FINANCIAL PLANNING

A GUIDE TO

EQUITY RELEASE

Interface

Independent Financial Advisers - Financial Life Planners

ISSUE 23 | SEPTEMBER '19

Interface

Independent Financial Advisers - Financial Life Planners

FINANCIAL PLANNING

A GUIDE TO

EQUITY RELEASE

CONTENTS

Introduction

Equity Release has become a potential solution to the challenges faced by hundreds of thousands of individuals and couples in today's UK society and economy.

This arises from a combination of:

- People living longer
- Wealth tied up in property
- Stress on public services, especially – in this case – the provision and costs of care
- Retirement periods lasting for many decades
- Higher costs of living in retirement
- Generational imbalances

We shall explore all these factors further in the following pages and show how they interact with Equity Release solutions.

If you consider your property solely from a financial viewpoint it is an asset. In many cases a substantial asset, often representing a large part of an individual's or couples wealth.

If it is not subject to any loan, most typically a mortgage, then it is a 'free 'asset, free of any restriction.

As an asset it can play a pivotal role in later life financial planning, supporting retirement income, providing valuable cash lump sums at important times and helping to pay for care fees.

To release capital or income from your property there are only two ways to achieve that – either to sell the property or borrow against its value.

Equity Release covers both these possibilities. There are other ways, but Equity Release may have advantages over the alternatives.

There is one aspect to using a property as an asset to support capital and income needs, which is very different to any other asset you may have. You cannot live in other types of asset.

If you have an investment portfolio, for example, this could be used to help with income requirements or to release capital, but you don't also live in your investment portfolio.

The dual nature of a property, acting as both somewhere to live and, potentially, a valuable financial asset creates a very different dynamic. Equity Release often allows people to stay in their own homes whilst utilising the value in their own lifetimes.

Equity Release can also be used to release funds from second homes or buy-to-let investment properties, increasing its range of use for many.

All of which makes it very interesting that despite the value of equity release in so many instances and for so many people, it can still be perceived as an option of last resort.

This probably stems from historic problems in the equity release market, from a time when it was not properly licenced and regulated, during periods when interest rates were very high.

The factors that led to these problems have now been eradicated.

Other perceived negative aspects of Equity Release solutions, are that they are inflexible, costly and risk people, in their most vulnerable stage of life, being ejected from their homes. None of this is correct.

Schemes are generally flexible, they offer lower cost than ever before, and safeguards exist to ensure homes are not repossessed.

Properly understood Equity Release is an excellent financial solution in many instances. Not all, by any means, but many.

In this respect, what is crucial, is that individuals and couples planning their financial futures, should not rule it out before it is properly explored and discussed with a suitably qualified expert.

The key is to explore the option where relevant and we hope this guide is helpful as part of your exploration into Equity Release.

EQUITY RELEASE OFTEN ALLOWS PEOPLE TO STAY IN THEIR OWN HOMES WHILST UTILISING THE VALUE IN THEIR OWN LIFETIMES

The Equity Release Market Overview

It is probably fair to state that Financial Services companies are sometimes poor at making things easy to understand. Or put another way, the sector tends to make simple things - confusing!

This is the case when it comes to Equity Release – as the very names and titles applied within the sector can be confusing.

The reality is that Equity Release is a description of the broad range of options.

An Equity Release scheme, as such, doesn't really exist. Equity Release covers two separate methods of releasing equity from a property.

The way to think of Equity Release is as a blanket term, which describes the action, for people of retirement age, to stay in their homes whilst releasing funds from the value of their homes.

It also includes releasing funds from other property you may own, beyond your main residence.

The two specific types of schemes are Lifetime Mortgages and Home Reversion Plans. Both are examples of "Equity Release".

The key aspect of equity release is to allow for the release of funds from a property subject to certain safeguards.

What does this mean? The main safeguard includes a cap on the amount that can be taken out as a loan (or in the case of a partial sale, the amount that can be sold) plus a guarantee that the home cannot be repossessed or sold from under you.

