A guide to: Planning your retirement

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Retirement: What are the next steps?

Are you in a position where you're thinking about retirement? Are you unsure about what plans you need to put in place?

We deal with many people in a similar situation to you and as property experts, we've looked at how your house can provide financial help in your retirement plans.

This ebook on planning your retirement will guide you in the right direction to help you decide what route could work for you, as well as offering some insight into available options you didn't know that you currently might have.

Should I sell my house and rent when I retire?

Often, when homeowners are approaching retirement age they consider selling their property and renting for their retirement, to reduce responsibilities and live on the proceeds from the house sale. But what are the pros and the cons of renting instead of owning?

The pros of renting:

- You don't have the responsibility of owning a house
- Can downsize to a manageable property
- Save money on utilities and taxes if a smaller property Have the freedom to move closer to family and friends Have the option of moving abroad if you so wish

The cons of renting:

- Harder to find a property suitable for older residents
- Monthly rental cost could increase over time, meaning reduced income
- Lose the security of owning your own house

How can I make my house an asset when I retire?

If you're approaching your retirement, or are still a little while off but like to get things planned, you may be wondering how your house plays a part when you retire. There are several options that you can explore to get the most out of your house for you to consider.

1. Downsizing

If you live in a bigger house and aren't utilising the space anymore, it can be a good idea to look at downsizing. This allows you to free up your finances and gives you the freedom to do what you like with them; some choose to use it to travel and spend their retirement sightseeing, some choose to take these proceeds and invest them. This can be a great option for a variety of plans and works well for a lot of retiring homeowners.

2. Renting

You can also consider selling your property and renting somewhere, freeing up the full proceeds of your house sale rather than just the excess after buying another house. This can be a good step for those who are looking to pass on cash in an inheritance or who want to help children buy their own property.

3. Relocating

If you choose to sell your house, you also open up the opportunity to relocate if you wish to. This may be moving closer to family, or some retiring homeowners decide to move abroad to enjoy their retirement years.

4. Renting a room out

If you're not fully prepared to sell your house but find that you do have rooms that you're not making the most of anymore, you might think about renting a room out for some extra money each month. The extra money can boost your income without having to sell which is ideal for those who are emotionally attached to their house and aren't ready to say goodbye.

5. Reverse mortgage

Again, if you're not ready to sell your property but want to subsidise your retirement, you can look into getting a reverse mortgage. This will allow you to release any equity that you have in your house without losing your rights to ownership. A bonus of this is that if you do decide that you're ready to move out and downsize or relocate, you can pay off the mortgage with the proceeds of the sale and still have enough to find yourself somewhere else.

6. Pay off debt

If you decide to take on the mortgage payments, then the house is officially yours and this may lead to you choosing to rent it to help bolster your income. If this is the case, then a new buy-to-let mortgage will have to be arranged and any profits you make from tenants will have to be declared for tax purposes.

7. The property has a joint mortgage

Usually, home equity loans have a much lower interest rate compared to credit card debt or loan repayments, so using your property to pay off these debts and have a lower, more manageable payment each month can be a great way to get your debt under control. Some retiring property owners will choose to sell their house and then move in with family instead. There are many reasons that someone will decide to do this, but the most common are:

- To spend more time with their family, often if there are grandchildren
- Save money in their retirement to leave an inheritance
- Need care and support

You may also be considering releasing equity in your property to modify your current house; if you think that at some point you may need a stair-lift or a walk-in shower. It does tend to be easier to sell your current house and find somewhere more suited to your needs, as it avoids you having to live in the property during the construction work and long-term will likely be cheaper if you downsize.

Does my house count as part of my retirement plan?

Whilst you can include your house in your retirement plan, it's important not to rely on it. It's usually the largest asset someone has when they retire, so to not include it would be a mistake. It's equally a mistake to plan your retirement around your house. As the property market can change very quickly and so having other plans is always a good idea.

Should I remortgage my house or release equity?

