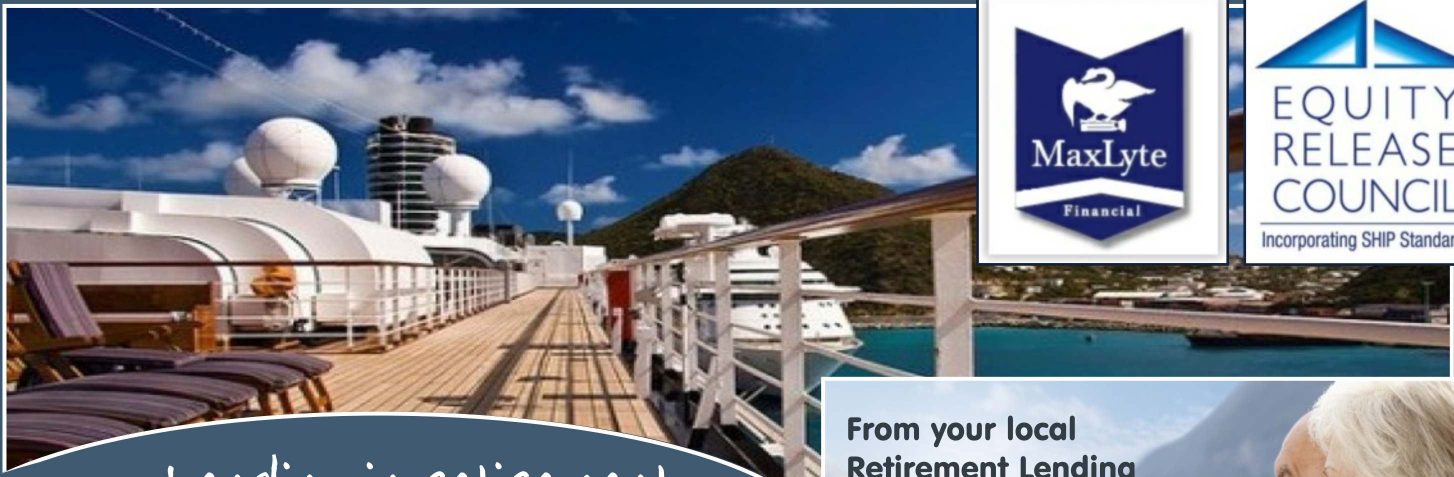

April 2015

Lending in Retirement

NEWSLETTER

Budget 2015: UK government sets out plans for 'secondary market' allowing annuities to be sold on

Pensioners planning to sell on the right to regular annuity payments to a third party could be required to seek independent financial advice before doing so, under plans put forward by Government.

A consultation paper published alongside this year's Budget sets out further details of the government's intention to establish a 'secondary' market for annuity sales giving over five million existing pensioners the same right to access their pensions flexibly as will be extended to those reaching retirement from April 2015. The consultation, which closes on 18 June, sets out further details of how payments could be taxed under the new regime, as well as of the consumer protection mechanisms that could be put in place.

"While those retiring after 6 April 2015 will benefit from these reforms, those who retired before then and bought an annuity with funds from their defined contribution pension scheme remain effectively 'locked' into that choice through a tax charge of up to 55% (or 70% in some cases if they were to reassign their annuity)," the Treasury said in its consultation paper.

"For the vast majority of people, continuing with their existing annuity will be the right choice. Annuities provide a regular guaranteed income for life and many people will continue to value the security they provide. However, there is no reason why the Government should impose barriers that prevent individuals from being free to make their own choice about what to do with their annuity rights, purchased with money they have saved throughout their working life," it said.

According to the consultation paper, the "preferred approach" of the UK government is to remove barriers to the creation of a secondary market and allow annuity providers and potential buyers to develop the market, rather than to "dictate a rigid mechanism". It would do so by removing the punitive 'unauthorised payment' tax charge preventing individuals from assigning their annuities, and instead taxing individuals at their marginal rate. It would also work with the Financial Conduct Authority (FCA) to ensure that "appropriate consumer protection" was put in place.

Only annuities in the name of the annuity holder and held outside an occupational pension scheme would come within the scope of the proposed new freedoms, according to the consultation paper. For joint annuities, it would be for the provider to decide whether to go ahead and with what confirmation from the secondary beneficiary. Annuity providers would be able to block sales, as the government has no intention of "interfering" with existing contractual agreements, it said.

The consultation confirmed that the government does not intend to allow annuity providers to "buy back" contracts they have entered into with the customers, due to the risks of providers coming under "significant public pressure" to do so with potential repercussions to their solvency. However, it said that it welcomed views on "the potential risks and benefits" of allowing buy back, as it acknowledged that existing providers could be in a position to offer a better price to the consumer than other purchasers.

