

## Retirement Freedom Equity Release to assist Retirement Planning



**To reflect the overall marked rise in property prices over the last couple of decades, there is a considerable amount of 'unmortgaged equity' sitting in the properties of those that are retired, or nearing retirement.**

At the same time, this age group may be getting (or may get) less than they hoped for from their savings, or pension. With increasing longevity, along with the Government making it clear that the State will not be able to provide all-encompassing retirement funding, other options may need to be considered.

In fact, research by one Equity Release provider, LV=, has shown that amongst some over-50s - who are still working - there is a view that their 'Home Is Pension'. Almost a quarter of those surveyed (equating to around 1.2m HiPpies), are considering using their property to help fund future retirement needs.

*(Source: LV=, September 2010 press release)*

### **Where Equity Release could help**

If you fall into this age group, then releasing equity from your home may deliver the additional income you need to meet bills, pay off debts, maintain your home, or simply achieve your retirement goals.

Even if you do have enough in savings, or a sizeable pension, it may deliver a way to provide financial support to your children and grandchildren, whilst you're still around to see them benefit from it.

With loans from around £10,000 and upwards, Equity Release may well offer options for those that may be keen to turn some (or all) of the equity in their property into cash.

### **Consider the alternatives**

However, opting for an Equity Release plan is a major undertaking - and may require the input of other family members, as it can affect their future inheritance.

You should also consider if other financial routes are better for you. For example, if you want to extract the full value of your property, you may need to sell up and consider moving to a cheaper home, and release equity that way.

If you already have savings and investments in place, then assess if they would meet your current retirement needs.

Or maybe you can obtain some financial support from family and/or friends.

Additionally, a possible disadvantage of Equity Release is that it could interfere with your entitlement to some state benefits or grants (see page 2 for more).

This is why **it is essential to take advice** from a qualified Equity Release adviser, along with input from a solicitor and perhaps an accountant too - especially if tax planning is involved. This should enable you to establish the best way forward to meet your own particular needs.

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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.**



Equity Release may no longer be viewed as a product of last resort, instead it can be an important, if not essential, part of retirement planning.

# Options for you

**There are a multitude of reasons why people will opt for Equity Release, such as: maintain their standard of living; home improvements; pay bills/clear debts; and mortgage repayment. On top of this, there's sure to be those that will also want money for the luxury items, such as a 'once in a lifetime' holiday, or to help out their family.**

There are two main types of Equity Release scheme:

## Lifetime Mortgages

This is where you take a loan out against the value of your property, but you still retain ownership. The amount you can take out against your property value would be largely dependent upon your age, and which Lender you go with. For example, the maximum you may be able to raise might be around 20%, if you are aged around 60 (for the youngest planholder), possibly increasing to a maximum of around 50% if you are into your 90's.

There are normally no repayments to make and the loan is redeemed when you die or move into long-term care. 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. The outstanding amount owing in interest payments will roll-up for as long as you live in the property. Do bear in mind that the loan plus interest amount may grow very quickly. These 'fixed' interest amount payments, along with the money borrowed, will have to be repaid eventually by your estate.

## Home Reversion Plans

This is where you sell all or part of your home to a home reversion company, thereby giving up all or part of the ownership. There may be nominal payments to make and the loan is redeemed, when you die or move into long-term care.

As the plan provider will not get a return until the property is sold, they will not pay the full market value to reflect this. Any percentage of the equity in the property that has not been sold can be left

to your estate. Of course, in selling some or all of your home, your estate will not benefit (fully) should there be any increase in house prices.

## Pro's and Con's

**Releasing Equity** from your property may affect your entitlement to **state help or grants**, and whilst everyone's circumstances will be different, here are some general pointers...

First of all, it will not affect your State pension, or any income you receive from an occupational pension scheme.

However, Pension Credits and other state benefits, that are means-tested, may be affected if your income or savings rise above specified limits, as a result of releasing equity from your property.

In short, you may find that you are no better off by taking out an Equity Release policy, if you then lose out on means-tested benefits.

In fact, it makes sense to establish if you are also receiving all the benefits you're entitled to, before moving forward on an Equity Release loan. Only then would it be possible to make a fair comparison on the best way forward. For example, Pension Credit is not claimed by around a third of pensioners who are entitled to it. So, a good number are losing out!

*(Source: Department for Work and Pensions, A state pension for the 21st century, April 2011)*

You may also need to consider if it would affect any Grants (ie. loft insulation, heating, etc) available to you - as many of them may also be means-tested.

**Do talk to us if this area is confusing for you and we will help you along the way.**

## Forever Young

**According to some recent research, 60-somethings say, on average, they feel they are 51 years old. With those in their 70s feeling, on average, just 58!**

*(Source: LV= Research, January 2011)*

## Dispelling Myths...

**Equity Release did have a chequered past back in the late 80s, prompting distrust amongst homeowners, and giving rise to a number of views. Some of which, are no longer true....**

### Myth 1 -

#### Equity Release is not regulated

**Wrong** - The Financial Services Authority now regulates both 'Lifetime Mortgages' and 'Home Reversion Plans' - the two principal routes.

In addition to the sense in taking professional financial advice, the SHIP\* code stipulates that a customer must be given independent legal advice. Ensuring that all of the benefits and limitations of the product will be explained, together with any obligations that they might be under.