What is equity release?

Releasing equity in your property allows you to unlock tax-free cash that is currently tied up in your house. The amount that you're able to release will depend on the value of your property, your general health and your age, but you're often able to access much larger amounts of money through equity release than through remortgaging. This is because there are no affordability checks with releasing equity. If you choose a lifetime mortgage with your equity release, you don't have to make any payments until your house is sold after you've passed away or been taken into permanent care. Because of the lack of monthly payments, retired homeowners often lean towards this option; especially those who are asset-rich but cash-poor.

You can unlock equity in your house if you're 55+, but if you still have a mortgage that you're paying monthly you'll need to use your equity release to pay this off first. After that you're free to use the release however you choose; to fund your retirement, invest, or use for home improvements. You also have the option of getting a negative equity release guarantee which is very useful. This means that no matter what happens to the housing market and how your house's value changes, you will never owe more than the value of your house at the time your plan ends. This is a great reassurance for homeowners looking to release equity as it means that their children won't be harboured with the rest of the loan after their death.

There are some downsides to equity release, however. It will reduce the overall value of your estate, and therefore reduce what you can leave in your will as inheritance. It can also affect your tax position and has the potential to change your entitlement to any benefits.

The pros and cons of remortgaging in retirement

When you're approaching retirement, one of the biggest factors that you need to consider is maintaining your lifestyle on the reduced income that comes with retiring. Lots of retired homeowners consider remortgaging their house to sustain themselves throughout their retirement; is that the right step for you?

When should I consider remortgaging if I want to do it?

Usually, homeowners look at remortgaging their house for similar reasons:

- Trying to save money on their current mortgage agreement
- Want to release equity in the house but not move.
- Want to pay your mortgage off faster to get lower rates
- Your financial situation has changed and you need a more affordable mortgage - often the most regular reason that a retired homeowner chooses to remortgage after the reduced income.

There are other reasons that you may be considering remortgaging, so it's worth identifying exactly what you want to get out of the remortgage to decide if it will work for you.

What are the benefits?

- Choosing to remortgage your house means you might save money if the interest rate is lower than your current mortgage, or if the repayment term is longer giving you more flexibility each month
- You may be able to borrow more against your house to fund whatever project you're considering for your retirement; whether that be travelling, investing or home improvements
- If your current mortgage is interest-only, coming to an end, and you're not in a position to pay it back in full.
- If you're looking to remortgage in the future but are worried about the rates increasing.

What are the disadvantages?

- There are often extra costs upfront
- Your lender may insist that you need a full remortgage which could result in a higher monthly rate- especially if you currently have a lifetime tracker rate mortgage
- It may not be sustainable on the reduced income that retirement tends to have; it's important to factor in all of your monthly costs before you commit to a repayment that you might struggle to make each month whilst having a comfortable lifestyle.

Do I have to downsize when I retire?

Many homeowners decide to downsize their house when they get older, some before they retire and some afterwards. If you're approaching retirement and have been considering downsizing,it's important to weigh up the pros and cons, to work out if it could be an option for you.

Below we have highlighted some of the top level advantages against the disadvantages of downsizing. Use this as a starting point to identify which things are important to you and which things don't really matter. Then, if downsizing does become a viable option you can move forward down this path in retirement.

The pros and cons of downsizing:

Pros and cons of downsizing

Pros

- Financial advantages
- Less maintenance
- Smaller areas can be more homely
- Cheaper utility bills
- Good opportunity to declutter
- A smaller mortgage

Cons

- Less space
- An adjustment to the change of lifestyle
- The upfront costs
- The stress of moving
- An emotional impact

What are the extra costs?

- Arrangement fees for the new mortgage
- Exit fees from your previous mortgage
- Valuation fees - you may be able to avoid this if you stay with your current lender and just have a different agreement, but it will depend on the value of your house
- Legal fees
- Broker fees- mortgage brokers are always recommended to make sure everything is correct, but their prices can add up quickly.

