



Acumen Financial Partnership

White Paper: Equity Release

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Introduction



When I set up Acumen Financial Partnership in 2006, I wanted to avoid all the pitfalls I had witnessed in financial planning practices. Equity release was one such area that had been tarnished due to unclear – and sometimes unsuitable advice – from a small handful of advisers.

Over the years, I and other industry practitioners have worked hard to re-establish the public's faith in equity release. When we are dealing with complex, potentially life-changing matters such as this, we believe it is imperative to provide clear, accessible and transparent advice.

This “what you see is what you get approach” has been a central pillar to our approach from day one.

In fact, unshakeable integrity is at the heart of all our financial advice. If there is a right way to do something, that is what we will do. Our litmus test is this: would you offer this investment to your mother? If the answer is “no”, then we certainly wouldn't offer it to our clients. This mindset is extremely applicable in the context of equity release.

Trust is essential to everything we do as an advisory firm. We want our clients to be 100% confident in the validity and impartiality of our equity release advice. It is essential that they feel reassured that we will always provide personalised advice that best suits their specific circumstances.

We wholeheartedly subscribe to the Equity Release Council's code of practice and work hard to provide the most considered advice and the safest equity release schemes available. Our highly qualified advisers go the extra mile to understand our clients' goals and challenges to provide a full overview of the options available.

As we are always at pains to emphasise, equity release does come with a certain degree of inherent risk. However, it also has legitimate merits as a retirement planning tool. The key takeaway here is that seeking independent financial advice is always the safest and surest route to making the right decision for you and your circumstances.

Angela Maher

What is equity release?

The two biggest assets that most people have are their pension and their home. With the advent of the pension freedoms, retirees now have unprecedented levels of control and flexibility over how they access their pensions.

Of course, properties are an entirely different matter altogether. It simply isn't possible to sell a portion of your home (a spare bedroom that never gets used, for example). You either sell all the house or you don't sell any of it.

That effectively leads to a huge amount of capital locked into one inaccessible asset. The beauty of equity release is that it unlocks that equity, enabling you to release some of that capital while still remaining in your home.

This might appeal if your pension does not provide you with an adequate amount of funds to live comfortably in retirement.

There are two main types of equity release schemes.

Lifetime mortgage

With a lifetime mortgage you are not required to make any repayments over the life of the loan. However, you can choose to make repayments if you wish. Interest accrues until repayment is taken at the end of your life or if you move into long-term care. You maintain ownership of your home and benefit from any future house price growth.

Home reversion

Home reversion plans allow a provider to buy all or a share of your property. When the time comes to sell your home, they receive a share of the proceeds. You will always own your stake in the property, which you can pass on to your family. However, you cannot reverse your decision and you will not benefit from any house price growth.

Releasing equity from your home is a practical and often beneficial idea in theory. In practice, there are some risks to bear in mind, which we will address further in this white paper.

A brief history of equity release

Like any investment, equity release is not without risk. The Financial Conduct Authority's (FCA) governance of equity release ensures that providers are held accountable to strict rules about the fairness and transparency of any advice provided. This applies to financial advisers, and we are certainly committed to those values here at Acumen.

Steadying the SHIP in a perfect storm

With the deluge of media coverage surrounding equity release schemes in recent years, you could be forgiven for thinking that they are a recent phenomenon. In fact, equity release has been available since 1965, when retirement lenders Hodge Lifetime claim to have launched the first equity release scheme of its kind.

Equity release did not immediately take off. By the time it had gained some traction in the 1980s it started to come under scrutiny. This was as a result of retiree borrowers being left with crippling debts in the wake of a perfect storm of recession, a housing market slump and soaring interest rates. Equity release required a major rebrand.

In 1991, the industry trade body Safe Home Income Plans (SHIP) was launched. This new entity was given the responsibility of cleaning up the equity release market and to provide much-needed consumer protection. A major element of which was to hold equity release providers to account with a voluntary code of conduct.

Equity Release Council raises standards

In 2012, SHIP re-branded as the Equity Release Council. By this point, it had broadened its membership to include a wider alliance of stakeholders, including financial advisers.

With the added assurance of regulatory oversight from the FCA, many of the negative associations that had plagued the equity release market for years were steadily eroded.

Rising house prices, more product innovations, greater flexibility and a broader array of funding options have since prompted a boom in popularity for equity release schemes.

Equity release in a time of crisis

Prior to the Covid-19 crisis, the equivalent of £10 million worth of equity was being released from homes every day, according to the Equity Release Council. To illustrate the growth in this area, research by Financial Reporter estimates that retirement lending could exceed £142 billion by 2027.

It remains to be seen how the novel coronavirus will impact the equity release market for better or worse. Certainly, the relative certainty of bricks and mortar equity represents a potentially useful avenue open to Britons as the country seeks to recover from the worst effects of the pandemic.

Once again, there are inherent risks. Equity release is a long-term and potentially life changing process. Which is why taking financial advice from a suitably qualified advisory firm like Acumen is crucial to understand your options.

What are the dangers of equity release?

