

Retirement **FREEDOM**

HD 
CONSULTANTS

Award Winning Mortgage & Protection Advisers

Equity Release to assist Retirement Planning

Summer/Autumn 2018

Equity Release
lending in Q2 2018
hit £971m, 39% up
on Q2 2017!

(Source: Equity Release Council)

DISPELLING MYTHS

Did you know that you can't see the Great Wall of China from space, Napoleon wasn't short and Vikings never had horns attached to their helmets?

These are just a few of the many myths that have evolved over time. Similarly, if you opt for an **Equity Release plan** there isn't the possibility that this may result in you losing your home (if it remains your main residence), nor will it leave any debt to your children. This is the case if you opt for a lender that's a member of the Equity Release Council (the industry body), which covers the vast majority of all new loans. The Council has a number of rules in place, such as the ones above to reassure borrowers that they're protected (see page 3 for more on this).

What is Equity Release?

If you are not too familiar with this product, it's simply another form of borrowing for the 55+ homeowners, that enables them to stay in their home. It's also increasingly viewed as another element of the retirement planning process.

With equity release, **some of the value in your home is released in order to raise funds.** You can then use that money for whatever reason you like, such as:

- help to clear an outstanding mortgage.
- enable much-needed home improvements.
- settle debts.
- assist with regular bills.

■ gift money to family and friends.

■ or, perhaps, simply use it to treat yourself.

In short, with the average 65 year-old UK adult having around 20 years of retirement ahead of them, the extra funds will hopefully assist the journey through this period.

How it works

With the most popular product - a **Lifetime Mortgage** - you can raise funds (up to agreed limits), and not even have to pay off any capital or interest at any point during your lifetime, if that's the route which best suits you.

The provider of the loan would reclaim the capital (and any accumulated interest) through the sale of the property, once the final planholder dies or moves into long-term care.

Increasing popularity

Of course, it may not be the best route for everyone, and other options do exist (such as downsizing), but equity release has become increasingly popular as the post-it note on this page shows. However, this shouldn't be a surprise, as the old world view that retirement income will be largely based on pensions possibly doesn't hold true anymore.

You may also be surprised to hear how big

HD Consultants

Head Office: 109 Maldon Road
Colchester, Essex CO3 3AX

(Branches in Colchester, Clacton, Dagenham, Basildon,
Laindon & Southend on Sea)

Tel: 01206 577 266

Email: office@hdconsultants.net

Web: www.hdconsultants.net

www.LaterLifeHub.com

■ H D Consultants is an Appointed Representative of Personal Touch Financial Services Ltd, which is authorised and regulated by the Financial Conduct Authority.

■ **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 product will reduce the value of your estate, will not be suitable for everyone and may affect your entitlement to state benefits. To understand the features and risks please ask for a personalised illustration.**

■ **As Equity Release is a complex area only specially qualified advisers can give advice on these schemes.**

■ **Check that this mortgage will meet your needs if you want to move or sell your home or you want your family to inherit it. If you are in any doubt, seek independent advice.**

.....
this marketplace could be. If we consider the £1.8 trillion of equity held in property owned by the 55+s*, this is more than the total amount of **all** outstanding regular mortgage lending in the UK!**

Do read on, or get in touch to hear more.

(Sources: *Equity Release Council, Market Report, Autumn 2017; **Council of Mortgage Lenders, April 2017 release)



Make **YOUR HOME** work for **YOU**

Lifetime Mortgages account for almost all Equity Release plans.

A **Lifetime Mortgage** is similar in principle to a standard mortgage, with the main difference being that there are normally no monthly repayments to make and the loan (plus the monthly interest owed) is redeemed when the final planholder dies, or moves into long-term care. The schemes are generally set up on the basis that - for the life of the loan - the interest rate is either fixed (at the time you take out a tranche of money), or at a capped variable interest rate.

Furthermore, as an increasing number of lenders enter the marketplace this has brought about new features and flexibilities, enabling you to opt for products that are better tailored to your own specific needs.

What's the maximum I could raise?

This is largely dependent on the age of the youngest planholder and value of the home. As a rough guide there are differing percentages from aged 55 upwards. Broadly, it's 25% of the property value aged 60, 35% aged 70, 45% aged 80 and 55% aged 90+.

However, if you have an unhealthy lifestyle (such as smoking), or face ill-health, then some 'enhanced' plans may allow you to receive a larger percentage than the standard age breakdowns - as the insurer assumes that you may not live as long.