Who might struggle to remortgage?

- If you don't have very much equity in your house
- If you're close to retirement age- this doesn't mean you can't remortgage, but lenders are often more hesitant so it's worth bearing in mind. Often these homeowners consider downsizing instead, depending on what they wanted to remortgage for initially.
- Your house value has dropped dramatically since you took out your first mortgage.
- You have a low credit score.

Remortgaging is a big decision, and you should take plenty of time to think about exactly what you want to achieve from doing it and make sure that you will get those outcomes if you go ahead.

Can you retire if you're still paying off your mortgage?

If you're looking to retire soon but still have a fair amount of your mortgage to pay off, you may be concerned that your retirement date will need to be pushed back. Here at We Buy Any House, we've put some information together to help you make the best decision for you.

Take into account your reduced income - can you still pay all of your outgoings?

The most important thing that you will need to look into before you make a decision is if you can afford to retire, still make your monthly mortgage repayments and live comfortably. If your mortgage payment each month is quite high, it may be hard for you to retire and still have enough money to go about your daily life, however, there are still ways to raise the funds to pay for your mortgage that allow you to retire. If your

What are the pros of paying off your mortgage before retiring?

- Retiring mortgage-free will give you more money to live day-to-day
- Opens up the opportunity to free up equity in your house
- Have time to save up for retirement whilst you're still earning a full wage

Are there benefits to not paying off your mortgage before retirement?

- If you're intending to downsize, holding on to your savings and paying off the remaining mortgage from the proceeds of the house sale can make more sense
- If you're renting out your property, the rent that you're tenants are paying should more than cover the mortgage. This will give you the reassurance that your mortgage will be taken care of in your retirement
- Paying off your mortgage can also potentially be difficult if you're low on cash reserves. Leaving your savings for an emergency, gives you the peace of mind that you're covered if you need the extra cash
- Paying off other debt in full first should be a priority, as mortgages tend to have a lower interest rate than other debts, saving you money in the long run

Should I get a retirement mortgage?

A retirement mortgage can be really helpful for those who are struggling to repay an interest- only home loan that's coming to an end or want to help children put down a deposit to buy their first house. But what is a retirement mortgage and is it the right decision for you?

A retirement mortgage is essentially a lifetime mortgage; the amount that you borrow doesn't have to be repaid until either you pass away, go into full-time care, or sell the property. You only have to pay the interest of the loan each month- you also have the option to stop paying the interest on the loan after the youngest borrower turns 80, or you've had the loan for 5 years.

What is remortgaging?

Remortgaging usually involves taking a larger deal out than your previous mortgage. There are several reasons homeowners choose to remortgage; younger homeowners will sometimes decide to remortgage if they have found better rates with another lender than their current lender, but retired homeowners will look at remortgaging if they want to unlock equity without losing their home after death. They will still need to make monthly payments, which is sometimes not ideal if you have a reduced income, but it means that if you own the house that you grew up in, or your children grew up in and it has a lot of sentimental value the house won't have to be sold at the end to pay off the mortgage.

So which is better?

Ultimately it's down to your circumstances as to which option is more suitable. Potentially, equity release is more suitable as there aren't any monthly payments so there's no drain on your income that's likely to be reduced after retiring; however, it does mean that you can't leave your house for your family to inherit, reducing your total estate.

What’s the difference? Traditional Mortgage vs Retirement Mortgage?

What's the difference between a traditional mortgage and a retirement mortgage?

Traditional Mortgage	Retirement Mortgage
- A fixed loan term	- The loan term isn't fixed
- You contribute towards the full loan with your monthly payments	- You only pay interest each month, lowering your monthly payment
- You have to make your monthly payments until the end of the mortgage	- You can choose to stop paying the interest after an agreed time period

It’s important to note that whilst these loans do have their differences, they are similar in the regards that if you do not make your agreed monthly payments on time and in full, your house will be at risk. A retirement mortgage still carries the same risk and responsibility as a traditional mortgage in those first 5 years of making payments(or until you turn 80). There isn’t a minimum age for the retirement mortgage, but they are aimed at older borrowers, usually those 60+ or retired.

