

# Retirement FREEDOM

Information about **Releasing Equity** in your **Property**

Spring 2024

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**Property wealth** can play a major role in delivering the funds needed for 55+ homeowners. Uses could encompass: **paying off a standard mortgage**, dealing with the **cost-of-living crisis**, enabling a **home renovation**, or **assisting family members**.

**F**or many, the home will be their largest asset. Particularly as long-term homeowners would have benefited from property value growth over recent decades.

For example, the **average UK property price has risen fivefold over the last 30 years** - from about £50,000 in 1994 to around £260,000 in 2024. And that financial return could be even greater if you've bought well, and invested time, effort (and money) into improving the home(s) you've lived in.

(Source: Nationwide, House Price Index: Cost of Living, 2023, and

Or, consider a specific **Retirement Interest Only** product, where only the monthly interest needs to be paid. However, for both of these options you'll have to meet the lender's affordability (and possibly age) criteria.

■ There's also a further borrowing option, an **Equity Release** product that's designed for 55+ homeowners. In this case, there's no strict affordability criteria to meet.

A **Lifetime Mortgage** is the most popular form of equity release, and accounted for

## You have choices

One way to release equity from your home could be through a **standard residential mortgage**.

If you prefer to borrow but still want to retain ownership, a **lifetime mortgage** or **equity release** borrowing option might be suitable.

■ You may be able to release equity from your home via a **standard residential mortgage** that runs into the retirement years. This might require paying off both the principal amount and interest).

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

■ Lifetime Mortgages and Home Reversion Plans are the two main types of Equity Release.

■ To understand the features and benefits of a personalised

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

■ 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.

■ 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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## Your HOME Your ASSET (contd)

Continued from page 1 ➔

borrower dies, or moves out of the home and goes into long-term care.

### ■ However, you can also lessen the impact of roll-up on the interest owed

Do remember that **releasing equity from your home is not free money!**

The lender is simply getting their financial return down the line. This means that the impact of the money borrowed may be felt by those inheriting. One way to protect the potential inheritance, is to pay off some, or all, of the interest along the way (and then stop paying if it suits).

To give you an idea of the impact of not paying the interest, and letting it roll-up alongside the capital owed, let's take an example. If you borrow £10,000 against an example rate of 6.47% in the 1980s, the amount owed would be £15,000 after 10 years.

### ■ You continue to pay the interest

Like a residential mortgage, you can

borrowing against it while remaining the owner. And you would continue to benefit from any increases in property prices.

### ■ Should you suffer from ill-health

You're told throughout life to look after yourself, but you may obtain a better deal if you have a qualifying medical condition.

In short, the underwriters are assuming those with ill-health won't live as long.

### ■ Same fixed interest rate for the whole term (in general)

This will enable you to better plan the financial path ahead.

### ■ The plan can offer wide flexibility

What's on offer is a totally different product to what was available in the 1980s

# Interest Rate

Whilst the rate of interest shouldn't be the sole consideration - as there are a number of product innovations to consider that will help tailor the plan to your needs - it will be a big influence.

And the Later Life lending sector has not been immune to the rises experienced across the residential sector.

Historically, a Lifetime Mortgage fixed interest rate was somewhat higher than mainstream mortgages.

But, at the time of writing, the current average Lifetime Mortgage rate of 6.47% is more than 1.7% lower than the average Standard Variable Rate offered by lenders. Additionally, it's less than 0.7% more than the average 2-year fixed rate mortgage deal.

And this is for a product that offers various protections designed to future-proof the borrower's financial position.

Plus, there's more good news. High inflation is a major influence on market sentiment, and the rates on offer. More recently, annual inflation has reduced to 3.2%, against the peak of 11.1% in October 2022.

Source: Moneyfactscompare.co.uk, April 2024; Office for National Statistics, CPI, April 2024

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## Protection

Some people may have concerns about taking out an Equity Release plan. However, customer protections put in place by **The Equity Release Council** - the industry body - should help to dispel some of those worries (with some often-asked questions below). These protections are applicable if the plan goes via one of their lender members - which covers most deals 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, this then 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 when your property is sold, and agents' and solicitors' fees have been

paid, even if the amount left is not enough to repay the outstanding loan to your provider, **neither you nor your estate will be liable to pay any more.**

### 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 as suitable security for the loan.

### Q: Can I make penalty-free partial payments against the outstanding capital on the loan?

**A:** This was allowed from March 2022, and those payments would help reduce the build-up of interest applicable to the loan. **More than 90,000** made payments in 2022.

