Reverse Mortgages and Long Term Care
Who Is Eligible?

- Clients over age 62
- Principal residences
- Single Family Homes up to 4 units
- Clients With Existing Mortgages
Myths vs. Reality

1 - Who Retains Title to the Home?
The clients (s) always retain the title to the home

2 - Remaining Equity Goes?
To the heirs, estate or where ever directed

3 - Loan Repayment?
The reverse mortgage is a non recourse residential loan
2010 Saw the Retooling of the Reverse Mortgage:

- April 2010 – closing costs were decreased greatly thus removing the #1 obstacle advisors had with the product

- Oct 2010 – The Introduction of a totally New Reverse Mortgage – The HECM Saver- Designed for the upper income borrower
* Contrary to what most believe Cross Selling is **NOT** against the law! (Never Has been)
  - Section 2122 of HERA clearly states that safeguards and firewalls must be in place to protect the seniors.
  - But they do not define those safeguards.
  - We are those safe guards!
Reverse Mortgage to LTCi

- Not just another “pocket” from which to pay LTCi premiums
- Strategy must fit overall financial, retirement and LTC plans
- Must look at total cost of the mortgage in the plan
- Consider a smaller/shorter base of LTCi with a reverse mortgage as a future back up
Example

• 65 years old. Good health
• Home worth minimum $200,000
• $100,000 reverse mortgage for reallocation to LTC plans
• Lump sum
  – Combo Life/LTCi
  – (Single pay traditional LTCi)
• Stream of income
  – Traditional LTCi
  – 10-pay Traditional
Lump Sum into Combo Life/LTCi

- $100,000 premium
- $200,000 death benefit
- $400,000 LTCi benefit = $5,555/month, 6-years
- Advantage:
  - 1-and-done
  - Death benefit can restore value to estate if no LTC
  - Cash value available
  - May have even greater leverage based on health/sex
- Disadvantage:
  - No LTC inflation protection
  - No Partnership asset protection
  - EXPENSIVE
- 20-year total cost (@6.75%*) = $345,931

*Including PMI
Ongoing Income into Traditional LTCi

- $5,000/year premium
- $5,400/month x 6-years = $394,000 LTCi benefit
- 3% compound inflation
- Advantage:
  - Better long-term LTCi coverage ($670,759 in 20 years)
  - Partnership asset protection
- Disadvantage:
  - No cash value or death benefit
  - Risk of future premium increase
- 20-year total cost (@4%*) = $154,846*

*Adjustable rate loan incl. PMI, % & total loan cost can increase
Ongoing Income into Traditional LTCi

- Limited Pay – 10 years
- $10,000/year premium
- $5,400/month x 6-years = $394,000 LTCi benefit
- 3% compound inflation
- Advantage:
  - Better long-term LTCi coverage ($670,759 in 20 years)
  - Partnership asset protection
- Disadvantage:
  - No cash value or death benefit
  - Limited risk of future premium increase
- 20-year total cost (@4%*) = $184,829*

*Adjustable rate loan incl. PMI, % & total loan cost can increase
LTCi Base / Future Reverse Mortgage

- $200/day, 3-years, 3% compound (6-years shared for couples). Short, fat & meaningful
- No current reverse mortgage
- “Save” reverse mortgage to pay for home care, reserve LTCi for facility care
- Use reverse mortgage to extend home care
  - May have to self-insure or Medicaid/Partnership for facility care
- Under age 62 as part of an overall LTC plan
Another Approach

- 65-year-old clients
- $200,000 traditional mortgage, house worth $500,000
- Use reverse mortgage to pay off traditional mortgage
- Increases immediate cash flow equal to previous monthly mortgage payment
  - E.g., $1500/month
- Improve current lifestyle
- Allocate part of the income to LTCi protection
Using a Reverse Mortgage for LTC

Barbara Stucki, Ph.D.
Vice President, NCOA Home Equity Initiatives
WIFS/ASWA Meeting Philadelphia PA, May 20, 2010
Issues for Long-Term Borrowers

- Borrowers must continue to pay property taxes, hazard insurance and maintain the home to avoid foreclosure.