### Myth 2 -

#### You will lose your home

**Wrong** - All SHIP 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 remains their main residence. In the case of a joint policy, then this applies to the last surviving borrower.

### Myth 3 -

#### You will face negative equity as the interest mounts up

**Wrong** - All SHIP products have had a 'no negative equity guarantee', which means regardless of the value of the home or how long the customer lives, the loan plus interest will never be a debt for their family. However, taking out an Equity Release plan may result in a reduced inheritance when the planholder dies.

### Myth 4 -

#### You will have to pay tax on the money released

**Wrong** - No tax is payable on the money drawn down.

### Myth 5 -

#### You will not be able to move

**Wrong** - SHIP providers guarantee that customers have the right to move their plan to another suitable property, without any financial penalty. Although you may have to repay part of the Lifetime Mortgage loan, if moving to a cheaper property.

*\*SHIP is the trade body for Equity Release providers and represents over 90% of the Equity Release market (by volume).*

## Seek Advice...

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

Taking out an Equity Release scheme 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 over 85% of all Equity Release products recently placed, go through advisers.

*(Source: SHIP, April 2011 press release for Q1 2011 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.

### Consider the options

In addition to identifying the most suitable Equity Release product, we need to assess if there are other better alternative options out there for you - such as downsizing, and also consider how Equity Release may impact upon your existing (or available) State Benefits and Grants.

### Involve the family

It is recommended that the family's view be sought, as they may be future beneficiaries of your estate and taking out an Equity Release policy may mean less of an inheritance for them.

### Other factors

As part of the process, we may also need to consider the role of a Will and/or Trusts.

**It is a pretty complex area, but one that we are familiar with, so do get in touch to find out more.**



# Helping your Loved ones

**Two-thirds of people never get round to making a Will, even though it may create enormous problems if there isn't one.**

*(Source: Advicenow website, October 2010)*

**In addition to considering if Equity Release may assist your own immediate financial needs, it also makes sense (at any age) to ensure you have in place plans for the beneficiaries of your estate.**

Whilst this topic may seem morbid, it is vitally important, and that is where we can help; we can assist in a number of areas and then liaise with other parties for your legal and tax advice.

For example, dying Intestate (without a Will) may mean that whilst your partner will be the first person entitled to the estate, they may not inherit all of it. It is even worse if you no longer have a partner! Without a will in place the whole process is slowed down dramatically, often meaning that the beneficiaries face lengthy delays.

Additionally, it could also mean that the long-held wishes and desires you had in mind for your estate may never be undertaken.

That is why writing a Will should be a key aspect of your estate planning. Beyond this, you should also give consideration to the use of Trusts and possibly Inheritance Tax (IHT) planning.

### Trusts

A Trust is another legal arrangement which you can set up in your lifetime or in your Will. It can deliver a number of benefits, although be mindful that if a Trust is in place with regard to your home, then it may create a problem with setting up an Equity Release plan in the future.

Common uses for Trusts include the following:

- to possibly reduce the tax liability, for example, by placing insurance policies in trust.
- to help ensure the proceeds of the estate are paid out speedily to the beneficiaries.

- to possibly lessen a couple's liability, if either has to go into long-term care.
- to protect someone who is unable to handle their affairs.

### Inheritance Tax

For those who expect to have sufficient money to leave to others, Inheritance Tax may also be an issue to consider. The amount an 'individual' can bequeath free of IHT (called the 'nil rate band') is currently £325,000 for 2011-12. After that, your worldwide estate (including property) is taxable at 40% on any excess over the nil rate band. Albeit for couples - and dependant on what occurs on the first death - the threshold for the second spouse/ civil partner could be up to as much as £650,000.

You can also make use of the numerous IHT-exempt gift allowances during your lifetime.

### Talk to us to find out more.

**The Financial Services Authority does not regulate Taxation and Trust advice or Will writing.**

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

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### Safeguards for you

If you want to consider Equity Release as an option, then you'll be pleased to know that over recent years the plans have improved enormously. Members of the industry trade body - 'Safe Home Income Plans' (SHIP) - ensure that certain key safeguards are now in place to protect customers.

All plans provided by SHIP members allow customers to stay in their property for life, provided the property remains the main residence. Furthermore, all SHIP schemes carry a 'no negative equity' guarantee, which means that customers will never owe more than the value of their home and no debt will ever be left to the estate.

Also, the Financial Services Authority now regulates both 'Lifetime Mortgages' and 'Home Reversion Plans' - the two principal forms of Equity Release.

### Do contact us to find out more.

If you are over 55 and in your own property, then Equity Release may be a way of turning bricks and mortar into extra cash for you.

- A fee of £750 is payable upon completion when you apply for a lifetime mortgage or home reversion plan. We will also receive commission from the lender/company.
- The contents of this newsletter are believed to be correct at the date of publication (July 2011).
- 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.



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Karen has over 30 years experience in financial services. She prides herself on offering clear, no-nonsense advice, which will provide valuable long term solutions for all her clients' financial planning needs, and always with their best interests at heart.

She can advise on many areas, including investments, pensions, protection needs, complex lending requirements and lastly, her specialism, equity release mortgages.

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