# Retirement FREEDOM

Information about **Releasing Equity** in your **Property** Summer 2022

conran mortgages

# Asset Growth...

The average property price has **increased fivefold** over the last 30 years (an average growth of almost £600 every month!). Perhaps it's no surprise that many look to benefit from this increased value in their home as they move towards, or are within, their retirement years.

*(Source: Nationwide, House Prices, Q1 1992 vs. Q1 2022)*

Later life lending to the over 55s is big business, with £20bn+ loaned annually, and partly influenced by personal pension shortfalls, and the greater expectations we have for our retirement years.

Also, let's not forget that people aged 65 could, on average, **enjoy about a quarter of their life in retirement.** And those 20 or so years are a long time when you consider that neither Facebook (Meta), or the iphone, have been with us as long as this!

*(Sources: UK Finance, Later Life Lending, 2021 year, Office for National Statistics, Life Expectancy in the UK, September 2021)*

As most of the Baby Boomer generation moves towards, or into, the retirement years, it's possibly influenced the borrowing mindset. The idea of carrying debt into, or taking out loans at this stage, is viewed less as a taboo subject, or a mark of poor financial planning.

This is because many now approach extra funding, not as a last resort, but are keen to be pro-active with regard to their future ambitions, and for those of their family.

Should you (or perhaps even your parents) require extra funds, then there are different lending options to consider:

- A **standard mortgage deal** that takes you way beyond normal retirement age.
- A **Retirement Interest-Only mortgage** (RIO), where you'd commit yourself to pay off the monthly interest.
- Or a **Lifetime Mortgage** (which accounted for almost £5bn of borrowing in 2021). This product is the most popular form of Equity Release and, unlike the first two options above, **doesn't impose affordability criteria** that would have to be met in order to secure a loan.

*(Source: Equity Release Council, January 2022, 2021 data)*

This is because there's **no requirement to make monthly repayments** of the interest, removing the need (and possible worry) of finding money to pay out each month.

The outstanding loan will only be recovered when the last remaining policyholder dies, or goes into long-term care.

Plus, the **interest rate on a lifetime mortgage loan is generally fixed throughout.** A definite benefit in these low interest times, particularly now, when rates are going up.

It's this **lifetime mortgage offering** that we'll focus on in this issue.

## Money for your needs...

If you meet the criteria of being a 55+ homeowner, then you could use the

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- Conran Mortgages are a trading style of Charles Conran Financial Services Ltd who are authorised and regulated by the Financial Conduct Authority.
- **Lifetime Mortgages and Home Reversion Plans are the two main types of Equity Release.**
- **To understand the features and risks, ask for a personalised illustration.**
- **As Equity Release is a complex area only specially qualified advisers can give advice on these schemes.**
- **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.**
- **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.**

# Asset Growth... (contd)

*Continued from page 1*

**tax-free money** from a lifetime mortgage for anything you like, such as:

- help to clear an outstanding mortgage.
- enable home improvements.
- settle debts.
- assist with larger regular bills, as we face rising inflation and a cost of living crisis.
- secure money to adapt the home for care needs, or to help with ongoing care costs.
- gift money to family and friends.
- use it to fund a number of special treats in the wake of the pandemic, such as the holiday-of-a-lifetime, a new car or fully indulging in your interests and hobbies.

## Protections for you

The current flexible and innovative lifetime mortgage is a totally different product offering to the rigid plans offered back in the 1980s and 1990s.

However, whilst current homeowners may have enjoyed sizeable growth in their property asset over the years, like any loan taken out, **it's not 'free money'.**

The lifetime mortgage loan (and any interest accrued) needs to be paid off, but fortunately, things have moved on massively since the 1990s, with the industry body - the Equity Release Council (ERC) - introducing strict controls and customer protections for equity release plans. Most recently, it has introduced a further protection that was put in place in March 2022 (see below).

## Impact of roll-up

Of course, the downside of making no payments is that the interest on the loan will build up over the years. At an average interest rate of 4.33%*, the amount owed would double in about 16 years.

The unknown within this mix is if house prices continue to rise, as increasing property values would offset some of the impact. Whilst there's no guarantee of any price rises, by comparison, the average property value increased by almost two-thirds over the last 16 years.

