



Equity release and the impact on benefits and tax

**Council of Mortgage Lenders
assisted by Ferret Information Systems Ltd**

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The Council of Mortgage Lenders

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Equity release and the impact on benefits and tax

Introduction

The information given below about benefits applies equally to England, Scotland and Wales, as all are covered by the same system. It also applies to Northern Ireland (although technically it has its own system the few minor differences are irrelevant for the purposes of this topic). Tax information is relevant to the whole of the UK.

This leaflet provides an overview of how equity release will impact on tax and benefits issues. However, it cannot cover every possibility. The CML has, therefore, worked with Ferret Information Systems Ltd to provide a software solution (*FINTAL*) for the industry that enables advisers to compare and contrast the impact of different types of equity release schemes (capital lump sums, monthly incomes or a mixture) on tax and benefits. If you want further information about *FINTAL* you should contact Ferret (see their details in Appendix 3).

Why do I need to know about benefits?

Since 31 October 2004 the Financial Services Authority (FSA) , has regulated the sale of lifetime mortgage products. Since 6 April 2007 the FSA has also regulated the sale of home reversion plans. For both forms of equity release transaction advisers must consider whether the benefits to the customer of taking out equity release outweigh any adverse effect on the customer's entitlement (if any) to means-tested benefits, and on their tax position. This leaflet provides an overview of the tax and benefit regime for lenders/providers, intermediaries and Independent Financial Advisers (IFAs) who will be giving advice on equity release transactions.

What is "equity release"?

Equity release is a way of unlocking the value of a property, without having to move home. It is used mostly by older home-owners who either have paid off their mortgage altogether, or have only a small amount left to pay.

There are two main forms of equity release – lifetime mortgages and home reversions. With a lifetime mortgage (which includes interest only and rolled-up interest products for older people) an individual takes a mortgage out against their home to give them a lump sum or a regular income. The loan is repaid to the lender when the property is sold. The individual continues to own their home. With a home reversion scheme, the owner(s) sells their home, or a part of it, to a reversion company that allows them to continue to live there for the rest of their lives. On death, the proportion of the home that was sold becomes the property of the reversion company.

From the benefits perspective, the key feature of equity release is that it provides the benefit claimant with capital, or income, or both.

Benefits outline

Structure of the benefits system

The British social security or welfare benefits system is not a coherent, integrated whole. There are, broadly, three types of benefit available:

1) Contributory/recent work benefits

The state provides benefits to all those who have paid contributions to cover all the interruptions to a continuous working life: maternity, unemployment, sickness, widowhood and retirement.

Key features are:

- They are usually based on the payment of National Insurance contributions (contributory);
- Which contributions count varies with the benefit; so Incapacity Benefit, the benefit for those who are incapable of work, is based on payment of contributions over the past few years, whereas Retirement Pensions are calculated by reference to the claimant's payment of contributions over the course of their lifetime; and
- Sick or pregnant employees are now paid through the wage packet by way of Statutory Sick Pay and Statutory Maternity Pay. These are related to whether someone has been working recently, not on their contributions (recent work).

Note that because of the decline of the real value of these benefits many people receive one of these benefits "topped up" by a means-tested benefit, eg, contributory State Retirement Pension topped up by means-tested Pension Credit.

2) Means-tested benefits

These benefits are sometimes called "income-related benefits". They include Income Support, income-based Jobseeker's Allowance and Pension Credit, which provide support respectively for those under 60 who are not seeking work, those under state pension age who are, and those aged 60 and over.

The defining features of means-tested benefits are:

- They will not usually be paid if the claimant has more than a certain amount of capital (although there is no upper capital limit for Pension Credit);
- They will not be paid if the claimant has more than a certain amount of income;
- More will usually be paid if the claimant has children, or is sick, or is elderly; and
- A basic set amount will be paid to a couple, less than that paid to two single people

Rent and council tax costs are met through Housing Benefit and Council Tax Benefit administered by local authorities. For owner-occupiers, some mortgage interest costs can be met as part of Income Support/Jobseeker's Allowance/Pension Credit.

3) **Disability and universal benefits**

These benefits are not based on a means-test or a contribution test.

They include: Industrial Injuries and War Pensions, paid to those disabled either by work accidents or diseases or during military service; Child Benefit, a universal benefit, and benefits for disabled people based on the effects of their disability, principally Disability Living Allowance (DLA) and Attendance Allowance (AA).

For a detailed list of benefits, with the situations where they are likely to apply, see Appendix 1.

Benefits and equity release

There is a range of benefits where entitlement is not affected by the income and/or capital generated by equity release, because these are not based on a means-test, but depend on satisfying conditions relating to National Insurance contributions, disability, or other non-means-tested criteria. There is a further range of means-tested benefits, which may be affected by equity release. Some of these benefits are typically for those under pension age; others are, typically, for those over pension age.

Equity release is mainly used by those over 65, but some products are available to those who are younger. You, therefore, need to have an idea of the full range of benefits that the system can provide, even if you focus most on those that are relevant to pensioners.