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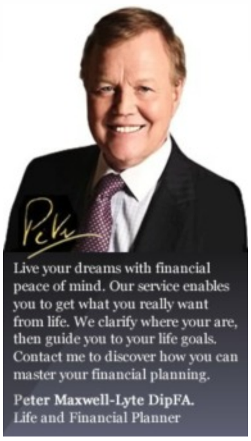

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EQUITY RELEASE ATTRACTING YOUNGER BORROWERS

A surge in equity release activity in the UK in the second half of 2014 saw younger borrowers turning to lifetime mortgages in the wake of the Mortgage Market Review (MMR) and the 2014 Budget pension announcement.

The Spring 2015 edition of the Equity Release Market Report from the Equity Release Council shows that as the market has grown, the proportion of new equity release customers aged 55 to 64 dropped from 24% in 2011 to 21% in 2013, pushing up the average customer's age towards 71.
This trend continued in the second half of 2014 when just 17% of new customers fell into the 55 to 64 age bracket. However, following the March 2014 Budget and MMR implementation on 26 April, this age group made up 20% of new equity release customers during the second half of the year.
Compared with the first half of 2014, the number of new equity release customers aged 55 to 64 was 32% higher in the second half of the year, which was also the busiest half year since 2008 for total new plans agreed.

The data suggests that changes in the residential mortgage and pensions markets are having an impact on the profile of equity release customers. Reports have surfaced that people are finding it increasingly difficult to access residential mortgage finance later in life under the MMR rules, particularly if the desired term may stretch beyond their normal retirement age.

At the same time, many borrowers with interest only mortgages are approaching their final repayment date. For those who have no or limited resources for a repayment vehicle, using equity release to pay off their existing mortgage is a common solution.
Some younger borrowers may also have used equity release in the second half of last year to meet an immediate need for extra funds, rather than accessing their pension savings ahead of 6th April 2015 when the new pension flexibilities will take effect.

‘Equity release is helping people respond to a host of financial challenges at various points in later life, or simply enhance their standard of living so they can enjoy a more comfortable retirement. Part of the appeal lies in the option to cover off large one off expenses,’ said Nigel Waterson, chairman of the Equity Release Council.

ZURICH SET TO INSURE LONG TERM CARE

One of the UK’s largest insurers is to begin selling policies to help cover care costs for the sick and the elderly, although it stops short of the comprehensive cover ministers have called on the industry to develop.

Zurich Insurance is within months of launching the product, which will pay out to policy holders if they contract a medical condition such as Alzheimer’s that requires long-term care. Ministers have been urging the financial services industry to sell long-term care insurance to reduce the burden of old age — among the biggest challenges for society as the population ages.
To help stimulate the market, they are planning to introduce a cap on care costs of £72,000, above which the state will cover the bill. Officials had believed the measure, to be introduced next year, would encourage insurers to sell policies to cover costs up to the cap.

But in spite of efforts by Oliver Letwin, minister for government policy, and Norman Lamb, social care minister, leading insurers have spurned the call to develop care insurance products. Now, in a tentative sign that the industry is trying to innovate, Gary Shaughnessy, Zurich’s UK life chief executive, told the Financial Times the insurer was planning to adapt “whole of life” insurance to include long-term care.
Consumers typically take out whole of life cover when they retire, paying a premium that runs into hundreds of pounds a month. Traditionally, the policy pays out when the policy holder dies and is typically used to cover funeral costs, inheritance tax bills or care for disabled children.

The new version being developed by Zurich would cover long-term care as well as death benefits. If the policy holder was left unable to perform tasks such as washing or dressing before he or she died, the insurer would pay out a proportion of the capital.

Trusts

A trust is a legal arrangement that allows assets such as property or money to be looked after for the benefit of the beneficiaries named in the Will. Trusts are often used to hold assets for children until they are old enough to receive them.

This article provides an introduction to the basic principles of trusts, which will help you to prepare for a more detailed discussion with your client or solicitor.

Where we discover a need for advice outside of retirement lending during our fact-find, we will always contact you as the Introducer for instructions on how to proceed.
We can either refer the client back to you for advice or if instructed, arrange for a relevant specialist to advise them.

Why trusts are used:

There are various situations in which a trust may be set up, and not all of them are related to making a Will. For the purposes of making a Will, trusts are usually set up for one of the following reasons:

- To hold assets on behalf of a child until they reach the age of 18. Doing so allows for the property or money to be properly managed until the children are old enough legally to take possession of it. Some types of trust allow the beneficiary to receive an income from the property.
- To reduce the Inheritance Tax liability. Putting assets into trusts can in some cases reduce or even eliminate the inheritance tax liability for that asset; it can also help to keep the value of the estate within the nil-rate band.
- To provide for your spouse while keeping the estate intact to be passed to your children.
- To protect the family home from being sold in order to pay for residential care.