*(Sources: *Moneyfacts, March 2022; Nationwide, House Prices, Q1 2006 vs. Q1 2022)*

And, throughout the whole period of the lifetime mortgage loan **you would still control 100% of the home** (with a loan against it - as is the case with a normal mortgage deal).

## Mitigating roll-up

Should you want to make repayments of all, or some of the interest, or even part of the capital amount to help reduce the roll-up effect, then that's on offer. For example, at the outset you could pay off the interest each month, and then stop once it's no longer beneficial (or viable) for you.

You also have the choice of taking a lump sum amount, or alternatively opting for some funds now, and drawing down further money when it's needed - thereby not paying interest on borrowings you don't require initially. The majority opt for the drawdown route.

**If you'd like to hear more about this innovative product, please get in touch.**

Equity Release Council
Celebrating 30 Years of Setting Standards

# YOUR reassurance

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

- From 28 March this year, it was agreed that all customers taking out lifetime mortgages will now be guaranteed the right to make **penalty-free partial repayments** towards the outstanding capital amount on their loans - which would help reduce the build-up of interest applicable to the loan. Typically, products may allow up to 10% to be paid off each year, but in some cases, it could be as much as 40%.

The other protections already in place are:

- 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.
- For lifetime mortgages, **interest rates must be fixed** for the whole loan term or, if variable, there must be an upper limit which is fixed for the life of the loan.
- Customers have **the right to move,** as long as certain criteria are met, such as the new property being acceptable to the product provider as suitable security for the loan.

# Meeting all sorts of needs

Releasing some of the equity in your home appeals to a wide range of 55+ audiences - from those needing funds to pay off an outstanding regular mortgage loan, right through to others that require money to adapt their home for at-home care needs.

## The home is a key asset

The fivefold growth in the average property value over the last 30 years, means that the net household property wealth stands at almost £5.5 trillion. Two-thirds of this amount is applicable to the 55+ age group, which is probably not lost on lenders and has helped to generate increased competition, which benefits the borrower. *(Source: Office for National Statistics, Household net wealth, January 2022)*

## Loan amounts taken out

On average, around £125,000 is borrowed, equating to about 30% of the property's value. The average lump sum amount is £123,688, whilst drawdown is £91,518 at the outset, and £34,960 at a later stage.

## Average age of borrowers

With all types of borrowers from 55 upwards, the average age of new customers is about 68, and for those returning, it's around 70-73. *(Sources: Equity Release Council, Spring 2022 Market report, H2 2021 period)*

## Increased choice

New lenders coming into the marketplace, along with more innovative products, has meant that the 96 plans on offer 5 years ago have risen to 665! *(Source: Moneyfacts, March 2022)*

## Pension shortfall issues

Around a third of over 55s, with defined contribution pensions, plan to release equity from their homes to help fund retirement. *(Source: Canada Life, February 2022)*

## Lifetime mortgage choices

Various options are on offer, such as an inheritance guarantee, which would ensure a fixed percentage of the property value is ringfenced. Alternatively, you may want to downsize into the future and repay the loan. This is generally on offer after five years.

## Still decent rates

Even though rates are starting to rise, the average rate is around 4.33% (a figure that's lower than the 5.25% from 5 years ago). And, if you tick the right boxes, then better rates in the realms of 3.5% may be on offer. *(Source: Moneyfacts, March 2022)*

## Better to give with a warm hand, than a cold one!

One in five plans taken out were used to support the wider family, with almost £60,000, on average, gifted to loved ones to help them onto the property ladder.
*(Source: Key Market Monitor, full year 2021)*

# We'll consider other options too...

You'd be surprised if you walked into a car showroom and they asked you to also consider if a mix of buses, trains and taxis might be a better solution for your travels needs!
Yet this thought process can be applied to our discussions. Whilst equity release may be the most suitable route for you, we need to cover alternatives, such as:

**■ Downsizing your property, or finding another property in a cheaper area**

This could provide the required funds, but should be balanced against how keen you are to remain in your current home, along with the cost of moving. If opting for this, you could always consider equity release further down the line.

