

Harnessing a lifetime mortgage for a wealth management client

Case study by John Harris, Cooper Associates Group

Plan:
Single
Age:
82
Location:
London



The client was an 82-year-old widow with substantial assets including cash reserves and pensions. She owns a London townhouse, valued at £1.7m and had three children living outside the UK. Two of her sons were financially secure, whilst the third could have benefited from financial assistance. Her main priority was to reduce the inheritance tax (IHT) burden on her estate and to potentially provide for her children during her lifetime. She also wanted to ensure she had enough resources for potential future care costs, while continuing to live in her home.

We explored several options to ensure her future care needs would be met, as well as strategies to protect her estate and gift to her sons. By undertaking a lifetime mortgage, she

could reduce the value of her estate providing a gift was made with the proceeds of the mortgage, therefore helping to mitigate the potential IHT liability .

The long-term goal was to secure the family's financial future in the most tax efficient way. Gifting funds to her sons immediately allowed them to benefit from their mother's wealth during her lifetime whilst potentially reducing IHT. A major consideration was the 7-year rule concerning the gifts and potential tax liabilities if the client passed away within that period. We examined options to protect against this risk however the client and her sons were comfortable to proceed based on her good health and family history of longevity.

Decision-making process

Several financial products were considered, but the lifetime mortgage was deemed the most appropriate solution due to the client's lack of income and inability to commit to regular repayments, accompanied with the client's strong desire to remain in her home. The client's desire to remain in her home was a key driver to a lifetime mortgage being recommended against other options, such as downsizing. With a house valuation of £1.7m, my client released a loan amount of £776k to meet her financial objectives.

I recommended Standard Life Home Finance as their Horizon range was competitively priced and, should her circumstances change in the future, the flexible features such as downsizing protection from day one and 8-year fixed early repayment charges give the client peace of mind in managing her estate effectively.

As a note, taking on the lifetime mortgage also brought the client's estate back below the £2 million threshold, which is the level at which the tapering of the residence nil rate band (RNRB) begins. This adjustment allowed the client to fully regain both her own RNRB and the inherited RNRB, significantly improving the effective returns achieved.

Delivering positive customer outcomes

By gifting money to her sons from the equity released from her home, the client was able to see her sons enjoy an early inheritance, and reduce the value of her net estate. Furthermore, the client felt reassured by involving her sons in the decision-making process, as it fostered open communication and alignment with her family's long-term goals. We also took this opportunity to recommend to the client that she ensured that her Will was up to date.

The solution provided her with financial clarity and peace of mind, knowing her estate planning was in place, and she could live comfortably in her home while witnessing her sons benefit from her wealth. Additionally, due to Horizon's 8-year fixed early repayment charges (ERCs) decreasing year on year, there was flexibility for the lifetime mortgage to be reviewed in the future, ensuring that her financial needs and estate planning continued to align with any future changes in her health or financial circumstances.

The client received specialist IHT advice alongside my recommendation, as part of the process when choosing a lifetime mortgage. The collaboration between the adviser, the wealth management team, and Standard Life Home Finance's support staff ensured the process was smooth and completed efficiently.

Final Thoughts

This case touches on the complexities involved in estate planning, especially when the client is seeking to balance immediate family needs with long-term financial security. The lifetime mortgage proved to be an effective tool, providing flexibility for a client who lacked income but had significant assets in her property. It allowed the client to address both immediate needs, such as helping her son and reducing IHT, and future care concerns without risking her financial security. The case underscores the importance of tailored financial solutions that take into account the client's personal circumstances, estate, and health.

A lifetime mortgage can be a powerful tool for financial planning, particularly when IHT and family support are key concerns. However, these decisions must be made with care, considering all potential options and the long-term outcomes these pose for the customer.

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