Ribble Wealth Management Limited

UNLOCKING "TRAPPED" CAPITAL

GUIDANCE ON RELEASING MONEY FROM YOUR HOME IN LATER YEARS

ASSETS YOU CANNOT SPEND

Financial planning is about providing for current needs whilst also looking towards the future. Today, younger people have plenty of opportunity to plan for their retirement, often with the help of a professional financial adviser, and whilst not all choose to do so as earlier as perhaps they ought, there is often plenty of time to remedy this. On the other hand, for those who have already reached, or are approaching, retirement, total pension income may not be sufficient for some to meet their everyday needs in the longer term. Also, whilst many retirees may wish to provide a "helping hand" to younger generations during their lifetime (in order to see them benefit from this, rather than simply passing on wealth after death), this may not appear to be financially viable. For instance, an individual or a couple with a nest egg accumulated over many years may be hesitant to deplete their savings or investments, which may be generating useful income to supplement pension income whilst also providing the comfort of a financial buffer against unexpected setbacks. In such a case it probably makes sense to retain a significant part of them. Assets (including the family home) may be substantial, but usable cash may be scarce.

A DIFFICULT BALANCING ACT?

The general problems of income in retirement may escalate with the widespread loss of final salary pensions, rising State Pension ages, increasing care home fees and rising life expectancy. Pensioners may also feel the effects of inflation and low interest rates following in the wake of the 2008 banking crisis. All this can make the balancing of current expenditure and provision for future needs very difficult.

For many people, at some stage, difficult decisions may have to be made about how to deal with a shortfall in funds. Mention in this brochure of various options should not be taken to indicate that any of these is recommended as suitable for a specific individual or more generally. It is vital to weigh up the pros and cons of any proposed solution, guided by a qualified adviser, in order to be certain that it is the best answer in the circumstances.

CONSULT TRUSTED PEOPLE

Equity release works very well for some people but may be inappropriate for others. For this reason, it is vitally important only to deal with a regulated financial services firm and to ensure that your family knows about, and is comfortable with, this solution. The people you can trust should check whether raising cash through equity release could affect any means-tested benefit entitlement and be frank with you about the effect on what will be left to distribute in your Will – your "estate".

Other issues to consider before choosing equity release include downsizing – selling your home and buying somewhere smaller with only part of the proceeds. However, many people prefer to stay in familiar surroundings and, if your home needs money spent on essential repairs, your local authority may be able to assist with that by way of grants. You might also double check to ensure there is no unclaimed occupational pension due to you from employment long ago.

AN ANSWER CLOSE TO HOME?

Decisions about dealing with financial pressures in later life should be dealt with cautiously, combining professional advice and consultation with close family or trusted friends. There may be a range of possible solutions that involve disposal of under-performing financial assets, application for State benefits that may be available in certain circumstances or accepting assistance – perhaps reluctantly – from offspring who have been financially successful. One of the options that may come to your attention in such situations is a solution generally known as "equity release". This is only open to you if you own your own home, which in later life probably has little or no outstanding mortgage. Equity release is basically a way to turn part of the value of your home into usable cash, whilst continuing to live in the property for as long as you need.

THE LIFETIME MORTGAGE

One form of equity release, not available to anyone under the age of 55, is often known as a "lifetime mortgage". The provider, which may be one of the major insurers or another lender, advances a lump sum to you based on an agreed percentage of the current value of your home. If a lump sum is not needed – for instance, if the need is more income-related – then a "drawdown" arrangement might be used, where the lender allows access to regular (or *ad hoc*) smaller payments, which reduces the total interest payable over the term. The total borrowings and the necessary costs of setting up the arrangement are a charge against your property and will therefore reduce the amount available to your beneficiaries after your death.

A house of standard construction is normally acceptable security for a lifetime mortgage, but some flats and non-standard properties may not be accepted. The percentage of value that you may borrow will depend on factors that include your age (or the younger of the two of you, if a couple), since interest is usually "rolled up". i.e. it is added to the loan amount until eventual repayment (usually on death or a permanent move into a nursing or residential care home) rather than paid to the lender month by month.

Once the mortgage has been agreed and the approval and paperwork completed, the money will be advanced.

YOUR CHOICE OF PURPOSE

As the lifetime mortgage is secured against your home and should initially represent a relatively small proportion of its value, lenders place no restrictions on your freedom to use the released money – you can usually use it as you wish.

There is no need to spend it all at once, of course, but it will be there if you need it to replace a car, pay for a cruise, make home improvements or help a young relative with the deposit to put down on their own home.

If the impact on what you may leave in your Will is of concern, some lifetime mortgage providers offer an "inheritance guarantee" to make certain there will be something left for your beneficiaries, though this will mean a lower limit to the percentage of value you may take as a lump sum.

An important thing to bear in mind is that with a lifetime mortgage you remain the owner and reputable providers let you stay in your home for life – or until you need residential care – with a conditional option to move to a new house (known as "portability") if you wish.

THE HOME REVERSION PLAN

The other main form of equity release is called a “home reversion plan”, for which the minimum age is usually 65. This works in a different way to the lifetime mortgage and the most important difference is that with a home reversion plan you relinquish ownership of all or a proportion of your home. The provider buys the agreed percentage of your home, up to 100%, usually on the basis that you may continue living there rent-free for as long as you want.

An important issue to grasp is that, because of your right to live in the property rent-free until the plan provider can sell it (when you die or enter long-term residential care), the price you will receive for your home may seem a modest percentage of its market value. The older you are – and therefore the lower your life expectancy – the higher the likely percentage.

YOU CAN SELL JUST A PART

Even if you go for a full home reversion plan and sell your house outright, you remain liable for its maintenance. Selling outright also means that the house will not form any part of your estate when you die. This may sometimes mitigate Inheritance Tax (if other, possibly illiquid, assets are substantial), but means that your beneficiaries will receive nothing from the sale after your death. With a partial home reversion plan, however, you can keep part ownership.

Another aspect of a partial home reversion plan is the flexibility to sell a percentage of your home initially and add to that percentage with more part sales to raise further amounts if needed in the future. Provided you keep a stake, your estate and beneficiaries can gain from any increase in value of the property. You should note here that a home reversion plan is not the same as a sale and rent-back scheme, which needs extra caution.

SUMMARY

Equity release is not for everyone and can be a complex subject. We, at Ribble Wealth Management Limited, can help you establish whether or not equity release is appropriate to your circumstances and, if so, help you find the most suitable option – and product – to suit your requirements and assist you in the process, from application through to completion. Your home is likely to be one of your single largest assets, and releasing equity from this is one of the most important decisions you will make. It is best to do so with our expert guidance – so talk to us!

IMPORTANT INFORMATION

It is important to be aware that any kind of equity release (be it by way of lifetime mortgage or home reversion) can be expensive and will reduce the value of your estate available to pass to your heirs. There may be implications in respect of tax, State benefits and long-term financial planning.

Equity release may be a suitable way to relieve financial pressures. Both lifetime mortgages and home reversion plans are equity release schemes. To understand the features and risks, ask for a personalised illustration.

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Professionalism . Integrity . Trust

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