In addition, today's market is one where the cost of releasing equity in terms of the interest rates are much lower than they used to be, plus those interest costs are typically ones that are fixed.

Equity Release is now subject to much tighter regulation than ever before and the Equity Release Council provides high levels of protection to individuals.

Today's market is almost entirely unrecognisable compared to the market of a decade or two ago. It is a market which now works extremely well.

The Equity Release lending market is growing rapidly and within the next few years is predicted to reach £5 Billion per year in new loans.

In 2017 analysis from the Equity Release Council estimated that total homeowner equity in England has reached an unprecedented £2.6 trillion, with £1.8 trillion belonging to over-55 aged households. Equity describes the amount that is the 'free' asset.

The Different Type of Schemes Available

There are two types of Equity Release schemes available:

- **Lifetime Mortgages**
- **Home Reversion Plans**

A Lifetime Mortgage is a mortgage secured against your property. You still own the property and can benefit from any future price increases.

A Home Reversion Plan is the sale of a part or all of your property to a home reversion plan provider. They buy this in exchange for a cash lump sum. While all or part of your property will belong to the plan provider, you can remain living in the property for the rest of your life. And you do so rent-free. If your property increases in value, you will only benefit from the increase in the value of any proportion you still own.

To think of the difference between the two options consider the Lifetime Mortgage option as a loan and the Home Reversion Plan option as a sale.

Lifetime Mortgages

There are variations on lifetime mortgages available for you to consider. These include lump-sum lifetime mortgages, interest-serviced lifetime mortgages and drawdown lifetime mortgages.

The lump sum option is- as its name implies – where you arrange to borrow a set amount and receive a lump sum in return, immediately. The interest rolls up year on year, you do not pay any interest.

The interest-serviced lifetime mortgage is the same, but in this instance, you have the option to make all or partial interest payments, which results in slowing the rate of the roll up of accrued interest and keeps the mortgage from escalating too quickly in size.

The drawdown lifetime mortgage is where you agree a facility, but instead of taking all the amount immediately, you take the amount in stages, as you require the funds. You will only be charged interest once you have made a drawdown. This could help limit the interest costs over time.

Home Reversion Plans

A home reversion plan is where you sell all or part of your home, in return for a tax-free cash lump sum or regular income, and a lifetime lease.

This lease allows you to legally remain in your home until you die or go into long-term care.

When you die or move into long-term care your home is sold. The Home Reversion Plan provider then receives the full value of their share of the sale price. You (or your estate) receive the remainder.

For example, if you sold 40% of your property to the Home Reversion Plan Provider on the sale of your property they would receive 40% of the sale proceeds, you/your estate would receive 60%.

How the Two Options Compare and Contrast

The two options present you with a contrasting position, should you choose either or one over the other. One involves entering into a loan against your property, the other involves selling part – or all – of your property. The consequences of which can produce different outcomes in the long-term.

It is very difficult to make a direct financial comparison between the two types of equity release because of the following:

- Future house price movements
- Interest Rates, movements and costs
- How long you live
- The amount you borrow/sell

That is the financial side and the future movements represented by these variables can lead to one option being better in certain scenarios, the alternative option being better in others.

As the future movement in house prices, interest rates etc. are unknown the best option may only become clear with the benefit of hindsight.

Any decision between the alternative options requires careful appraisal of your financial position and the aims you have from releasing equity from your property.

There are going to be other factors which will affect your decisions, these include:

- Your age and life expectancy
- And are there one or two of you to consider?
- Your state of health
- Your wider family position and your legacy wishes
- Your other financial provisions
- Your likelihood of needing care

Many people – considering Equity Release options- will be very concerned about the legacy position and leaving their property to their children or other beneficiaries. They will not want to reduce the equity in the property at the expense of the children's inheritance.

