AGE Concern

The National Council on Ageing

Equity release and income-related benefits (Oct 2006)

Ref IS/7

This information sheet is aimed at people over 60 and refers to the situation in England. Those living in Scotland, Wales or Northern Ireland may wish to contact:

Age Concern Scotland, Causewayside House, 160 Causewayside, Edinburgh EH9 1PR, tel: 0845 125 9732 (local call rate), website: www.ageconcernscotland.org.uk;

Age Concern Cymru, Ty John Pathy, 13/14 Neptune Court, Vanguard Way, Cardiff CF24 5PJ, tel: 029 2043 1555 (national call rate); website: www.accymru.org.uk;

Age Concern Northern Ireland, 3 Lower Crescent, Belfast BT7 1NR, tel: 028 9032 5055 (national call rate) Monday to Friday 9.30am - 1pm.

Equity release is the term used to cover the various ways that older homeowners can use their homes to generate income or capital lump sums while continuing to live there. There are a range of issues that people need to take into account when considering equity release - one of these being the impact on any benefits received. This information sheet looks at the position for Pension Credit and Council Tax Benefit (CTB) for people aged 60 or over. It is mainly aimed at advisers or others who are already familiar with the benefit systems. This sheet describes our understanding of the position at the time of writing. But benefit rules and other circumstances change so please check that you have up to date information before going ahead with any scheme.

For more detailed information about equity release schemes see Age Concern Factsheet 12, Raising income or capital from your home. Age Concern recommends that people take legal and financial advice if they are considering taking out a scheme. The benefit position is only one factor that needs to be taken into account. Similarly this paper only looks at the treatment of income and capital from equity release schemes and does not explain other aspects of the benefit systems - for information about the benefits mentioned in this note see Age Concern Factsheet 48, Pension Credit and Factsheet 17, Housing Benefit and Council Tax Benefit and the DWP Guide to Pension Credit.

Types of equity release scheme

There are two main types of equity release scheme - Home Reversion Schemes and Lifetime Mortgages. With a Home Reversion Scheme someone sells their home or part of their home to a private reversion company or an individual, and receives income and/or capital but continues to have the right to live there for their lifetime. With a Lifetime Mortgage (which includes home income plans and roll up loans) someone takes out a mortgage loan but retains the full ownership of the property. Schemes can provide a cash lump sum and/or a regular income. Schemes operate in different ways and in order to consider the impact of income or capital raised it is important to know how a particular scheme works.

The benefit position

Pension Credit and CTB are based in income and savings so taking out an equity release product may potentially affect entitlement or possible future entitlement. However this will not always be the case. Some general points are:

- around a third of pensioners receive an income-related benefit and many more are entitled but not claiming so many people will need to look at their benefit position if they are considering equity release;
- however while additional income or savings may reduce benefits, people may still be better off overall – see Age Concern's benefit factsheets for more information about how entitlement is assessed;

- the first £6,000 of savings are ignored. There are no upper savings limits for Pension Credit although any savings over £6,000 will be treated as producing an assumed income[1] of £1 for every £500 (or part of £500) over £6,000. For CTB a £16,000 limit remains except if someone is receiving the guarantee part of Pension Credit.

  The £6,000 lower limit and assumed income are the same as for Pension Credit;
- under Pension Credit, if someone has an 'assessed income period' (see below) some changes to income and savings do not need to be reported and therefore will not affect entitlement straightaway;
- people's position may change in the future in ways that are not always predictable. For example a change in circumstances such as bereavement or onset of disability may mean that someone who is not currently entitled to benefits may be entitled in the future. Benefit rules may also change.

Assessed income period

When people aged 65 and over are awarded Pension Credit they may be told that an 'assessed income period' (AIP) has been set. This means that during that period (normally up to five years) they will not need to tell the Pension Service about an increase in their 'retirement provision'. By retirement provision the Pension Service means sources such as pensions, annuities, regular payments from equity release schemes and savings. At the end of the set period (or earlier if there are changes that mean the AIP ends sooner) entitlement will be reassessed.

