Retirement FREEDOM 2013

Equity Release to assist Retirement Planning Spring/Summer

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■ 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.

■ 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.

Did you know that if you're over 55 and a homeowner, you could secure the extra cash you may need against the value of your property through an **Equity Release** plan?

Your retirement years should be some of the best years of your life, when you have time to fulfil many of the dreams and activities that you may have had to put off during your working life.

Also, you may well have a long retirement ahead of you. For 2011, the greatest number of deaths by age was 82 years-old for men and 90 years-old for women*, and this relates to people born in the 1920s! With the advancement of medical know-how, better diets and healthier lifestyles, it's likely to push those figures even higher. *(Source: * ONS release, Dec 2012)*

Of course, the fact that people are living longer does come at a cost, with increased pressure on how much the state can continue to provide. Currently, the basic state pension for an individual sits at around £5,500 a year (plus various add-ons, which could amount to another £2,000). From April 2016 there'll be the new 'flat rate' pension (for those eligible) - which will be worth around £7,500 a year.

The baby boomer generation will also have an additional impact, as the high birth rates of the late 1940's/early 1950's will mean an increasing proportion of the population are now entering retirement.

Benefits of equity release

Along with low interest rates offered on savings, the impact of inflation, poor(ish) returns on annuities and other forms of pension income, it's no wonder that many people are considering equity release to either survive retirement, or to ensure they fully enjoy their 'golden' years.

Even if your finances are delivering enough for your needs, you may also want to help out your family at a time when you're still around to see them benefit. Equity release could be a route here too.

And a great plus of equity release is that it will enable you to remain in your own home, rather than downsizing, which of course is an option to consider should you need to raise funds.

→ (contd on back page)

According to LV=, an equity release provider, over 28% of working homeowners aged 50+ (1.9m people) plan to take out an equity release product to help fund their retirement.

(Source: LV=, September 2012)

The Equity Release Council (ER Council) is the trade body for equity release and we hear from its Chairman, Nigel Waterson.

Helping you through the MAZE

Nigel Waterson

"In 2012 the equity release marketplace grew by 17%, year on year, to a sizeable £926m of annual sales, with almost 18,000 new planholders raising an average of £52,000 each.

(Source: ER Council, 2012 figures)

This encouraging growth figure is a demonstration of the growing demand for regulated equity release products from reputable providers, who abide by the standards set by the ER Council.

Previously known as SHIP, some of the key remits for the ER Council are to set out the safeguards that are in place for customers, and to build awareness and understanding of how equity release works across the two primary types - Lifetime Mortgages and Home Reversion plans.

Confronting the myths

All member companies must observe our Code of Conduct, of which some of the key points are below:

1. Allow customers to remain in their property for life. All ER 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.

2. The right to move their plan to another suitable property without any financial penalty. Customers have the right to move their plan, although you may have to repay part of a lifetime mortgage loan, if moving to a cheaper property.

3. All ER 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.

4. 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.

The ER Council also recognises the importance of advice - whether that's from the fully qualified equity release adviser - or the required input from a solicitor, or where needed, an accountant.

So, as you'll see, much has been done to ensure that if you make the choice to opt for equity release through an ER Council member, there are plenty of safeguards in place. And additionally both lifetime mortgages and home reversion plans are fully regulated by the financial authorities."

The Adviser

As mentioned elsewhere on this page it pays to take advice...

To fully understand the benefits and pitfalls of equity release, you need to take advice - from your financial adviser, solicitor, possibly your accountant, and quite likely, involve members of your family too.

Taking out an equity release plan requires a great deal of consideration - hence the reason why advisers who cover this area have to secure additional qualifications. And the complex nature of this product is probably why around 90% of all equity release products go through advisers. *(Source: Equity Release Council, 2012 figures)*

Make your life easier

Our role is to take away a lot of the legwork, hold your hand through the process, liaise with the various parties involved and be readily available.