With both a Lifetime Mortgage and a Home Reversion Plan it is possible to build in some certainty in respect to future finances. With a Home Reversion Plan you will know the exact percentage of property sold and what remains owned, this ownership amount is ring-fenced for later use, possibly to leave in a Will as an inheritance.

With some Lifetime Mortgages it may be possible to also ring-fence an element of equity, there are schemes which have this available.

To review the finer detail of the schemes please refer to the appendix at the back of this guide.

When is Equity Release Suitable

There are many situations where Equity Release can be considered as a suitable option. We will cover the most relevant examples in this section.

The first is to think of the situation where it can be used to enhance retirement income. The expression 'asset rich, cash poor' is relevant in today's market-place, where thousands of people have insufficient pension provision but have valuable equity in their property. This is an ideal situation to consider Equity Release, especially schemes which provide income payments as this will directly allow for retirement income to be enhanced.

Take a scenario where a couple, in their late 60s, have pensions amounting to £15,000 per year, with a property – owned outright – valued at £500,000. Their pensions are insufficient, as they have a desired income of £25,000 per year. They are short of their target by £10,000 per year. Based on their current ages, they can release a maximum of £197,500.

Planning options include releasing this full amount and putting in place an investment income portfolio; drawing against this sum in stages; or releasing the sum in full and buying a lifetime annuity – a pension income for life. Or a mix of any of these could be combined.

The second area to consider is when a lump sum is required. This could include situations such as:

- Paying off a mortgage
- Paying off credit cards or loans
- Making home improvements
- One-off purchases such as a car, caravan or holiday
- Helping out friends or family members

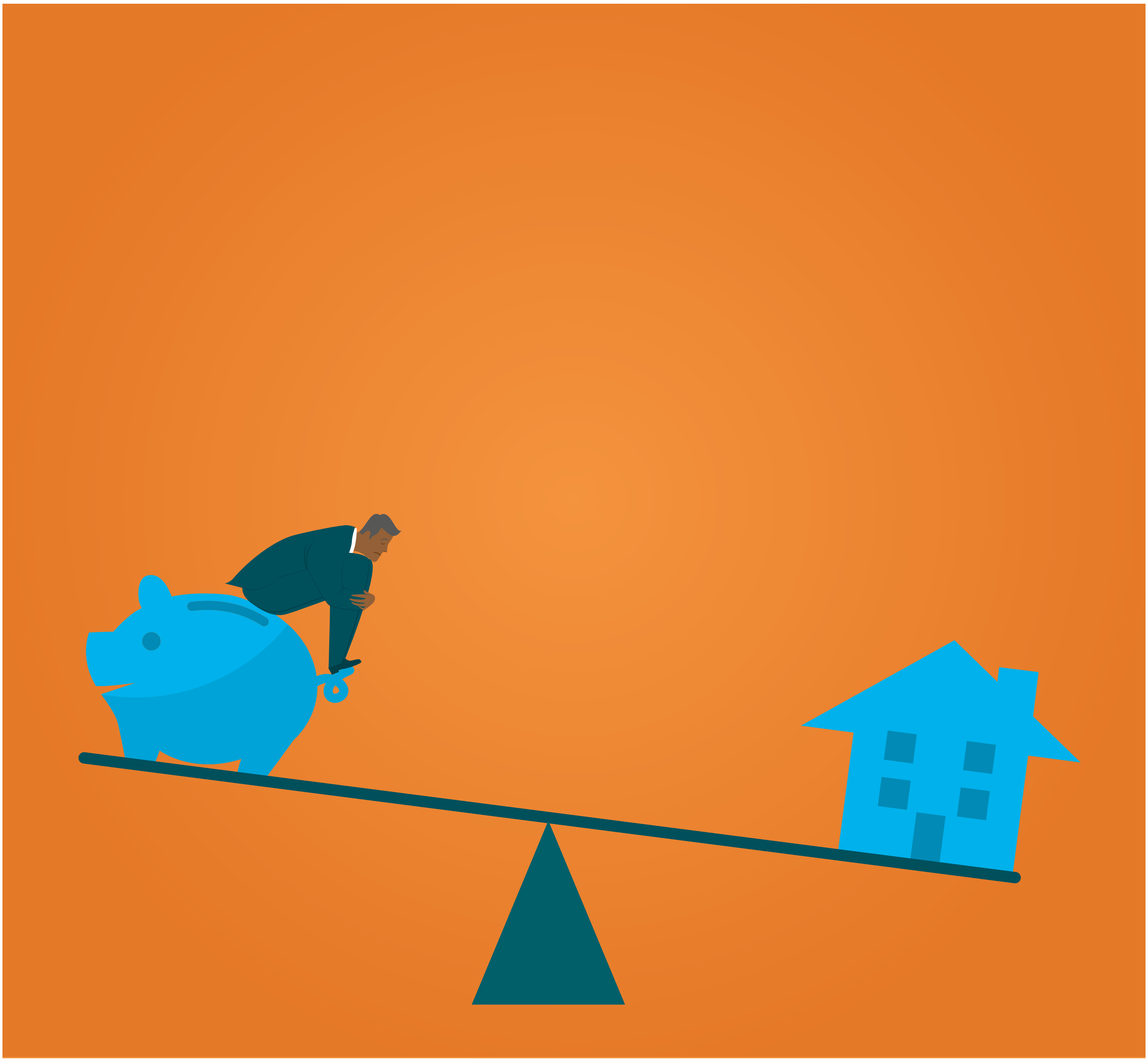
The sum raised can provide the necessary funds for any of these. That sum is raised free of tax, making it a viable alternative to other options. In some instances, a lump sum will be required immediately, in others it may be in stages. If it is the latter this is when a drawdown version of Equity Release may be more suitable.

