Retirement FREEDOM

Information about **Releasing Equity** in your **Property** Spring 2024

ASQUITH FINANCIAL SERVICES

Multi award-winning Later Life Lending Adviser

LATER LIFE LENDING AWARDS

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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.**

For many, the home will be their largest asset. Particularly as long-term home-owners 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 1993 to around £260,000 in 2023. 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, Q4 2023 vs. Q4 1993)

You have choices

One way to realise the additional value in your home could be to **sell-up** and **downsize.**

If you prefer to **stay in your current home,** but still want to raise money, then various borrowing options do exist:

■ You may be able to remortgage the existing home via a **standard residential mortgage deal** that runs into the retirement years (which might require paying off both the capital amount and interest).

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 around £2.61bn of borrowing in 2023, and we'll focus here on this product.

(Source: Equity Release Council, February 2024)

Aside from our level of professionalism and expertise in this sector, you can also take comfort from the **new Consumer Duty rules.** This applies to the whole financial services industry, and is designed to set even higher standards to help deliver good customer outcomes.

The Lifetime Mortgage offering

You can use the **tax-free** money for a multitude of needs for either yourself, or perhaps family members (see page 3 for the main ways the funds are put to use).

■ **No need for monthly payments**

You can opt for this, for as long as the deal runs. Which would run until the last

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Your HOME Your ASSET (contd)

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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; the combined amount owed would double in 11 years, against an example interest rate of 6.5%.

■ You continue to own your home

Like a residential mortgage, you're simply 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 the rigid plans offered back in the 1980s and 1990s.

The current plans are flexible, and have numerous protections that are built-in for the borrower (see below).

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 6.63% is more than 1.5% lower than the average Standard Variable Rate offered by lenders. Additionally, it's less than 1% 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 4%, against the recent peak of 11.1% in October 2022.

(Sources: moneyfactscompare.co.uk, Mar. 2024; Office for National Statistics, CPI, Feb. 2024)

Protection for **YOU**

Equity Release Council

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 remain in their own home, rather than go into care. A Lifetime Mortgage could provide the funds needed to both modify the home, and help meet ongoing costs.

Special treat

With a long retirement ahead, many retirees may feel that it's time to splash out on a special treat, such as a holiday-of-a-lifetime, or a new car. If funds are required, a Lifetime Mortgage could help.

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 accountant) some of this exposure by taking out a Lifetime Mortgage.

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.

That advice should not just come from us, you must also seek input from a solicitor, and maybe your accountant too; as well as possibly sounding out family members. In terms of our support, you can take comfort that advisers who cover this area - such as us - have secured **specific qualifications for Later Life lending.**

In addition to this reassurance, there are a number of customer controls and protections in place from both the Equity Release Council and the Financial Conduct Authority.

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.

As part of the initial process, we would discuss if there are more suitable alternative 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.**

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.

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).

The inheritance issue

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

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).

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.

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...

Do get in touch to find out more.

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.

For 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 first

In most cases, it's likely that help would be prioritised for the family, and this could encompass areas such as:

- school and university costs.
- a deposit for a first home.
- assisting home improvements for family members.
- generally helping to ease other family members through the current cost-of-living crisis.

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.

