

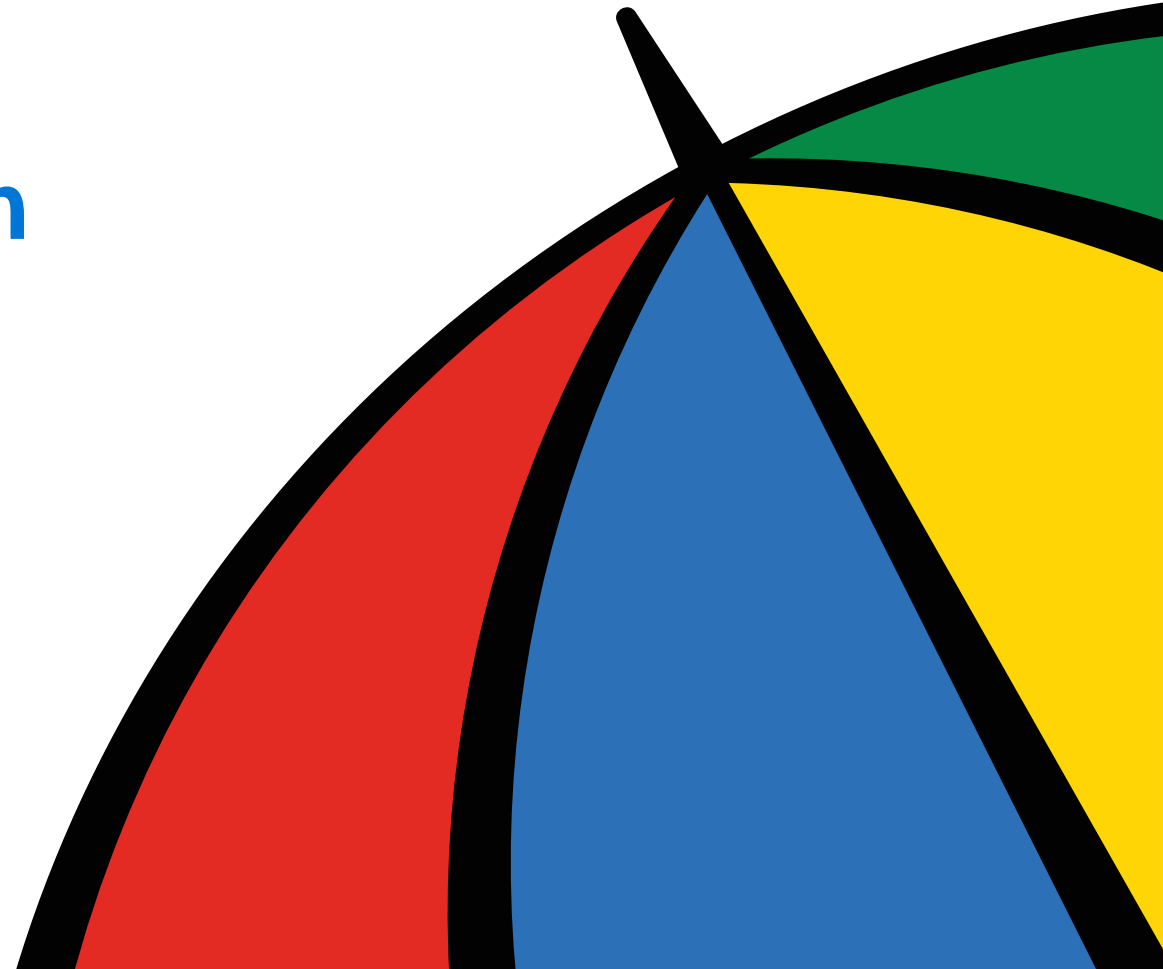
L&G Home Finance:

Why later life lending should be in your next business plan

Nick Birdseye
Strategic Partner Development Director
Legal & General Home Finance
nick.birdseye@landg.com



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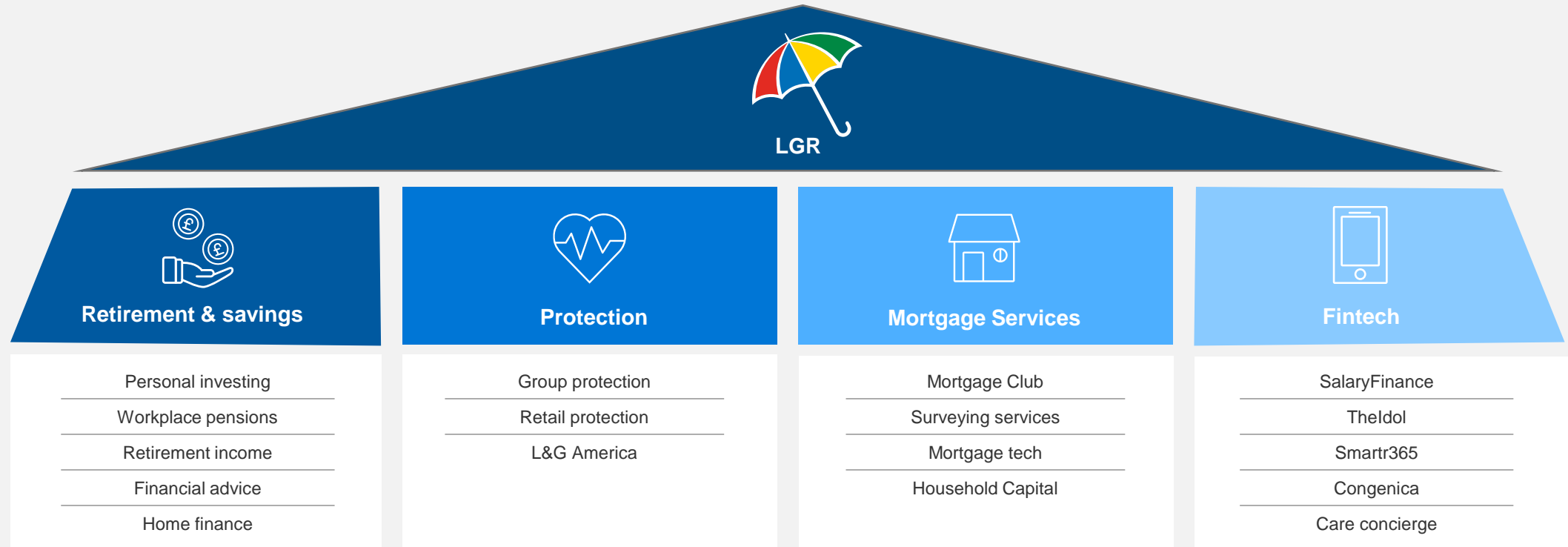
Learning Outcomes

1. Understand the factors driving growth in the later life lending market and the growing opportunity for customers to use their housing wealth to provide better retirements
2. Consider how later life lending can provide new commercial opportunities for your business
3. Learn how to get started in the later life lending market



Legal & General Retail

Legal & General Retail, recently formed to bring together all retail divisions with a clear focus on helping customers across all stages of their financial lives