For example, it may be that a sum of £20,000 is required for some purpose now, but possibilities of further sums, totalling £30,000, might be required over the next few years. If this is the case then £50,000 could be secured as the agreed amount, but with just £20,000 drawn on day one. The remaining amounts could be drawn later as and when required.

A third area to consider would be where there are care fees to be paid. This is a little complicated by the fact that should you need to go into a residential care home, the property would need to be sold under the terms of an Equity Release scheme.

The Equity Release option is feasible when either you need to pay for care in your own home or a couple own their home and one of the couple requires care. There is a further consideration for couples to do with Local Authority assessments, which is a means test to see whether care fees can be covered by a Local Authority. If one of a couple remains in the family home, then this reduces the value of the property from being included in any means test assessment.

There will be many potential situations where an Equity Release solution can support the costs of care, which in today's market is becoming a greater concern for many individuals and couples.



ASSET RICH, CASH POOR ...
TO HAVE INSUFFICIENT PENSION PROVISION BUT VALUABLE EQUITY IN PROPERTY

Who Is It Suitable For?

To be eligible for equity release you need to be at least 55 years old, own a property and have sufficient equity in the property.

The equity is the difference between the value of a property and any outstanding loan or mortgage secured against it. If you have an existing loan or mortgage this does not preclude you from an Equity Release solution, as you could use the money raised via the Equity Release to clear the existing borrowing.

The minimum age of 55 normally refers to the youngest age where couples are involved. For example, a 61-year-old and a 48-year-old couple would be precluded. The age 55 is relevant to the option of a lifetime mortgage, for a home reversion plan the typical minimum age is 65.

Individuals or couples who own a property and are requiring additional sums, either a one-off capital amount or to enhance income in their later years are the perfect candidates to look at Equity Release as a viable solution. The question of suitability in individual circumstances should always be explored using expert advice, from a properly regulated and qualified Equity Release adviser. Many regulated/qualified financial advisers do NOT have the specific Equity Release qualifications or expertise.

