

The DomaCom Fund – Case Study 8

Senior Equity Release



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Case Study 8: Senior Equity Release

- Bill and Wendy attend a meeting that they requested as they have a family issue they wish to discuss
- Wendy's mother, Gwen is 84 and owns a property in South Australia worth \$900,000 (mortgage free)
- Her second husband has recently passed away and there is very little left in Superannuation or savings
- Gwen is fit and healthy and believes she needs \$200,000 for a more comfortable retirement
- If she finds a way to better fund her retirement, she is not sure whether a lump sum payment or a flexible monthly payment option would suit better
- Bill & Wendy and two other siblings have shown a desire to help their mother in retirement
- The children are seeking advice as to an appropriate solution to help Gwen

Case Study 8: Senior Equity Release

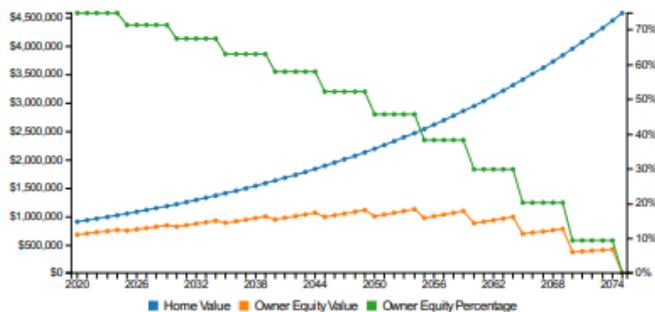
- Funding options to consider
 - Personal loans from the siblings to Gwen
 - Reverse Mortgage
 - Government Pension Loan Scheme – in effect a reverse mortgage with no lump sum option
 - Home Reversion Scheme
 - Senior Equity Release
- Issues to consider:
 - Which solution enables the siblings to assist with Gwen's retirement
 - Will the solution chosen provide protection to the interests of those providing any funding and remove any possible future disagreements
 - Which solutions provide the option of a lump sum payment versus flexible monthly payments and are there any Centrelink considerations with either option
 - Are there any postcode restrictions for equity release
 - Can Gwen remain in situ and also have the flexibility to trial some form of aged care solution whilst receiving any rent from her house

Case Study 8: Senior Equity Release

- Solution:
 - Given the children's desire to help their mother you suggest that they consider an equity release solution to provide Gwen with further retirement funding
 - This would entail Bill, Wendy and the two siblings funding the release of equity in Gwens home and they have the capacity to fund one-third each
 - With that said, two of the siblings do not have sufficient savings in 'cash' to fund the equity release so decide to borrow against their home to fund their respective portions
 - As the Senior Equity Release product is a financial product as part of the process Gwen must receive financial advice and it is recommended that siblings are also involved and receive financial advice (a possible client generation opportunity)
 - To illustrate the outcomes for each party, you utilise the calculator on the DomaCom website to model the outcome for Gwen (and children)

i For this payout amount, DomaCom will buy \$227,272.73 of equity. This will give you the required \$200,000 upfront and includes \$27,272.73 which will be held in reserve to cover costs over the next 5 years.

- Property Value: \$900,000
- Funding Amount: \$200,000
- Service Fee Applicable: 2.40%
- Occupants: 1
 - Occupant 1
 - 84
 - Female
- Forecast Capital Growth: 3.00%
- Base Service Fee: 2.40%



Years	2020	2025	2030	2035	2040	2045	2050	2055	2060	2065	2070	2075
Home Value	\$900,000	\$1,043,347	\$1,209,525	\$1,402,171	\$1,625,500	\$1,884,400	\$2,184,536	\$2,532,476	\$2,935,834	\$3,403,436	\$3,945,515	\$4,573,934
% Owned by home owner	74.75%	71.30%	67.39%	62.94%	57.89%	52.15%	45.62%	38.21%	29.78%	20.21%	9.33%	0.00%
\$ Owned by home owner	\$672,727	\$743,947	\$815,109	\$882,584	\$941,019	\$982,695	\$996,669	\$967,631	\$874,374	\$687,757	\$367,997	\$0
% Owned by investor	25.25%	28.70%	32.61%	37.06%	42.11%	47.85%	54.38%	61.79%	70.22%	79.79%	90.67%	100.00%
\$ Owned by investor	\$227,273	\$299,399	\$394,416	\$519,586	\$684,481	\$901,705	\$1,187,868	\$1,564,846	\$2,061,460	\$2,715,679	\$3,577,518	\$4,573,934

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- **Considerations:**
 - Gwen could be on her way to selling the property (in this scenario her equity does not run out until 2075)
 - Centrelink entitlements need to be considered when deciding on the settlement outcome i.e. lump sum versus flexible monthly payments
 - The children have agreed to only receive 1% as the rental income level (this could be between 0 and 3%) and this is the reason the equity in her property lasts to 2075
- **Benefits:**
 - Gwen is able to remain in situ and can remain in the home until after all equity is exhausted
 - She can 'bequeath' part of the children's inheritance whilst still alive
 - Gwen can choose to receive a lump sum or a flexible monthly payment
 - She can decide to move into an Aged Care facility and lease out her house and receive the rent (which could be used to pay any daily charge)
 - The DomaCom Fund provides a third-party structure with independent Trustee and Custodian to avoid any future family disputes
 - There is a liquidity facility (secondary market) that enables the option for each sibling to exit the investment if required
 - The children will receive investment returns (capital and agreed income)

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