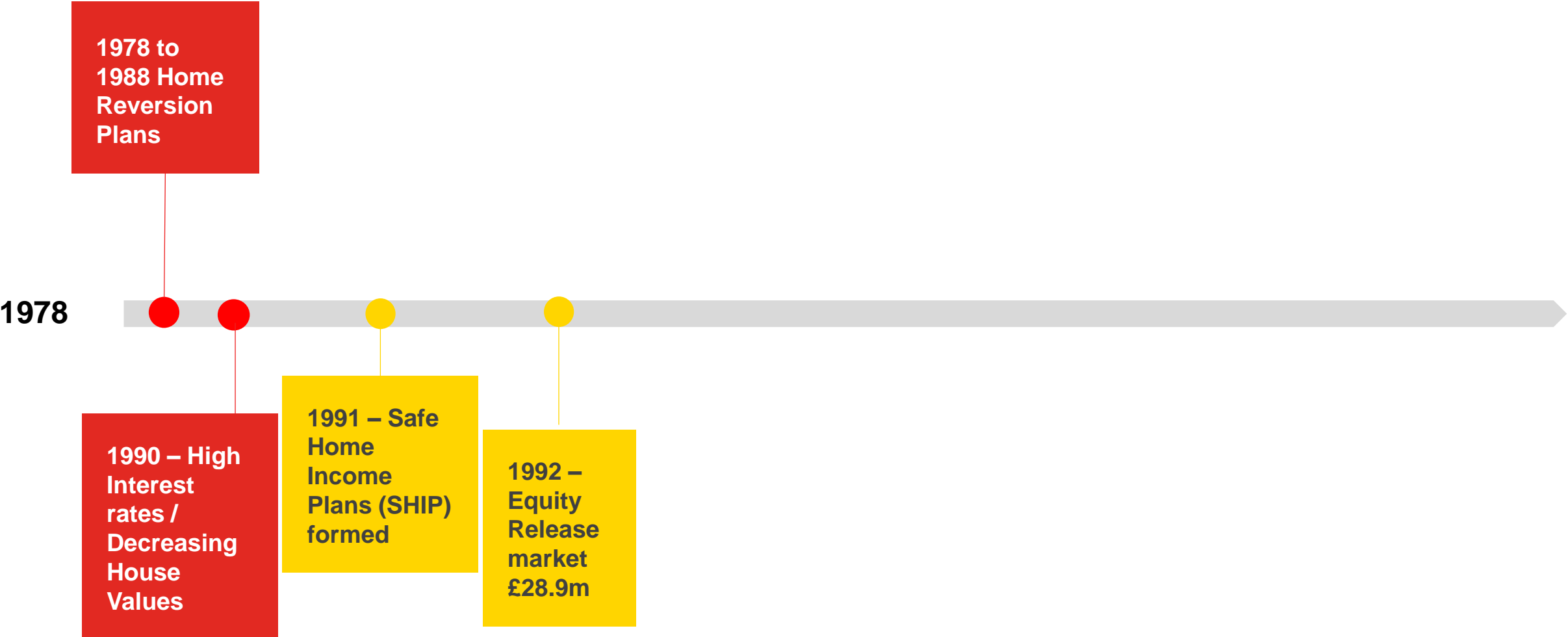
The equity release journey

1978 to
1988 Home
Reversion
Plans

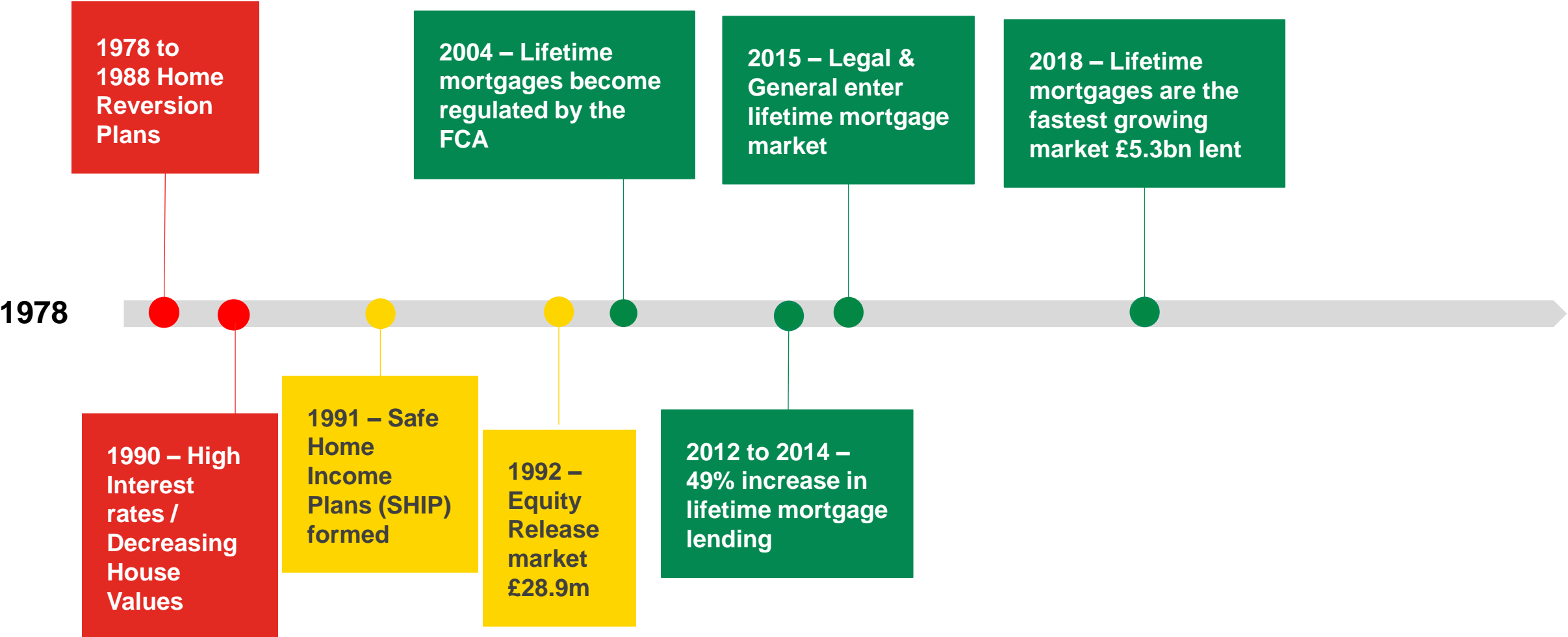


1990 – High
Interest
rates /
Decreasing
House
Values

The equity release journey

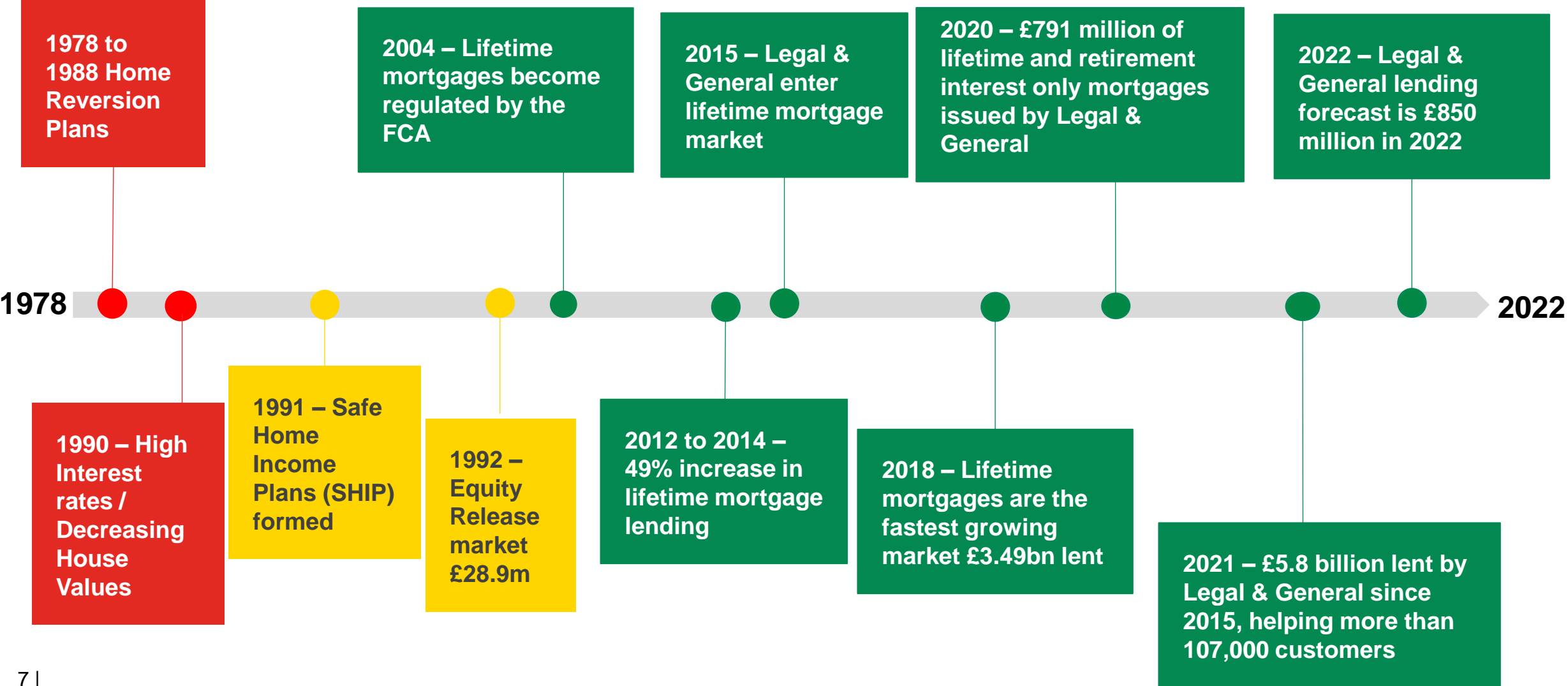


The equity release journey



The equity release journey

Less than 1% now reversion plans



Equity release myths



- It's too expensive
- I won't own my own home
- I could be forced out of my home
- I won't be able to leave my family anything
- I'll end up with negative equity

Equity Release Council & regulator engagement



- ✓ Independent legal advice
- ✓ **Right to reside in the property for life**
- ✓ Borrower must be separately represented
- ✓ Solicitors Certificate
- ✓ The right to move to a new acceptable property
- ✓ **No negative equity guarantee – never have to repay more than the value of the property**
- ✓ **Interest rates must be fixed or capped for the life of the loan**
- ✓ *Clients must be able to make optional repayments - New*



Equity Release Council

