Retirement FREEDOM

Equity Release to assist Retirement Planning

Spring 2016

RADCLIFFE & Co
Independent Financial Advisers
Est. 1959

Take ADVICE

Equity Release lending figures

£1.61bn in 2015

Largest total lending figure for any year since records began!
(Source: Equity Release Council)

If you're over 55 and a homeowner, then releasing equity from your home may deliver the additional financial support you require to help make the most of your retirement years.

With the luxury of time, you'll be able to devote more energy to the things that really matter most to you - such as your family, home, or garden, alongside a range of interests and hobbies. With the average UK adult having around 20 years or so of retirement ahead of them, then hopefully you'll have plenty of time to achieve a great deal and really enjoy life.

Paying for it

Of course, much of what you may want to achieve is likely to come at a cost, on top of the normal living expenses that have to be met. Historically, the retirement years may have been largely funded by a pension (personal and state), applicable state benefits, along with any savings and investments.

However, the economic problems in recent years may have put a dent in those ambitions. For example, according to LV=, an equity release provider, the income of almost a third of over-65s falls below the minimum wage. Yet more than two-thirds of them say that they have untapped housing equity. *(Source: LV=, September 2015)*

In which case, if you're a homeowner then this could be a big positive for you. Research from the Equity Release Council shows that an over-55 homeowner has lived, on average, in their home for almost 18 years, bought it for around £100,000, thinks it's worth about £258,000, whilst the true value may be nearer £347,000. That's a £247,000 rise in value that equates to an almost £40 increase each day, every day! *(Source: Equity Release Council, December 2015)*

Equity Release plan

As a consequence, it's no surprise that many in (or nearing) retirement may see themselves as 'cash poor, but equity rich' and look to release some of the value in their home.

In some cases this may involve downsizing and moving elsewhere in order to raise the funds. However, if for numerous reasons you are keen to stay put, then an equity release plan may be the answer for you (should you meet the lending criteria).

Before you proceed with equity release there are a number of issues to consider to establish if this is the most suitable route for you (and perhaps that of your family too). That's why you must take professional advice from both a qualified equity release adviser, and a solicitor to ensure you fully understand the benefits and pitfalls.

In this issue, we expand on some of the key topics relating to both equity release, and the alternatives. Please do get in touch if you'd like to hear more.

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Equity Release lending is on the up and up, with the market doubling in size in the last four years.

(Source: Equity Release Council, 2015 figures)

Harnessing your EQUITY

The ongoing growth of this sector is possibly a reflection that it is increasingly viewed as an integral part of the overall retirement planning process. In terms of what's on offer, there are two main types of equity release - you can either borrow money, which is secured against your home - a **Lifetime Mortgage,** or sell part, or all of your home - a **Home Reversion** scheme. The former accounts for the vast majority of all plans taken out.

How it works

The average amount raised is around £72,000 - and with a lifetime mortgage around two-thirds of planholders are not taking all of the money at once, but drawing it down when it's needed (within an agreed timeframe) - this will help to avoid paying interest on funds which are not required at that particular stage.

(Source: Key Retirement, 2015 figures)

The maximum you can borrow depends largely on the age of the youngest planholder and the value of your property (and maybe your health and lifestyle too). 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. The reason for this is that providers, who are members of the Equity Release Council (equating to most of the marketplace), allow the final planholder to remain in the home until they die, or go into long-term care, irrespective of when the loan was taken out, or what is owed.

No immediate capital or interest

A key difference between an equity release loan and a standard residential mortgage one, is that you have the option with the former of not paying out for any capital or interest at any point during your lifetime, if that's the route which best suits you. For many this may be a real benefit as it'll remove from the mix one further cost to consider each month.

The provider of the loan would ultimately reclaim the capital (and any accumulated interest) through the sale of the property, once the final planholder dies or moves into long-term care. As the lender is taking on board the risk in terms of how long you may remain in the property, along with certain guarantees afforded to the borrower, the rates are higher than for a standard mortgage loan - albeit they are also fixed for an indefinite term.

Roll-up of the interest owed

Understandably, the lender is simply giving you a loan, which needs to be repaid at some point. If you opt not to pay some, or all of the interest, then this will roll-up over time. For example, a £50,000 loan at a 6% rate of interest would have doubled to £100,000 after 12 years (if you opted to drawdown all of the funds immediately, and paid no interest). If that's an issue for you, then it may also be possible to pay off some (or all) of the interest charged each month.

