until they die, sell their home or go into long-term care. At this point the loan is repaid by selling the home. So you need to be confident that you have an income stream to meet this cost.

The upside of paying the monthly interest, is that **you'll avoid any interest roll-up.** Also, with a RIO the payments are limited to the interest charge, so you would not be required to start paying off some of the capital too.

However, this may be the case with some Later Life mortgage products, which are also tailored to meet the needs of this sector.

Affordability for a RIO is a big consideration, particularly if you apply jointly, as both individuals would be assessed in light of possibly reduced pension payments should one partner die.

How they are set up

With a RIO the loan-to-value could go up to around 60% (far more than an equity release plan, particularly for the borrowers aged 55 to 65), with the option of fixed, variable, and discounted rate deals. The minimum age at which you could take one out varies amongst lenders from 55 up to starting at around 65.

Part of the drive to develop this offering is a recognition that **more than one in six of all standard mortgages are already on full interest-only and part capital repayment deals,** with many coming to the end of their term over the next few years.

(Source: Financial Conduct Authority, January 2018)

New opportunity for some

Some older potential borrowers may have previously been excluded from further borrowing because of their age, despite having an income stream which would normally be acceptable. In this instance, a RIO meets that need, **by accepting that the sale of the property is a viable repayment method.**

Lasting Power of Attorney

As clients taking out a RIO would have to pay interest across the whole term period, it may make sense to have a Lasting Power of Attorney (LPA) in place, which would protect them, and their family, if they can no longer manage their finances.

RIO vs. Equity Release

To some extent **it's not simply opt for one or the other,** as some may take out a RIO when they have the disposable income, meaning they can meet the affordability requirements.

Later in life, their situation could change. In which case, an equity release plan, where no further monthly payments are needed, with no affordability hurdles to counter, may be the better solution. And remember, additional protections are afforded to equity release plans.

Understandably, it's all pretty complex, so please do get in touch to find out more.

■ A MORTGAGE IS A LOAN SECURED AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

Client scenarios

Examples of how equity release could deliver a solution.

Paying off an Interest-Only Mortgage

Mrs W's husband died a few years ago, since then she has been paying all the bills (including the mortgage) out of her pension income.

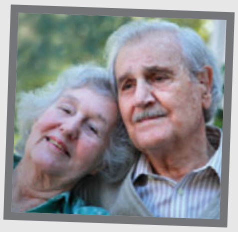
Mr W had always looked after the financial transactions for the household, so it was a surprise to Mrs W, when her Mortgage Lender contacted her asking for the £30,000 that was due at the end of the term for the interest-only mortgage.

Mrs W had no idea she had inherited an interest-only mortgage and had no means of paying off the outstanding loan, yet the Lender gave her no alternatives other than to sell off her property and downsize.

Mrs W had lived in her house for more than 30 years, and was settled in both the home and the area, with many friends close by. But as she was in her late 60s and retired, she had no means of raising the money.

Her daughter then got involved and put her in touch with an Equity Release Adviser, who proposed that she should set up a Lifetime Mortgage, on a drawdown basis. This meant that she could immediately pay off the outstanding £30,000 debt, and also have a facility to draw down further funds (to an agreed amount), as and when she needed it. And, of course, it meant that she could remain in her home.

Adapting the home for mobility needs



Mr & Mrs J are both in their early 80s, and own the home they have lived in for the last 40 years. They're keen to stay where they are, but their health and mobility needs mean that they would have to make some modifications to ensure it's both suitable for them now, and into the future.

They wanted to build a downstairs bathroom and fit a stair lift to allow easy access to the first floor. These modifications would be costly and aside from their modest pension pots, they wouldn't have the income stream or savings to fund them.

However, they found that traditional lenders would not lend to them, and it was suggested by their Financial Adviser that they should consider an Equity Release Lifetime Mortgage.

Although they don't have the income to make regular repayments, they were also keen to identify a policy where they could choose to make ad-hoc repayments from their pension income, whenever they like, in order to reduce the impact of the interest rolling-up on any future inheritance.

The Lifetime Mortgage plan meant that they could release enough equity from their property to make the home improvements with the additional benefit of being able to age in their home. They also opted to have the flexibility to borrow further sums in the future.

The benefit of both the adapted home, and access to funds, means that At-Home Care would be more feasible should they require it. A more reassuring prospect for them, against the possible alternative of having to leave their home and move into a Care Home, with all the associated costs - which might include eating into a significant chunk of their home's value.

