

Alternatives to Equity Release

There are a variety of options for people who are looking to raise money from their home and it is important to consider all the options before deciding if equity release is the best one.

Moving Home

Moving to a smaller property or to a different area can generate a lump sum of money from the sale of the property. Many people find that retirement is a time when they do not wish to have the upheaval of moving and they may also need some level of support from friends and family who are nearby.

Advantages

- No third party involved.
- Cheaper than other methods.
- Flexibility regarding amount released.
- Opportunity to move to a more suitable property for the future.

Disadvantages

- Move out of what is probably a very familiar and long-standing home.
- Move away from friends and family.
- Cost of estate agents, solicitors, removals and stamp duty.
- Cost of furnishing and decorating a new property.

Borrowing Money

Even those who are retired can borrow against the value of their property in other ways. This could be a loan or a mortgage which would provide access to equity in the property under the terms of a credit agreement or a normal residential mortgage.

Advantages

- Quick to arrange.
- Less disruption than moving.
- Loans can be arranged for short terms.

Disadvantages

- Regular payments will usually be required.
- Interest rates on loans are generally more expensive than on mortgages.
- Mortgage rates are usually cheaper than loan rates but still require sufficient income to make regular payments.
- Have to make separate arrangements to use the lump sum as an income, if desired.
- If the means to repay the loan are not in place, there is a risk of spiralling debt and possible negative equity.

Help from Relatives

Some people may be fortunate in being able to come to an arrangement with their relatives which could supplement their income or provide them with a lump sum.

Advantages

- Cheap way to borrow.
- Quick to arrange.

Disadvantages

- Have to discuss financial matters with relatives.
- Increased dependency on a relative.
- Relative may not always be able to continue the arrangement for life.

Do Nothing

Equity release is most commonly used to maintain the standard of living that somebody is used to rather than as a means to produce funds required to survive.

Advantages

- No arrangements to make.
- Leave inheritance to the children.

Disadvantages

- May have to watch the pennies.
- Unable to have the little luxuries.
- Children often prefer their parents to enjoy the equity available to them.
- You may not maintain the lifestyle you enjoyed pre-retirement.

Use of Other Assets

Many people will have some form of savings or investments tucked away "for a rainy day" which they could possibly use to achieve their goals instead of using an equity release plan.

Advantages

- Lower cost option.
- Quick to arrange.

Disadvantages

- Nothing left once money has been used.
- Loss of future return.
- Risk of encashing when investments are low.

Grants

Local authorities offer grants to help with the cost of home improvements, but the amount and availability of these depends on the local authority itself. It is best to find out what the local authority may be able to offer when considering equity release.

State Benefits

Please see our separate information sheet for details of which State Benefits may be affected by the use of an equity release plan. For example, if somebody is entitled to Pension Credit but is not claiming it, it may be more beneficial for them to claim this entitlement than to use an equity release plan.

For Further Information

Mortgage Talk's moving costs calculator is available at:
www.mortgagetalk.co.uk/buyingmovingcostcalculator.aspx

For more information about borrowing money, you can visit your local Citizen's Advice Bureau or their website at:
www.citizensadvice.org.uk

For more information about grants, visit your local council or:
www.adviceguide.org.uk/index/family_parent/housing/help_with_home_improvements

For more information on the above please contact your Financial Adviser.



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