Also, do consider that as most opt for a lifetime mortgage (raising, on average, around 26% of the property's value) it means that you would still benefit from any increases in the value of the home as you still own all of it, and have just taken a loan against it. Of course, there's no guarantee that house prices will continue to rise, but if you look back 20 years, the average UK house price has risen almost fourfold in value across this period. *(Sources: Key Retirement, 2015 figures, Nationwide, to Q4 2015)*

Do make sure that you take professional advice.

Other options exist...

Equity Release can be a perfect solution for many, but to arrive at that point you must also consider alternative income streams, such as:

■ Your existing investments and savings portfolio

You'll need to take professional advice to decide if raising funds this way is a better option, such as taking advantage of the new pension freedoms.

■ Tracing lost pensions, investments or savings

Across your lifetime there's also a good chance that you may have forgotten about a long-held investment, or a small pension from a past employer (see the checklist at the bottom of the last page).

■ Consider taking in a lodger

If you don't have an issue with someone else living in your home, then this too could be another revenue source.

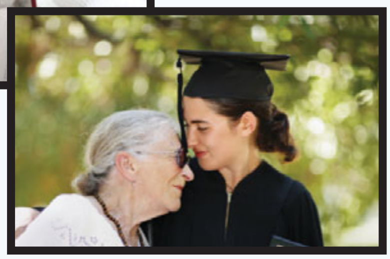
■ Downsizing your home

This offers an easy way to raise the funds you need at this stage - and the option to take up equity release at a later date would still be there.

■ Current or potential State Benefits and Local Authority Grants

If you're already claiming benefits, and these are means-tested, then raising funds elsewhere 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.

Meeting your needs



As equity release can assist a wide age group from 55 to over 100, it's consequently taken up to meet a whole host of needs, such as...

■ Improvements to the home and garden

If the borrower wanted to remain in their own home, for the memories, the location, a base for the family to congregate, to be near friends, or simply because they're very happy in it and have no desire to move elsewhere; then it's no surprise that one of the main reasons for raising funds through equity release is to help undertake improvements to the home and garden.

■ Upsizing

Whilst they could be ok with funding their lifestyle in the current home, they may not have the money to buy a more expensive one in an area where they'd like to live out their retirement years. Raising the extra funds through equity release could be a solution.

■ Clear the outstanding mortgage

If they're coming up to retirement and have, for example, an interest-only mortgage where the investments in place may not be enough to cover the outstanding loan, they could turn to equity release to help make up the shortfall.

■ Assistance with regular bills, and paying off loans and credit cards

Again, equity release could be an option to help out here, or perhaps enable the borrower to have extra funds to enable them to enjoy a better lifestyle across the retirement years.

■ Treat or assist the family

Let's cover the issue of inheritance first. This has tended to be the Holy Grail, with the home being viewed as something the family would inherit. That's why it may make sense to involve the family in the decision-making process, if only to help manage their expectations. However, attitudes do seem to be changing and there may also be a greater desire on both sides to see some funds released to benefit family members whilst the 'giver' is still around to enjoy helping them out, such as 'meeting university costs', or 'assisting with a deposit for a first-time buyer'.

■ Funding care costs

Not exactly an aspirational reason for raising funds, but could be an essential one - which may enable the homeowner to remain in their own home and pay for daily 'care' visits. The alternative could be having to sell the home to raise funds to meet ongoing costs for a residential care home, which may then largely erode the savings held.

■ The special treat

And let's not forget that the retirement years should be a time for borrowers to really enjoy themselves and reward their efforts across their working life, so a decent number use some of the funds to help pay for a holiday of a lifetime, or other such special treat.

Please get in touch to find out more.

REASSURANCE FOR YOU...

Some people may have pre-conceived ideas about equity release, but if you opt for a lender that's a member of the Equity Release Council (ie. most of them), then a number of controls are already in place which are designed to protect you, and cover concerns such as the following...

Q: Can the provider take away my home?

A: All Equity Release 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.

Q: Will I (or my beneficiaries) end up owing more than the value of my home?

A: Plans from Equity Release Council 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.