# Meeting your needs

Here are some examples of the wide and varied way that the funds are used by those borrowing against the value of their home.



## Interest-Only mortgage

There are around 924,000 'pure and partial' interest-only mortgages out there. And, borrowing against the value of your home may help to settle any shortfall.

*(Source: UK Finance, Interest-only update, June 2023)*



## Gifting to family & friends

Many would agree that it's better *'to give with a warm hand, than a cold one'*, enabling you to see family and friends benefit in your lifetime. Plus, it may even assist tax planning.



## Managing bills & debts

The cost-of-living crisis will only exacerbate issues with regard to ongoing bills and outstanding debt. A Lifetime Mortgage may help provide the much-needed funds.



## Care needs

If facing ill-health, or a disability, most people would prefer to stay in their own home, rather than move into care. A Lifetime Mortgage can provide the funds needed to pay for care services and help meet other costs.



## Special treat

With a long retirement ahead, many people like to splash out on a special holiday or treat.



## Tax planning

If the entire value of the estate on death (home, assets, etc) exceeds the Inheritance Tax threshold, you may be able to mitigate (on advice from your adviser) some of this exposure using a Lifetime Mortgage.

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## Home improvements

With the retirement years possibly accounting for around a quarter of a lifetime, it's not surprising that many would want to spend money on making their home as comfortable as possible.



## New home, or another one

Some may want funds to help purchase a more expensive home, better suited to their retirement needs, or be keen to buy a holiday home.



## Extending a lease

Some homeowners may be unable to secure funding due a short lease. Some of the money from a Lifetime Mortgage could pay to extend the lease.



# You must TAKE ADVICE

Many of our clients have benefited from releasing money against the value of their home. Conversely, there'll be others where we agreed that it wasn't the best course of action at that stage. That's why it's important to take advice.

**T**hat advice should not just come from us, you must also seek input from a solicitor, and maybe your accountant, to get a sound-

...tive options out there for you - such as **downsizing your home**. Or should you prefer to remain in your current home, then the amount you may need to borrow could be reduced if you're prepared, for example, to **take in a lodger**.

In some cases, the inheritance might be very important to them, although a number of borrowers do use funds to help their family now - when they may possibly need it most (and when the borrower is around to see family members benefit).

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

1. Importance of taking Advice
2. Gifting option
3. Managing Roll-up

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Also, we'd need to assess if equity release might impact upon your **existing (or available) state benefits and grants** - if they're means-tested.

## The structure of the plan

In recent years we have seen **sizeable product innovation**, and we'd run through those options with you, should you want, for example, to have an inheritance protection threshold in place.

## Considering your options

For our part, we would listen to your needs, identify the choices, and if you want to proceed, we'd then undertake a lot of the legwork.

Another consideration would be utilising any **long-held investments**, or identifying a **small pension** from a past employer that you may have misplaced or forgotten about. It makes sense to ensure that you're fully up-to-date in this respect (see contact details below).

Of course, we'd also discuss the impact of paying (or not paying) the accruing interest. There's also the question of taking a full lump sum now, or opting for an amount now with the choice to borrow more down the line. And there's plenty more to talk about beyond this...

As part of the initial process, we would discuss if there are more suitable alterna-

## The inheritance issue

Whilst it's your home, it is also possibly your family's future inheritance.

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

## 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.gov.uk/search-house-prices](http://www.gov.uk/search-house-prices)

### Tracing lost or mislaid...

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- **Bank, Building Society, or National Savings accounts**  
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Bank account:  
020 3934 0329 (UK Finance)

Building Society account:  
020 7520 5900 (Building Society)  
National Savings account:  
08085 007 007 (National Savings Investments)

■ **Insurance policies, pension trust holdings and share dividends**  
Additional route to consider for elements such as this:  
[www.gretel.co.uk](http://www.gretel.co.uk)

■ **Information on State Benefits**  
To see what you may be entitled to:  
[www.gov.uk/dwp](http://www.gov.uk/dwp)

■ For Equity Release, we can be paid by commission, or by a fee of usually [£xxx] (see applicable wording)

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# GIFTING FUNDS... to family and friends

These days, many borrowers are releasing equity from their own home for pro-active reasons. One example is to gift money to family and/or friends to help them meet a multitude of immediate needs.

