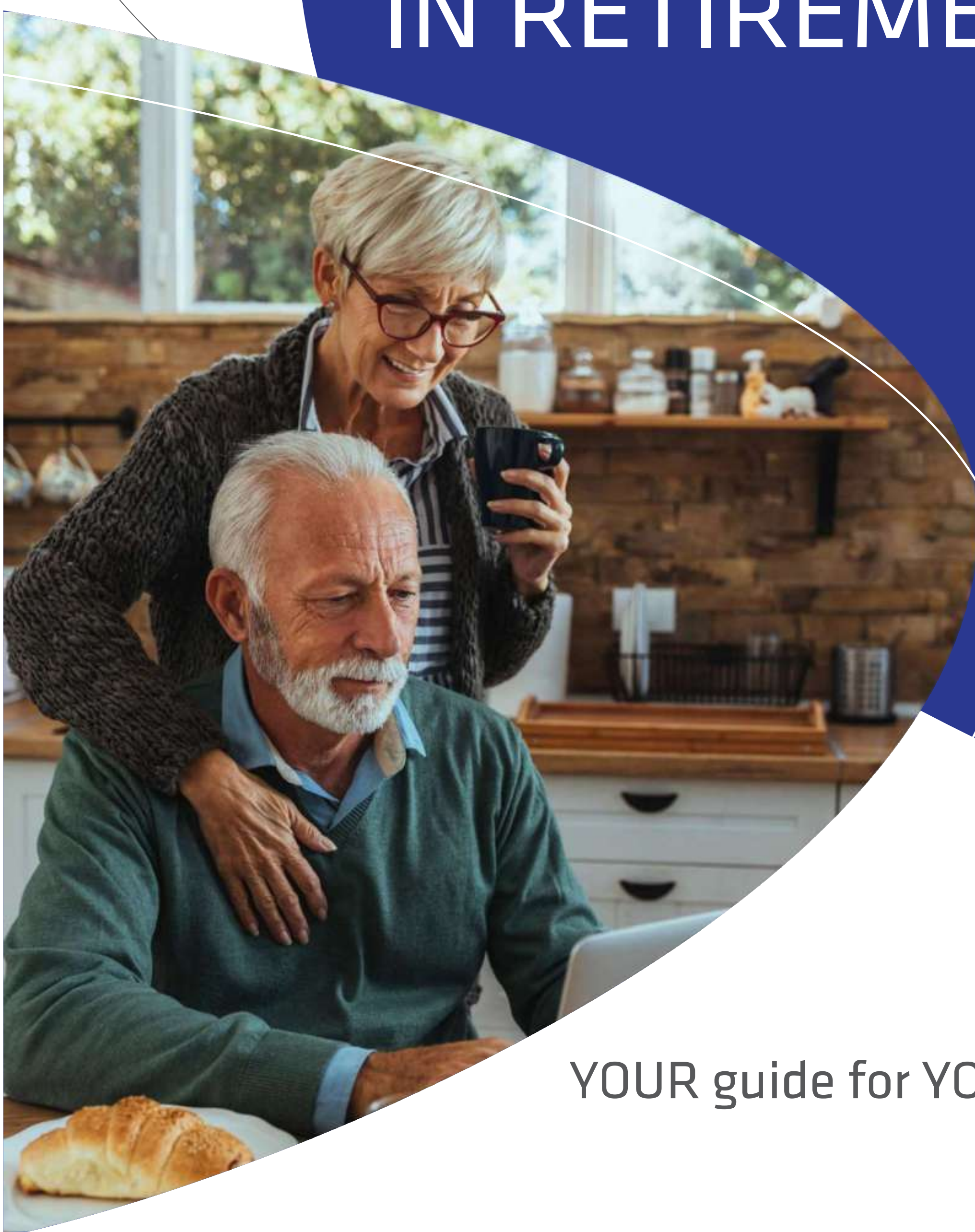
ASQUITH
Financial Services

What are your options for your

PROPERTY WEALTH IN RETIREMENT?



YOUR guide for YOUR retirement

WHAT IS YOUR VISION FOR RETIREMENT?

