

# EQUITY RELEASE

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An introduction to

## LIFETIME MORTGAGES

SUPPORTING YOUR LATER LIFE CLIENTS



Could your clients benefit from equity release?

For Intermediary Use Only

# AGENDA

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- ✓ Retirement Landscape
- ✓ Market Trends
- ✓ Understanding Customers
- ✓ Why Your Clients May Consider Equity Release
- ✓ Uses for Equity Release
- ✓ What Is It Exactly?
- ✓ Product Innovation
- ✓ Client Case Studies
- ✓ Considerations and Duty of Care
- ✓ Summary

# RETIREMENT LANDSCAPE

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**Traditionally retirees have drawn income from state and occupational pensions, as well as annuities. However increasingly these sources are no longer sufficient to support a good quality of life in later years.**

- The State Pension age is due to increase to 68 between 2044 and 2046
- Defined contribution schemes generally produce lower pension incomes than defined benefit schemes
- You'll need 35 qualifying years to get the full new State Pension (previously 30 years)
- Around 2.5 million people aged over 55 and still in work will have to delay their retirement due to the cost-of-living crisis\*



# EQUITY RELEASE MARKET TRENDS

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**Total lending reaches £716m in Q3 2023 loaned to 7,379 new customers and 8,466 returning drawdown customers**

- Equity release market sees growth for the first time in 12 months with quarterly increases in both new customers (10%) and total lending (8%).
- The average lumpsum is £94,806 but both lumpsums and initial drawdowns are down about a third on an annual basis
- The number of active customers this quarter was very slightly up from 17,028 in Q2, although it remained down 33% year-on-year from 25,519 in Q3 2022



# UNDERSTANDING CUSTOMERS

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**It's important to gain an understanding of the situations and emerging trends among those in later life, and the ways in which you can engage them and offer the great levels of service they require.**

- The gender pensions gap today stands at 35%, yet women contribute a higher proportion of their pay into their pension than men\*
- Almost half (46%) of mortgage holder respondents aged 55 or over admitted they are unsure how they will pay off their mortgage in full.\*\*
- 53% opted for drawdown lifetime mortgages, taking an initial withdrawal up-front with more held in reserve for future use, while 47% of customers opted for a single lump sum\*\*\*



# UNDERSTANDING CUSTOMERS

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**Financing later life is becoming an increasing concern for the over 50s, with many remaining in work longer than planned and even seeking work again after retirement.**

- The cost of living has begun to bite, with fewer than four in 10 (39%) UK households on track for a moderate income in retirement
- Research found that nearly two thirds (58%) of UK adults aged 40 years plus are anxious about retiring, up from 54% in 2022
- When it comes to pensions, research suggests that one in eight (13%) people in their 50s have stopped or reduced their contributions to retirement savings due to the cost-of-living crisis
- Research found that later life lending clients are twice as likely to involve their families in the equity release process in 2023 (43%) compared to 2019 (19%)



# WHY YOUR CLIENTS MAY CONSIDER A LIFETIME MORTGAGE

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- ✓ Limited pensions and retirement savings
- ✓ Insufficient income to cover living costs
- ✓ Outstanding mortgages or debts to pay off
- ✓ Interest only mortgages
- ✓ Changing pension rules

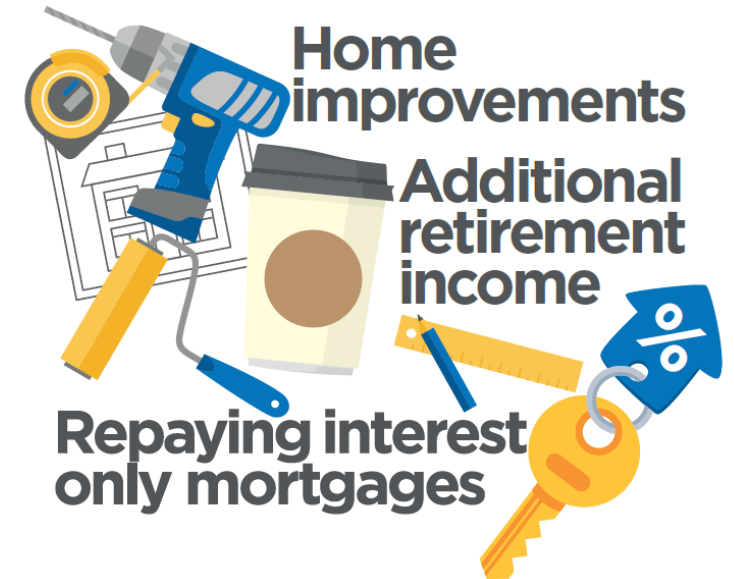




# USES OF LIFETIME MORTGAGE

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- ✓ Home improvements and adaptations
- ✓ Additional retirement income
- ✓ Helping family and friends get onto the housing ladder
- ✓ Later life care at home
- ✓ Paying off existing loans and debts





