24 March, 2021.

Equity Release Schemes

Equity Release Schemes are a form of lifetime loan. (For more information on the different types of products which enable people to access money based on the value in their homes, see https://www.ccpc.ie/consumers/money/mortgages/equity-release/).

They are primarily aimed at people who own their own homes and have paid off their mortgage. Sometimes, the target group for equity release schemes is described as being 'asset rich and cash poor', i.e., they have equity in their home but perhaps are finding it difficult to make ends meet after retirement. Equity Release Schemes allow such people to release cash from their home by borrowing against it. The home must be a main residence and not an investment property or holiday home.

1. How does equity release work?

The main difference between Equity Release Schemes and ordinary loans is that there are no repayments during the lifetime of the borrower. Instead, the loan must be repaid, with considerable interest, when the homeowner dies or when the property is sold. Availing of equity release therefore reduces the value of your estate.

In order to apply for a loan, the applicant must usually be 60 years of age or older. Generally, the share of the property one may borrow against increases with the age of the applicant. For example, an 80 year-old can borrow against a higher share of the property than a 65 year old.

Because loans offered via Equity Release Schemes incur no repayments over the life of the loan and interest is compounded, these loans can be very expensive compared to traditional loans.

Moreover, the longer the borrower lives, the greater the costs of the loan. (The compounding of interest means that interest is calculated based on both the initial principal sum of the loan plus interest on the accumulated interest from previous periods of the loan).

Equity Release Schemes may provide a satisfactory means of accessing cash for some older people. However, they are not suitable for everyone and Safeguarding Ireland would strongly advise those thinking of availing of such schemes to consider them very carefully and access independent financial and legal advice before making a decision.

2. It's your decision

If you decide to avail of equity release it must be your (and any co-owners) decision and yours alone, and **you should not feel pressurised by anyone else to borrow against the equity in your home**. This is particularly the case if you are considering releasing equity to give money to a child/relative. While it remains up to you and only you to make that decision, it is a very costly way of transferring funds to a child.

Similarly, if, having weighed up the pros and cons and fully understood the costs and the consequences, **and** taken independent legal/financial advice, you still believe that equity release is a suitable product for you at this point in your life, **you should not be put under pressure by anybody else not to take out the loan and to access the funds to use as you wish**.

As availing of equity release will lower the value of your estate, you may wish to discuss your decision with other members of your family also so that they are aware of your decision and your rationale for making it. However, again that decision is up to you.

3. Exploring all options first

For many people, their house is their single most valuable asset but, more than that, it is their home and the place where most people wish to reside for as long as possible. However, there can be challenges in maintaining a home in later years, particularly if your income(s) have substantially reduced post-retirement. Safeguarding Ireland urges anyone considering equity release to consider all of their options first.

(i) Budgeting and money management.

If you are considering equity release because you are finding it difficult to meet your living costs, you should first consider getting advice with day to day money management from an organisation like **MABS (the Money Advice and Budgeting Service)** www.mabs.ie or by calling the MABS Helpline 0761 07 2000, Monday to Friday, 9am to 8pm. This is a free service that provides support with budgeting and MABS advisers will also help you to ensure you are receiving all relevant State supports.

(ii) State support for improving your home.

There are a number of State-funded schemes which may assist with the cost of essential remedial work on your home or which may reduce your living costs by increasing the energy efficiency of your home. The Housing Aid for Older People Scheme is used to improve the condition of an older person's home. In general, it is aimed at people 66 years of age and older, who are living in poor housing conditions. You can contact your local authority for more information about this Scheme.
The SEAI also provides a number of 'home energy grants' for eligible homes, https://www.seai.ie/grants/home-energy-grants/free-upgrades-for-eligible-homes

You can find more information about these and other supports by contacting the **Citizens Information Phone Service (CIPS)** on 0761 07 4000, Monday to Friday, 9am to 8pm.

(iii) Small loans.

If you need access to a smaller amount of credit in order to meet a once-off unanticipated cost, you could consider the 'It Makes Sense Loan' which is available from the Credit Union and offers loans of between €100 and €2,000 to people who are in receipt of State benefits, including the State pension.
https://itmakessenseloan.ie/

(iii) Contributions from adult children living in your home.

If an adult child is living in your home with you, they should be making a fair contribution to the costs of the household, including, food, household bills and upkeep.

(iv) Renting out a room.

You could consider renting out a room (or rooms) in your home to private tenants. If you do, the rental income you earn will be exempt from income tax, provided this income does not exceed a certain limit in a tax year (currently €14,000). Income from renting out a room will not be assessed as means if you are getting a State Pension (Non-Contributory) or a Widow's/Widower's or Surviving Civil Partner's (Non-Contributory) Pension and you would be living alone unless you rented out a room in your home.

(v) Trading down.