L&G on the board
Contribute to working groups



Stewardship of the market

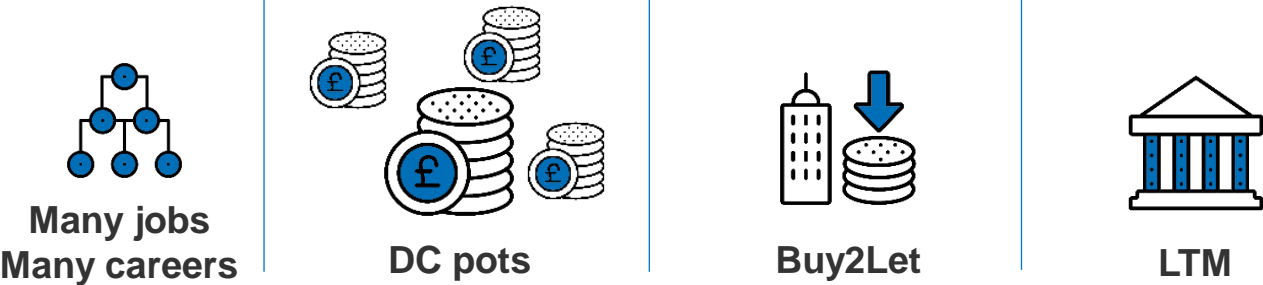
Driving down costs since entering the market
Leading development



Regulatory engagement

Regular interaction with the FCA
Support engagement & market development

The changing culture of retirement



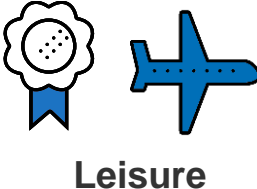
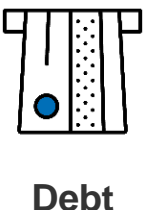
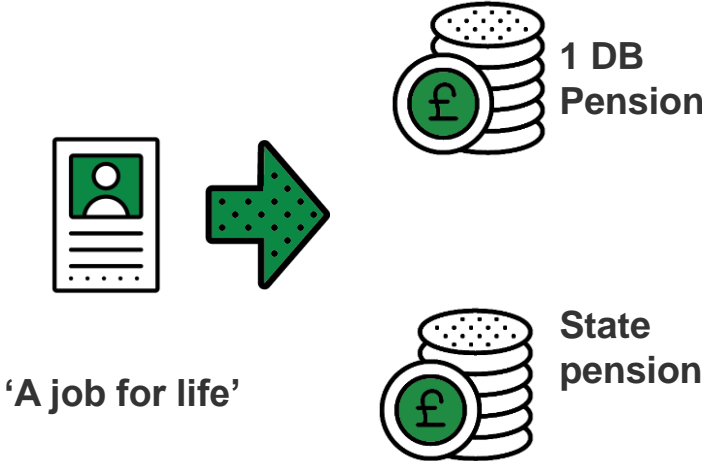
1980's

2022

Children at home

Parents

Ex's



Life goals of the over 55s



72%

Still have goals in life they'd like to achieve



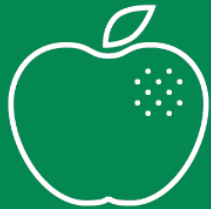
17%

Said their 60s was when they achieved most of their life goals



51%

Were optimistic they still had time to fulfil all their goals



85%

Of both men and women agreed that they thought people over the age of 55 have a better quality of life now than they would have done in previous generations



22%

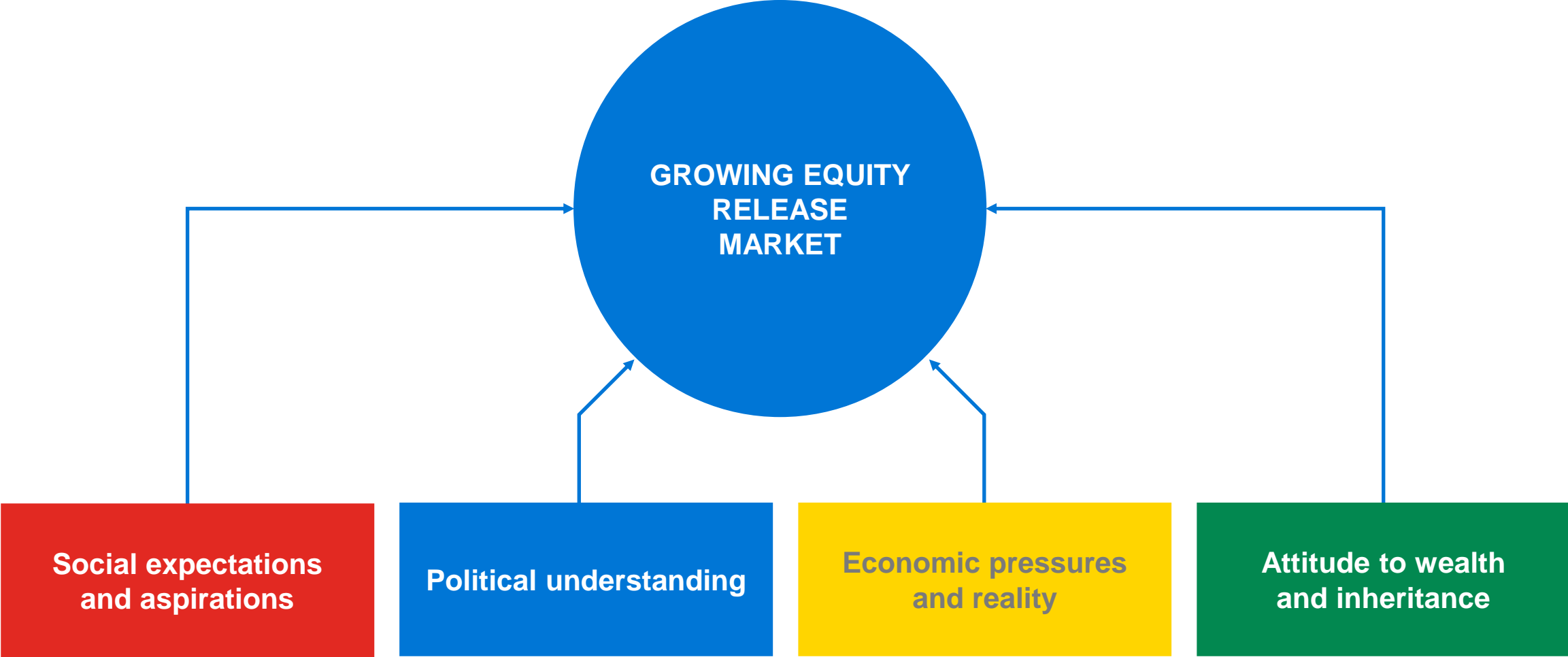
Had got fit and healthy so they could enjoy their spare time more