Although you're not penalised if you then go on and beat the odds!

Should I take all the money at once, or when I need it?

You can do either. Instead of opting for the **full lump-sum** at the outset, **drawdown** allows you to take up to the agreed amount as and when you require it.

Drawdown is the most popular route and around 76% of all lifetime plans are currently set up this way.* The effect of this approach is that it may enable you to stay within limits for means-tested benefits. It would also lessen the impact of the 'rolling-up' of the interest, as some of the loan would not have been drawn down.

However, do remember that the interest rate applicable when you drawdown further funds may be at a different amount. Additionally, perhaps consider products that guarantee the drawdown facility, so that you'll know it won't be an issue whenever you come to act.

What's a typical plan?

Lump-sum lifetime mortgages tend to raise around a third of the value of the home, and amount to about £101,000.

For drawdown, the average amount initially taken is around £63,500, with a further £36,000 or so available to draw down over time. In total, that's about 27% of the property's value.*

What is Roll-Up?

If you don't make monthly payments to pay off the interest, then the interest owed is added to the capital that you originally borrowed.

To gauge the impact of 'roll-up', if the interest rate for the lifetime mortgage loan is 5.5%, for example, a £50,000 lump-sum loan (with the added interest) would have doubled to around £100,000 after 13 years.

In some cases, and if you're able to, the option exists to pay off some (or all) of the interest. The benefit of this approach is that you'll lessen the amount owing, and limit (or avoid entirely) the roll-up effect.

Additionally, with certain plans, there is also the opportunity to pay off some of the capital - without incurring a financial penalty.

In some instances, it will be family members, such as the children, who may help pay off any interest/capital, as they are the ones who are likely to benefit further down the line when it comes to the inheritance.

What happens if I want to cancel the plan?

In much the same way as a standard mortgage, there may be an Early Repayment Charge against certain timescales - the terms of which would vary across the providers.

Are there other equity release plans?

Home Reversion, which accounts for less than 1% of the marketplace is the other option. Unlike a lifetime mortgage, where you retain a full share in your home, in this scenario you sell all or part of your home, thereby giving up at the outset all or part of the ownership.

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

*(Source: *Equity Release Council, Spring 2018 Market Report, 2nd Half 2017 data)*



A choice for MANY...

You're free to do whatever you like with the funds raised through Equity Release, which is why it appeals to such a wide range of people.

At the two ends of the spectrum is the impact of **interest-only mortgages** and **care needs**. For the former, there were 1.9m interest-only mortgage loans still in play at the end of 2016, accounting for 21% of all home-owner mortgages.* If payment vehicles aren't able to fully cover the cost of the mortgage at the end of the loan term, then one option may be to raise funds through an equity release plan.

With regard to care needs, many may feel that they would ideally prefer to remain in their own home, plus avoid the sizeable care home costs (in the realms of £31,000-£44,000 per annum**) - unless you qualify for an element of means-tested support.

Conversely, at-home care, may be at a more manageable £11,000 a year for 14 hours a week, and this is where an equity release plan could help. Although do balance this against any means-tested state benefits, and threshold plans for care funding.

In between these two needs, there are a whole host of reasons why you may want to raise funds via equity release - pay bills, settle debts, home improvements, upsizing your home, gifting money to family and friends, holiday of a lifetime, and so on - hence the wide range of clients.

*(Sources: *Council of Mortgage Lenders, May 2017 release, **LaingBuisson, May 2017)*

Equity Release borrowers

Broadly, research shows that they fall into the following categories:

	New drawdown plans	New lump sum plans
Aged 55-64	13.6%	31.9%
Aged 65-74	57.7%	52.6%
Aged 75-84	25.3%	13.5%
Aged 85+	3.4%	2.0%

(Source: Equity Release Council, Spring 2018 Market Report, 2nd Half 2017 data)

Other OPTIONS

Equity Release can be the best solution for some, but you must consider the alternatives. This may replace the need for an equity release plan, or perhaps reduce the size of it.

Downsizing your home

Of course, there's both the emotional attachment you have with your current home, plus the cost of moving, which is around £11,000.* However, this offers a relatively easy way to raise the funds you need now - with the option to take up equity release at a later date, if wanted.

Consider taking in a lodger

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

Existing or potential State Benefits and Local Authority Grants

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

Look at your existing investments and savings portfolio

You'll need to take professional advice to decide if securing money this way is a better option.

