

# Retirement **FREEDOM** 2012

Equity Release to assist Retirement Planning Spring



## Time to enjoy **LIFE!**

## Homeloan Express

PO Box 633  
Fareham PO14 9JD

Tel: 01329 829001

Email: paul@homeloan-express.co.uk

Website:

www.homeloan-express.co.uk

■ Homeloan Express Ltd is an appointed representative of Personal Touch Financial Services Ltd, which is authorised and regulated by the Financial Services 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.

■ 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.

To help secure a happy retirement, the over 55s need to be mindful of the considerable pressures that are currently out there. There's concern over future private and state pension payouts, the potential cost of long-term care (especially as we're living longer) and the impact of inflation. So it's no wonder that some have now opted to release equity from their home.

In fact, updated research from LV=, an Equity Release provider, shows that almost a third of over-50s, (who are still in the workplace) are considering releasing equity. This is up from 23% in the similar 2010 survey. Additionally, a further 13% said they would take advice on the subject.

When considering how they would unlock the equity, 52% said they would downsize to a smaller property, whilst around one-fifth said they would use an Equity Release product.

(Source: LV=, Home is Pension survey, September 2011)

### Changing view to inheritance

Attitudes are changing too with regard to the possibility of diluting the future inheritance. We already have the 'SKI' acronym, where

many are keen to enjoy their retirement years by 'Spending the Kids Inheritance'!

And now, according to recent research from Aviva, another provider, over three-quarters of those 'kids' would be happy for their parents or grandparents to take money from their property, often seen as the holy-grail of inheritance, so that they may enjoy their retirement years.

(Source: Aviva, August 2011)

### Numerous uses for the funds

The way the money can be used is not solely for funding something out of necessity (such as maintaining your standard of living, clearing debts or catering for unexpected health needs. It could also be 'pro-active' desires such as wanting to support your grandchildren, whilst you're around to enjoy it. Or it could be going on that dream holiday, buying a new car, or raising funds so that you are able to move to a property better suited to your future plans.

*There is as much as  
£1,000,000,000,000 in  
unmortgaged equity held  
by people aged over 65!*

(Source: SFHP - the Equity Release trade body, Website 2011)



Safe Home Income Plans (SHIP) is the trade body for Equity Release and one of its key aims is to afford protection for the consumer.

# Reassurance for you...



**S**HIP's remit is to build awareness and understanding of both how the Equity Release market works and the safeguards that are now in place.

The trade body was launched in 1991 in direct response to the growing need for consumer protection. Its aim was to help ensure that a repeat of the problems with policies across the late 1980s never occur again.

Further consumer support came in 2004, when Lifetime Mortgages became a regulated product under the Financial Services Authority (FSA), with Home Reversion Plans following in 2007.

## Size and scope of SHIP

SHIP now represents over 90% of the Equity Release market in terms of volume. And its figures for the Q4 2011 period show that the new advances of almost £216m were the highest level of lending since Q4 2009.

In a previous report, SHIP highlighted that the UK population is ageing, with insufficient pension provision and the prospect of meeting significant care costs. And expects the demand for Equity Release products to increase significantly over the next few years.

## Code of Conduct

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

1. To allow customers to remain in their property for life provided the property remains their main residence.
2. The right to move their plan to another suitable property without any financial penalty.
3. All SHIP plans carry a no negative equity guarantee. This means customers will never owe more than the value of their home and no debt will ever be left to the estate.

Additionally, it requires a fair, simple and complete presentation of the Plans, and encourages the consumer to take independent legal advice.

Furthermore, SHIP members can only accept applications from advisers who are specifically qualified and have followed a fully advised process, which ensures you are totally aware of other options and the impact a Plan may have on any entitlement to State Benefits or Grants. Advisers currently account for a massive 90% of Plans placed in the marketplace. *(Source: SHIP, Q4 2011 figures)*

**Please let us know if you have any questions.**

## Product of choice

*There is a view in some quarters that Equity Release remains a product of last resort, but is this strictly true?*

Of course, the economic climate, high(ish) inflation and lack of proper pension planning, will have an impact upon many, and may fuel the 'last resort' viewpoint.

With regard to inflation, research shows the over-55s spend almost an additional £1,000 a year compared to the general population, quite apart from the normal impact of inflationary pressures across the board! *(Source: Age UK, November 2011)*

As for Pensions, out of a private sector workforce of 23 million people (amounting to 80% of all workers), a staggering 14 million people are currently not saving into a workplace pension scheme!

*(Source: Workplace Retirement Income Commission, August 2011)*

These issues and more, may mean that for some, Equity Release will indeed come to the rescue; but for others, it's something they may use out of choice - not necessity - as reflected by the following examples:

### Upsizing

Rather than downsizing to raise funds, some people (as they move towards retirement) may decide that they want to move to a better home in an area where they'd like to live out their retirement years.

Whilst they may be ok with funding their lifestyle in their current home, they may not have the money to buy a more expensive one, so raising the extra funds through Equity Release may be the solution for them.

### Helping the grandchildren

Some may decide that rather than trying to build an inheritance for when they're gone, they may want to help out the grandchildren now - when they have pressing needs, such as support with University funding. Again, Equity Release could help out.

However, continuing with the family theme, an Equity Release policy may, of course, lessen the inheritance for future beneficiaries, so it's sensible to consider involving your family members in any Equity Release discussions.

