Equity Release in pension planning

If you are retired or approaching your retirement, you may have significant wealth built up in your property. You will need to consider where your income is going to come from, and how to plan in order to make the most of all your assets in retirement. This short guide explains how your property can play an important part in your pension planning and sets out the options available to you if you are thinking about unlocking your property wealth in later life.

What is equity release?
‘Equity’ is the value of your property minus any mortgages or other debts secured on it. The term ‘Equity Release’ is used to describe two products; lifetime mortgages and home reversion plans, which provide you with a way of releasing the wealth built up in your home (and other properties in the UK), providing you are over the age of 55. The most common form of equity release is a lifetime mortgage.

What is a lifetime mortgage?
A lifetime mortgage is a loan secured against your main home. It differs from a regular mortgage because there is no fixed term and the lender does not expect the loan to be paid back until the youngest applicant either passes away or moves into long-term care. The mortgage is normally repaid from the sale of the house, and interest can either be paid monthly or rolled up so there are no monthly payments to worry about. Modern lifetime mortgage products usually include options to draw funds down, or have a regular payment rather than just borrowing a lump sum.

Why is pension planning important?
For most of us there is a strong desire to stop working and retire at some point. We may gradually step back by reducing our working hours, or we may simply have a retirement date on which everything changes. Whichever route you take, the sources of your income are likely to change. Planning where your income in retirement is coming from, how much it will be, and the role all of your financial assets have to play, is important in determining your financial security for the rest of your life.

How can equity release help?
Property wealth should be considered alongside pension funds, investments and other assets when planning your pension. The increased flexibility in lifetime mortgages mean we can tailor a solution that provides you with a way of replacing or topping up your income over time. The majority of older homeowners will have property assets worth more than their pension funds, and raising a debt against property can, in some scenarios, be a more tax efficient way of providing an income than drawing pension funds. Equity release can form part of your pension planning, as long as it is done with careful consideration.

Is it safe?
Providers and advisers in equity release must be authorised by the Financial Conduct Authority (FCA). Advisers must hold an additional qualification and follow the FCA rules. This means your adviser must take you through a careful process, assessing all the pros and cons with you. The trade body, the Equity Release Council, introduced a new standards framework in January 2020. All providers have signed up to a set of product standards. We are members of the Council and we believe the equity release market is better regulated today than it has ever been.
How does it work?

The following examples are fictitious and designed to illustrate how a lifetime mortgage could be used to compliment your existing pension plans. Everyone is different and, for your pension planning, we will work closely with your trusted advisers to ensure you have an appropriate solution. If equity release is not suitable, we will inform you.

Example 1. Using a lifetime mortgage to top up income
Mr Jones is 80 and owns his home outright. It is worth £1,500,000. He has been enjoying a comfortable income from three separate sources; his state pension, a final salary pension from employment, and by drawing down from a SIPP fund (self-invested personal pension). However, his SIPP fund is almost exhausted and he is now facing a drop in his income of £32,000 per year. By raising a lifetime mortgage secured on his home, we have enabled him to borrow the £32,000 to make up the shortfall for the current year. In addition we have set up a reserve facility with the lifetime mortgage provider which will allow him to draw down in small amounts from year 2 onwards, or at any time in the future, to replace his lost income whenever he needs it. This is subject to minimum withdrawals of £2,000 and gives him peace of mind, as he now has access to sufficient funds which will cover his income shortfall over the next 14 years, even with inflation taken into account.*

Example 2. Using a lifetime mortgage to clear debts and provide an emergency fund
Mr & Mrs Ahern are both 68 years old. Their home is valued at £450,000. They are retiring and are expecting healthy pension income from four pension funds built up during their working life. However, they have a small interest-only mortgage with £50,000 outstanding, and some credit card debts of £8,000. They have no savings or other assets available to them and are worried about having to meet the ongoing monthly costs of their debts as well as coping with any unexpected costs when they come along. A lifetime mortgage of £60,000 with a reserve facility of £40,000 has allowed them to clear their debts, making their retirement more comfortable and stress free. The reserve facility gives them access to additional funds should they need them in an emergency, and they won’t pay any interest until they draw down the funds.*

*All figures and calculations are based on the inflation rate at the time of publishing but may be subject to change. Speak to your financial adviser for details of the latest inflation, income and other tax considerations. A lender may withdraw a reserve facility in certain circumstances. Speak to one of our Later Life Finance advisers for details of the terms and conditions.

Knight Frank Finance do not give advice on tax planning, Trusts, investments or pensions, but we will work closely with your trusted adviser to ensure we recommend the most suitable solution for you. Make sure you seek professional advice so the most appropriate solution can be tailored to your own circumstances.
Contact us, we’d love to help you.

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Mortgage advice: the choice of interest rate and product terms will depend on your circumstances and the amount of the mortgage. Before you make a mortgage application, we will carry out a full review to establish your needs and preferences and if you meet the criteria, we will give advice and make a recommendation to you. There may be a fee for mortgage advice. The precise amount will depend on individual circumstances but we estimate that it will be up to 1% of the agreed mortgage. All mortgages are subject to status. Please note that these are indicative rates only. Products are subject to withdrawal without notice. You must be 18 or over.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

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