**■ Assess other income streams**

This would cover your pension, investments and any other savings. Also, across your lifetime, there's a good chance that you may have forgotten about a long-held investment, or a small pension from a past employer.

**■ Consider other borrowing options**

Other types of borrowing may also be available to you, such as a standard mortgage, or a loan from friends/family.

**■ Rent out a room**

This could prove to be a useful income stream, if you're ok with sharing your home with others.

**■ Possible impact on means-tested state support**

You want to avoid raising money that may jeopardise any state support, should you be claiming means-tested benefits. It may affect your ability to continue to claim (or reduce the regular payments). Alternatively, there may be some benefits that you should be claiming for, but aren't.

# Improve your current deal?

If you took out an equity release mortgage a number of years ago, then it may be worth having a conversation to see if replacing it with a more suitable **Lifetime Mortgage** loan makes sense.

In the same way that you may have taken out a new residential mortgage deal over the years, you can do exactly the same with your equity release mortgage to obtain a **better interest rate,** or perhaps **raise more money** (should your current deal not allow you to drawdown more funds).

Obviously, we'll need to assess any early repayment charges that may apply, and balance that against any savings we could deliver for you.

## The benefits

Over recent years, the number of products on offer has risen massively and those plans now deliver far greater flexibility. You could even benefit from the most recent development from the Equity Release Council (the industry body) that allows you **penalty-free partial repayment of the capital borrowed,** with the obvious positives this could deliver with regard to the roll-up of interest, if no monthly payments were made.

You would also take advantage of what were record low interest rates, albeit they're now on an upward journey, which is why it may possibly make sense to act now, if this is a route you want to take.

The average fixed deal is around 4.33%. If you took out an equity release mortgage a number of years ago, you might be paying a 6-7% fixed interest rate, or perhaps more. *(Source: Moneyfacts, average fixed deal rate, March 2022)*

If you consider, for example, that you'll be around for at least another 15 years, and you've opted to not make any interest payments, then the roll-up difference will be a substantial amount, as follows:

**Fixed Rates for a £125,000 loan, and the interest rate roll-up effect**

| Fixed interest rate | Total owed after 15 years |
|---|---|
| **7%** | **£344,879** |
| **6%** | **£299,570** |
| **4.33%** | **£236,074** |
| ***3.75%*** | ***£217,136*** |
| ***3.50%*** | ***£209,419*** |

If you're on a 7% rate, then (vs. the 4.33% figure) there could be a reduction in the total owed of £108,805 if switching to the lower rate. This calculation relates to the average rate on offer, and as the 3.75%, and 3.50% examples show you could save even more if you qualified for the better rates. But, as said, rates are going up.

## Your needs have changed

Modifying your home to receive ongoing care could now be a concern for you. Alternatively, the sizeable **cost of living rises** could be having an impact.

Or perhaps, the grandchildren have grown up and you may want to help them with their university education, their first car, or perhaps a deposit for their first home.

## You have changed

You'll be older, maybe facing ill-health, and **your home could be worth more.** These developments might open up better rate deals for you. Also, your circumstances may have changed (ie. income stream, divorce), affecting the way you want to live.

**Do get in touch to hear more.**

**You may have to pay an early repayment charge to your existing lender if you remortgage your equity release loan.**

# Planning for CARE needs

The government have made announcements about reforms in this area, but most people are still confused. What is clear though is that it's likely to be in your own best financial interests to consider planning ahead, or acting swiftly if your health deteriorates.

There are two key issues to consider. First, identify the best way forward if you need ongoing care support - either at-home, or in a care home.

Second, try to keep a control on outgoings. This could be an issue when you consider that annual care home costs might be around **£700 a week,** on average, or **£890 a week,** if needing nursing care too. Conversely, it's about **£20-25/hour** for at-home care, meaning twice a day, every day would be in the realms of £315 a week.

*(Sources: carehome.co.uk & LaingBuisson, March 2022)*

For some, there will be financial support from the government and local authorities, such as an Attendance Allowance, and even an allowance for a carer, plus funding, or part-funding of care home costs.