Throughout your working life, planning for retirement involves visualising key goals for your later years and establishing a strategy to achieve those goals through financial planning. There's plenty to consider - retirement planning can be complex and isn't just a question of deciding how best to take your pension pot when the time comes.

PAUSE FOR THOUGHT

With many people currently reassessing their lives and priorities, there really is a seismic shift for people towards achieving more balance in their life. People are reassessing their plans and reconsidering their priorities to focus on what they really want for themselves, and their families, during their later years. People need a plan to flex with their changing aspirations.

LIFE EXPECTANCY

A major question to ask yourself is how long you think your retirement will last If you plan to rely solely on your pension pot for income, will it last long enough? This is an unknown, but with people benefiting from better medical care and living longer, you could realistically expect to look forward to 20 plus years of life in retirement.

Average Life Expectancy after the age of 65 in the UK

MEN
18.5 Years

WOMEN
21.0 Years

1ONS 2021

A CHANGING PENSION LANDSCAPE – TIME TO THINK LATERALLY?

Fewer people now have access to the stability and generosity of defined benefit (also known as final salary) pension schemes, with more people relying on several sources of income in retirement.

By the time you reach retirement, your property is likely to be your largest asset. It therefore makes sense to include this property wealth, in addition to other assets, in your retirement plan, and consider how all your assets combined could generate your required level of income in the most tax-efficient way possible.

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ASSET-RICH AND CASH POOR?

As cost-of-living pressures intensify, an increasing number of homeowners are finding much of their wealth is locked up in their property and are looking for ways to make this growth in housing wealth work to their advantage. Depending upon individual circumstances, releasing property wealth could be a suitable choice for many people looking to top up their income.

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REDISTRIBUTING YOUR WEALTH

You may be in a fortunate position where you don't need to release additional income for your own use from your property wealth. However, if you are concerned about Inheritance Tax (IHT) on your estate, releasing equity could be key as part of a tax-efficient plan to pass wealth down through the generations.

You may also want to consider helping family members whilst you're still alive, to derive pleasure from seeing them take their first exciting steps on the property ladder perhaps. Thanks to continued rises in property values, younger generations face a much steeper hill to climb when it comes to property ownership. Releasing equity is one option for parents and grandparents to help boost the buying power of the younger generation.

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HOW CAN MY PROPERTY WEALTH BECOME PART OF MY RETIREMENT PLAN AND BEYOND?

It makes sense to consider how your property wealth can be put to good use in retirement. However, it depends upon your individual circumstances and objectives; releasing equity from your property won't be the right choice for everyone. Where appropriate, though, it could be helpful in these three core areas:

1. Helping your family

The Bank of Mum and Dad (BoMaD) has been invaluable in helping first-time buyers in recent years and even more so in times of higher inflation and increasing property prices. Grandparents could consider using their property wealth to gift deposits for home purchase directly to their grandchildren. Or gift money to their children to help reduce a mortgage or other debt, for example.

The Covid-19 pandemic made everyone reassess what is important in life and more than ever there appears to be an increased desire to provide a 'living legacy' for our families if we can. Parents and grandparents could consider using their property wealth to help their family with costly expenses such as university fees, weddings and driving lessons, or having fun! Perhaps a family holiday of a lifetime is on the cards?

2. Tax and wealth planning

Rather than accessing all of your pension pot or drawing funds from your investment portfolio, you could consider taking income from your property, whilst leaving your assets under management (AUM) invested in more tax-efficient areas. Doing so has a couple of major tax advantages; income from your property won't be taxed, whereas pension income will be, and releasing equity can also be a useful tool for estate planning. Again, this is a complex area, requiring specialist advice.

Getting the retirement lifestyle you want

Helping your family

3. Getting the retirement lifestyle you want

Have you recently reassessed your thoughts about the lifestyle you want in retirement? Perhaps you want to relocate closer to family you haven't been able to see, to be in a different environment with a different quality of life.

If you are a 'Silver Separator,' you're certainly not alone – the rate of divorce in over-55s is growing; a trend that is predicted to increase. Releasing equity to buy out an ex-partner could be an alternative to a pressured sale and would allow one of the partners to remain in the family home.

