MoneyMarketing

The income outcome

Gregor Watt | 23-Apr-2009

The decline in interest rates has hit pensioners hard but is equity release the answer?

Statistics from equity-release trade body Safe Home Income Plans show monthly income for the eight million pensioners in the UK has fallen by around 25 per cent in the last 12 months.

The research suggests that around 80 per cent of pensioners are reliant on deposits or share-based investments to supplement their income. Based on figures produced by Birmingham Midshires in 2007 which show the average pensioner has £37,817 in savings, and with interest rates at 5 per cent on April 1, 2008, Ship says the average pensioner was getting a monthly income of £158 from savings last year.

With bank rate now at 0.5 per cent, if the savings were in an easy access account tracking this rate, the income could be just £16 a month now.

Ship director general Andrea Rozario says: "With the unprecedented movements of the UK base rate, thousands of pensioners are now contemplating how they will survive without up to a third of their income."

She points out that equity release can provide a solution to this problem and she is encouraging the Government to promote it as a way of coping for many pensioners.

She says: "We urge the Government to work with us in promoting this as an alternative for pensioners who are suffering as a result of the credit crisis."

But is equity release the best or even the only option to help pensioners with their income needs?

Informed Choice joint managing director Martin Bamford says sharp falls in interest rates have caught people out. Many are looking for ways of coping with a sudden loss of income but he says equity release is a serious and long lasting decision.

He comments: "Rather than choosing a single product, it requires a complete overhaul of their financial planning."

Bamford says clients are considering a range of options, from taking more investment risk, eroding capital or even sacrificing some of a planned inheritance.

He suggests that clients can take a number of steps to increase their income in the short term, including shopping around for more competitive interest rates, using annual Isa allowances to shield as much income as possible from tax, using immediate-vesting personal pensions or, for those willing to take some investment risk, investing in corporate bonds.

Although interest rates are low at the moment, Bamford warns against rushing into an irrevocable decision to meet a short-term need. After all, interest rates may rise again reasonably quickly.

He says: "Because equity release is such a long-term decision it is, in effect, permanent. People should not be making the decision based on the need for income in the short term. If I were looking for options for clients, equity release would be at the bottom of the list."

CBK principal Peter Chadborn agrees that equity release should only be considered as a final option but he says that for people whose only additional income comes from cash deposits, room for manoeuvre can be limited.

He points out that searching for better deposit rates for sums similar to the example that Ship has provided can lead to only marginal improvements. Fixed-length deposits can be a better option but these are short-term measures which expire.

He adds: "You could consider a higher rate of interest fixed for six months or a year but these are becoming harder to find."

Chadborn explains that, for pensioners with modest savings, taking investment risks or locking away capital may not be an option. But instead of focusing on income, he suggests that pensioners would be better off looking at their spending and seeing if they can cut back on anything in the short term.

With the standard procedure for equity release including trying to get the family involved, Chadborn notes that, quite often, immediate family can help in the short term, allowing pensioners to avoid taking drastic and irrevocable action for the sake of releas- ing income.

Equity release is clearly an option but one that should not be considered purely for short-term reasons.

Source: Money Marketing