*(Source: *Lloyds Bank, September 2016)*

Peace of Mind for YOU



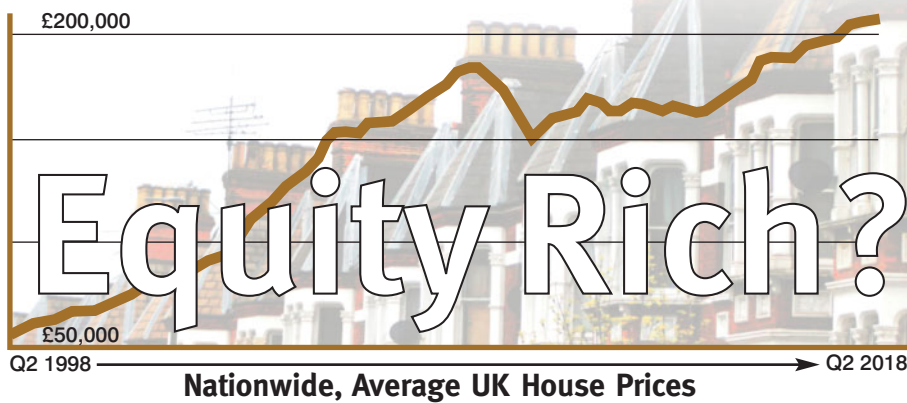
If you opt to borrow via a lender that's a member of the Equity Release Council (ie. most of them), then a number of controls are already in place to protect you, such as:

■ All products from Equity Release Council 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.

■ 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.

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



UK property prices have been on a largely constant upward path over the last 20 years.

The chart above shows that the average UK property price has more than tripled over a 20-year period to sit at £214,578* Although inflation over the years would eat into some of that growth.

If we then look at a separate piece of research and consider property values for just the 65+ homeowners, then they have seen an average growth in value of £7,000 a year across the UK (with marked regional variations).***

This may be good news for you, but despite recent history, property prices can go down as well as up. Whilst price rises have been slowing of late, annual growth still sits at 2.5%.**

So, if you're considering whether an equity release plan could work for you, then don't discount the impact that property prices may have over the next 20 years or so.

(Sources: Nationwide, *to Q2 2018, and **August 2018; ***Key Retirement, June 2018 release)

A Lifetime Mortgage

As already mentioned, you may decide to not pay any interest over the lifetime of the loan, enabling you to free up much needed funds to meet other costs, plus it would be one less regular payment to worry about.

However, this benefit could also be a disadvantage, as 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, and could add up to a sizeable amount if the loan term runs for a decent number of years. For example, if no interest is paid off, the amount owed on a loan may double after around 13 years.

Roll-up or not to Roll-up...

Let's then look at an example of what could occur after 13 years, if someone took out an average lump-sum loan of around £101,203 at, say 5.5% fixed interest.

With the interest accumulating, the loan would double to £202,990 - an increase of **£101,787**.

However, had they (or perhaps their children, who'd have a vested interest in this) paid off all of the interest each month, then after 13 years the interest payments would have amounted to **£72,360**. That's **£29,427** less than the roll-up scenario.

With some products, it's possible to go even further by considering paying off some of the capital too, with the obvious financial benefits.

Any house price growth?

Into this mix, you should add property price considerations over the same 13-year period. For this example, we use an average house price of £321,335 for a lump-sum-lifetime mortgage borrower.^

If annual house prices continued to rise at the current rate of 2.5%, then after 13 years the property value would be £442,964 - an increase of **£121,629** (or plus 38%) vs. what's been paid out, or is exposed to, regarding the loan.

Of course, there's no guarantee of property price rises, and inflation would need to be considered too, but it is something to throw into the mix in relation to the cost of borrowing.

Understandably, these are complex issues, with a bit of crystal ball gazing thrown in too, so it's essential that you take advice.

(Source: ^Equity Release Council, Spring 2018 Market Report, 2nd Half 2017 data)

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.nethouseprices.com

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

www.uar.co.uk
0333 000 0182 (The Unclaimed Assets Register)

■ Information on State Benefits

To see what you may be entitled to:
www.gov.uk/dwp

■ For Equity Release, we normally charge a fee for mortgage advice. The amount will depend on your circumstances. A typical fee would be £500.

■ The contents of this newsletter are believed to be correct at the date of publication (Aug. 2018).

■ 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.