Although currently around one-third of all pensioners receive a means-tested benefit in some form, it is thought that approximately half of all pensioners are eligible. Means-tested benefits are also known to be widely under-claimed by those of working age. **You should, therefore, make sure that the individual you are advising is claiming their full entitlement before considering equity release and its impacts.**

In addition, given the complexity of the system, many benefit claimants are unsure how the benefit income they receive is made up. Pensioners may, for example, not be aware that the "state pension" that they receive actually includes some element of means-tested Pension Credit. You need to be careful about making assumptions about the benefit status of your clients.

A summary chart of some of the relevant benefits, and whether they are likely to be affected by equity release, is given on the next page.

Table 1: The main benefits and the effect of equity release

	Not affected by equity release	May be affected by equity release
Benefits for those under pension age	Child Benefit	Income-Based Jobseeker's Allowance (JSA)
	Contribution-Based Jobseeker's Allowance (JSA)	Income Support (up to age 60)
	Disability Living Allowance	Council Tax Benefit
	Incapacity Benefit	Health Benefits (free prescriptions, free school meals, free milk and vitamins, free sight tests, help with the costs of glasses and dental treatment)
	Carer's Allowance	
Benefits for those over pension age	Attendance Allowance	Pension Credit (from age 60)
	State Retirement Pension	Council Tax Benefit
	Carer's Allowance	Health Benefits (help with the costs of glasses and dental treatment, other elements are free to those over 60)

What are the benefits that those of working age may be getting?

As some products are available from the age of 55, there may be some people receiving benefits such as Incapacity Benefit, Income Support, Child Tax Credit, etc, and these are outlined below.

Incapacity Benefit (IB)

IB is an earnings-replacement benefit for people unable to work because of ill-health or disability. A higher, long-term rate is payable after the first year on benefit. To qualify, people must have paid sufficient National Insurance contributions and pass a "Personal Capability Assessment" which assesses their level of incapacity. The rules are slightly different during the first six months out of work.

Disability Living Allowance (DLA)

DLA is a tax-free, non-means-tested benefit for severely disabled adults and children. People do not need to have paid National Insurance contributions. It is for those who need help with their personal care needs and/or have difficulty walking or getting around. DLA is paid on top of other income, whether from earnings, benefits or other sources. DLA has two components: care and mobility, and people can get both at the same time. Care has three rates: lower, middle and higher. Mobility has two: lower and higher. Those over the age of 65 can continue to receive DLA, provided that they qualified before that age. In some situations, receipt of DLA care at the middle or higher rate can entitle claimants to an amount for "severe disability" within means-tested benefits.

Child Tax Credit (CTC)

This is a means-tested support for families with children administered by HM Revenue & Customs . It reaches nine out of ten families in the UK as eligibility includes households on incomes of over £50,000 pa, but many of these are, in effect, receiving only the former Children's Tax Credit. There is no savings limit – income from savings is counted instead. Extra amounts, called the disabled and enhanced disabled child elements, are available in respect of disabled children.

Working Tax Credit (WTC)

WTC is a means-tested form of support for people on low earnings, and is administered by HM Revenue & Customs and paid via the employer. There are extra amounts for disabled workers. Help may be available with childcare costs. Most people need to work at least 30 hours a week to qualify. Lone parents and disabled people qualify at 16 hours per week, and all need to have an income below a set amount (which will vary with family circumstances).

Income Support (IS) and Income-based Jobseeker's Allowance (ibJSA)

IS is a means-tested (income-related) benefit that does not depend on National Insurance contributions. It is intended to provide for basic living expenses and can be paid on its own or on top of other benefits to bring a household's income up to a minimum amount. Payments are not made in respect of children – these are met through Child Tax Credit. IS is for people of working age who are not required to sign on for work that is, those who are sick or disabled, carers, or lone parents. Those who do have to sign on claim Income-based Jobseekers Allowance (ibJSA) instead, which has a very similar means-test. Extra amounts are available for disabled or severely disabled claimants and those with caring responsibilities. Both benefits can cover eligible housing costs, including mortgage interest and related costs such as ground rent. Both benefits will passport the recipient to full help with health and welfare costs.

Benefits that are directly relevant to pensioners

The following benefits are directly relevant to pensioners. They are benefits that you do need to be aware of because pensioners are likely to be receiving them. Note, though, that they are unlikely to be directly affected by the receipt of equity release because they are not means-tested.

Attendance Allowance (AA)

This benefit is similar to DLA as outlined above, but is for people who become disabled when over the age of 65. AA has no mobility component and only two levels of care component: lower and higher. In some situations, receipt of Attendance Allowance can entitle pensioners to an amount for "severe disability" within Pension Credit and Council Tax Benefit.

Carer's Allowance

This can be paid to those over or under pension age. It is payable to someone who provides at least 35 hours a week care to a disabled child or adult in receipt of AA or DLA care component at the middle or higher rate. There is an earnings limit so recipients can only work part-time. If the carer already gets another benefit (other than an income-related one or AA/DLA) which is worth as much, or more than CA (eg, Retirement Pension), CA will not be paid on top, but the person remains entitled to it. If someone is entitled to Carer's Allowance, they will receive an extra amount in the calculation of their Pension Credit and other means-tested benefits.