Declining health is a major consideration for many and long-term care can be costly. With some adjustments and adaptations, it may be possible to unlock the potential in your property, allowing you to live independently and safely in the comfort of your own home for much longer.

And, of course, you may just want to consider using both your pension and your home to enjoy a more prosperous and adventurous retirement, being able to do all the things on your retirement bucket list, whilst you are in good health.

Tax and wealth planning

WHAT ARE THE OPTIONS FOR RELEASING EQUITY IN RETIREMENT?

Mortgages for older borrowers

There is no official maximum age when it comes to applying for a mortgage – lenders will set their own maximum age limits and you will need to prove that your income in retirement is more than enough to cover the repayments and other outgoings. It's likely that the length of mortgage (mortgage term) will be restricted, and your choice of products will be limited; although the number of products could grow as demand increases due to changing requirements for living arrangements following the pandemic.

Retirement interest-only mortgage (RIO)

A RIO mortgage is similar to a standard interest-only mortgage, but in this case the loan is usually only repaid when you sell the property, die or move into long-term care. RIO mortgages usually have a minimum age requirement of 50, though some lenders may require borrowers to be 55 or 60.

Equity release – lifetime mortgage

Like an ordinary mortgage, a lifetime mortgage is secured against your home. You still own your home and you or your beneficiaries can still gain from any increase in value, offset by interest accruals. A percentage of your property's value is released as a lump sum. This can be taken as a one-off payment, but drawdown schemes let you take an initial sum, followed by further amounts within a predetermined limit when required.

Interest is charged on the amounts you have received. The interest is compounded so you don't make any monthly payments unless you select an interest-only lifetime mortgage. Although some variable rate products are available, the majority of lifetime mortgages carry a fixed interest rate. Those with variable rates must be capped (have an upper limit) for the life of the mortgage. When you die or move into long-term care and the property is sold, rolled-up interest is eventually payable with the capital repayment.

Equity release - home reversion

In basic terms, home reversion, a product that is only offer by a small number of lenders, involves selling all or a proportion of your home in return for money. You can then continue living in your home rent-free, generally for the rest of your life. As home reversion plans are not loans, no interest accrues. However, if the price of your property rises in value, you will only benefit according to the proportion you still own.

To be eligible for a home reversion plan, the lenders which do advise in this area will require you to be at least 60 or 65 years old. Your individual circumstances will determine how much equity you are able to sell to the plan provider. This could be 100% of your property. However, you will only receive a percentage of the market value of that portion, which could only be about 25% if you're at the younger end of the age range.

Keeping up standards on equity release

Giving advice on equity release products is a highly specialised area. In addition to specialist equity release qualifications, the Equity Release Council standards require plans to have the following features unless clearly stated otherwise:

- Freedom to move home and transfer the plan, subject to the new property being suitable security
- A 'no negative equity' guarantee, so the debt can't exceed a property's value
- The right to make penalty free payments, subject to lending criteria
- For lifetime mortgages, interest rates must be fixed; or if variable – must be capped for life
- Able to remain in the property for life or until you go into long-term care.

Equity release

WE'RE HERE TO HELP

Following a challenging few years, there's a real sense that people are stepping back and reassessing their lives and options. Many people are also embracing the opportunity to truly engage with what they want from their life and how they want to utilise their assets to achieve their objectives. Although not relevant to all, accessing property wealth can form part of a wider plan.

It is important to remember that professional advice is essential; equity release isn't the right solution for everyone. Releasing cash from your home reduces the value of your estate and the amount of inheritance you leave, so you should involve your children and dependants from the outset. Equity release may require a lifetime mortgage or home reversion plan. To understand the features and risks, ask for a personalised illustration.
A lifetime mortgage can quickly erode the remaining equity and as a result there may be no value left to pass on. Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

We're here to help guide you through the options available to you. If you would like any advice or information on any of the areas highlighted in this guide, please get in touch.

NOTES

DISCLAIMER

It is important to take professional advice before making any decision relating to your personal circumstances. This brochure does not provide individual tailored advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. The information contained within this document is for information only purposes and does not constitute financial advice.”

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