We'll consider the options

In addition to identifying the most suitable equity release plan, we need to assess if there are other better alternative options out there for you - such as downsizing your home, and also consider how equity release may impact upon your existing (or available) state benefits and grants.

Involve the family

It's recommended that the family's view be sought too, as they may be future beneficiaries of your estate and taking out an equity release plan may mean less of an inheritance for them.

It's a pretty complex area, but one that we specialise in, so do get in touch to find out more.

Long-term care support

The amount that an individual contributes to their care costs will be capped at £72,000 from 2016.* Although the cap does not include the costs of accommodation, food and other hotel style services in care homes.

*(Source: *Budget announcement, March 2013)*

Keep your HOME?

An Equity Release plan could be the final piece of the puzzle that helps pay off an outstanding mortgage loan.

Over the last few years paying off a standard mortgage for those that have retired (or are about to retire) has grown as an issue. The main area of concern had been those that are on interest-only mortgages (with little or no repayment vehicles in place), however, some repayment mortgagees might also face difficulties.

Interest-only mortgages

Looking at interest-only first, it is thought that around 150,000 loans (equating to an average of around £12bn) will mature each year across the current decade.* And a sizeable number of borrowers may be unable to pay off some, or all, of the outstanding loan.

The average balance at maturity for all interest-only mortgages stood at around £60,000 in 2012, but is predicted to increase to about £110,000 by 2020.** And it's likely that a good number of those coming to the end of their terms, and possibly struggling to settle the loan, will be in their 50s and 60s.

It then leaves them with two key choices - sell up and downgrade to raise the required cash to pay off the loan. Or retain the home and opt for equity release to raise those funds (if taking out a new mortgage loan, or extending the existing one is not an option).

Repayment mortgages

About 1 in 4 of all mortgages sold in the last seven years will go into the borrowers retirement period, and the majority of these would have been set up on a repayment basis.* As these schemes are designed to pay off the capital as well as the interest, then there is a sensible strategy already in place. However, continuing to pay off the mortgage each month into retirement may put a strain on the borrowers reduced income, as they'll no longer be earning a salary.

They may well have savings and a pension in place to cover the monthly payments, but if they're partly using up funds set aside for their retirement years to pay the mortgage, then equity release could come to the rescue to help plug any shortfall.

If you have (or expect to have) issues with your mortgage loan, then as you'll see from above, you're not alone, so do contact us to see how equity release could be an option for you.

*(Source: Financial Services Authority, *Mortgage Market Review, October 2012; **Retail Conduct Risk Outlook, March 2012)*

Lifetime Mortgages account for around 99% of all plans by market value. And the most popular form of Lifetime Mortgages is Drawdown...

(Source: Equity Release Council, 2012 figures)

Money when you need 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 (and interest) is redeemed when you die, or move into long-term care.

And within lifetime mortgages the most popular option is 'drawdown', which in 2009 accounted for around half of all plans by value, but had increased to two-thirds by 2012. *(Source: Equity Release Council, 2012 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.

To gauge the impact of 'roll-up', if the rate of the lifetime mortgage loan is, for example, 6.5%, a £10,000 loan (with the added interest) would have doubled to around £20,000 after 11 years. That's partly why drawdown is popular, as there's no point paying interest on money you don't need at that particular moment in time.

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 come to act.

Please call us to find out more.

Real Lives

Here are a couple of examples of how Equity Release has worked for others...

Coping with care costs

Mr & Mrs F from London had lived in their much loved Victorian cottage for over 41 years, having raised their children there and understandably had no intention of moving for the foreseeable future.

When Mr F's mother sadly became ill with dementia, Mrs F took the decision to become her full-time carer. She did this for eight years, despite health problems of her own, until sadly, her mother-in-law had to go into a nursing home, and then passed away. At which point, they were landed with a £15,000 care home bill.

With limited income from their business, some pensions, and only a small amount in savings, they were unable to meet this bill. And they didn't want to sell the mother-in-law's house, at this stage, as they felt that property values were fairly sluggish.