State Retirement Pension

Currently payable to women from the age of 60 and men from the age of 65. It is based on life-long National Insurance Contribution records. Women who do not qualify for a pension in their own right can receive one as a dependent of their husbands. Can include earnings-related additions on top of the basic rates.

What are the key benefits for equity release?

The following benefits are the key ones. They are the ones that pensioners are most likely to be entitled to, and they are means-tested.

Pension Credit (PC)

Pension Credit is a means-tested (income-related) benefit that does not depend on National Insurance contributions. It is intended to provide for basic living expenses, and can be paid on its own or on top of other benefits to bring a household's income up to a minimum amount. It has two distinct parts: a 'guarantee credit' for those aged 60 and over, and a 'savings credit' for those aged 65 and over. Both parts of PC are distinct from and independent of each other – it is possible to receive one or other or both. Pension Credit (like Income Support and income-based Jobseeker's Allowance) provides help with some forms of housing costs. This is principally via help with mortgage interest costs, but there are some other housing-related costs that are also covered. The key features of Pension Credit are:

- The first £6,000 of capital is ignored. Capital includes shares, investments and other savings and the value of second homes, but not the value of the home occupied as the sole or main dwelling nor personal possessions.
- There is no upper capital limit although any capital over £6,000 will be treated as producing an assumed income of £1 for every £500 (or part of £500) over £6,000. In a residential or nursing home the threshold is £10,000.

Guarantee Credit (GC)

The Guarantee Credit (GC) is an element of Pension Credit. It is a variant of the former Income Support scheme as it applied to those aged sixty or more in the form of the so-called Minimum Income Guarantee (MIG) prior to October 2003.

There is a standard amount of £124.05 for a single-person and £189.35 for a couple. To this may be added additional amounts in respect of severe disability and caring, and standard help with housing costs.

If someone receives GC then they are also entitled to full eligible Housing and Council Tax Benefits, and to health service concessions such as free dental treatment and help with the cost of glasses.

Savings Credit (SC)

The Savings Credit (SC) is an element of Pension Credit. Uniquely for a means-tested benefit, the receipt of certain forms of income in retirement, such as occupational pensions and assumed income from savings, will entitle the applicant to more rather than less. However, the maximum value of savings credit is limited and is not notably generous – at most £19.71 per week for a single person, or £26.13 for a couple at current rates. As income increases SC decreases, so the highest levels of SC are payable where qualifying income exceeds the state pension level by a moderate amount, typically in the range £25 to £40 per week.

Table 2 below indicates the effect of rising income on weekly entitlement to Guarantee and Savings Credit. (The figures in the table only apply to a simple case where no additional amounts for severe disability, caring or housing costs are appropriate.)

Table 2: The effect of rising income on weekly entitlements to Guarantee and Savings Credit

State Retirement Pension £	Occupational pension income £	Guarantee Credit £	Savings Credit £	Total income £
90.70	00.00	33.35	0.00	124.05
90.70	10.00	23.35	5.70	129.75
90.70	20.00	13.35	11.70	135.75
90.70	30.00	3.35	17.70	141.75
90.70	40.00	0.00	17.05	147.75
90.70	50.00	0.00	13.055	153.75
90.70	60.00	0.00	9.05	159.75
90.70	70.00	0.00	5.05	165.75
90.70	80.00	0.00	1.05	171.75
90.70	90.00	0.00	0.00	180.70

Council Tax Benefit (CTB)

CTB is a means-tested benefit operated by local authorities with housing responsibilities. It provides help with Council Tax costs. It runs alongside Housing Benefit, which provides help with rent and related costs. Key features are:

- For those aged 60 and over the first £6,000 of capital is ignored.
- There is an upper capital limit of £16,000. Those with capital above this figure will not be entitled, unless they are entitled to the guarantee credit element of Pension Credit or their capital exceeds the limit when they are in a Pension Credit "Assessed Income Period" (see below).
- Those who receive Income Support, income-based Jobseeker's Allowance or Pension Credit guarantee credit will be "passported" to full help with Council Tax costs.
- Those whose income is above the levels to qualify for those other benefits can still receive CTB, but with their entitlement tapering off as their income rises.
- CTB will be reduced where there are others, who are neither the benefit claimant's partner nor dependent children, living in the house who are expected to make a contribution to costs. These "non-dependents" would typically be grown-up sons and daughters still living at home.

Tax issues

Income tax

2008/2009 income tax allowances are as follows:

Income tax allowances	2008-09 (£)
Personal allowance	5,435
Personal allowance for people aged 65-74	9,030
Personal allowance for people aged 75 and over	9,180
Income limit for age-related allowances	21,800
Married couple's allowance for people born before 6 April 1935	6,535
Married couple's allowance - aged 75 or more	6,625
Minimum amount of married couple's allowance	2,540
Blind person's allowance	1,800

If, after equity release, the total income is higher than an individual's tax-free personal allowance, then the individual will pay tax on the difference.

If an individual's income, including that from any equity release scheme, is above £21,880, the individual may lose entitlement to some or all of the 'age allowance'. Losing the allowance may increase the individual's overall tax bill.

