

# Retirement **FREEDOM**

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

**Latest version**  
Your Personalised Client Newsletter  
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**Equity Release take-up**  
**£1,850,000,000**  
of housing wealth was unlocked in the first half of 2019.  
(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...*

**T**he 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 release **the capital (and any accumulated interest)** through the sale of the property, when the planholder dies or moves into long-term care.
- There are also **client protections** in place when a plan is taken out via a lender aligned with 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 residential mortgage lending is less than half that amount, at £1.46 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

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■ (Your name here) is authorised and regulated by the Financial Conduct Authority.

■ These are Lifetime Mortgages and Home Reversion Plans. 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.

Whole issue can also be coloured up to reflect your corporate colours (extra cost for this)

■ You can also claim your entitlement to State benefits.

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

■ 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.

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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.*

**P**ut simply, a **Lifetime Mortgage** (which accounts for almost all equity release plans and allows you to retain 100% of your home), provides **homeowners**, at a **rate**, for you to use. Obviously, do remember that if you own a house of any sizeable value you may have benefitted from over the years. If 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

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 period of time, should you want to pay

Typically, the ERC decreases with none payable once

This allows planholder property incurring an qualifying period before this feature applies.

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

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## 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.*

**H**owever, 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:

- In 2018, almost one in five are aged 65+.
  - By 2050, it's projected that almost one in three will be aged 65+.
- (Source: Office for National Statistics)

## The Equity Release Options

To illustrate how wide the range of uses is, let's look at some of the reasons for coming to the end of the mortgage. Some people want to remain in their home, but don't have the funds to pay off the mortgage. Others require the funds for health and mobility reasons, and may also want to pay for '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
All	64%	36%
Average % released of home's value	29.1%	31%
Average £ amount released	£102,483	£93,966

(Source: Equity Release Council, Spring 2019 Market Report, 2nd Half 2018 data)



## 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

A relatively easy way to raise the funds you need is to sell your home and move to a smaller property. Of course, you'd need to consider the costs of the new property (and your own living costs) plus the cost of the move (around 1% of the sale price).

Lenders are aware 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.

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## 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.**

# 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.*

**R**etirement 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 sure you have an income to cover the interest.

The upper limit on the interest rate is the same as for a standard mortgage. Also, you can choose to have the mortgage on a joint basis with your partner. However, some Lenders are also tailoring products for the 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 the recognition that **more than one in six of standard mortgages are already on full interest only and part capital repayment** (Financial Conduct Authority, January 2018).

## Opportunity for some

Under 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.**

■ Your home may be repossessed if you do not keep up repayments on your mortgage.

You can choose from **THREE** story choices for page 4: This is option 1

1. RIO
2. Client Scenarios
3. House Price movement vs. Roll-Up

Alternatively, an increasingly popular option is to take a 5 or 6 page pdf (selecting from the three story choices here)

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## Useful LINKS

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# 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 the house for 40 years and was settled in by. But she had no means of paying off the mortgage.

Her daughter had an Equity Release plan set up a Lifetime Mortgage so that she could pay off the debt, and also have the funds (to an agreed amount), and, of course, it meant that she could...

You can choose from THREE story choices for page 4: This is option 2

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**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.*

## 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.

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# 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 Q2 2019, for example, **house prices more than tripled\*** (even accounting for the Financial Crash in 2007/8) - which equates to an average growth of almost **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 is a **no negative equity guarantee** - meaning you will never owe more than the value of your property.

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## Doing the maths...

Let's assess a lump sum Lifetime Mortgage, and apply the average amount of **£93,966**, at the average lump sum customer fixed

interest rate of **4.98%.\*** 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 **£194,791** owed (as shown in the 15-year chart example), although you would still require almost **£400** a month in interest payments.

## Continued house price rises?

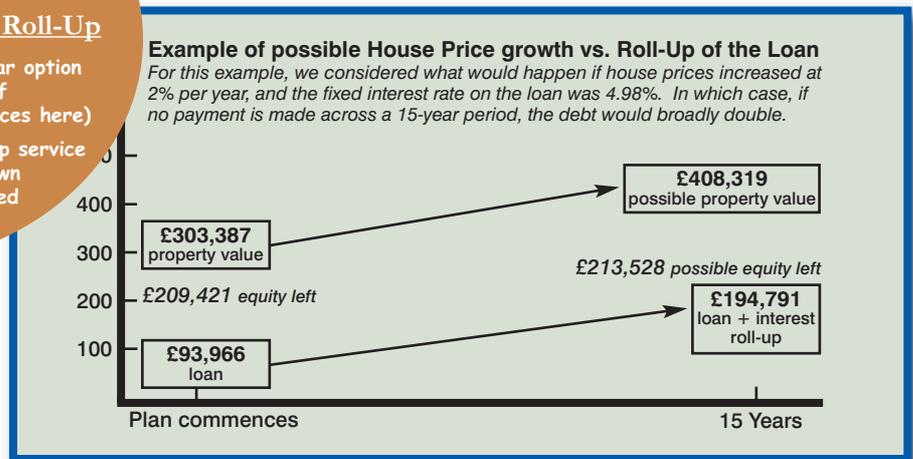
For the chart example, we've used a more conservative **2%** annual house price growth figure, and applied that to the average house price of **£303,387\*\*** for a lump-sum lifetime mortgage borrower. This will then give you a feel for possible property price growth vs. the cost of the loan.

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 greater, if 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 Q2 2019; \*\*Equity Release Council, Spr. 2019 Market Report, 2nd 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.**



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