- Borrowers can continue to keep their RM only as long as they continue to live in their current house.
  - May get stuck in an unsafe or isolated living situation that could increase LTC risks.
  - May not be able to afford or maintain the home with age.

- When the borrower moves, the loan must be repaid. Paying compound interest on the loan for many years may:
  - Leave little equity to fund a move to another home. May seek LTCI-funded ALF or NH care instead.
  - Leave little equity to continue to pay LTCI premiums.
Mandatory Reverse Mortgage Counseling

- Counseling by independent HUD-approved counselors.
  - About 600 agencies/800 counselors offer HECM counseling.
  - Primarily phone counseling.

- The counseling session covers:
  - Their goals for using a reverse mortgage.
  - An overview of reverse mortgages and their features.
  - The amount of money that may be available and loan costs.
  - Other housing, services, and financial options that could help them meet their goals.
  - Using RMs for LTCI or financial investments – RED FLAG.

- New - Review their life circumstances (FIT)
  - Discuss their financial goals, debt, and budget.
  - Ask about health status, limits with activities, home barriers.
BenefitsCheckUp is a web-based tool that screens seniors for over 2,000 State, Federal, and private benefits. It includes over 50,000 offices nationwide where those eligible for benefits can apply. Visit www.BenefitsCheckUp.org for more information.
Why Homeowners Age 62-69 Consider RMUs

- Plan ahead - 21%
- Improve quality of life - 26%
- Increase income for everyday expenses - 31%
- Home repairs/improvements - 21%
- Reduce debt - 73%
- Pay for LTCI/annuity/investment - 3%

Source: Preliminary data from RM counseling sessions using the Financial Interview Tool (FIT)
RM Can Enhance Financial Resilience

– **Cover Out-Of-Pocket Costs**
  - Pay for out-of-pocket health and disability expenses.
  - Supplement limited insurance coverage.

– **Financial Buffer**
  - Timely action to keep small problems from becoming a crisis.
  - Peace of mind knowing funds are available for emergencies.

– **Sustain Cash Flow**
  - Use home equity to supplement monthly income.
  - Extra funds to avoid an accident or illness due to penny-pinching.
Combine RM Upfront With LTCI at Back End

Likely duration of RM funds for out-of-pocket home care*

- **Family care**: 22 years
- **$720/month Adult day care**: 13 years
- **$1,200/month Home health**: 4 years
- **$3,040/month**

*Estimates based on HECM Standard adjustable rate loan for a $250,000 home and an annual credit line growth of 4.09%. Source: NCOA analysis using the AARP reverse mortgage calculator.
LTCI Can Protect Home Equity

For illustrative purposes only

Amount of Remaining Equity

$150,000

$100,000

$50,000

$0

$2,000 per month RM

Year

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

Credit line exhausted

$600 monthly from a RM to supplement LTC

out-of-pocket for LTC

$50,000

$2,000 per month RM
Big Picture Conversation - Suitability

• Duration of stay - Long versus short?
  – Short stay - Suitability, loan costs.
  – Moderate stay - Transitions, remaining equity.
  – Long stay - Borrower obligations, interest rates.

• Funds needed - Small versus substantial?
  – How long may funds last? Can they meet their goals?
  – Impact of upfront lump sums on remaining equity.

• Ability to stay home - Likely versus unlikely?
  – Recent changes, rely on help, home environment.
  – Availability and cost of additional help.

• Dependence on loan - High or low?
  – Payment options - Lump sum versus credit line?
  – Other supports - Family, community, public programs.
Barbara R. Stucki, Ph.D.
Vice President, Home Equity Initiatives
National Council on Aging

barb.stucki@ncoa.org
541-322-5610