A fresh look at mortgages in later life

Transforming retirement lending with multi award-winning lifetime mortgage solutions

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Legal & General

Later life borrowing today

In previous generations, debt and retirement didn't mix. Mortgages were usually repaid by retirement, often because lenders insisted on it. And for some, any borrowing in retirement was considered a sign of financial distress rather than intelligent financial planning.

This picture has changed for a number of reasons. Increased life expectancy, greater pension flexibility and lower interest rates are all factors of the merits of later life borrowing.

Awareness of these changes can help advisers and providers better understand the evolving needs of clients. And it can help clients to understand the thinking behind the recommendations they receive.

Longer lives require more resources

Longer life expectancy has far-reaching effects. At a fundamental level, it means they need more money in retirement simply because it may need to last around twenty years rather than ten.

Although retirement age is rising, it hasn't kept pace with increasing life expectancy. And healthy life expectancy has not grown as fast as broader life expectancy. This can put pressure on the finances of retirees, who may now need to pay extra costs, for example to cover residential care.

Advisers may find clients need more help to manage their money over this longer period, creating a secure and predictable income in a more difficult environment.

They may also need to help clients find more flexible solutions, as concepts about retirement shift. Retirement is no longer a single, fixed point. Instead, retirees are increasingly looking for a different type of retirement, potentially working longer and with more ambitious retirement plans. As a result, reviewing all of a client's assets is becoming increasingly important.

Housing wealth

The latest generation of retirees have, on average, enjoyed enormous rises in the value of their homes. House prices have risen in England by 42% in the last 10 years.

This could make their home an obvious asset to tap into, to support their retirement and even to help others – for example, helping adult children get onto the housing ladder.

A recent report into later life borrowing from the Council of Mortgage Lenders found an attitudinal shift to property among older people. It said:

> "A new mindset is beginning to be evident among the older population. Property ownership is no longer just about accumulating an asset during working life."

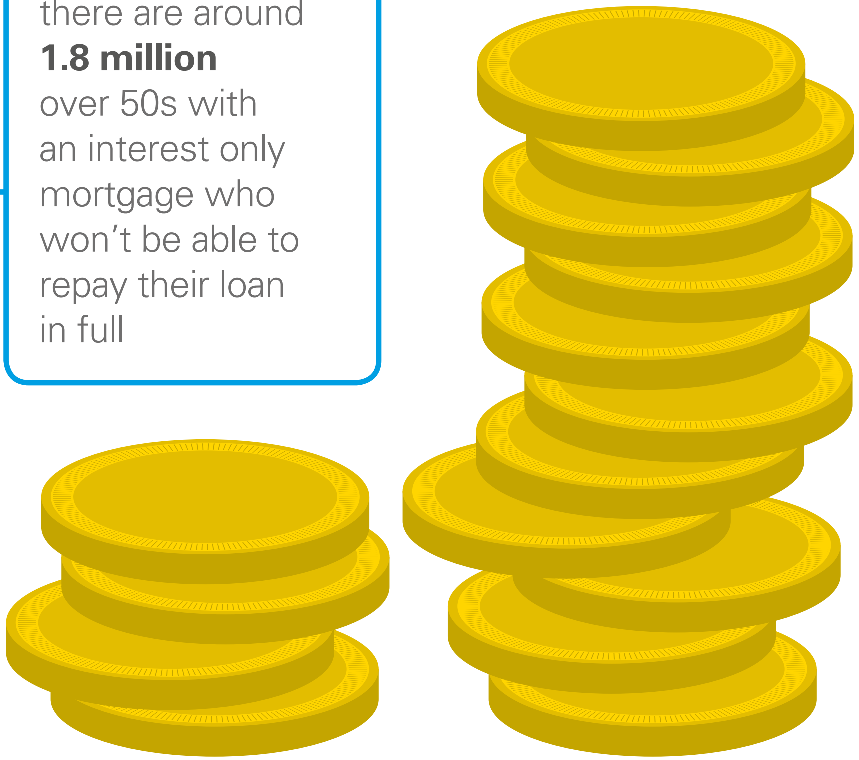
It's estimated that in the UK:

- Over 55s hold £2.5 trillion of property wealth
- 30% of later life borrowing is lifetime mortgages
- A record £2.15 billion was unlocked via equity release in 2016
- House prices have risen in England by 42% in the last 10 years

The facts and figures

In 2016, a record **£2.15 billion** of housing wealth was unlocked through equity release

Research suggests there are around **1.8 million** over 50s with an interest only mortgage who won't be able to repay their loan in full



The changing role of pensions

Changing pension regulations have allowed greater flexibility in accessing pensions.