Inheritance Tax (IHT)

The 2007-08 threshold for IHT is £312,000. Advisers will need to consider the effect of equity release mechanisms on IHT liability. The effects of equity release mechanisms on IHT are usually positive as a result of the decrease in the value of the estate, because of the reduced or nil value of the family home. However, specialist advice on the overall IHT position should be sought before equity release is used specifically to reduce the effects of IHT.

Tax and benefits

The benefits system is interested in net income. What is considered in any means-test is the claimant's income after tax has been deducted. Any refund of overpaid tax is not regarded as income, and does not lead to any recalculation of entitlement. The lump sum received will simply be treated as increasing the claimant's capital.

Benefits affected by equity release - what are the main issues?

This section concentrates on Pension Credit and Council Tax Benefit. However, the existence of broadly similar rules across the means-tested system means that much of what follows is relevant to those in receipt of other means-tested benefits.

Capital rules

Means-tested benefits typically limit entitlement to those who have less than a certain level of capital/savings. Capital includes shares, investments and other savings and the value of second homes, but not the value of the home occupied as the sole or main dwelling nor personal possessions. There is a lower limit, below which such capital is ignored, and an upper limit (although not for Pension Credit), above which benefit is not payable. Also, rather than coping with the intricacies of the actual receipt of income from capital/savings, any capital over a certain amount will be treated as producing an assumed level of income (referred to sometimes as "tariff" or "deemed" income). Table 3 below shows the upper and lower capital limits for various means-tested benefits, together with any assumed income.

Table 3: Upper and lower capital limits for means-tested benefits and assumed income

Capital limits	lower limit	Assumed income	upper limit
Under age 60			
IS/income-based JSA	£6,000	£1 for each £250 or part thereof above lower limit	£16,000
CTB	£6,000	£1 for each £250 or part thereof above lower limit	£16,000
Aged 60 or over			
IS/income-based JSA	£6,000	£1 for each £250 or part thereof above lower limit	£16,000
Pension Credit	£6,000	£1 for each £500 or part thereof above lower limit	No upper limit
CTB	£6,000	£1 for each £500 or part thereof above lower limit	£16,000
Permanently in a care home			
IS/income-based JSA	£10,000	£1 for each £250 or part thereof above lower limit	£16,000
Pension Credit	£10,000	£1 for each £500 or part thereof above lower limit	No upper limit
CTB	£10,000	£1 for each £500 or part thereof above lower limit	£16,000

Income versus capital

All sums realized by any form of equity release mechanism will be either considered for benefits purposes as being either capital or income. Usually, it will be clear into which category the sum or sums realized fall. A product, which produces a single cash lump sum, is clearly capital. A product, which produces a regular income into the future, is usually income. However, some products can produce a series of lump sums or instalments. If a capital sum is received which puts the benefit recipient above the "upper capital limit" as shown in the table above then benefit entitlement will cease.

For example, consider a pensioner who qualifies for Council Tax Benefit (CTB) and receives a lump sum. If they had no capital at all, and the lump sum they acquired was only £6,000, then there would be no effect on their CTB provision (as the first £6,000 of capital is ignored). If the lump sum was larger and took their capital above £16,000 they would lose entitlement unless they were receiving State Pension Guarantee Credit (although, because of the existence of Assessed Income Periods, such a loss may not be immediate – see below). If, instead, they took the money they had generated from equity release as income, the receipt of the income would decrease the amount of CTB payable (as CTB entitlement reduces as income rises), but would not necessarily prevent entitlement altogether.

Within Pension Credit and Council Tax Benefit, there is a specific provision that where a lender is making payments at regular intervals under an equity release scheme, such amounts shall be treated as income, not capital.

There are two simple charts in Appendix 2 showing the effect of taking a sum as either income or as capital.

Repairs and improvements

Many of those taking advantage of equity release schemes use the capital to fund repairs and improvements to their home. There is provision within the rules for means-tested benefits to ignore as a capital resource any loan obtained to make "essential repairs and improvements to the dwelling", that is, with a view to maintaining the home 'fit for human habitation'.

Unfortunately, for home-owners contemplating equity release, the use of the term "essential" has traditionally been interpreted restrictively. It has been held to mean "necessary" in the sense in which luxuries are differentiated from "the necessities of life", covering only those works for which there must be a substantial need. So, for example, capital released to build a conservatory would not be considered "essential" and, therefore, would not be ignored, whereas undertaking repairs to a leaking roof would be. In addition, in England and Wales, there is a statutory "disabled facilities grant" scheme operated by local authorities with housing responsibilities. This provides means-tested assistance with the cost of adaptations required because of disability. Individual local authorities also have discretionary home improvement grant or loan schemes which may provide assistance with the cost of essential repairs to all home-owners. Similar provision exists in Scotland and Northern Ireland. If equity release is required for these purposes, individuals should be advised to check whether any help is available from their local authority.