29%

Said that a lack of time or difficulty fitting in time around work was stopping them achieving their goals

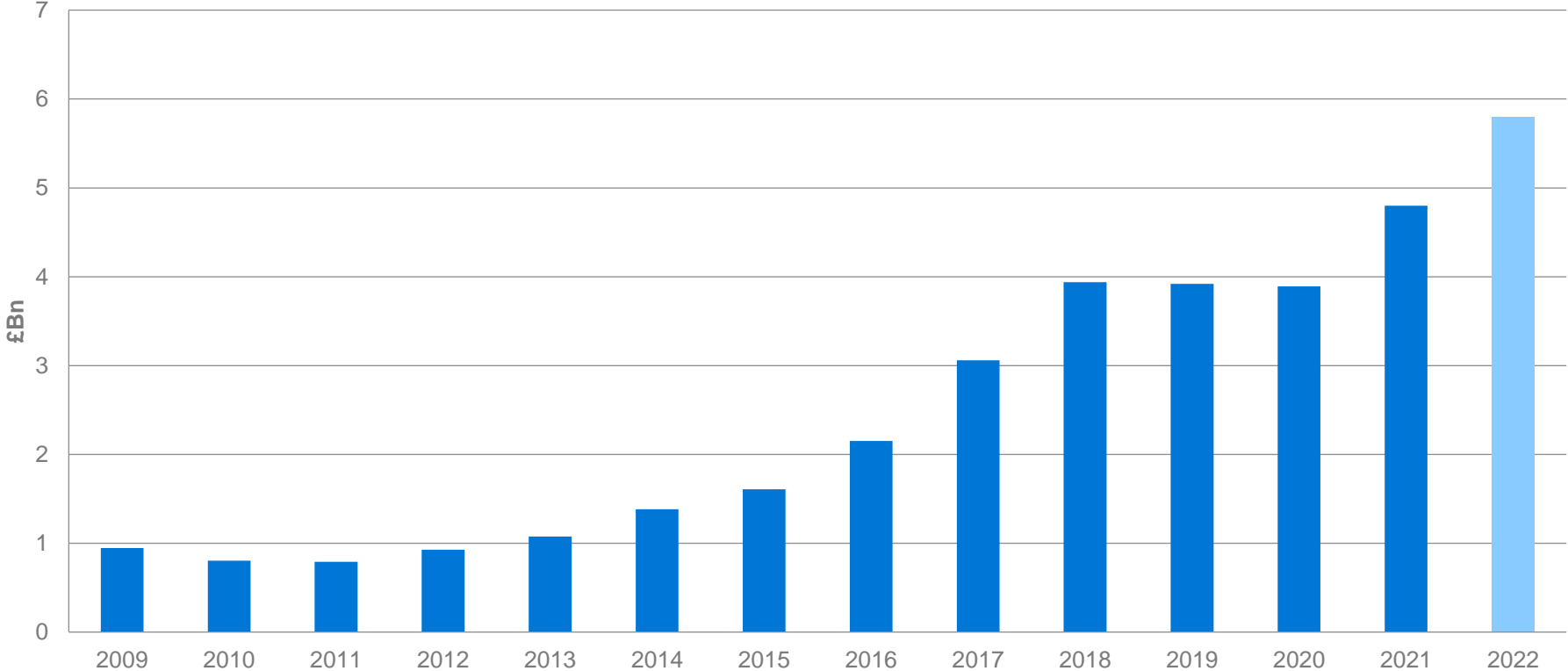
Market growth factors



The market and future potential



The market remains resilient despite Covid-19 creating economic uncertainty



Source: Equity Release Council

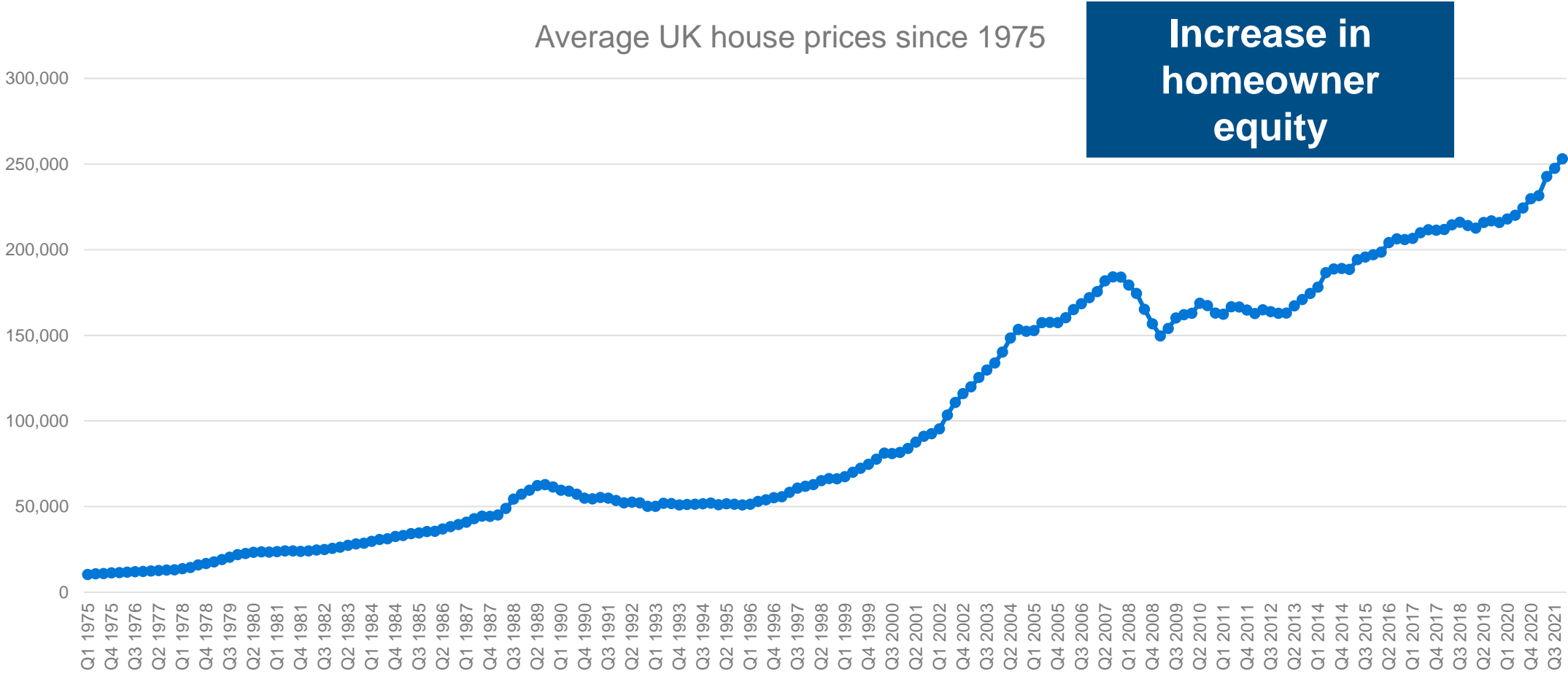
Why is property wealth relevant now?