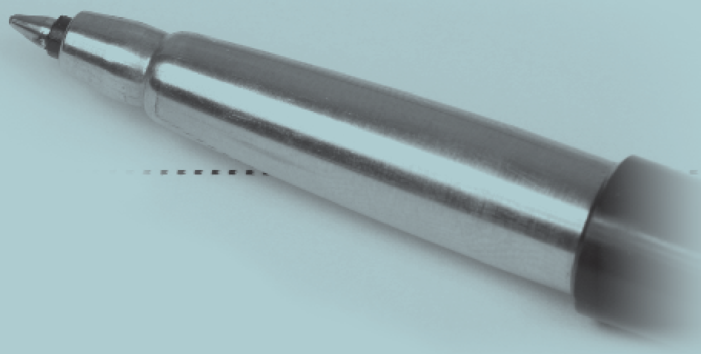
Heard about equity release

Mr & Mrs F had heard about equity release on TV and thought that it might be a possible solution. They subsequently spoke to an equity release adviser who then established if releasing equity was appropriate for their needs and circumstances.

They raised £50,000 via a Lifetime Mortgage, which enabled them to meet the care bill, treat their family and carry out much-needed renovations to their home.

Mr & Mrs F intend to redeem the plan once the property market has picked up, so had accounted for early repayment charges when initially taking out the plan.

Mrs F commented that she '...would recommend a lifetime mortgage to someone who needs to release money, as it's as straightforward as any mortgage can be'.



Unexpected health problems

Mr H, 65, from Norfolk was well aware that he would be paying off his mortgage relatively late in life, and didn't have a great deal of savings.

He had planned to work until he turned 70, and then retire - as he had a full-time job managing a busy social club, working between 60 and 70 hours a week. However, just three months before his 65th birthday, he was diagnosed with chronic heart failure and his GP advised him to stop work straight away!

Act quickly

With no wages coming in and mortgage repayments to meet, Mr H knew he needed to think quickly about how he funded his enforced retirement. He was aware of equity release, as he had been sent information in the past, but wondered if it was as good as it sounded.

He was put in touch with an equity release adviser who explained the different types of products available in the market. Mr H then opted for a flexible lifetime mortgage with an initial loan of £39,150 and a fully guaranteed reserve of £19,150 which he could drawdown at a later date.

As well as using his initial loan to repay his mortgage, he was also able to buy a new car and have double-glazing installed in his home.

Mr H says that releasing equity from his property has enabled him to survive quite pleasantly... where he can also still afford a good bottle of red wine! He's already recommended equity release to other people.

Do get in touch to see if Equity Release may be the best option for you too.

Both case studies were supplied by LV=.

Enhanced ANNUITIES

An annuity is something that generally only rears its head as people move towards retirement. But did you know that an Enhanced Annuity could deliver a higher payout for you?

An annuity is a way of converting the money you have built up in your pension fund to pay out a regular income for the rest of your life. Prior to taking out an annuity, you may also be able to withdraw (if wanted) a tax-free lump-sum of up to 25% of the value of your pension pot.

Most retirees (for whom it's an option) do take out some form of annuity, although there are alternative choices out there - such as a draw-down pension. Or it may not be required if, for example, you're in a (defined benefit) final salary scheme pension, where you'd be paid an amount of earnings every year after you retire.

Shop around

You don't have to buy your annuity immediately, or from your existing pension plan provider. Everyone has the right to look for the best deal. This is called the **Open Market Option** (OMO) and we can help identify suitable choices for you.

And, if you qualify, this is where you could find that an **Enhanced Annuity** may pay a higher income (up to around 30% more) if your lifestyle or health could reduce your life expectancy.

The lifestyle issues might be as simple as being a smoker or heavy drinker. And on the health front, it can cover a fairly lengthy list of conditions such as high blood pressure, obesity, diabetes, rheumatoid arthritis, cancer, and heart conditions.