It is also relevant that Pension Credit (like Income Support and income-based Jobseeker's Allowance) provides help with some forms of housing costs. This is principally via help with mortgage interest costs but there are some other housing-related costs that are also covered. This may impact on equity release in two ways:

- It is possible that where a benefit claimant is meeting interest costs on a loan, and that loan was to secure an interest in their dwelling, as would be the case with some forms of equity release, that such costs would be met through PC as conventional housing costs. However, it seems unlikely that this would arise often in practice, as the borrower would be seeing only a reduced gain from the equity release where they were left in receipt of PC.
- A more relevant consideration is that any loan taken out to effect "repairs and improvements to the dwelling taken out with a view to maintaining the fitness of the dwelling for human habitation"(as discussed above) would be eligible for such interest repayment. Regulations specify what help can be provided. Again, this is an alternative method of meeting such costs, which should be borne in mind when equity release or similar solutions are being discussed. The individual should be advised to contact the local Department for Work and Pensions office if this is a possibility.

Annuities

Where someone has taken out a loan and used it to purchase annuities, and some of the resulting income is used to service the interest repayment (a typical feature of a "home income plan") then both CTB and PC will ignore as income any payment from the annuity that is used to pay the interest. This will be the case provided that the loan:

- was made to someone who was aged 65 or more (and whose partner was 65 or more if the annuitants are a couple);
- was made as part of a scheme under which not less than 90% of the proceeds of the loan were used to purchase an annuity; and
- was secured on a dwelling in Great Britain and the annuitant(s) owns an interest in the dwelling and occupy it as his/their home.

The amount ignored will be the net amount payable where tax is paid, otherwise the gross amount payable. Note, though, that this relates only to the element used to make interest repayments, the remaining income from the loan will be fully taken into account as income.

Pension Credit and Assessed Income Periods (AIP)

It is the policy intention that those receiving Pension Credit who are 65 or over should be spared some of the need to report changes in circumstances which characterize other means-tested benefits. This has led to the introduction of the Assessed Income Period (AIP).

During the AIP, the Pension Credit recipient does not need to report any changes in "retirement provision". This includes occupational pensions, income from savings and the receipt of lump sums. An AIP will not be put in place, or put in place for a shorter period, if there is uncertainty about the nature of the claimant's retirement provision. So, if someone is making a claim to PC whilst also initiating some form of equity release product a five-year AIP is unlikely to be appropriate.

Receipt of any amount of State Pension guarantee credit passports the claimant to full help from CTB. So, if a pensioner receives a lump sum, there should be no immediate effect on their CTB if they are within an AIP.

An increase in income, as the result of an equity release mechanism, is an increase in retirement provision; so again, the only situation where this will not immediately impact on benefit receipt will be where an AIP is in force.

When the receipt of a lump sum or an increase in income needs to be reported is summarised in Table 4 below:

Table 4: When should the effect of receiving a lump sum or an increase in income be reported?

BENEFIT SITUATION	EFFECT OF RECEIVING A LUMP SUM OR AN INCREASE IN INCOME
Assessed Income Period (AIP) set	
Guarantee credit (with or without CTB or savings credit)	No change in retirement provision need be reported Increases in retirement provision only apply from end of AIP
Savings credit and CTB (no guarantee credit)	£16,000 upper limit applies to CTB – any increase in capital above that level should be reported to local authority
Savings credit only (no CTB)	No change in retirement provision need be reported Increases in retirement provision only apply from end of AIP
Assessed Income Period (AIP) not set	
Guarantee credit (with or without or CTB or savings credit)	Any change in retirement provision should be reported. No upper capital cut-off limit
Savings credit and CTB (no guarantee credit)	Any change in retirement provision and capital should be reported. £16,000 upper limit applies to CTB
Savings credit only (no CTB)	Any change in retirement provision should be reported. No upper capital cut-off limit
CTB only	Any change in retirement provision and capital should be reported. £16,000 upper limit and £6,000 lower limit apply

Deprivation of resources

There may be situations where the Department for Work and Pensions (for Pension Credit) or local authority (for Council Tax Benefit) could consider that the benefit claimant who takes advantage of an equity release mechanism had voluntarily deprived themselves of resources. This would not be because, in a reversion arrangement, the claimant had effectively deprived themselves of their own home, as the home is not regarded as being a capital resource. However, the issue might arise where someone receives a cash lump sum, spends it, and then makes a claim for benefit. This may well be a deterrent to those who might wish to time the receipt of cash sums in such a way as to take advantage of the AIP rules detailed above.

There are some limitations though on the use of the deprivation rule:

- It would need to be shown that at least one reason why the deprivation took place was to gain or increase entitlement to the benefit.
- It would also need to be shown that the lump sum was not spent on something that it was reasonable for the claimant to have spent money on. Although the rules do not give a list of items that are "reasonable" it is likely that modest expenditure on repairs and improvements (even if not "essential"), or on a holiday would be regarded as acceptable. 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 if that was buying a Rolls Royce.
- The DWP are likely to focus on what the circumstances are at the time of the renewal claim to PC and it is unclear to what, if any, extent they will wish to investigate the circumstances of a PC claimant during the period of the AIP.