When paired with sound financial advice, equity release enables you to access the funds in your property and continue to live in the home that you love. As life goes on you may become what we call “asset rich and cash poor,” which could hamper your efforts to maintain your property or enjoy your retirement to the fullest. Equity release enables you to extract value from your home to make the most of your retirement.

What are the benefits of equity release?

These days there are a lot of guarantees and protection surrounding equity release schemes. At no point would you ever be at risk of losing your house because the lender takes on the risk of the value of the loan increasing.

For example, if house prices collapsed and your equity release scheme ended up being greater than the value of your house, you will never lose the property. This was a major concern in the 1990s when people were badly stung.

That won't happen anymore with the introduction of the Equity Release Council's voluntary code of practice and the FCAs diligent scrutiny. Both of which have made equity release schemes far more secure in recent years.

With the right financial right advice from a suitably qualified independent financial adviser, you can be certain that, should equity release be a viable option for you, your adviser will give you all the information you require.

Around 270,000 households have benefitted from equity release over the last 20 years. This has raised more than £12 billion worth of equity in the process. People now consider equity release a normal part of financial planning for retirement.

Deciding on a suitable plan can be complex. There are also a number of inherent risks to consider. Which is why it is essential to seek financial advice before making any decisions about releasing equity from your home.

What are the drawbacks of equity release?

One of the major drawbacks of equity release is that it involves borrowing against your home or selling it whole or in part. All of which could be more expensive than downsizing to a smaller property in the long term.

Equity release may also affect your entitlement to state benefits and grants.

Not to mention the likelihood that it will reduce the value you have in your home and the amount of inheritance you can bequeath to your loved ones. This is especially true of home reversion plans.

Some equity release schemes can also be difficult to end and you may incur penalties to do so.

For all those reasons, it is imperative to speak to suitably qualified independent financial advisers like Acumen to determine the best course of action for you and your situation.

Equity release alternatives

Equity release is a lifelong commitment, one that we would only recommend after exhausting all other avenues. We recommend considering all your options before proceeding with equity release.

Alternative options include:

- Ensuring that you are claiming all benefits and grant entitlements.
- Moving to a smaller property to release funds.
- Seeking assistance from your family.

Retirement Interest Only (RIO) loans

Another recently introduced alternative to equity release is the Retirement Interest Only (RIO) loan. An RIO lets you pay all or some of the interest due to the loan. Which means that the debt is capped at the amount that you borrowed.

This is a good alternative if you already have an interest-only mortgage that is coming towards the end of its term with no means of repaying it. Using this option means that the original loan can be repaid using the Lifetime loan and the interest repayments will remain in place.

Which means you can remain in your home without having to find the capital to repay the original loan. This option does not erode the value of your property in quite the same way that the debt of equity release can.

Why choose Acumen for equity release advice?

Financial advice from Acumen Financial Partnership can give you a clearer idea of how equity release schemes work, what types of schemes are available, and if indeed equity release is suitable for your individual circumstances.

Choosing the best and safest route can be complex and is not without risk. With our professional equity release guidance, we can explain your options in plain English to help you make the right decisions for you and your family.

The right advice at the right time

At Acumen Financial Partnership, we are focussed on giving people the right advice.

We would rather have a conversation with you, discover that there is nothing we can do and have you walk away from us knowing that you received the best advice. We are always happy to talk through your options and make sure that you are on the correct trajectory for you and your financial goals.

It is important to weigh up all your options and discover the most effective solution for you. Having the ability to simply sit down and talk to an impartial confidante with no hard sell is a hugely important part of our service.

In a lot of cases, we do this free of charge. Our advisers are always at the end of a telephone line if you need us. From there, you are the best judge of whether you would like to take our recommendations further or not.

We take a team approach to your success

Acumen Financial Partnership is also unique in the amount of teamwork that we do. There won't be just one person working with you. Rather, our team work together, pooling their expertise, to help you achieve your goals.

So, whilst you will have one consistent contact point who you will meet with the majority of the time, we also draft in other members of the team – who you will know and trust – to provide additional expert advice when it's needed.

We offer full flexibility, with the option of home visits and office visits, as well as meetings at our custom-built offices in the beautiful arable landscapes of Burscough, Lancashire.

We really do cater for our clients to the best of our abilities and aim to deliver the highest standards of service.

Contact

Due to the number of equity release products and lenders now available, it is important to take independent advice about what your options are and what route would best suit your needs.

Acumen Financial Partnership is a fully regulated, well-established and highly regarded firm of financial advisers. Our wealth of knowledge and experience can give you a clearer understanding of your equity release options.

Acumen advisers aren't commission driven, which means they will always provide you with impartial advice that best suits your circumstances. If equity release isn't right for you, we will say so. If it could improve your circumstances, however, we would discuss the options available to you and explain the risks from the outset.

For more information about our equity release advisory services or to arrange a free, no-obligation consultation, please contact us on the details below. For any further details, please visit www.acumenfinancial.co.uk.

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Further resources

For any further information equity release, you may find the following resources useful.

Acumen resources

[Equity release](#)

External resources

[Equity Release council](#)

[Financial Conduct Authority](#)

[MoneySavingExpert.com](#)

[The Money Advice Service](#)

[Unbiased](#)

[Which?](#)