With this option, the equity in your property is released at the point of sale and the associated costs are relatively much lower (the costs of selling your home and buying a smaller, less expensive property). There may also be more immediate savings, as if you trade down to a smaller /less valuable property you may have lower maintenance, heat and light and insurance costs as well as a lower local property tax. But it is still a big decision and one you should consider carefully. Again, if you decide to trade down, it must be your decision. It's important to fully explore this option as it may be more difficult to trade down if you have already released equity in your home.

4. Implications on State benefits

If, having considered other options to increase your income, reduce your outgoings or pay for an unanticipated expense, you are seriously considering equity release, it is very important to understand how it could impact on your access to/eligibility for other State schemes and particularly a Nursing Homes Support Scheme (Fair Deal) application.

(i) Non-Contributory Old Age Pension.

If you are in receipt of a non-contributory old age pension, availing of an Equity Release Scheme may affect this pension. If you sell all or part of your home to a financial institution or to another party, e.g., under an equity release agreement and you are permitted as part of this arrangement to continue to reside in your home, the amount you receive from this sale will be fully taken into account in calculating your means for pension purposes.

(ii) Equity release and the 'Fair Deal Scheme'.

The financial assessment of a person's principal residence under the Nursing Homes Support Scheme Act 2009 is based on its market value at date of application, less allowable deductions. Allowable deductions in relation to a person's principal residence are borrowings incurred specifically for the purchase / repair or improvement of the asset.

Monies borrowed as life loans may be treated as allowable deductions under the Nursing Homes Support Scheme Act if those borrowings were specifically for the purchase, repair or improvement of the asset concerned. Where a person has availed of an Equity Release Scheme that was taken out for the repair / or improvement of their principal residence, the allowable deduction applied is the value of the capital or principal sum borrowed specifically for the repair / improvement of the asset. Interest accrued in respect of Equity Release Schemes is not an allowable deduction as it is not paid during the term of the loan.

The legislation does not provide for an allowable deduction in respect of borrowings that were incurred for purposes <u>other</u> than the specific purchase / repair or improvement of the asset, for example, a loan incurred to purchase a new car or a holiday is not an allowable deduction.

Example of impact of equity release on a Fair Deal Application

A single person takes out a life loan of €100,000 of which €50,000 was used for home improvements and €50,000 was used to purchase a new car and luxury holiday; at the date of Fair Deal application, the outstanding Equity Release Scheme balance, including interest, is €150,000.

The estimated market value of the applicant's principal residence is €200,000. The allowable deduction in this case is €50,000 (i.e. the portion of the principal sum borrowed that was used for home improvements).

Value of PPR at date of application	€200,000
Less asset disregard (single applicant – no savings)	€36,000
Less Equity Release Scheme (allowable deduction)	€50,000
Equals	€114,000

The **portion** of this applicant's assessed weekly contribution towards the cost of care based only on his / her principal residence is €114,000 x 7.5% /52 = €164.42. The **total** applicant's weekly contribution will be determined following assessment of income and any additional assets.

Equity Release Schemes and the Nursing Home Loan (Ancillary State Support):
This is an optional extra feature of the Fair Deal Scheme for people who own property/land based assets in the State. Instead of paying your full weekly contribution for your care from your own means, you can choose to apply for a Nursing Home Loan, to cover the portion of your contribution which is based on you home. The HSE will then pay that portion of your cost of care on top of your State Support payment. The loan is paid back to the State after the sale of all or part of the asset or your death, whichever occurs first.

A person who has availed of an Equity Release Scheme is not precluded from applying for Ancillary State Support. In order to approve Ancillary State Support in respect of applicants with life loans, the HSE must ensure that there will be sufficient equity remaining on the property at death or other relevant event to enable the recovery of any monies advanced under the Ancillary State Support loan.

5. Shopping around

With any financial product or service, it is also always advisable to shop around to ensure you are getting the best value and that the related terms and conditions are right for you. As the market for these types of products in Ireland is very small at present it is even more important that you fully understand the full costs and terms and explore all the alternatives before making your decision. It is also important that you check that the firm that you are dealing with is regulated by the Central Bank of Ireland.

6. Conclusion

Sometimes people feel the need to consider equity release because they have not fully planned for the cost of their later years, or the plans that they have made, ie., contributions made towards a pension have not realised the value they had hoped for, or there is some unanticipated cost that is a drain on their finances. For others, there may be reasons for accessing equity in later years as a way of realising a better quality of life, getting a new car or a holiday etc.

Safeguarding Ireland urges everyone to plan ahead for their future care and financial needs and to determine what they will need and want as they age and to always take independent professional advice before opting to release equity in their home through a life-loan or any similar product.

Note: This document does not constitute any legal advice by or on behalf of Safeguarding Ireland. The information contained therein is, to the best of our knowledge, accurate. However, before taking any decision relating to any matter mentioned above, Safeguarding Ireland would strongly urge seeking independent legal and/or financial advice.