Some general advice issues

There are likely to be a number of situations where benefit entitlement may be lost or sharply reduced by the receipt of income and/or capital from any form of equity release mechanism. In the worst possible cases, a small weekly rise in income will simply result in an identical amount of lost benefit income, or a rise in capital will result in the loss of benefit but no perceivable gain to the customer. Even where the rise in income is so great as to take the customer who was getting such benefits well outside the scope of any means-tested benefit, the "real" rise in income should include some recognition of the lost benefit income involved.

Further, it should be recognized that benefit entitlement is not static. The value of the basic State Retirement Pension and the operation of Pension Credit are frequently debated. Benefit rules may well change in the future. The situation of claimants also changes. For example, there is extra provision within PC and CTB for those who are severely disabled, and qualifying for this would result in a sharp rise in benefit entitlement. Bereavement is also an issue for those within the age group who are considering equity release. Therefore, some consideration needs to be given, not only to the existing benefits situation of those being advised, but also to their future entitlement, as well.

Further assistance

A list of organisations that might be able to provide further help is included at Appendix 3.

Appendix 1 Benefits and the situations in which they are payable

Situation	Benefit	Benefit type	Details
Incapable of work	Statutory Sick Pay (SSP)	Contributory/recent work	If an employee, paid by employer
	Incapacity Benefit (Employment and Support Allowance from Oct 2008)	Contributory/recent work	If not an employee or after 28 weeks SSP - if enough NI contributions
	Income Support	Means-tested	For those who can't get SSP or incapacity benefit, or can but whose incomes are below Income Support levels
	Severe Disablement Allowance	Disability/universal	For severely disabled people without enough NI contributions. Abolished in 2001 but still paid to those who continue to meet the qualifying conditions.
Unemployed	Contribution-Based Jobseeker's Allowance (JSA)	Contributory/recent work	Only paid for 26 weeks to those who satisfy NI contributions test
	Income-Based JSA	Means-tested	For those who can't get Contribution-Based JSA or can but whose incomes are below Income Support levels
Responsible for children	Child Tax Credit	Means-tested	For those with children under 16, or aged 16-19 in full-time, non-advanced education or on certain approved training courses and are on a low income (although basic element only is payable on gross income of up to c £57,000 pa)
	Child Benefit	Disability/universal	For those with children under 16, or aged 16-19 in full-time, non-advanced education or on certain approved training courses
In low-paid work	Working Tax Credit	Means-tested	If you are 50 or over and returning to work, have a child, or you have a disability, or are 25 or over and are working at least 30 hours a week
	Council Tax Benefit	Means-tested	Provides help with council tax (although this may be reduced if there are non-dependents living in the property)
For those on low incomes who are not unemployed and any income or savings are low	Income Support	Means-tested	For those who are incapable of work, disabled, carers or lone parents
Retired	State Retirement Pension	Contributory/recent work	Paid from 60 for women, or 65 for men, dependent on NI contributions
	Pension Credit - guarantee element	Means-tested	Paid from age 60 to those who do not qualify for State Retirement Pension, or to top pensioners up to Pension Credit levels.

	Pension Credit - savings element	Means-tested	Paid from age 65 to those who are on low incomes but have some occupational pension and/or savings
Caring	Carer's Allowance	Disability/universal	Caring for a disabled person for at least 35 hours a week
	Carer premium within means-tested benefits	Means-tested	Receiving Carer's Allowance (or meeting the rules for it)
Disabled	Disability Living Allowance - mobility component	Disability/universal	For those under 65 with severe walking difficulties
	Disability Living Allowance - care component	Disability/universal	For those under 65 with personal care or supervision needs
	Attendance Allowance	Disability/universal	For those over 65 with personal care or supervision needs (there is no provision for help with mobility for those over 65)
Housing - needing help with mortgage costs	Income support	Means-tested	For those under 60, who do not have to sign on as unemployed. Covers mortgage interest only
	Income-based JSA	Means-tested	For those under 60, who do have to sign on as unemployed. Covers mortgage interest only
	Pension Credit - Guarantee element	Means-tested	For those over 60. Covers mortgage interest only
Housing - needing help with rent	Housing Benefit	Means-tested	Provides help with the rent (although this may be reduced by capping on eligible rent, if there are non-dependents living in the property, etc.)
Housing - needing help with council tax	Council Tax Benefit	Means-tested	Provides help with council tax (although this may be reduced if there are non-dependents living in the property)
Disability arising from an industrial accident or a prescribed industrial disease	Industrial Injuries Disablement Benefit	Disability/universal	For those disabled by an industrial accident or a prescribed industrial disease. The benefit can be paid whether a person is working, incapable of work or retired.
Health costs - needing help with glasses, dentist, hospital fares, etc.	Health Benefits	Means-tested	Those on Income Support and Income-Based JSA or Pension Credit guarantee credit will be "passport" to this form of help, others may qualify on low income grounds