Developing a holistic approach to retirement planning

- **Longevity.** People are living longer and they want to do more. They need more money.
- **House prices out of reach.** Makes it harder for young people to get on the property ladder and many families want to help them. The average deposit is now more than £59k.
- **Rate of divorce in over 60s growing.**
- **Tax.** Important to ensure that all assets are making the most of current tax legislation



House price inflation since 1975



Source: Nationwide average house price index

Smarter property wealth

It's not just London and the South East...

+40%

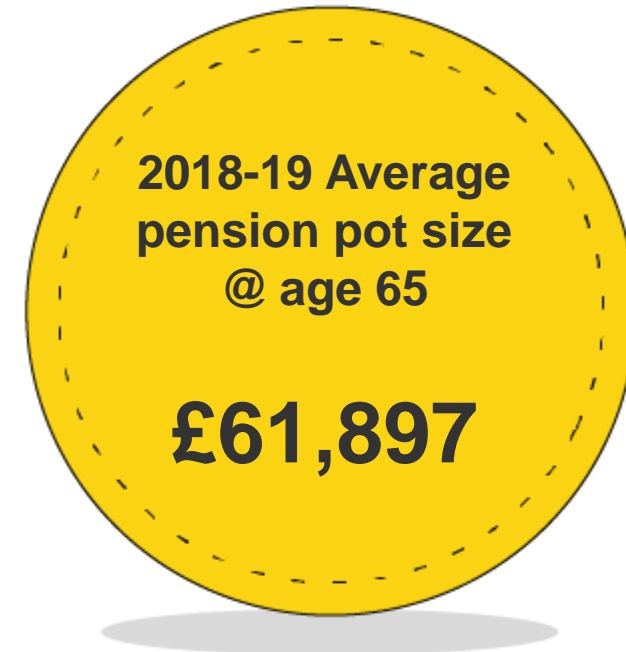
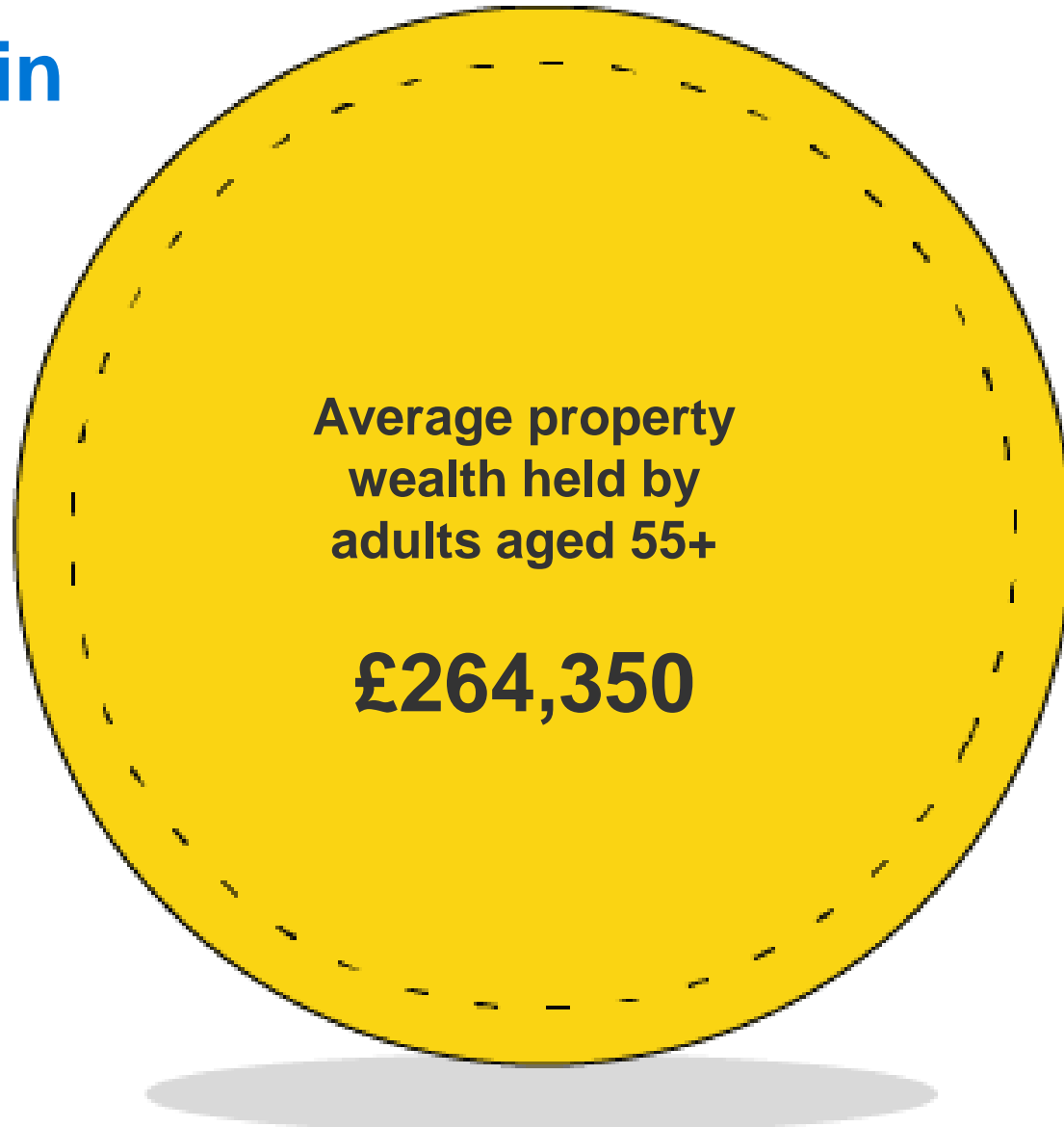
Increase in estates liable to IHT

400,000+

£1M+ homeowners aged 55+



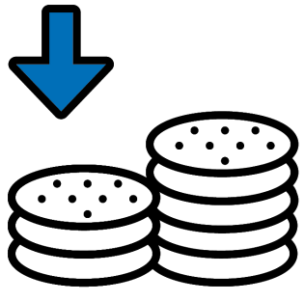
Housing wealth in proportion



Source: Moneyfacts / ONS / FCA

Equity Release can be part of a holistic retirement strategy

Consider all assets to:



Minimise tax

A tax efficient decumulation strategy will seek to minimise exposure to income tax by taking advantage of the various tax reliefs available.

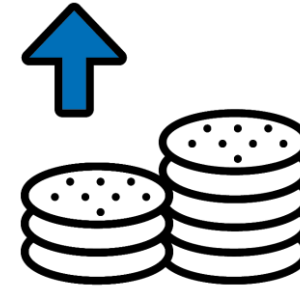
Any release of equity will have no impact on a clients income tax position.



Preserve capital

It is important to pay attention to the dangers of “sequencing risk” i.e. drawing from capital at a time when asset values are low.