## Care costs

But, it's likely that you may have to cover some of these costs, particularly if you're going into a care home, where **your property may be viewed as part of the means test** by the local authority when assessing funding.

However, your home may not be counted, for example, if it's still occupied by your partner, a relative aged 60+, a relative that's disabled, or a child of yours under 18!

Some, though, may think it's a smart move to liquidate, and pass on, assets. However, local authorities are wise to this and would look to see if there's a deliberate intention to avoid paying care fees (deprivation of assets), when aware of the health issues faced.

## Lifetime mortgage support

In general, most people would prefer to remain in their own home, rather than moving into a care home. In which case, a loan generated by a lifetime mortgage could enable you to **modify your home,** and set aside money for **ongoing at-home care,** which may be all you ever require.

Plus, by opting for the less expensive at-home care approach, your quality of life is likely to be far better.

**It's a complex area, and far better that you plan ahead, so do get in touch.**

## KEY FACTS

**Care costs & support provided vary throughout the UK.**
Here's the rough set-up for England.
If your capital is:
- over £23,250, you must pay full fees.
- between £14,250 & £23,250, you'll get partial support.
- less than £14,250, you'd no longer pay a tariff income based on your capital, but you must continue paying from income included in your 'means' test. The local authority then pays the remainder.

From October 2023, the government has said that the £23,250 figure will rise to £100,000. And the £14,250 figure will increase to £20,000.

Plus, there will be a cap set at £86,000, meaning this is supposed to be the most anyone will have to pay for personal care. A number have questioned this, and there will be, no doubt, further clarification as we move towards October 2023.

# Do you fall into these camps?

Helping to pay off an **interest-only mortgage,** or borrowing against a **high-value property** when taking out a lifetime mortgage, are two growth areas for equity release.

## Interest-only mortgage?

You may be coming towards the end of your term period and are concerned that you won't be able to settle the whole mortgage loan from savings, investments, etc.

If that's the case, then aside from options such as downsizing to pay off the loan, an equity release plan could bridge the gap, plus deliver any additional funding you may need. The upside of this route is that **you can then remain in your current home.**

If you're on an interest-only mortgage, you're not alone. In 2021 there were still 908,000 interest-only mortgages out there, and a further 277,000 part interest-only/part repayment mortgages.

Out of those 1.185m plans, **457,000 are expected to mature by 2027,** with a total value of £62bn. This equates to an average mortgage loan that needs to be repaid of around £135,000.

*(Source: UK Finance, Interest-only update, June 2021)*

However, a sizeable number of the 457,000 loans will have a repayment element to them, where part of the mortgage is already being paid off. Also, some of this amount could be covered by other repayment vehicles such as investments, savings, or perhaps recently inherited wealth.

**To settle the remainder, you could use an equity release plan,** such as a lifetime mortgage. In fact, in 2021 over one-third of all lifetime mortgages were used for this purpose. *(Source: Key Market Monitor, full year 2021)*

If, for example, the youngest person seeking the equity release loan is 55, then broadly you may be able to borrow up to around 28% of your property's value, or even as much as 36%, if the policyholder(s) were suffering from ill-health. It's one of those rare occasions that being in poor health could work to your advantage! Alternatively, if aged 65, then it might be around 38% and 49%, respectively.

**If this is relevant for you, consider when your loan needs to be paid off, have a rough idea of what your property may be worth, and see how we can help.**

## Higher value property?

We've spoken elsewhere about the roll-up effect. This may be less of an issue if you **own a £1m property,** for example, and want to **raise £125,000.** Whilst you may be in a property with a sizeable asset value, your own ongoing financial needs may not be that dissimilar from those of the overall marketplace; hence using the average loan figure of around £125,000.

If you choose not to make any monthly payments, then at the current average fixed rate, the amount owed after 16 years would be about £250,000.

However, if property prices rose over this period even at a conservative rate of just 2.5% a year, then after 16 years the £1m property could be worth almost £1.5m - **leaving £1.25m of available equity.**

It's a simplistic calculation, and other factors will come into play (such as inflation), but it gives you a feel for the benefits that could accrue if you borrow a lowish percentage against a high-value property.

# 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.gov.uk/search-house-prices

### 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