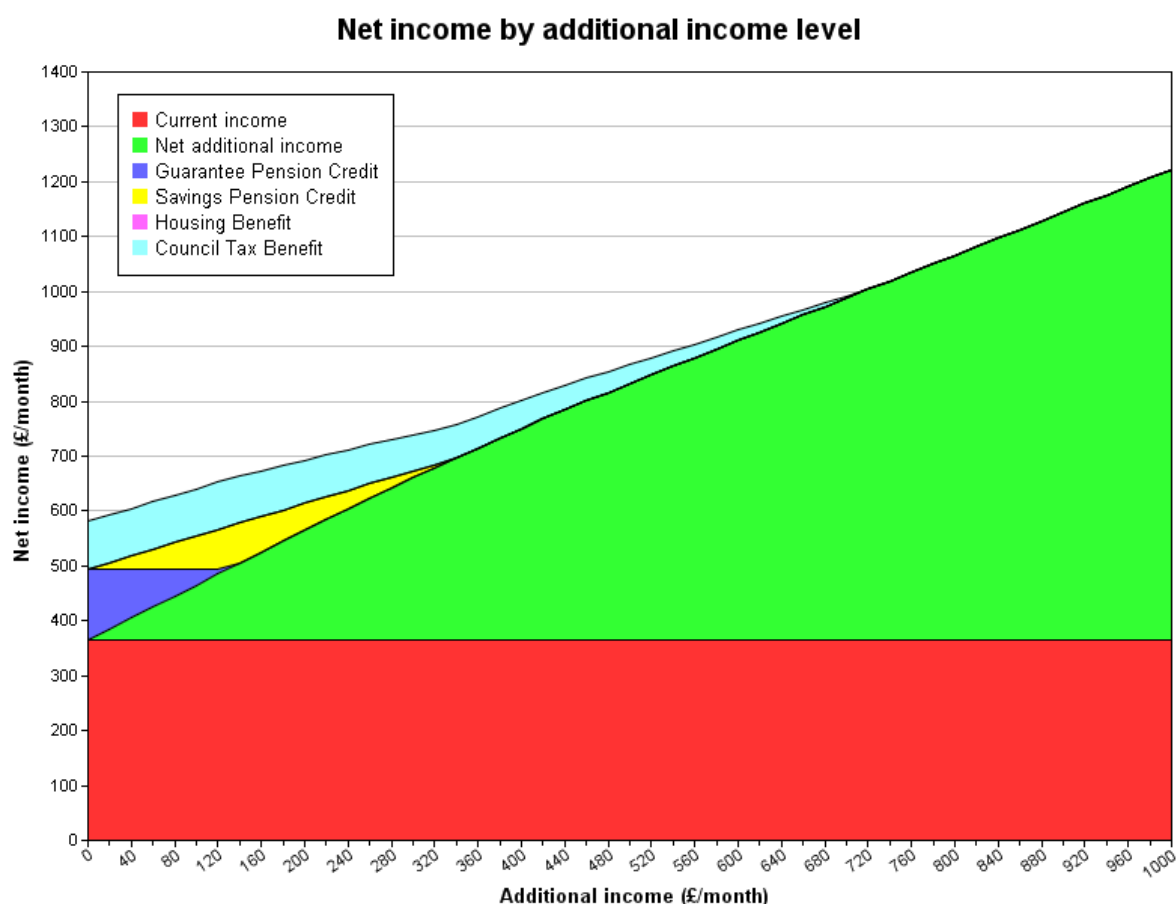
Appendix 2 Simple worked examples

Health warning

These charts are for illustration only. They do not cover the complex interactions that can occur due to higher levels of benefit income (for example, for couples or those receiving disability or carer related elements in the CTB or PC calculation), or the effects of the AIP, etc. It is important, therefore, to consider each case individually.