Releasing equity can allow other assets to remain invested for longer



Enhance inheritance

The release of cash with a Lifetime Mortgage creates a debt on the property and therefore the estate.

The client can continue to occupy the property while using the realised cash to make a gift.

Why later life mortgages?

A range of benefits for your business whether IFA or Mortgage Broker



**Increasing
embedded value of
your client base**

**Broaden
proposition**

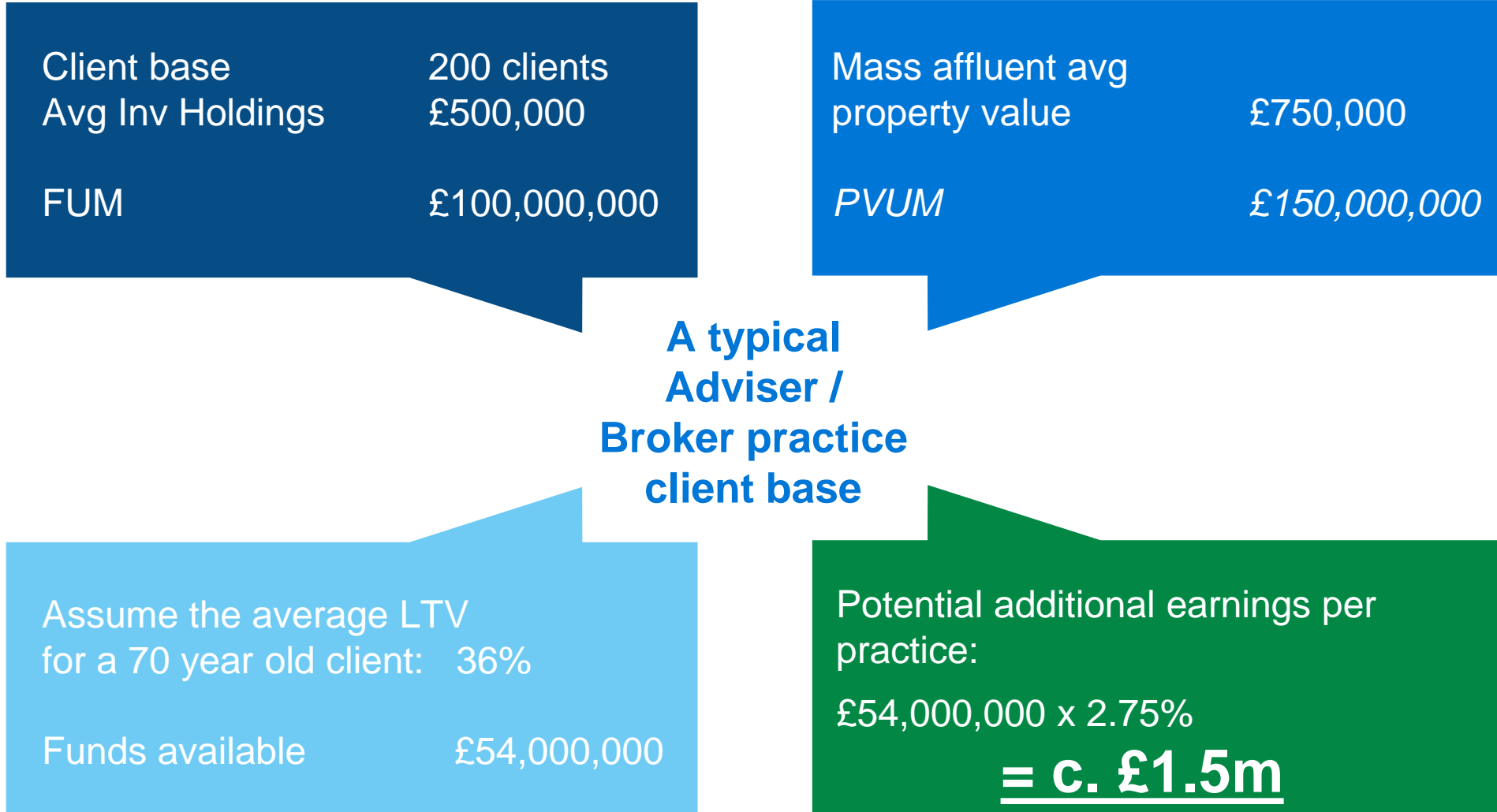
**Retain and
Maximise customer
value
IFA and Mortgage**

Recurring income

Lead your peers

**Increase
recruitment appeal**

The commercial opportunity - "Property Value Under Management"



Target market



Chris & Family
Age 46 & 42
Employed

Two children of school age
**25 year mortgage extends
beyond retirement age (71)**



Rob & Jen
Age 58 & 55

Rob retired due to ill-health and
Jen gave up job to act as carer.
Income, made up of pension and
benefits. **Interest-only
mortgage shortfall**



John & June
Age 75 & 67
Retired

Pension income
**Released equity to gift to
children and grandchildren,
but also fund aspirational
holidays abroad**

Understanding affluent clients



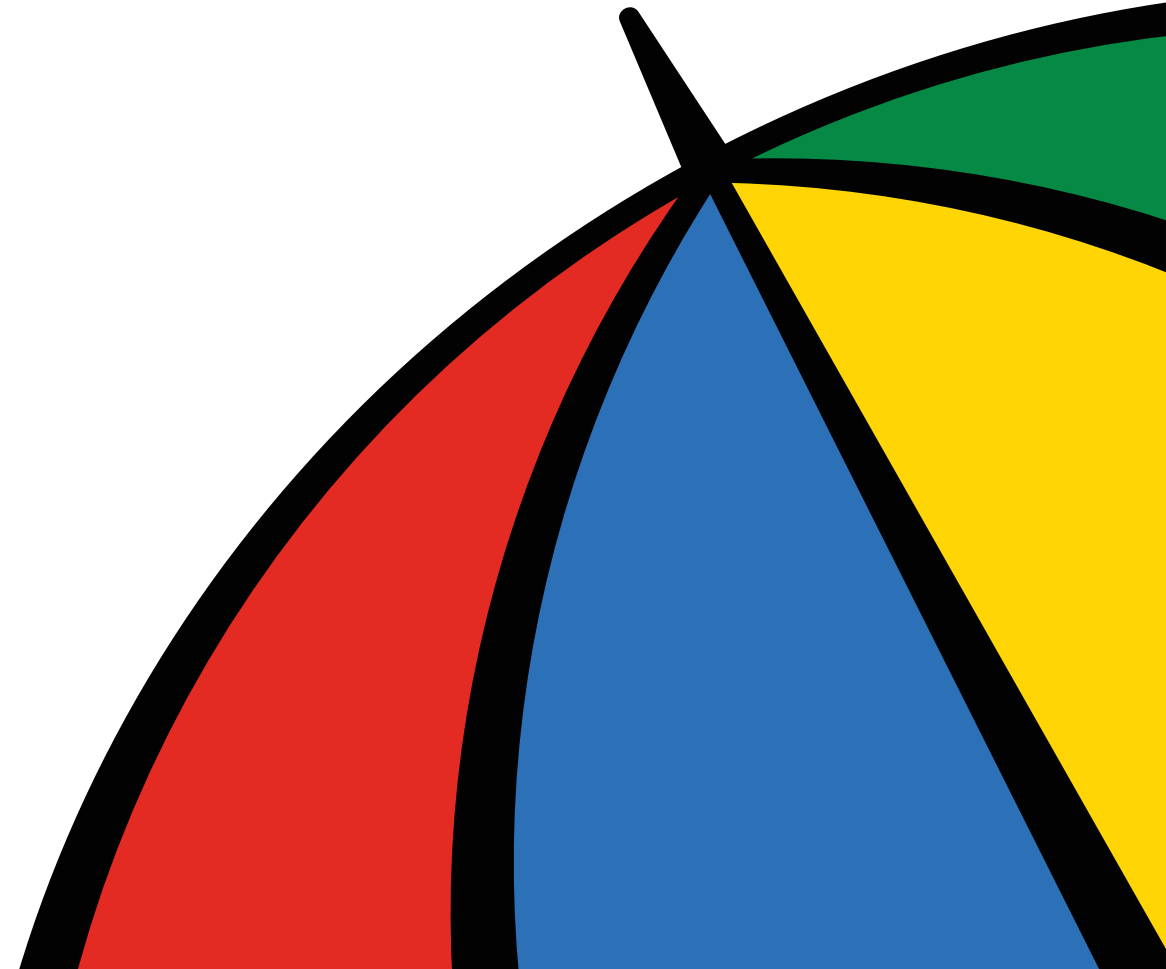
The typical L&G 'affluent' customer has the following attributes:

