



Legislative Changes Lessen Equity Releases' Impact on Benefits

04 November 2009: The Government has made a number of changes to the benefit rules that may reduce the impact that equity release could have on income related benefits says SHIP - the equity release industry body.

Andrea Rozario, Director General of SHIP, explains:

“Over the last nine months, the Government has announced changes that we believe will mean that those consumers who wish to take out an equity release plan can do so in the knowledge that they may not see certain benefits reduce or cease all together.

“Most recently, they have clarified the position of equity release in relation to Support for Mortgage Interest (SMI). This contribution towards housing costs is intended to help consumers who receive one of a selection of Social security benefits- including pension credit – by providing help towards the interest on any existing mortgage and certain other loans*. Following clarification of the rules, we can confirm that if claimants take out a lifetime mortgage including repayment of the original loan, then they may be able to continue to receive SMI on current interest payments on the part of their new plan that covers the original loan. **.

“In addition, the Government has changed the rules on the application of an Assessed Income Period rules (AIP) within Pension Credit for those aged 80 years old or over*** From April 2009, these customers will no longer have their retirement income and assets reviewed every five years, nor do they need to report any changes that occur to these. In effect those aged 75 and over, if in an AIP will benefit from this change.



“Finally, they have raised the capital threshold to £10,000 in Pension Credit and pension age Housing Benefit and Council Tax Benefit from November 2009, which means that pensioners can have up to £10,000 in savings without it affecting their benefit. If pensioners take out an equity release product and overall their savings remain at £10,000 or below, there will be no impact on their benefit payments.

“All these moves mean that over 65s may be able to make use of some or all of the equity in their properties to improve their standard of living in retirement without seeing their benefit payments drop or cease all together.**** We applaud these moves and call on all stakeholders to work together to ensure that consumers understand how equity release and benefits interact.”

For further information on SHIP please visit: www.ship-ltd.org.

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* = These allowances include income support, income-based jobseeker’s allowance and income-related employment and support allowance. SMI is available on the interest payable on a loan (or part of a loan) taken out to acquire an interest in the dwelling occupied as a home or for example to pay for improvements to the home. However, no guarantee is made that the DWP will repay the loan prior to the loan being taken out. Each consumer’s circumstances are unique and are treated as such.

Under current legislation, help is limited to the balance outstanding on a mortgage up to a total of £100,000 (£200,000 for those on working age benefits). However, a home improvement loan taken out and used to adapt the existing dwelling for the special needs of a disabled person is not subject to this limit. Those working age customers receiving SMI over £100,000 (up to the £200,000 capital limit) who transfer to Pension Credit within 12 weeks of leaving the working age benefit, can keep the higher capital limit for as long as they remain entitled to Pension Credit.



The Standard Rate of Interest which is used as the basis to calculate SMI was initially frozen at 6.08% for six months from December 2008, and, in order to provide further assistance to homeowners, the Chancellor announced in the Budget that the freeze would be extended so that the rate will remain at 6.08% for a further six months, up to December 2009.

** = SMI can only be used to repay a loan of the same value as the original loan taken out - i.e. If the consumer has a £20,000 mortgage and takes out a £30,000 equity release loan to repay this and also pay for other expenses, SMI will only work to repay the interest on £20,000 of the equity release scheme the remaining £10,000.00 would then be paid by compound interest meaning the customer will not have to make monthly repayments.

*** . = Pension Credit customers with an existing AIP that spans their 80th Birthday, and those who have a new one set from the age of 75 and over will receive an indefinite AIP. The AIP sets the value of their retirement provision (e.g. pensions, annuities, capital and equity release) An AIP will still end for example if the customer (or they or their partner in the case of a couple) move into a care home permanently.

**** = Individual circumstances will vary and the impact on benefits will depend on the amount of income and capital someone already holds before taking out equity release. There is an upper capital threshold of £16,000 in all income related benefits (except Pension Credit) which excludes people with capital above this amount from help. People are advised to seek financial advice about their individual circumstances.

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About SHIP Equity Release:

Safe Home Income Plans (SHIP) is the UK's trade body for equity release product providers. Launched in 1991 to promote safe plans, SHIP is dedicated to the protection of the planholder and the safe growth of the industry. SHIP represents approximately 90% of the providers in the UK.