# WHAT IS IT EXACTLY?

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- ✓ **A lifetime mortgage is a type of equity release for homeowners aged 55+**
  
- ✓ **Clients take out a mortgage secured on their property**
  - The property must be their main residence
  - Home ownership is retained
  - Interest is charged on the amount borrowed – this is either added to the total loan amount or can be repaid
  - When the client moves into long-term care or passes away, their home is sold and the loan is repaid using the proceeds from the sale

# TYPES OF LIFETIME MORTGAGE

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## 1) An interest roll-up mortgage

- Either a lump sum or regular payments are received
- Interest is added to the loan
- Regular repayments are not needed
- The total loan plus interest earned is repaid when the property is sold

## 2) An interest-paying mortgage

- A lump sum is borrowed
- Repayments are made monthly or an ad-hoc basis
- The loan is repaid when the property is sold at the end of the mortgage term

# TYPES OF LIFETIME MORTGAGE

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## 1) Lump sum

- A lump sum can be taken at the start of the mortgage term
- Alternatively a lower lump sum can be taken with a further drawdown facility

## 2) Drawdown or income

- Allows small amounts to be taken on a regular or periodic basis
- Interest is only paid on the money actually borrowed

# PRODUCT INNOVATION

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The growth of the equity release market has led to product innovation to provide solutions for the varying range of customer needs. These new features can help to minimise the overall cost of accessing housing wealth or allow customers to take equity release in a way that suits them best.

## Popular product innovations:

- Downsizing protection for those who anticipate a need to repay their loan when moving to a smaller home in the future
- Voluntary repayments with no early repayment charges
- Inheritance protection
- Ability to make repayments on interest earned
- Regular income lifetime mortgages which provide monthly payments in style of a pension

**The number of new plans agreed during Q3 2023 was up 10% from the previous quarter – Equity Release Council Q3 2023**

# CLIENT CASE STUDIES

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As we live longer, making the most of retirement is an increasingly popular reason for choosing equity release. Clients have worked hard to buy their homes and the value of their property can provide them with retirement they deserve.

## **Mr & Mrs Berkeley wanted a loan of £335,000**

They wished to repay their existing mortgage, improve their overall standard of living and to purchase a holiday home.

Through a lifetime mortgage they were able to borrow their desired amount and achieve their goals .



# CLIENT CASE STUDIES

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Many clients are looking to help younger family members onto the property ladder and equity release can help them do just that

## **Mr & Mrs Cern required a loan of £53,000**

The couple wished to help their daughter purchase her first property, for which she needed a total of £90k.

They had only been able to raise £40k on their own.

By taking out a lifetime mortgage, they were able to help their daughter buy her first home, an outcome which the whole family was delighted with.



# CONSIDERATIONS AND DUTY OF CARE

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**Open questions are a highly effective way to identify equity release opportunities both amongst your current customers and new leads.**

## **Open questions**

- Tell me about yourself?
- What are your plans and aspirations for your future?
- What else is important for you apart from money?
- What are your current outstanding debts and loans?
- What changes would improve your quality of life?





# CONSIDERATIONS AND DUTY OF CARE

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**As well as accessing cash, wealth protection is also an important consideration for equity release clients.**

**Protecting a portion of wealth can allow people to leave an inheritance to their loved ones or retain funds to pay for the cost of long-term care.**

- As a side effect of equity release can mitigate the impact of inheritance tax
- Equity release can help clients to make the home modifications needed to allow them to receive care in their own homes and preserve some of their wealth
- However it can be difficult to pay for long term residential care through equity release
- Equity release can be used to give a 'living inheritance' to support your family



# CONSIDERATIONS AND DUTY OF CARE

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## What are the barriers of equity release?

**It is important to clearly explain to clients the risks and consequences which come with equity release.**

- Early repayment can bring expensive charges – clients need to consider whether there might be circumstances in the future in which they wish to repay their loan early
- Borrowers could be at risk from fraudsters due to the very large sums of money involved
- It is important to advise your clients on how equity release may impact their tax and benefits position



# SUMMARY

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- ✓ There are significant business development opportunities for advisers
- ✓ Equity release is an increasing popular finance product for the over 55s
- ✓ Traditional retirement planning methods have fallen short for many
- ✓ The rapid growth of the sector has led to product innovation
- ✓ There are risks which come with equity release and as an adviser you have a duty of care
- ✓ We can help by doing all the work for you with our client referral service

**Thank  
you**



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