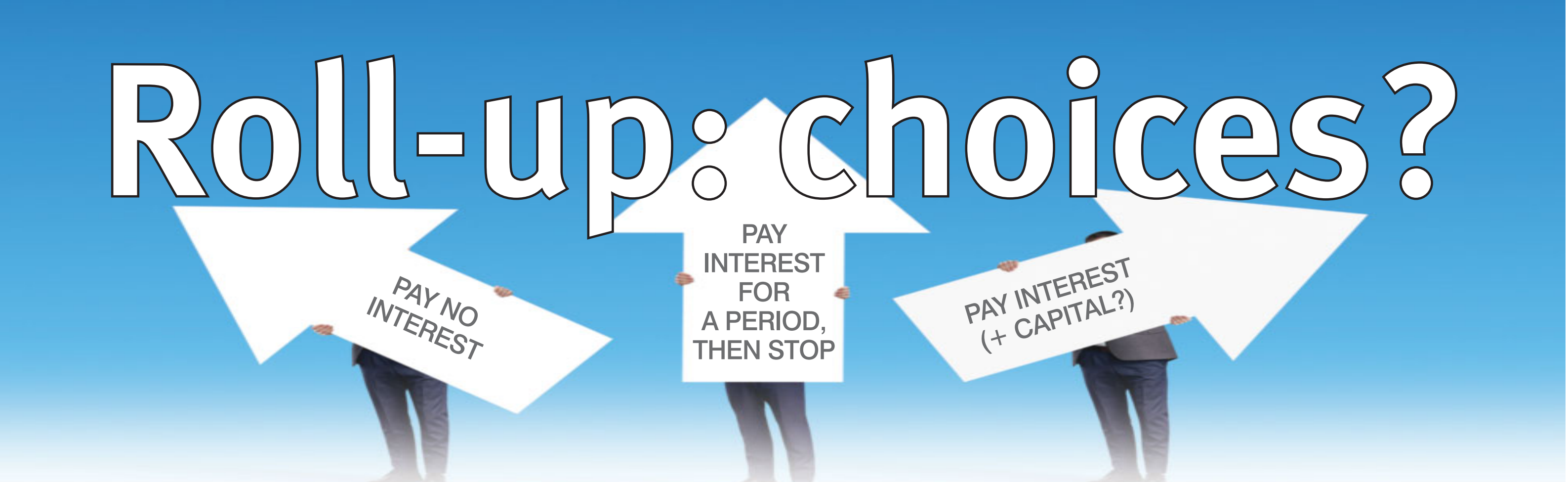
Do turn to your accountant for qualified advice, but here are a few ways that equity release may assist wealthier clients.

- 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.

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.**

The 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 not concerned about maximising the inheritance you deliver for your beneficiaries, then possibly not. And with rules set out by the Equity Release Council, no debt would be left to those inheriting, should the amount that's eventually rolled up exceed the value of the home.

However, even if you're not worried about leaving a sizeable inheritance, you do need to be mindful that it may be an issue if you need further funds down the line to purchase a new home.

Property price growth?

House prices eased as we moved through 2023, but property has demonstrated 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 4.3% a year over the last 11 years.

(Sources: Nationwide, House Price Index, Q4 2023 vs. '93 & '12)

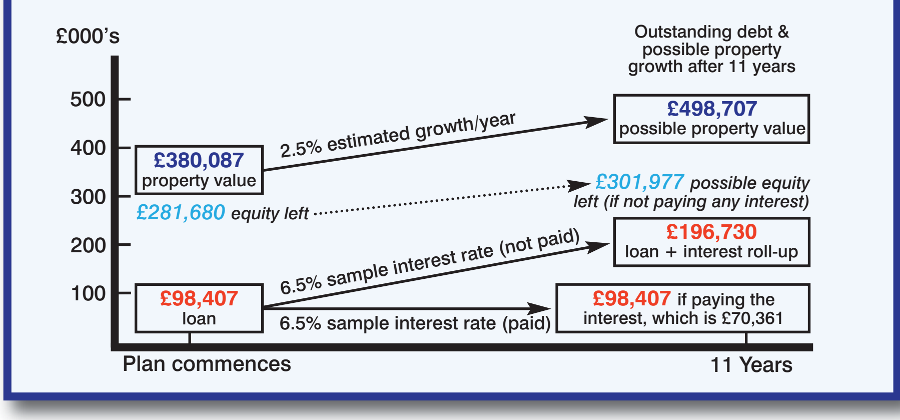
For the example below, we've placed the **average property value** and **loan amount** for a **lump sum borrower,** and considered what could happen if the annual property price rise was a more conservative 2.5%.

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

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

Tracing lost or mislaid...

■ **Pensions**
www.gov.uk/find-lost-pension
0800 731 0193

■ **Bank, Building Society, or National Savings accounts**
www.mylostaccount.org.uk
Bank account:
020 3934 0329 (UK Finance)
Building Society account:
020 7520 5900 (Building Societies Ass.)
National Savings account:
08085 007 007 (National Savings and Investments)

■ **Insurance policies, pensions, unit trust holdings and share dividends**
Additional route to consider for elements such as this:
www.gretel.co.uk

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