**F**or the giver, it enables them to use their wealth now, possibly when it's needed most by others, plus they will see the joy those funds will bring.

## Family

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

1. Importance of taking Advice
2. Gifting option
3. Managing Roll-up

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## Happy families

Also, by accessing money via a Lifetime Mortgage, this generally means that the homeowner can remain in the family home - with or without having to make monthly payments of the interest owed.

With regard to this, an agreement may even be struck, where the family members who've benefited, then help pay some, or all, of the monthly interest, and maybe even chip away at the capital amount.

The benefit of this approach would not be lost on those that would ultimately expect to be beneficiaries of the estate.

## Managing tax liabilities

This pro-active stance, may also deliver an additional tax-planning option for High-Net-Worth homeowners.

Do turn to your accountant for qualified advice, but here are a few ways that equity release may assist wealthier clients.

■ If you have a decent amount of equity in your property and a good pension pot, then you'll know you have options. In this instance, 75% of the money released from a pension is likely to be liable for income tax, conversely, money released from an equity release loan is **tax-free**. It's then

down to discussions with your accountant to weigh up the reduction in tax liability vs. the cost of the loan.

■ Another consideration is **Inheritance Tax (IHT) planning**. This tax is generally paid out at 40% of the value of the estate above the threshold level. On an individual basis, this could kick in from £325,000. But, if you're married or in a civil partnership, and passing on a home, then the threshold level for a couple could increase to £1m.

As an equity release loan sits as a debt against the estate, a by-product of gifting money could be that you lessen your tax liability on death. However, the rules surrounding this area are highly complex, such as the seven-year rule for gifting, so do take tax advice too.

**HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.**

## Useful LINKS

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# Roll-up: choices?



If you decide at the outset (or at a later stage) to not repay the interest each month then the benefit of this is understandable, as it **removes one major money worry**.

**T**he harsh reality though, is that compound interest will be applied to the loan amount. Against an example interest rate of 6.5%, the full amount owed would double after about 11 years.

## Is that an issue?

If you're considering...

You can choose from **THREE** story choices for page 4: This is **option 3**

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2. Gifting option
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## Property price growth?

House prices eased in 2023, but have risen slightly in Q1 2024, and property has shown sizeable long-term growth in the past. If we consider the last 30 years, we've seen a 500%

growth in property values.

If we draw a comparison to the amount owed doubling after 11 years, then the average property price has risen at around 4.4% a year over the last 11 years.

(Sources: Nationwide, House Price Index, Q1 2024 vs '94 vs '13)

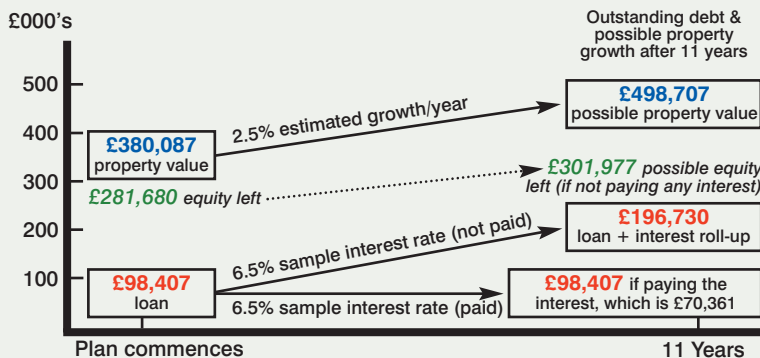
For the example below, we've placed the **average property value** and **loan amount** for a **lump sum borrower**, and considered what could happen if the annual property price rise was a more conservative 2.5%.

Of course, **there's no guarantee of property price rises**, and the impact of inflation would need to be considered, but it shows that the amount of equity remaining would be broadly similar after 11 years, if no interest was paid off.

However, if you decided to pay the £70,361 of interest in this example, you'd then be better off vs. the interest roll-up amount of £98,323. (Source - for chart below - Equity Release Council, H1 2023 data, Autumn 2023 Market Report)

### Example of possible House Price growth vs. Roll-Up of the Loan

We considered what might happen if house prices increased at 2.5% per year, and the example fixed interest rate on the loan was 6.5%.



## Useful LINKS

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