What is a reverse mortgage?

A reverse mortgage allows you, once you are over 62, to tap into your home equity. It's also called a backed Home Equity Conversion Mortgage, but it's mostly known as a reverse mortgage. It allows you to release equity in your house without having to make monthly payments back, with the outstanding balance of whatever you take out being paid back when you pass away or go into full-time care and your house gets sold.

Are there positives to a reverse mortgage?

These kinds of mortgages are often very popular with older homeowners as you don't have to prove any sort of financial affordability. When you retire and your income reduces, it can be hard to pass affordability checks such as the ones in place if you want to remortgage. With a reverse mortgage it allows you to stay in your house and carry on as normal, using the equity that you've released to do whatever you choose with. You can also choose how you take that equity- if you want it in one lump sum to invest or to do some major home improvements that's fine, or if you'd prefer to set up a monthly advance to top up your pension in your retirement that's also an option. You can also look at doing both if you wanted to; you can set up whatever works best with your mortgage provider.

If you still have a mortgage on your house you can still take out a reverse mortgage, but you will need to pay off the existing mortgage with the equity that you release. It's important to remember that whilst you don't have to make monthly payments, you do still have to stick to the agreement that you have set up with your lender. You should also consider the implications that a reverse mortgage can have. As it changes the value of your estate, it changes what you can leave to your family in your will when you die. The house will have to be sold to pay back the reverse mortgage, so you aren't able to leave this to your children. It can also potentially change your tax bracket and your eligibility for healthcare and support.

What about the negatives?

As with any financial decision, it's important to know any potential issues that might arise. Because you don't have to make any payments towards your reverse mortgage, the overall balance will build up over time as the interest increases. This doesn't happen with interest- only loans, which are also quite a popular choice for retiring homeowners.

It can also be a negative that your house cannot be passed down to your family as inheritance when you pass away. If your family house has sentimental value, this might put you off a reverse mortgage, but if you're not too concerned about the sale of the house then this shouldn't be too much of a problem.

A reverse mortgage needs to be paid back either when you sell your house, pass away, or if you go into permanent care. This can sometimes put homeowners off, as it can put more work on the family of the homeowner to get the reverse mortgage paid whilst dealing with the possible passing of their family member.

Overall, there are both positives and negatives to a reverse mortgage but knowing whether it's the right decision for you or not is up to you to decide.

What are the advantages of a retirement mortgage?

- As the payments tend to be much lower than a standard mortgage, you won't need to prove a payment plan to your lender to assure them that you can pay the mortgage back
- It gives you a chance to save money to pass on as an inheritance rather than just leaving a house
- Paying interest-only payments keep the interest from building up like it can with an equity release
- Means you can avoid downsizing
- There isn't a fixed loan term, making the mortgage payments more flexible
- Can often be cheaper than other lifetime mortgages
- Often will offer fee-free overpayments after a certain point in the mortgage, meaning you can pay the mortgage off in full if you wanted to/ are in a position to without selling the house.
- Gives you the option of unlocking equity in your property to pay off any outstanding debt if you have it.

What are the disadvantages of a retirement mortgage?

- Whilst you don't need to prove a payment plan, you will have to pass affordability checks to prove to your lender you can make your interest payments each month
- Your house will most likely be sold to repay the loan when you pass away or if you go into long-term care
- If you fall into arrears your house may be at risk
- The amount that you can borrow is based on your income and the loan-to-value ratio. Usually, the maximum loan amount is 40%-60% of your property value.

Retirement mortgages are becoming more popular, and because of this, there are more options opening for this kind of mortgage Overall, it will entirely depend on your circumstances as to whether this sort of mortgage is best for you.

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