And people are increasingly using other sources of income (such as savings and ISAs) to support their retirement, instead of immediately and automatically taking their pension. Part of this includes people of varying wealth considering their home as one of these potential sources.

As a result, the lifetime mortgage market has shown consistent growth. In 2016, a record £2.15 billion of housing wealth was unlocked through equity release.

Attitudes to mortgages are changing

Repaying the mortgage was traditionally a financial priority for many of those approaching retirement.

But research suggests that around 1.8 million over 50s with an interest only mortgage won't be able to repay their loan in full.

Some will have other repayment options in place which may help. For example, expected inheritances or savings. For those that still face a shortfall, one option could be to sell up and downsize.

But others are looking at ways to stay in the home they love, particularly if there's significant value in the property over and above the outstanding mortgage.

It's another reason why the home should be reviewed as part of an individual's asset mix when creating a retirement plan – in the same way that pensions or investments would be considered.

Conventional mortgages are now an option for some

In recent times, lenders have become more amenable to older borrowers, rates have improved and there's greater flexibility in the products available. Many high street lenders may be willing to extend the term of a mortgage beyond retirement age, as long as the borrower has the income to support it.

However, this is an important caveat for many. Even if they're still working, many people aren't earning at the same rate they once were and are therefore limited in how much they can borrow. Lenders may have relaxed their age criteria, but other lending criteria have tightened considerably in recent years. As such, this may only be an option for a relatively small number of retirees.

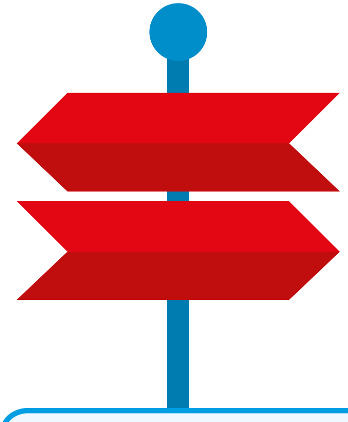
Lifetime mortgages can provide the solution

As new, more flexible, products with lower interest rates become available, lifetime mortgages are an increasingly more mainstream option in retirement planning.

Many are using them to repay an existing interest-only mortgage, with almost a quarter of lifetime mortgages being used for this purpose. The ability to stay in their family home or preserve it as a legacy is an important emotional draw for many people.

Those on lower incomes may benefit from not having to make mortgage repayments, whilst still benefiting from any future rise in property values.

In summary



The landscape of retirement is changing and homes are a key consideration of any retirement planning process. Lifetime mortgages are, and will continue to be, an important part of many people's retirement plan, allowing them to remain in their homes and protect their assets. The changing attitudes to retirement means that advice doesn't necessarily end at a defined retirement date. Instead, it may be necessary as a client's needs change, making it beneficial for both advisers and clients to keep in touch throughout the latter's later life.

Educating the public

The volume of lifetime mortgage customers grew by 22% in 2016. Despite this increase, the long-held stigma that they are a 'last resort' for distressed homeowners still exists.

Advisers specialising in lifetime mortgages have a key role to play in demonstrating that they're a potential solution for more clients. Indeed, all those who have significant value in their homes should consider their property as part of a retirement planning review alongside all of their other assets.

Of course, homeowners need to understand that interest is added to the loan and builds up quickly, reducing the value of their future estate, and there may be cheaper ways to borrow money. Where the choice is between a lifetime mortgage or a forced sale of the family home, the decision may be easier. But for those who are keen to leave as large a legacy as possible for the next generation, it can be a negative factor.

For some, there'll be a trade-off between their children having financial help today, or having to wait until after they die, via an inheritance. It's undeniable that for some of these potential recipients, the money will be more useful now while they're struggling to set up a home and run a family.

And for those who wish to be certain about leaving a legacy, a Legal & General Lifetime Mortgage includes the option to secure a portion of the inheritance for their beneficiaries.

There's also the opportunity to make optional partial repayments on the loan which could serve to reduce the accumulated debt without incurring early repayment charges (if made within terms and conditions). This will reduce the amount owed and will reduce the total amount of interest that will accumulate on the lifetime mortgage.

The importance of specialist advice

Changing attitudes require a new approach from advisers. Increasingly, clients need a holistic perspective of their finances to support retirement plans. This goes beyond just looking at pensions or investments. The Council of Mortgage Lenders has called for a more joined up approach to delivering advice for older borrowers. For borrowers over 55, it's difficult to re-earn wealth and there are a lot of issues for clients to consider. It's vitally important they're getting the whole picture.

To find out more, please email our support team at
enquiries@landghomefinance.com

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