It is also advisable to engage with family members, especially children, in these situations. This is both for common-sense 'family' reasons (your loved ones will want to ensure you are taken care of) but also because the children or other family members may well be the ones you intend to inherit your property and therefore any scheme entered into could directly affect them. In many cases family members actively encourage the Equity Release solution and can be influential in seeing this put into place, as they are more concerned by their parents (or uncle/aunt etc. – whoever is looking at the solution) well-being ahead of their inheritance.

What Type Of Property Can Be Used?

There can be variations from scheme providers but typical criteria for properties to qualify for an Equity Release include:

- The property must have a minimum valuation of £70,000. It should be freehold or leasehold with a minimum remaining lease period of 75 years.
- Applicants need to own the property outright or be able to pay off any outstanding mortgage from the proceeds of the Equity Release arrangement.
- The property should be of standard construction.
- The property should be situated in England, Scotland, Wales or Northern Ireland.

Traditionally the market restricted Equity Release to the main residence – however in recent times innovations have opened the use of Buy-to-Let properties, holiday homes and second homes as security for Equity Release schemes. This increases the options.

Things To Look Out For

There is a list of factors to think about with the Equity Release solution and many aspects to be wary of. We will cover a selection of the most important ones below:

1.1. Are you sure you have covered all possible alternatives? It is very important to weigh up Equity Release against other ways (if there are any) of reaching the same objective. It is only when the options are compared against each other that the advantages and disadvantages of Equity Release become clear.

2.2. Have relevant family members been consulted? Equity Release is an area where getting input, support and backing from wider family is normally desirable.

3.3. Have you compared a Lifetime Mortgage to the Home Reversion option – looking at the pros and cons of each? In respect of the individual schemes have you considered the different 'sub options' for each scheme?

4.4. Have all costs involved been assessed and how these costs vary from scheme Provider to Provider?

5.5 Is a possible specific Equity Release solution you are considering covered by the safeguards put in place by the Equity Release Council?

6.6. Have you accessed advice and help from an appropriately qualified adviser?

7.7. In respect of any consideration towards Equity Release your health will be an important factor. It may be possible to enhance income from an Equity Release arrangement if you are in ill-health, as there are income products which increase the income available in these circumstances. Conversely your health may dictate your probability of needing residential care, outside of your own home, which could affect the viability of an Equity Release solution.

Questions and Answers

Q. How can the money raised from Equity Release be used?

A. There are no restrictions on how you use any funds raised. You should take advice before entering into any arrangement and your adviser should ensure this is a suitable option and there are no better alternatives.

Q. Can Equity Release Affect Means Tested Benefits?

A. Yes. The money raised can inflate your savings amounts and the levels of savings you have may impact pension credit, savings credit or council tax benefit, which all have limits applied as to how much you can have in total in savings before you start to lose your benefits.

Q. Can you move property after an Equity Release has been arranged?

A. Yes. But only to a "suitable alternative property". There are some properties which scheme providers would not be able to accept because of their inability to sell the property in the open market. This can include homes in some retirement complexes or property types built of special construction. You should be aware of such restrictions, but generally over and above these you can move property.

Q. What about moving into long-term care?

A. It is dependent on the nature of the long-term care and whether you are one of a couple or an individual on your own (in terms of the property ownership). Equity Release plans generally require your property to be sold and the Equity Release scheme paid off, when you go into long-term care, if that care is not provided in your own home. If you go into residential care this would apply – the property would be sold and the scheme closed. However if one of a couple remains in the family home, this would not apply. A complication comes from situations where the individual goes into care in another home, say of a relative. Then the position would be dictated by the Scheme Provider's terms and conditions. It is important to assess the exact wording when agreeing any arrangement.

Q. What regulatory or other protections are there?

A. Equity Release providers and advisers will be regulated by the Financial Conduct Authority (FCA) – you can check with the FCA to make sure any individual or firm is appropriately authorised. The Equity Release Council provides added protection as they require scheme providers to work to minimum agreed standards, for example schemes will now have a protection that your home cannot be repossessed in your lifetime. If your loan value became higher than the value of your home, the scheme provider cannot take your home from you.

