

Retirement **FREEDOM**



Paxton Associates
the complete mortgage service

Equity Release to assist Retirement Planning

Summer 2017

Equity Release lending figures

Record-breaking
£2.15bn loaned in 2016
& £697m in Q1 2017
- up 77% on the previous Q1
(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

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■ Paxton Associates 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 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.

■ 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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this marketplace could be. If we consider the equity held in property owned by the 65+s alone, this amounts to a massive £1.1 trillion* - which almost equates to the total amount of **all** outstanding mortgage lending in the UK!***

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

(Sources: *Key Retirement, March 2017 release;
**Council of Mortgage Lenders, April 2017 release)



Make YOUR HOME work for YOU

*Lifetime Mortgages account for around 99% of 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 63% of all lifetime plans are now 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 Equity Release plan?

Lump-sum lifetime mortgages tend to raise around 31% of the value of the home, and amount to about £92,000.*

For drawdown, the average amount initially taken is around £55,000, with a further £38,000 available to draw down over time. In total, that's about 27% of the

property's value, with the borrower taking in the realms of 60% of the agreed loan at the outset.*

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 around 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, 2nd half 2016 data, Spring 2017 Market Report)*



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:

Aged 55-64 = 21.3% **Aged 65-74** = 54.5%

Aged 75-84 = 20.2% **Aged 85+** = 4.1%

Married/cohabiting = 71.7%

Single/separated/divorced/widowed = 28.3%

Of those taking out a plan alone, two-thirds were female.

(Source: Equity Release Council, 2nd half 2016 data, Spring 2017 Market Report)

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.

Client scenarios

Examples of how equity release could deliver a solution.

Making Home Improvements



Paul, 70, and Liz, 68, have been spending more and more time at home since they retired. They enjoy having friends and family over, and looking after their grandchildren. They've lived in their current home for over 20 years.

They decided that they would like to make some home improvements. Liz wanted a new kitchen, as wear and tear over the years had left its mark. They also thought that one of their bathrooms had become a bit dated and wanted to upgrade it.

Although they both receive state and private pensions, they didn't have a lump-sum to pay for these improvements. They had thought about borrowing money from their children, but decided against it as the children were already stretched paying for childcare and school fees.

They then talked to their financial adviser, who in turn put them in touch with an equity release qualified adviser. The adviser spoke to them about a capital and interest lifetime mortgage.

The adviser recognised that they needed a lump-sum upfront, but could then afford to pay off all of the interest and some of the capital back each year. This meant that, in time, the loan would be paid off and Paul and Liz could enjoy their home improvements, in the knowledge that they wouldn't have lessened the inheritance for their family through roll-up.

Do get in touch to see if equity release could be a suitable option for you.

These scenarios are anonymised versions of typical situations that clients may face. Photographs are posed by models.

Settling Debts



Helen's husband, Tom died at the age of 61, just a few weeks after being diagnosed with a terminal illness.

Helen, 57, was left with credit card debt which built up over the last six years, as they both used to spend quite freely on their cards.

They usually paid off the minimum balance due, but always thought they'd pay off the total balance with Tom's pension later on down the line.

When Tom died, his pension payments were reduced and Helen realised that the amount she now received as income was only just covering day-to-day living. As she'd retired a few years before due to ill-health, returning to work wasn't an option. However, she had eight credit cards with outstanding balances and she began to miss the minimum payments due on them. Over the course of a few months she began to get worried about her financial situation.

Helen confided in one of her friends, who recommended that she spoke to a financial adviser. She approached a local adviser - who was also qualified to advise on equity release - and reassured her that they'd find a solution.

Her financial adviser told her that a lifetime mortgage was a way to consolidate unsecured debt. By taking a lifetime mortgage which allowed ad-hoc payments, Helen was able to consolidate the £16,000 due on credit cards. This enabled her to regain control of her finances. By then making regular interest payments on the lifetime mortgage loan, she will keep the mortgage balance level, and will be able to leave an inheritance to her children.

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
0345 600 2537

■ Bank, Building Society, or National Savings accounts

www.mylostaccount.org.uk
Bank account:
020 7216 8909 (British Bankers Ass.)

Building Society account:
020 7520 5900 (Building Societies Ass.)
National Savings account:
0500 007 007 (National Savings and Investments)

■ Insurance policies, pensions, unit trust holdings and share dividends

www.uar.co.uk
0844 481 81 80 (The Unclaimed Assets Register)

■ Information on State Benefits

To see what you may be entitled to:
www.gov.uk/dwp
0800 88 22 00

■ As Equity Release is a complex area, only specially qualified advisers can give advice on them. Martin Greensted is so qualified. Paxton Associates are independent. Initial discussion is free. For arranging a plan, we may charge a fee of between £0 and £495. The exact amount required, if any, will be quoted for your agreement before any commitment.

■ The contents of this newsletter are believed to be correct at the date of publication (June 2017).

■ 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.