Types of trust

There are different types of trust designed to meet different kinds of needs. The type of trust you use will depend on who the beneficiaries are, what the assets are, and how and when you want the assets to be distributed.

The main types of trust are:

- **Fixed Trusts**, in which the beneficiaries are named and the proportions for how much to pay to each one are clearly stated.
- **Discretionary Trusts**, in which the beneficiaries are named but the Trustees have the power to decide how much to give to each, according to circumstances.
- **Interest in Possession Trusts**, in which the beneficiary, such as a spouse, can use the asset when they are alive but must pass it to another named beneficiary, such as a child, when they die. This type of trust is sometimes used to ensure that one's spouse is provided for, while keeping the estate intact to pass to one's children. Interest in **Possession Trusts** have less beneficial tax rates than discretionary trusts.
- **Accumulation and Maintenance Trusts**, which are usually used to provide an ongoing income for children, to cover living costs, school fees and so on. These trusts attract enhanced tax rates, but they also have some complex rules and restrictions, and it is wise to seek the advice of a solicitor and/or accountant when establishing or managing such a trust.
- **Protective Trusts**, in which the beneficiary can receive income from the Trust while the capital remains protected. This type of trust is usually used for beneficiaries who are bankrupt or likely to become so.
- **Trusts for Disabled Beneficiaries**, which are discretionary trusts with special tax exemptions for beneficiaries who are disabled. This type of trust is often used to hold the compensation payments of people who are disabled due to personal injury.

Setting up a trust is not a difficult process and needn't be expensive, but the advantages in being prepared for what is sadly, a very common occurrence will mean that additional disruption should be kept to a minimum.

Pension freedoms to boost equity release

Under the new Pension freedoms, which officially came into force from 6 April, over-55s have full control over their pensions, while the government has also launched a guidance service called Pension Wise to help them manage their money.

Alice Watson, product and communications manager at Stonehaven, said: "The changes to the retirement income market will completely alter how people assess their wealth in the run up to retirement.

"For many, a significant proportion of their wealth is tied up in their property. With people now encouraged to view their pension pot more flexibly, we could see the same freedom of thought applied to the capital their home can provide."

The equity release market has achieved strong growth, as there was a 29% increase in lifetime mortgage lending in 2014 (£1.4bn) from 2013, as reported by the Equity release Council.

Stonehaven research also found that over the last six months more than a third (37%) of its customers tapped into their property wealth to fund home or garden improvements.

A further third (36%) used funds to clear existing mortgages and one in five (20%) use equity release to gift family members.

Watson added: "The market is growing, and this looks set to continue with new, flexible products helping the industry evolve to meet consumer needs.

"It's now more important than ever for financial advisers to include a client's property alongside their pension pots and investments when looking at planning for retirement.

"With lifetime mortgages moving into the mainstream, it's up to us in the industry to demystify the products so that

Stonehaven Equity Release switches to fixed ERC's & adds flexibility

Stonehaven has introduced a new product range which offers customers control over any early Repayment charges (ERCs) across the entire duration of their lifetime mortgage. The new Fixed ERC replaces Stonehaven's existing variable charges and applies to its entire range, including its voluntary and interest select products.

Robert Sharpe, executive chairman at Stonehaven, said: "This new product is a game-changer. In keeping with the ethos of Stonehaven we have listened to customers, conducting research where they have told us they want greater simplicity and certainty. This is our response. It is the most flexible product of its type on the market and combined with our rates which are among the best out there, it offers people real peace of mind.

"This straightforward, transparent approach will provide welcome certainty to customers as they sit down with advisers to plan their finances – whether it be for retirement, home improvements or paying off existing debts."

The new fixed early repayment charges from Stonehaven are as follows:

- Years 0-5 of the lifetime mortgage: 5% charge on any early repayments
- Years 6-8: 3% charge on any early repayments
- Years 9+: no charge on any early repayments

Stonehaven has also launched a new cash reserve facility, which will be available across their entire product range. The facility allows customers the option to withdraw further money at any time without having to seek financial advice. Customers will also have the option to service the interest.

Referral Service

- Expert independent advice on your clients' options.
- Free, no obligation initial consultation
- Home visits with family encouraged to be present
- A professional report detailing my advice.

My promise to Introducers

- Client contact within 1 business day
- You are welcome to attend meetings if you wish
- Regular updates on the progress of your referral
- I will ALWAYS refer client back to you for other areas of financial advice

To refer an enquiry or for more information please don't hesitate to get in touch...

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