Q. Should a Will be in place?

A. Yes! A Will should be in place regardless of the Equity Release consideration, however specifically in respect of the Equity Release and its impact on your overall position a Will is essential. If you put an Equity Release arrangement into effect and already have a Will then it is sensible to review the provisions of the Will alongside the new scheme.

Q. What about a Power of Attorney (POA)?

A. Power of Attorneys are a subject worthy of a page all on their own. The principal point is that a POA is a document which an individual creates to give over powers around their financial affairs to another person or to other persons. These normally come into effect if an individual loses their capacity to deal with their affairs themselves. Sadly, this happens too often in later life.

The POA is a practical way of dealing with this situation and can save a great deal of aggravation and, in some cases, prove financially important. It allows for a trusted individual (or individuals) to step in and take control of an individual's affairs. Where an Equity Release scheme is in place this could be important, especially if the individual must go into care or have care in their home (such decision could have considerable financial implications). There is no legal requirement to have a POA in place, but from a planning viewpoint it is desirable and should be included.

Q. I already have an Equity Release plan, can I switch it to another provider?

A. Yes, this is feasible but very much circumstantial. Many older schemes had higher rates of interest than are typical in today's market. It is worth looking at how this could be changed to reduce costs. Likewise terms and conditions on a newer scheme may be more suitable.

Getting help

There are certain financial transactions when Doing-It-Yourself is a feasible option, whereas there are others where help and advice is important. Organising an Equity Release solution fits firmly into the second category. There are various factors, from which type of scheme to use, on what basis, how they stack up to other alternatives, costs, terms and conditions, plus how this affects, or fits in with, your wider financial planning. You may wish to consider your broader family position and how any solution impacts on your beneficiaries. There are many considerations to weigh up and balance out. Using a properly regulated Equity Release adviser provides a layer of regulatory protection and should ensure you get the most suitable outcome.

Appendix :

Lifetime Mortgages

- A Lifetime mortgage is a type of mortgage which does not require monthly repayments.
- You retain ownership of your home and interest on the loan is rolled up (compounded).
- They are normally available from age 55 (in the case of a couple this will apply to the younger age).
- The loan and the rolled-up interest are repaid by your estate when you die or move into long term care.
- With some plans or schemes rather than roll up the interest you can opt to make monthly repayments if you wish. These can be for the full amount of interest or part of it.
- For couples, repayment of the loan is not made until the last remaining person living in the home either dies or moves into care.
- If you take out a Lifetime Mortgage, you can choose to receive your funds in a lump sum or in regular amounts as an income.
- The payments are tax free.
- Lump sum payments can be drawn in stages, known as drawdown. This means you do not incur interest charges/costs on any un-drawn amount. Indeed you could leave amounts un-drawn forever.
- There are options to increase the amount you have borrowed as and when you want, with certain schemes and providers.
- You can elect to protect some of the value of your property as an inheritance for your family, again this varies from scheme to scheme, provider to provider.
- If you have impaired health you may be able to increase the amounts you can secure through Equity Release.

Home Reversion Plans

- A Home Reversion Plan also allows you to access all or part of the value of your property while retaining the right to remain in your property, rent free, for the rest of your life.
- The minimum age is normally age 65 (in the case of a couple this will apply to the younger of the couple).
- With a Home Reversion Plan the provider will purchase all or part of the property considering your age and your health and will provide you with a tax-free cash lump sum (or regular payments) and a lifetime lease, guaranteeing you the right to stay in your property rent-free for the rest of your life.
- The amount offered is a discount to the current market value to take into account the Provider's costs. The discount is calculated on the age/health criteria as above.
- The older you are, the more cash you can release.
- The percentage you retain in your property will always remain the same regardless of the change in property values, unless you decide to take further cash releases.
- A guaranteed percentage of the property will pass to your beneficiaries
- You will benefit from the increase in value on your share of the property. But this could work the other way if property prices decrease.
- You are still responsible for the maintenance of the property and any works involved.
- At the end of the plan, which is either on death (in the case of a couple the second death) or going into residential care the property is sold and the sale proceeds are shared according to the remaining proportions of ownership.
- Home Reversion Plans involve no borrowing or lending. It is a sale/purchase agreement with a lifetime lease attached.