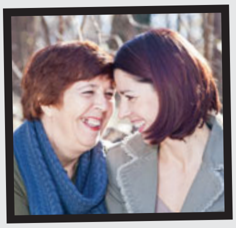
Q: Can I move home after I've released equity?

A: Customers have the right to move, although you may have to repay part of a lifetime mortgage loan if moving to a cheaper property.

Real Lives

How Equity Release has worked for others.

Helping the family



Having a way to provide financial support for family members when they need it, can help cope with situations that may arise during retirement.

Mrs U from Scotland has lived in her property for over 40 years, most recently on her own since losing her husband six years ago. She has lovely neighbours; her property is well positioned for local transport and most importantly is close to both her daughters and grandchildren. Staying in the place where she brought up her family was extremely important to her, especially as she regularly looks after her grandchildren once they finish school.

Her children supported the decision

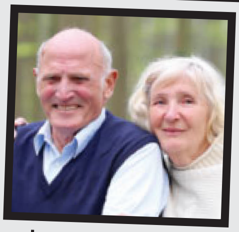
When one of her daughters went through a relationship breakdown and needed help to buy a new home, Mrs U realised that by releasing equity from her own home she would be able to support her daughter through a very difficult time. It was important to Mrs U that her daughter and grandchildren lived in a nice property in a good area and they began to investigate the government's Help-to-Buy Scheme.

She discussed equity release with both of her daughters. She'd previously helped her other daughter financially and both fully understood the implications of the mortgage on the eventual value of her estate, and were fully supportive of her decision.

Once her daughter was accepted onto the Help-to-Buy scheme, she was able to reserve a new-build home less than 15 minutes from her mother's house, secure in the knowledge that the deposit could be funded via equity release.

Mrs U then took out a Flexible Lifetime Mortgage against her property, which at the time of application was valued at £170,000. She released an initial cash lump sum of £35,000 with a fully guaranteed reserve of a further £21,100 available as and when she required it.

Able to buy the freehold



Managing day-to-day spending, when you're retired and drawing a pension income lower than you had planned can be tough. This makes coping with big expenses even more challenging unless you have a good pot of savings to fall back on. This is where Equity Release can really help and the ability to unlock the wealth tied up in your home can make a real difference.

Mr & Mrs H from Lincolnshire purchased the leasehold on their home over 30 years ago, as at that time they were not able to afford to buy the freehold. As time went on, they eventually found themselves owning a property with a very short lease and were concerned that they were unable to extend it as they couldn't afford the resulting increase in ground rent.

Their solicitor suggested that equity release could be an option to allow them to buy the freehold and ensure their monthly outgoings remained as low as possible.

Benefit of advice

They then contacted a local financial adviser, who discussed the different options with them, where they decided to take out a Flexible Lifetime Mortgage against their property, which at the time of application was valued at £125,000.

They released a lump sum of £25,000 which enabled them to purchase the freehold of their much-loved family home. The small reserve of £7,500 provided them with a further financial safety net should they require access to additional funds into the future.

This equity release plan has enabled them to continue living in their family home, close to both their family and friends.

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

Both case studies are LV= client testimonials.

Photographs are posed by a models.

Pension Freedoms

Since 6 April 2015, anyone aged 55 or over has been able to take their entire defined contribution pension fund however they want.

This decision has allowed most planholders to draw down as much, or as little of their pension, at any time. The expanded range of choices means that power has now shifted to the consumer, who can shop around and devise a multitude of product combinations - even taking it all as cash!

The first 25% of the pension pot will be tax-free either as one lump sum, or as the first 25% of multiple lump sums. The remaining 75% would be taxed at the person's marginal rate.

You need to be aware that taking beyond 25% as cash could generate a sizeable tax bill, and possibly push some into a higher income tax band.

Here are some of the key options:

1 Uncrystallised Funds Pension Lump Sum

These funds are 'uncrystallised', as they have not yet been used to pay a scheme pension, buy an annuity, or designated to a flexi-access drawdown fund. As it stands, your pension pot would remain as currently invested, or can be taken partly, or all, as cash. Where, as mentioned above, 25% of the cash payment is tax-free and the rest is taxable.

2 Annuities

Annuities are likely to become more flexible, which may include:

■ The opportunity to withdraw lump sums, or take variable amounts, perhaps in the early years of retirement.

■ Improved 'guarantees' so that the beneficiaries don't lose out in the event of an early death within the annuity period.