If someone's retirement provision is unlikely to represent their typical position over the next 12 months then a shorter AIP will be set (up to the date income is likely to change) or an AIP will not be set. So for example an AIP may not be set if someone is expecting to receive income or capital from an equity release scheme in the next 12 months. When someone is awarded Pension Credit they will be informed if an AIP has been set and given information about the changes of circumstances that must be reported.

[1] This paper uses the term 'assumed' income although the legislation refers to 'deemed' income.

The impact of a cash lump sum

This section describes the likely impact of a cash lump sum from an equity release scheme for people entitled to different benefits and in different circumstances.

If someone is receiving Pension Credit and has an ‘assessed income period’

If an ‘assessed income period’ (AIP) has been sent (see above for more information about this) someone does not need to report an increase in their savings to the Pension Service so Pension Credit will not be affected until the end of the assessed income period.

For example Mary is 65. She receives Pension Credit and has an assessed income period which runs from 6 October 2004 until 6 October 2009. When Pension Credit was awarded she was not planning to take out an equity release scheme however some time later she decides to take out a reversion scheme and receives a cash payment of £20,000.
She does not need to report this to the Pension Service and it does not affect her benefit until her Pension Credit is next reassessed which will be October 2009 (unless there are other changes in her circumstances before then which end the AIP). By the time the AIP ends she may have spent the money.

What about deprivation of capital? There is provision for someone to be treated as still having capital /savings that they have ‘deprived themselves of’ in order to get Pension Credit or increase the amount they receive. This is known as ‘notional capital’.

Raising capital from the home where someone is living, in itself, would not be considered as ‘deprivation’ because the value of the home is disregarded. However it is possible that at the end of an assessed income period the Pension Service might consider whether deprivation has occurred if someone received a cash lump sum but no longer has that capital. It is not clear exactly how this will work in practice and Age Concern cannot advise on this issue, however as the general approach with Pension Credit is to introduce a less intrusive system of assessment it seems unlikely that Pension Service staff will be carrying out detailed checks on changes in savings over the five year period. But it may be useful for people to keep a note of large items of expenditure. Even if

someone has spent considerable sums of capital then they should not be considered as having notional capital unless increasing benefit was a reason for spending the money. The law states someone will not be treated as having notional capital if money was used to pay off or reduce a debt or if the expenditure was 'reasonable' given the person's circumstances[2]. An example given in the DWP guide to Pension Credit is that a decision maker might consider replacing a car to be reasonable but not buying a Roll Royce.

If someone is receiving Pension Credit but does not have an assessed income period

If someone does not have an assessed income period, for example because they are aged under 65, they will need to let the Pension Service know if their savings increase and their benefit will be reassessed.

If capital is taken into account

If capital from an equity release scheme is taken into account and someone has more than £6,000 savings, benefit may be reduced or stopped depending on someone's circumstances (See Age Concern Factsheet 48 or the DWP Guide to Pension Credit for more information about calculating pension credit).

But some capital is ignored (disregarded) - for example capital received that is earmarked for property repairs can be disregarded for up to a year. Money raised through equity release specifically for repairs might fall within this disregard.

Council Tax Benefit (CTB) and a cash lump sum

As with Pension Credit, for CTB for people aged 60 and over, up to £6,000 of savings is ignored while if someone has savings over £6,000 there is an assumed income of £1 a week for every £500 (or part of £500). (Note these rules are different to those that apply to people under the age of 60). But the £16,000 limit is retained for CTB unless someone receives the guarantee element of the Pension Credit in which case there will be no capital limit.

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[2] The wording of the notional capital legislation for Pension Credit and HB/CTB for people aged 60 and over is now slightly different to that for benefits for younger people which, for example, does not specially refer to paying off debts.

As a result the impact of a cash sum raised through equity release will depend on whether or not someone is receiving Pension Credit, and if so which parts.