**Do get in touch to find out more.**

# Lifetime Choices

*There are numerous reasons why an individual (or a couple) may want to borrow against the equity that exists in their property, but taking out a Lifetime Mortgage is the route chosen by the vast majority.*

*(Source: SHIP: Lifetime Mortgages accounted for 98% of the Equity Release Plans going through their members in 2011)*

**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.

The actual tax-free amount you can take out against your property value would be largely dictated by age, and which Lender you go with. For example, the maximum you may be able to raise might be around 20%, if you're aged around 60 (for the youngest planholder), possibly increasing to a maximum of around 50%, if you're into your 90s.

## You decide...

There are usually two options; either take the required amount as one

lump-sum, or you can take an initial lump-sum and then drawdown the additional agreed funds, as and when required. Drawdown is growing in popularity, as you only take out what you need, which lessens the 'interest roll-up' effect, and it may also help you to stay within the limits for means-tested benefits. This route, in 2011, accounted for 56% of all Lifetime sales. (Source: SHIP, 2011 figures)

The outstanding amount owing in fixed interest payments will roll-up for as long as you live in the property. Do bear in mind that if the rate of the loan is, for example, 6.5%, a £10,000 loan may (with the added interest) increase to around £20,000 in 11 years; and about £40,000 in 22 years. Although, in the case of taking out a Plan from a member of SHIP - the trade body for Equity Release - you (or your Estate) will be protected by the safeguards it's put in place (as set out on page 2).

## Advice on hand

Of course, it's important to take advice and to consider product elements such as Early Repayment Charges, should you want to repay the loan. Or if the Drawdown facility is guaranteed, so that you have the confidence of being able to borrow more, when you need it.

**There is a range of products out there that take account of the above and other issues too, so do talk to us, so that we can consider the Plans that best meet your needs.**

## The Great British Legacy

According to research from LV=, the main traits that Brits would like to pass on to their children and family are 'good manners' (85% of respondents), 'good behaviour' and 'good values' (both 82%).

(Source: LV= survey, September 2011)

# Singles or couples



Like a normal mortgage, you can take out your Equity Release Plan either individually or as a couple, as long as you are both eligible by age.

The spouse or partner will then have the right to live in the property for as long as they wish, should the other person die or move into long-term care.

If the Plan is in a single name, and another person lives at the property, the Lender will want to ensure that the other person does not have any rights to continue living in the property once you die or go into long-term care.



Long-term care - whether that's at home or in a residential care home will continue to be a major consideration for many in retirement. But help may be at hand...



# Are you prepared for ILL-HEALTH?

Greater longevity, coupled with what the State can afford, will undoubtedly increase the likelihood of needing **long-term care** at some stage, along with the possibility of having to contribute towards the costs.

## Current position

At present, people with assets of more than £23,250 in England must pay the full cost of their care. Similar thresholds exist across the rest of the country.

Quite a sobering thought when you consider that the average cost of a residential care home is around £26,000 per year, increasing to £36,000, if nursing care is required!

*(Source: Laing & Buisson, Care of the Elderly Report, 2010/11)*

This means that if you have a home and assets valued at £150,000, as much as £127,000 could go to fund your residential care needs. Many, understandably, will feel that this is an unfair system, as assets they've built up over a lifetime could be largely eroded.

## Help on the horizon?

The findings of the recent Dilnot Commission into funding the costs of Adult Social Care in England may help to limit the impact in this part of the UK. Its full recommendations are expected this year, but the general proposal is that the amount an individual is expected to pay out for **residential or domiciliary care** should be **capped at about £35,000**.

Additionally, it feels that the threshold at which the full residential care costs kick-in should be **raised from £23,250 to around £100,000**. Under the same proposals, the threshold for domiciliary care would remain at £23,250, but here, the value of the home would not be included in the calculation.

According to the Commission, we should be celebrating the fact we are living longer, rather than talking about the burden of ageing. And by putting a limit on the maximum lifetime costs people may face, it will allow them to plan ahead to meet those possible financial liabilities.

Of course, if facing ill-health, many people would prefer to remain in their own home, for obvious reasons. And with the annual average cost of receiving care in the home standing at a 'less dizzy' £4,750\* (should a person require an hour a day, every day), it's substantially cheaper than a residential care home.

*(\*Source: Laing & Buisson, Domiciliary Care Report, 2011)*

## Your possible contribution

So, as part of this whole process, you really should give consideration to the possibility of having to pay for some degree of care support. Additionally the Government will be looking, too, at ways that an individual could cover the proposed £35,000 figure.

For your part it may mean raiding your investment portfolio, or savings, or possibly downsizing. Or, if you're keen to remain in your home, as long as possible, then Equity Release should also be a consideration.

**As this is a developing story, do get in touch to find out more.**

→ (contd from page 1)



## Consider the options...

Currently, on average, around £49,000 is raised from an Equity Release plan.\* Of course, you need to consider if there may well be other, more suitable, options open to you to deliver the funds you require, such as taking in a lodger, downsizing your property, borrowing from friends and relatives, cashing in some investments, and so on.

*(\*Source: SHIP, 2011 figures)*

Additionally, you need to be mindful

that if you do raise money via an Equity Release scheme, then it may affect 'means-tested' State Benefits, or local Council Grants, which you may already have in place, or perhaps you're entitled to.

That said, Equity Release may offer an additional option for you, but the process and implications can be complicated.

And understandably, like anything, there are downsides as well as the positives, so do talk to us.

**We'll look at your current situation, and chat through your needs to identify the best way forward for you.**

■ A Fee of up to £1950 payable on completion of an equity release product. A typical fee is £950. We will also be paid commission from the company that lends you money.

■ The contents of this newsletter are believed to be correct at the date of publication (March 2012).

■ Every care is taken that the information in this newsletter is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ 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.