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

These scenarios are anonymised versions of typical situations that clients may face. Photographs are posed by models.

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

BALANCING Act?

UK house price growth over the years has delivered increased property wealth for many...

To get a feel for house price growth, let's take a look back. In the 20-year period to Q4 2018, for example, **house prices more than tripled*** (even accounting for the Crash in 2007/8) - which equates to an average growth of about **6%** a year.

If you've benefitted from this growth and want to release some of your property's value, do remember that if you take out a plan via a lender member of the Equity Release Council, there will be a **no negative equity** guarantee - limiting the roll-up effect to no more than the value of your home.

Plus, you could also **take-up additional financial protections** as part of your plan, which might further lessen the amount owed.

That said, a sum (plus any outstanding interest) will need to eventually be repaid, but against that, do also consider if there may be further house price growth over the years that may help counter this debt.

Doing the maths...

Let's assess a lump sum Lifetime Mortgage, and apply the average amount of **£96,207,** at the average lump sum customer fixed interest rate of **4.87%.**** If you choose not to make any interest payments, then the total amount owed would have broadly doubled in 15 years.

To lessen the financial impact, you could opt for a drawdown scheme, to avoid facing interest charges on any money you don't need at that stage. Plus (whilst you don't have to make any monthly payments), do consider paying the interest each month. The latter, alone, would save in the realms of **£30,000** against the **£196,325** owed (as per the 15-year chart example), although it would require almost **£400** a month in interest payments.

Continued house price rises?

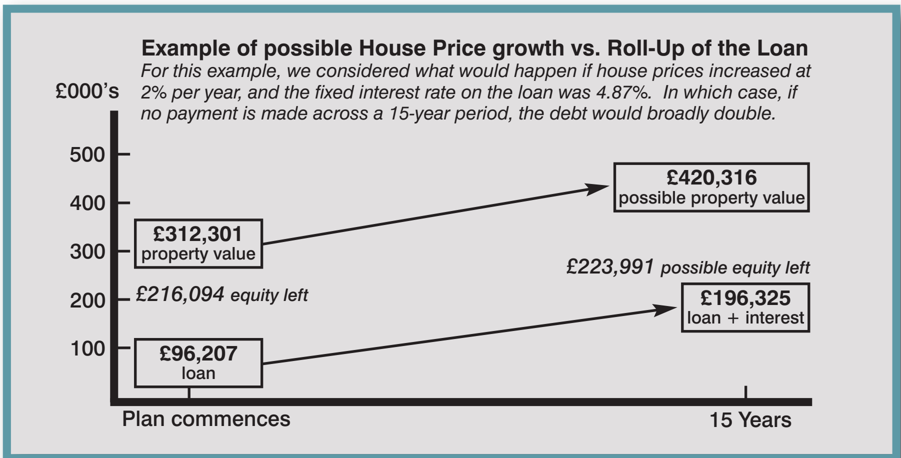
For the chart example, we've used a more conservative **2%** growth figure, and applied that to the average house price of **£312,301**** for a lump-sum lifetime mortgage borrower. This will then give you a feel for possible property price growth vs. the cost of the loan.

Broadly, the chart shows that the size of the remaining equity in the property after 15 years would be slightly more than at the outset. And would be even more, if the interest payments had been made each month.

Of course, you must accept that there's **no guarantee of property price rises** (they could just as easily fall), and the **impact of inflation** would need to be considered too.

*(Sources: *Nationwide, House Prices to Q4 2018; **Equity Release Council, Aut. 2018 Market Report, 1st Half 2018 data)*

Understandably, these are complex issues, with a bit of crystal ball gazing thrown in, so it's essential that you take advice.



Useful LINKS

How much is your home worth?
Aside from getting it valued, 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
0800 731 0193
- **Bank, Building Society, or National Savings accounts**
www.mylostaccount.org.uk
Bank account:
020 3934 0329 (UK Finance)
Building Society account:
020 7520 5900 (Building Societies Ass.)
National Savings account:
08085 007 007 (National Savings and Investments)
- **Insurance policies, pensions, unit trust holdings and share dividends**
www.uar.co.uk
0333 000 0182 (The Unclaimed Assets Register)
- **Information on State Benefits**
To see what you may be entitled to:
www.gov.uk/dwp