Additionally, there is also a growing awareness that you should shop around for the best annuity deal, known as the **Open Market Option.** And, as part of that process, if you happen to face a specific health or lifestyle issue such as diabetes, cancer, a heart condition, or from being a smoker, then you may qualify for an **enhanced annuity,** which pays out more. It does this because the product provider has factored in that you're not expected to live as long. It's then down to you to beat the odds!

3 Flexi-access Drawdown

At the other end of the scale are draw-down products, which could potentially offer a better return but do come with a higher degree of risk, as you'll still be investing in the stock markets, etc.

Previously, this offering was more appropriate to those who had sizeable pension pots, and were less averse to risk. Under the new reforms, this sector has also expanded with the introduction of flexi-access drawdown funds (the format for all new drawdown plans).

These are designed to cater for more needs on the risk scale/fund size; with the previous restrictive rules affecting how much you can take out, being swept away.

4 Blended solutions

The likelihood, for many, is that they may opt for a mix of immediate cash, annuity and flexi-access drawdown - thereby meeting current needs, delivering a guaranteed income for life, yet also leaving some funds invested in the hope of future growth. And, as part of the planning, equity release could also play a role too.

Whatever you opt for, it's essential that you take advice before you act. HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

A big advantage of a Lifetime Mortgage is that it lessens your outgoings if you opt to not make any interest payments.

Roll-up or not to Roll-up?

If you decide to let the interest roll-up, there will come a time when the 'compounded interest' needs to be recovered. Whilst this would only occur when the last planholder dies or goes into long-term care, it may have an impact on your beneficiaries.

Roll-up of the interest owed

The benefit of not paying off the interest as you go along, is that it may free up much needed funds to meet other costs, and it's one less regular payment to worry about. To gauge the impact of 'roll-up', if the interest rate for the lifetime mortgage loan is 6%, for example, a £50,000 loan (with the added interest) would have doubled to around £100,000 after 12 years.

Opt for drawdown

If it's a case, for example, that you may only need £35,000 immediately, but would like the option to take out, say a further £35,000, at a later date, then perhaps opt for a Lifetime Mortgage drawdown product, as you wouldn't pay any interest until the funds are drawn down. In this instance, 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.

An additional benefit is that by taking out your loan in smaller blocks it may enable you to also stay within limits for means-tested benefits.

Pay off the interest

If this is a viable option for the borrower, or perhaps their future beneficiaries, then you could consider paying off the interest each month on the loan. This might be a feasible route in the early years and then revert to not paying the interest and letting it roll-up later in life, when your income may reduce.

The industry body, the Equity Release Council produced an example comparison in its Autumn 2015 market report. It considered how it would pan out over time if you took out an average loan amount (£77,494), at an average interest rate (5.97%). After 5 years the compounded interest (where no payment was made) would add up to £26,064. Had it been paid off each month, it would have cost £23,310 - not a massive difference. But after 15 years the respective figures would be £107,438 and £69,396. So it may be an option worth considering.

House price movement

Whatever you opt for, you should also think about how house prices may (or may not) work to your advantage. As we mentioned on page 1, the average 55+ homeowner may have seen an almost 3.5 times growth in value of their home over the last 18 years. Even in the current period of more moderate growth we saw the average UK house price rise by 4.5% in 2015. So, if it occurs, then house price growth may help to balance the impact of roll-up.

(Source: Nationwide House Prices, Dec. 2015)

As this is a complex area, it's essential that you take advice, so do get in touch to find out more.

Useful LINKS

How much is your home worth?

Aside from getting it valued, there are sites such as the following, where 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
0845 600 2537

■ **Bank, Building Society, or National Savings accounts**
www.mylostaccount.org.uk

Bank account:
020 7216 8909 (British Bankers Ass.)
Building Society account:
020 7520 5900 (Building Societies Ass.)
National Savings account:
0500 007 007 (National Savings and Investments)

■ **Insurance policies, pensions, unit trust holdings and share dividends**
www.uar.co.uk
0844 481 81 80 (The Unclaimed Assets Register)

■ **Information on State Benefits**
To see what you may be entitled to:
www.gov.uk/dwp
0800 88 22 00

■ For Equity Release, we can be paid by commission, or by a fee of usually £500, or a combination of both.

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