- if someone receives the **guarantee element of Pension Credit** they do not need to report the receipt of a cash lump sum to the local authority (whether or not they need to tell the Pension Service depends on whether or not there is an assessed income period as explained above). As long as they are in receipt of the guarantee credit (either on its own or in addition to the savings credit) there is no capital limit for CTB and they will continue to receive the maximum amount of CTB;
- if someone receives **CTB and the savings part of the Pension Credit** (but not the guarantee credit) the £16,000 savings limit will continue to apply. While in general someone in this situation does not need to tell the local authority about changes in income and savings they do need to tell the local authority straightaway if their savings increase to over £16,000. In this case their CTB will stop even if the cash does not affect their Pension Credit;
- if someone receives **CTB but not Pension Credit** they will need to tell the local authority as soon as their savings increase. If they have more than £16,000 their benefit will stop and any savings between £6,000 and £16,000 will reduce entitlement.

In the example above Mary receives £20,000 from a home reversion scheme. If she receives guarantee credit this will not affect her CTB at this point. However if she is just receiving savings credit she will need to tell the local authority about the reversion and her CTB will stop.

Other than the upper limit the CTB rules regarding capital and savings for people aged 60 (eg disregards and notional capital) are broadly in line with those for Pension Credit.

Receiving income from an equity release scheme

Under the original rules for Pension Credit and CTB for people aged 60 and over, whether or not regular payments from equity release schemes were taken into account depended on the nature of the scheme. This has now changed as explained below.

Some equity release schemes involve the purchase of an annuity which provides a regular income (often called a home income plan). The money raised will often be used to pay interest on the loan as well as provide an income to the older person. Annuity income from these schemes has always been taken into account as income although any part of that income that is used to pay interest on the mortgage loan is disregarded.

Other reversion schemes and roll up loans provide regular payments which are not annuity based. Under the original Pension Credit rules these were not taken into account as income and only affected benefit if they increased someone's capital. But the rules changed from the beginning of October 2004. The regulations now state that for Pension Credit and CTB income includes any money paid at regular intervals from an equity release scheme. But if you are already receiving these payments this will not affect your Pension Credit until the end of any assessed income period as explained below.

If someone receiving Pension Credit has an assessed income period in force they do not need to inform the Pension Service if they start to receive income from an equity release scheme or if the amount they receive increases.

At the end of the assessed income period benefit will be reassessed and from then onwards this will include any regular payments received from an equity release scheme. However when someone applies for Pension Credit they need to declare if they are expecting to receive additional income in the next 12 months. In this case a short assessed income period will be set (up to the time that their income is likely to change) or one will not be set at all.

If someone does not have an assessed income period then the person needs to tell the Pension Service that they have started to receive income from an equity release scheme.

If income is taken into account

If income from an equity release scheme is taken into account then Pension Credit will be reduced or stop, depending on someone's circumstances. See Age Concern Factsheet 48 or the DWP Guide to Pension Credit for more information about the calculation for pension credit.

Income from equity release schemes and Council Tax Benefit

For people aged 60 and over income from an equity release scheme is assessed in the same way as for Pension Credit. If someone is receiving Pension Credit (guarantee credit and/or savings credit) and starts to receive income from an equity release scheme they do not need to tell the local authority. But they may need to inform the Pension Service as explained above. The Pension Service will pass on any relevant changes to the local authority who will reassess CTB if necessary.

If someone receives CTB but not Pension Credit they will need to report changes of circumstances to the local authority if this is likely to affect entitlement - this includes the need to report changes in most types of income.

Further information

This information sheet sets out our understanding of the general position in relation to benefits and equity release in October 2006. It may not cover all circumstances and as explained at the beginning does not cover all aspects of equity release schemes or the benefit systems. Therefore anyone considering taking out an equity release scheme may need to take further advice about the potential impact on benefits. A local advice agency may be able to help or the Pension Service may be able to give more information about individual cases or how income or savings from a particular scheme will be treated. The DWP website: www.dwp.gov.uk has legislation and guidance regarding the assessment of income and capital and the administration of benefits. From the home page go to 'Resource Centre'. Age Concern factsheets are available from the Age Concern Information Line on 0800 00 99 66 or on the Internet at www.ageconcern.org.uk.

If you would like to receive this information in large print phone 0800 00 99 66 (free call) or write to Age Concern FREEPOST (SWB 30375), Ashburton, Devon TQ13 7ZZ.

Find out more about Age Concern England online at www.ageconcern.org.uk

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