- Owns a property over £750k
- Is aged between 71-76 years old
- Is represented by the following groups:
 - Wealthy Countryside Commuters
 - Large House Luxury
 - Metropolitan Money
 - Asset Rich Families
- Objectives are focussed on gifting and repaying existing mortgages

Meet John & June Legal & General Lifetime Mortgage customers

<https://www.youtube.com/watch?v=XPfveGp3yeQ>

Technical example: Estate planning



Intergenerational Wealth



What are the benefits to providing an early inheritance?

- The ability to control the timing of the gift
- The emotional benefit of seeing loved ones improve their lives
- Avoids the need to downsize and leave the family home
- Can be used as part of tax efficient estate planning

Future proof your business. Building relationships with the next generation of investors

Mortgages, property and IHT



The IHT regime supports outright lifetime gifts:

- No immediate tax charge
- No tax charge after seven years
- In limited circumstances, taper relief available if death occurs after three years, but before seven

BUT...

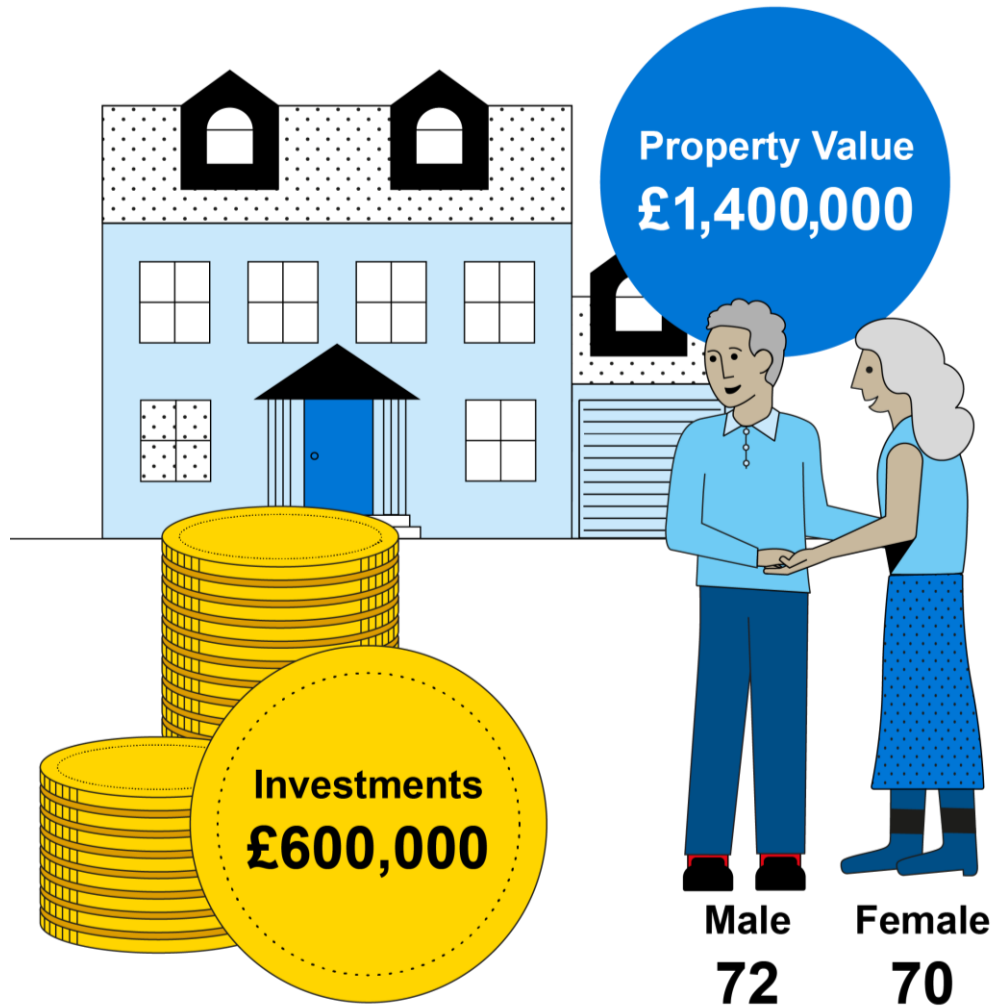


However;

- Many people do not have large sums of capital to give away
- Those that have the means may be reluctant to make lifetime gifts for a variety of reasons
- A lifetime mortgage can provide the capital for a lifetime gift
- Using a lifetime mortgage/lifetime gift combination can both:
 - Increase the net inheritance; and
 - Deliver part of it much sooner.

BUT the numbers need to add up for all involved

Case study: Setting the scene



Inflation rate <i>(Average of last 5 years)</i>	2.70%
Property growth rate	3.70%
Investment return	3.70%

Equity Release	
Equity Release Loan	£400,000
Fees	£1,279
Interest Rate MER	3.90%
Interest Rate AER	3.97%

1st death after at least 7 Years
2nd death after 16 years

IHT in 2022: Do nothing vs lifetime mortgage option



	Do nothing	Roll up loan of £400k gifted	ROLL UP loan of £400k Gifted & invested
	Year 16	Year 16	Year 16
Gross assets	£3,576,762	£3,574,475	£3,574,475
Outstanding mortgage		£-745,717	£-745,717
Taxable amount		£2,828,758	£2,828,758
Available nil rate bands	£1,039,400	£1,413,402	£1,413,402
(RNRBs tapered in Year 16 by £4,348)			
Taxable @ 40%	£2,537,362	£1,415,356	£1,415,356
Inheritance tax	£-1,014,945	£-566,142	£-566,142
Net estate		£2,262,616	£2,262,616
Add back gift		£400,000	£400,000
Net benefit			£2,662,616
Add back growth on gift			£315,352
Total net benefit	£2,561,817	£2,662,616	£2,977,968

Later Life Lending Products for over 55's



1

Flexible Lifetime Mortgage

Allows customers to release some of the money tied up in their home to provide a lump sum, or smaller amounts as and when they need them. There is no need to make monthly payments.

2

Optional Payment Lifetime Mortgage

Allows customers to release money tied up in their property and choose to pay some, or all of the monthly interest by Direct Debit, which can reduce the overall cost of the loan.