The effects of a rise in income

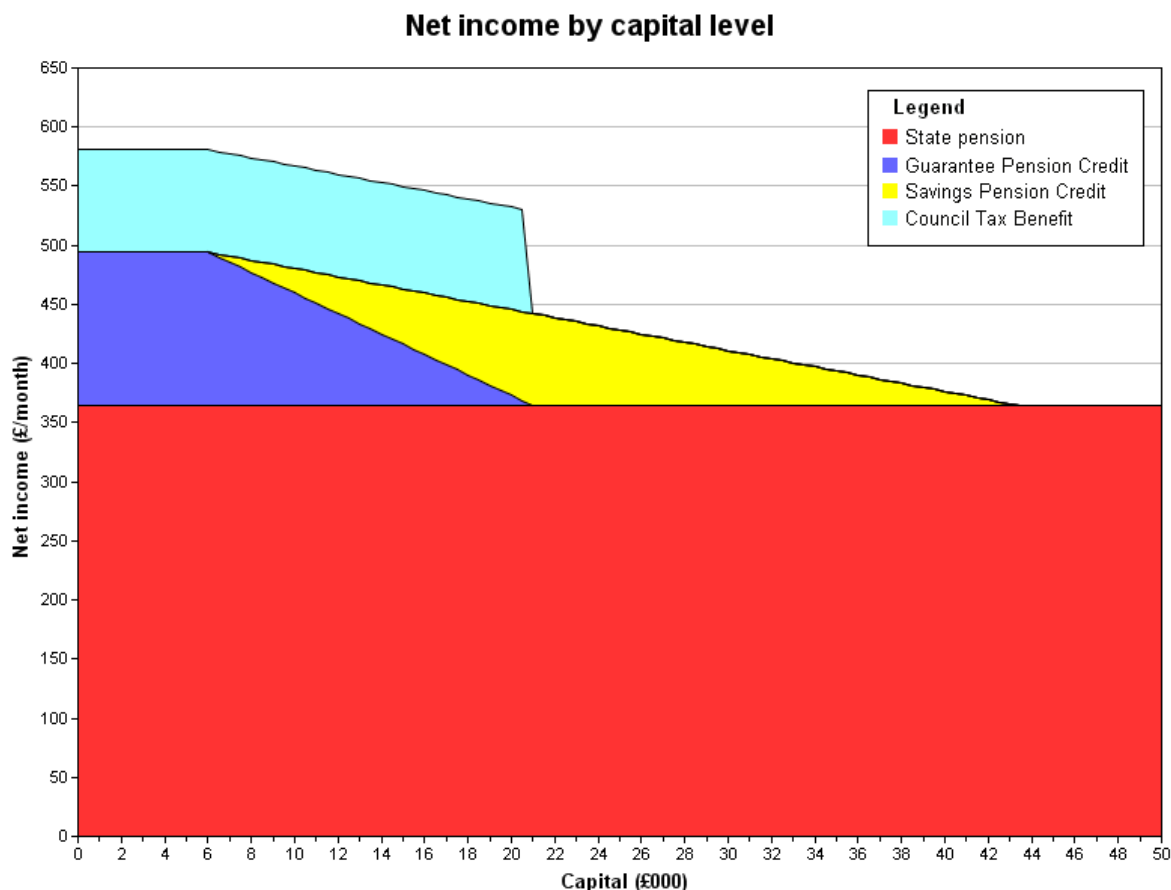
The charts below show the effects, on a monthly basis, of the receipt of an increase in income for a single, low-income 75 year-old who pays £86.67 a month (£20 a week) in Council Tax and receives a basic rate State Retirement Pension of £374.14 a month (£90.70 a week).



Note that, initially, the effect of extra private income (the green portion of the chart) leads to the loss of some Guarantee Credit (GC) but also leads to a small gain in Savings Credit (SC). At c. £120 private income per month GC stops. As the pensioner receives more in private income the SC and the Council Tax Benefit (CTB) decline. First the SC tapers off to nothing, at c. £300 private income per month, then the CTB does at c. £700 per month.

The effects of a rise in capital

The charts below show the effects, on a monthly basis, of the receipt of a steadily rising amount of capital for the same single, low-income 75 year-old who pays £86.67 a month (£20 a week) in Council Tax and receives a basic rate State Retirement Pension of £374.14 a month (£90.70 a week).



With a rise in capital, an initial small increase in capital has no effect, the result of the first £6,000 being ignored. But then there is a sharp drop in entitlement at c. £20,000, the point at which assumed income from capital ends entitlement to GPC, and thus also to CTB. The SC initially increases, and then declines until at c. £43,000 it stops entirely.

Appendix 3 Further information

The following organisations can be contacted for further information:

Age Concern

Telephone: Information Line: 0800 00 99 66

Website: <http://www.ageconcern.org.uk>

Address: Age Concern, Freepost, (SWB 30375), Ashburton, Devon TQ13 7ZZ

Can provide information about benefits or about raising income or capital from the home.

Child Poverty Action Group

Website: <http://www.cpag.org.uk>

Tel: 020 7837 7979

Address: 94 White Lion Street, London N1 9PF

Publish a dense, fully referenced and definitive annual guide, the *Welfare Benefits and Tax Credits Handbook*.

Council of Mortgage Lenders

Website: <http://www.cml.org.uk>

Telephone: 020 7437 0075

Address: Council of Mortgage Lenders, 3 Savile Row, London W1S 3PB

A range of information for lenders, intermediaries and consumers is included on their website

Department for Work and Pensions

Websites: <http://www.dwp.gov.uk>

<http://www.thepensionservice.gov.uk>

Contacts: Extensive range of helpline numbers.

Contact is often best made with the relevant local office

Disability Alliance

Website: <http://www.disabilityalliance.org>

Telephone: 020 7247 8776

Address: Universal House, 88-94 Wentworth Street, London E1 7SA

Publish an accessible and useful annual guide, the *Disability Rights Handbook*, focusing on benefits and services for disabled and elderly people.

Ferret Information Systems Ltd

Website: <http://www.ferret.co.uk>

Telephone: 029 2064 3333

Address: 4 Coopers Yard, Curran Road, Cardiff, CF10 5NB

Provide various products, which may be of interest:

FINTAL: calculates means-tested benefits and the effects of equity release

Disability Rights Handbook: the Disability Alliance's Handbook in electronic form

Social Security Law: a searchable electronic encyclopaedia of social security information

Financial Services Authority

Website: <http://www.fsa.gov.uk>

Telephone: 020 7066 1000

Address: 25 The North Colonnade, Canary Wharf, London E14 5HS

HM Revenue & Customs

Website: <http://www.hmrc.gov.uk>

Contacts: Extensive range of helpline numbers.

Contact is often best made with the relevant local office