

Downsizing or Equity Release – is it a straight choice?

Our increasing longevity is wonderful – our diminishing pensions are not! So many of us on or after retirement are faced with difficult choices about how to maintain our lifestyles or even how to survive financially on reduced income.

Many are “asset rich” yet “income poor” - although for many “asset rich” means owning a house with the mortgage paid off and with a decent financial value. But owning a house doesn’t help you eat or live well since you can’t buy things with bricks and mortar. Consequently a growing market in “Equity Release” exists in the UK where people effectively mortgage their properties – take the cash in one form or another – and interest on the cash taken is “rolled up” and repaid after the death of the householder or the second householder if there are two. The money released to the householder is tax free and can be used for any purpose.

But frequently financial commentators say this is an expensive way to get money and they suggest “cheaper solutions”. Amongst these the most frequently quoted is “downsizing” i.e. moving to a smaller house. But I have also seen suggestions of solving income problems for older people such as selling the house and renting back, borrowing from family members and renting out rooms to tenants.

All of these may indeed be more efficient routes to go financially – and indeed it is right for financial commentators to point this out – but in some ways I think looking at an Equity Release product in purely financial terms misses lots of points.

First of all – “downsizing” is not possible for many older people – they don’t have a much larger house than they need. Secondly older people may be in a house they love and have been in for many years. They may have the house and garden perhaps just as they want - just as it suits them – and they might find breaking this attachment really upsetting. Third – you need to be very lucky to be able to downsize but stay in the same neighbourhood – and of course older folk may well have long term friends and relatives nearby – making it a real wrench for them to “upsticks” and move on. Fourth – moving house at any age is expensive and can be very stressful too. Most people taking Equity release loans are in their 70’s and taking on a house move at that age can really be a daunting prospect. Also downsizing implies that the new accommodation will be smaller and this may require folk to jettison much loved furniture and belongings – which can be difficult and trying. There is a lot to be said for staying where you are, enjoying your friends and neighbours, and continuing with your lifestyle into your latter years.

As for the other suggestions mentioned above for getting extra money – frankly I can see difficulties with all of them. Colloquially speaking – I wouldn’t give any of these “house room” to be honest. The good thing about an equity release loan is that the couple retain ownership of the house and don’t get involved in any other arrangements which could go wrong and cause stress and hardship.

I can see why equity release is growing and why for many older folk decisions are not taken on purely financial reasons. I also know from our work in my firm that our equity release clients are easily our happiest clients. Usually what they are doing

improves their lifestyle but lets them also continue to enjoy what they love about their lives.

Of course it is right and proper that people taking out an equity release product take good financial advice – there is plenty out there. But next time I read a critique of Equity Release products in a financial publication I'd just love to see an appreciation of the emotional and practical considerations older folk take into account when assessing how best to use their house as an "asset" in their later years.