3

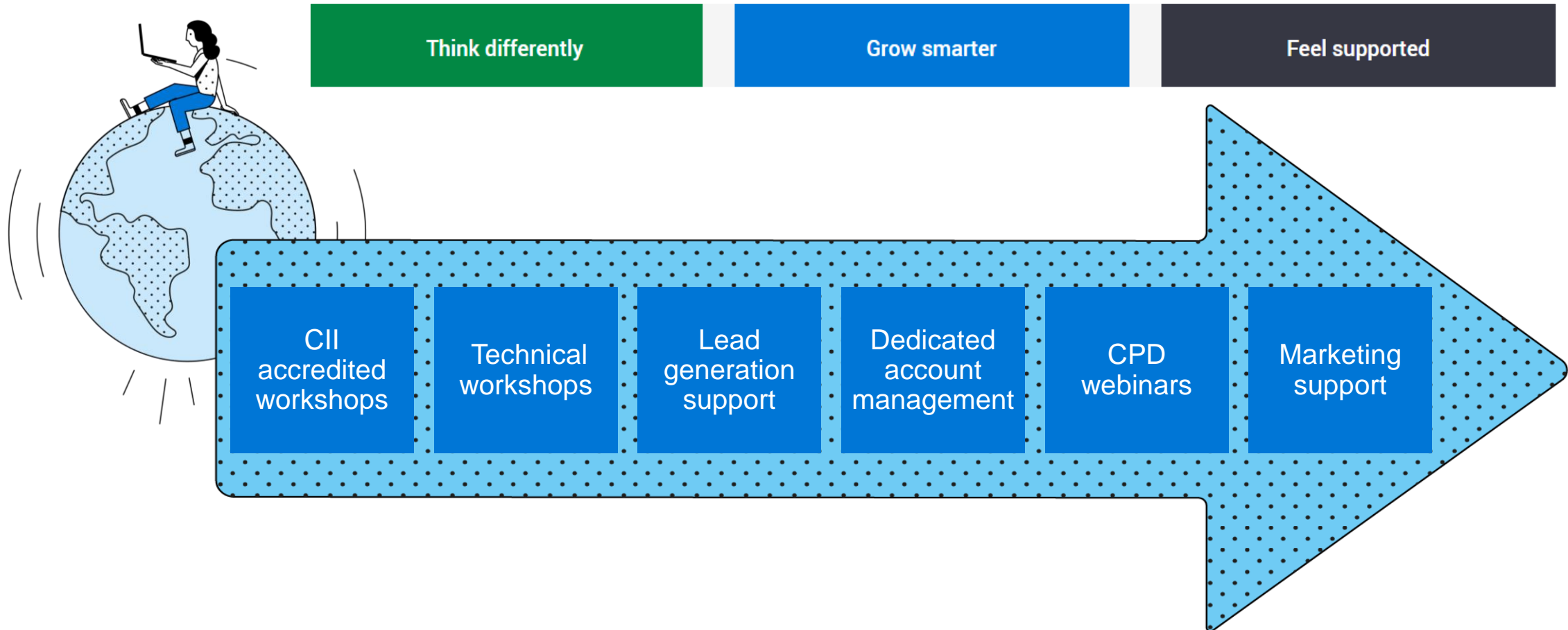
Retirement Interest Only (RIO)

Allows customers to fund purchases or re-mortgages, potentially clearing existing interest only loans, whilst repaying all of the monthly interest by Direct Debit. Loans are subject to affordability, with rates fixed for life & a max LTV of 60% with up to 8.5 LTI (dependent on circumstances).

Adviser support

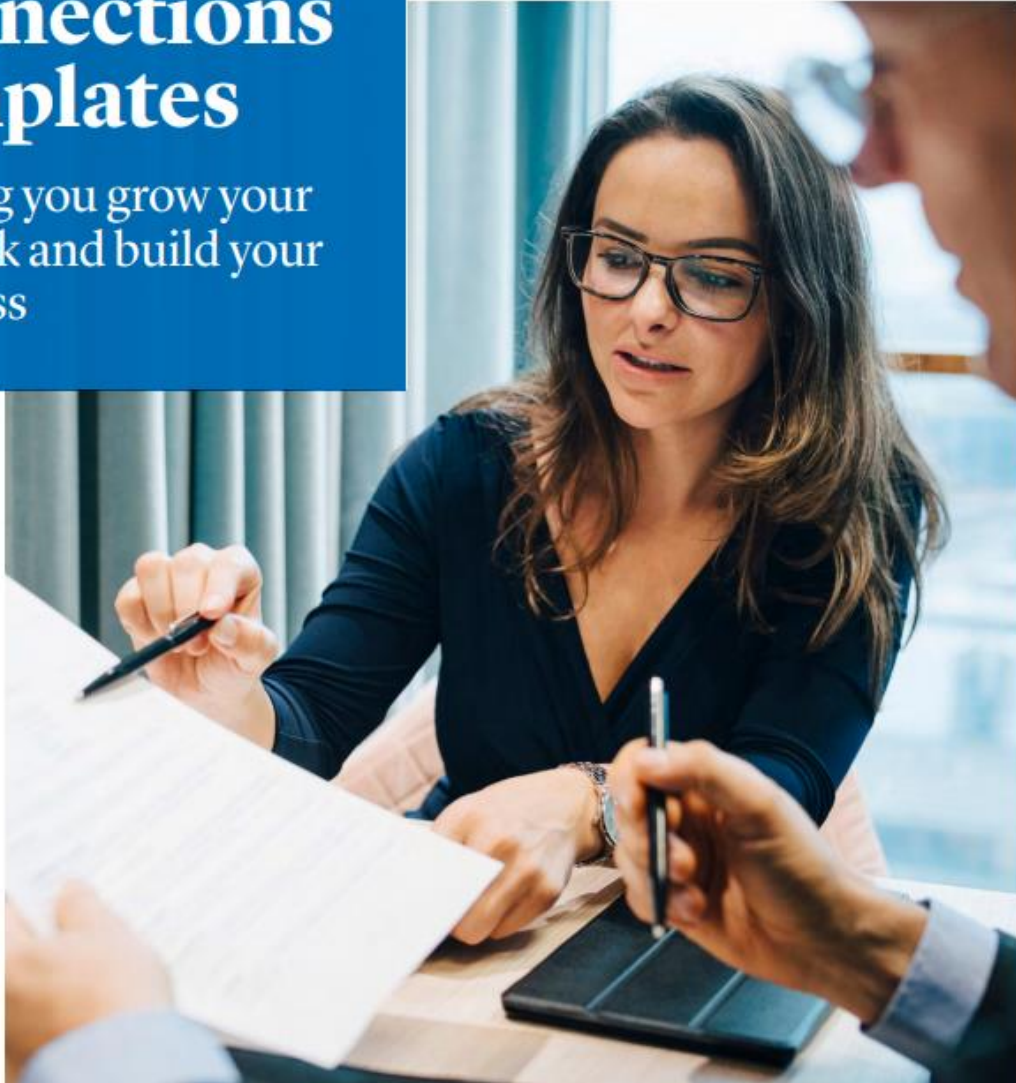


Think differently: From market entry support through to technical product insights, we're committed to supporting you both professionally & personally by advancing your skills in this market.



Professional connections templates

Helping you grow your network and build your business



Grow smarter

Good relationships with professional partners such as solicitors, estate agents and tax planners can help you grow your client base.

We now provide guidance and free templates to help you contact the right people.



We've created a range of useful templates to help get you started and give you back a few valuable hours.

Scan to access the templates.

Tailored support for premier products

Feel supported: Our Distribution team helps advisers to support their clients to achieve their financial goals in retirement



Every client is different and for wealthier clients, there can be more complexity involved. Our team aims to help you find the best possible solution:

Bespoke underwriting

We review every case referred to us, and have resource dedicated to technical underwriting; helping you find a solution for your clients faster.

Larger loans

In the last year alone, we've helped almost 500 customers with our large lifetime mortgage loans across the UK. Our new Premier Lifetime Mortgages can help your clients nationwide.

Technical expertise

Our Account Managers tailor our case consultations to support more affluent clients with inheritance tax planning, long-term care considerations and trusts.

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Questions

Nick Birdseye

Strategic Partner Development Director

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nick.birdseye@landg.com



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