This guide was written in August 2018. All information is correct and relevant at this point, but is subject to change. Readers should not take any actions with respect to Equity Release without first taking appropriate advice, both financial and legal. Such advice should be sought and taken from an appropriately qualified and regulated source.

History, structure, and expertise

Interface Financial Planning started providing independent financial advice in 1992. From the beginning it had the aim of providing professional advice and quality service to people with modest income and wealth.

Its key value was putting people before profit, and contribution before reward. This mission statement has been our torch to light the path ahead and has been the reason that we have endured for over 24 years.

Alan has lead the company with his personal values of: Integrity, Compassion, Respect, & Loyalty, and he is proud that over the years he has worked with clients who share similar values. Like him they want to help others and make the world a little better.

Client care and service is important and he is proud that his first two clients from January 1990 remain his clients today.

We believe that every client should have access to highly qualified advice and expertise.

Technology is used to the full to maximise efficiency and engage expertise from throughout the UK. The business has been paperless for 10 years and for over 5 years has been 'cloud' based. This structure reduces costs and allows support staff to operate anywhere - from Colchester to Honiton to Leicester and elsewhere.

Clients are encouraged to access their online account where they can exchange messages and documents securely. They can view their investments and reports, and they have immediate access to their paper file. Clients love the transparency and openness of being able to view and print paperwork going back for years and many clients use it as a source of reference.

ALAN MORAN
Owner, Director
Interface Financial Planning

Alan Moran is one of the most highly qualified advisers in the UK. He became a Certified Financial Planner in 1995 and he was one of the first Chartered Financial Planners in 2005.

He is a Chartered FCSI, a holder of the IMC certificate and member of CFA UK. His expertise has been called upon by The CII, The IFP, The Kinder Institute, and others, where he has trained and examined other financial advisers.

Alan Moran B.Sc. M.Soc.Sc. Cert.Ed. FPFS FSWW IMC CFP^CM RLP®
Chartered Financial Planner - CERTIFIED FINANCIAL PLANNER^CM professional – Chartered FCSI
Registered Life Planner® - Affiliate of STEP
Certified to ISO 22222 by Standards International
Independent Financial Adviser
A member of The Ethical Investment Association and The Sustainable Investment and Finance Association UKSIF

Interface Financial Planning Limited
Chartered Financial Planners - Accredited Financial Planning Firm™ - Certified to BS 8577 by Standards International
Financial Life Planning - Life Planning, Financial Planning, & Independent Financial Advice
Company Registration Number 2644317
Authorised and regulated by the Financial Conduct Authority

Independent Financial Advisers - Financial Life Planners

Compliance

Readers should not rely on, or take any action or steps, based on anything written in this guide without first taking appropriate advice. Interface Financial Planning Ltd cannot be held responsible for any decisions based on the wording in this guide where such advice has not been sought or taken.

The information contained in this guide is based on legislation as of the date of preparation and this may be subject to change.

Interface Financial Planning Limited is authorised and regulated by the Financial Conduct Authority.

(https://register.fca.org.uk) Financial Services Register No: 424729 Registered Address: 122 Hamstead Hall Road, Handsworth Wood, Birmingham, B20 1JB Registered in UK, No. 2644317

Content supplied by: Independent Check Ltd
www.independentcheck.co.uk 2019
Design by: Rae Shirley Photography & Design
Ref: ERG V1 SEPT 2019

CONTACT US

Alan Moran
0121 554 4444

enquiries@interface-ifa.co.uk

To book an appointment, schedule a call by telephone/Skype or arrange an online meeting, visit:
www.interfacefinancialplanning.co.uk