Throughout your working life you would have been told endlessly to maintain a healthy lifestyle and not to smoke, etc, etc. Then you look at the retirement income options and find that if you'd done the opposite, you'd have a higher income! Of course, in the case of medical conditions, there may be little you could have done to avoid the onset of those problems.

You get a higher income because, unfortunately, you're not expected to live as long, so it's supposed to balance out in the end. Although you'd still continue to receive your larger payout even if you did beat the odds, and lived to a ripe old age! And the continuous improvements in medical care and know-how may well work to your advantage.

Consider the options

Interestingly, of the individuals that purchased their annuity from a firm other than their existing pension plan provider, around 46% qualified for an enhanced annuity product.

Staggeringly, less than 4% of those who stayed with their existing provider ended up with an enhanced version.

(Source: Association of British Insurers, 2012 data)

That's a pretty powerful reason for people to shop around.

Do get in touch to find out more.

Equity release - as an option to assist funding your retirement needs - now appeals to a much wider audience.

Is it for you?

Whilst equity release is available to homeowners aged 55+, historically the average age for take-up sits at around 70, and the key age group has been the 65-74 year-olds (around 55% the marketplace).* Logically this is the age group that's about to make (or has been making) major changes to their livelihood, as they've possibly recently retired, and need to ensure that they have got enough money to meet their ongoing financial needs.

However, as we mention in this issue there are a whole multitude of reasons why a wider range of people may now consider equity release. For example, there's the growing problem of interest-only mortgages which need to be paid off. This will bring more of the 55-64 year-olds into the fold.

Alternatively, some may decide to downsize their home to raise the required funds, but may return to consider equity release at a later date.

Married, single, widowed?

Broadly, getting on for two-thirds of those that take out an equity release plan are part of a couple (63%), with single/widowed females accounting for a quarter of cases. Single/widowed males make up the rest (12%).*

Amount borrowed?

The current average lending figure stands at around £52,000.**

What the loan is used for?

This too is an expanding list. Initially the thinking behind taking out an equity release plan was to fund luxury items.

Yet over recent years, a wider range of reasons have come into the mix. And whilst a sizeable number may still want to use equity release for positive reasons, some of which are set out in the article below under the 'recap' section. Others view it as a way to help make ends meet financially.

What do most opt for?

As mentioned elsewhere in this issue, most planholders tend to go for lifetime mortgages, and the majority of those raise funds with a drawdown option.**

The holy grail of inheritance

Attitudes to this have also changed. No longer is equity release frowned upon by many family members who see part of their future inheritance being eroded. The response these days could just as easily be *'it's your wealth and you really ought to enjoy it'.* Or it could be *'it's better that you help us out now with the grandchildren's university costs'.*

The 'AVTIOC' process!

It's also a pretty simple process once you've decided whom you'd like us to approach - as it's much along the lines of securing a normal mortgage loan.

Application.
Valuation.
Title search/land registry.
If it has a mortgage.
Offer.
Completion.

If you think an equity release loan may be the right fit for you, then get in touch. We'll assess this option and any others that may be more suitable for your needs.

*(Sources: *Key Retirement Solutions, Market Monitor 2012. **Equity Release Council, 2012 figures)*

➔ (contd from page 1)

Additionally, you may decide that you'd prefer to buy a new home in a similar (or higher) price range, that's better suited to your retirement needs. Again, equity release could be the solution.

Recap

So let's recap on some of the areas that may require additional funding:

- Paying off bills, or settling any amounts outstanding from an interest-only mortgage.
- Improving your standard of living.
- Helping other family members.
- Going on the longed-for trip of a lifetime.
- Much needed home improvements.
- Funds that allow you to secure a new home more appropriate to your retirement needs.

Considerations

As with most retirement planning, it's important to take advice. For example, taking out an equity release plan may affect 'means-tested' state benefits, or local council grants, which you may already have in place, or perhaps you're entitled to.

So do make sure that you talk to us to find out more.

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