



Reverse Mortgages and Long Term Care

THE ELEVENTH ANNUAL INTERCOMPANY LONG TERM CARE INSURANCE CONFERENCE

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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



Closing Costs

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



Cross Selling

- * 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
- 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

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WIFS/ASWA Meeting Philadelphia PA, May 20, 2010

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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

BenefitsCheckUp is a web-based tool that screens seniors for over 2,000 State, Federal, and private benefits

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What People Are Saying...
"This is a great user-friendly website, and I would highly recommend this site to citizens age 55 and over!"



Why Homeowners Age 62-69 Consider RMs

- 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)



RMs Can Enhance Financial Resilience

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

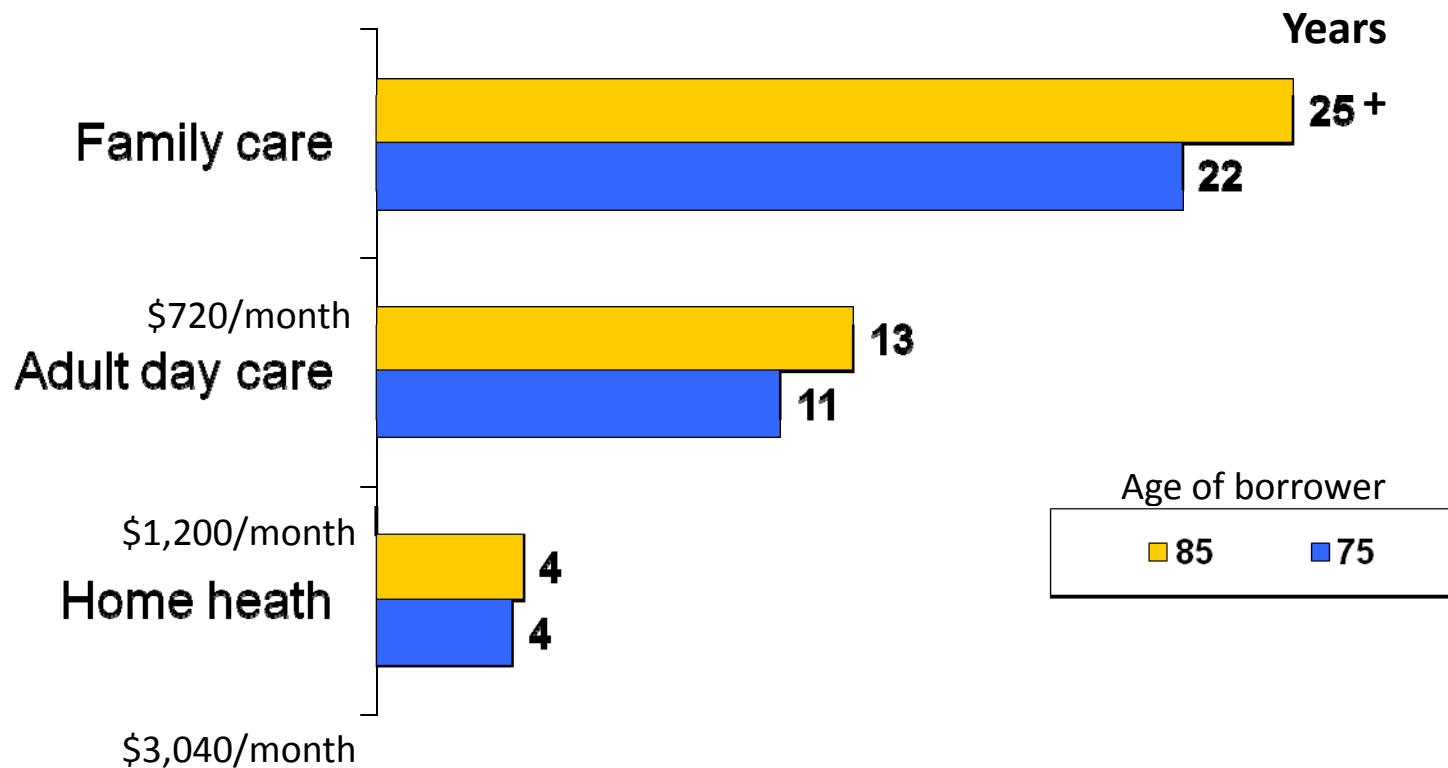
- **Financial Buffer**
 - Timely action to keep small problems from becoming a crisis.
 - Peace of mind knowing funds are available for emergencies.

- **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*



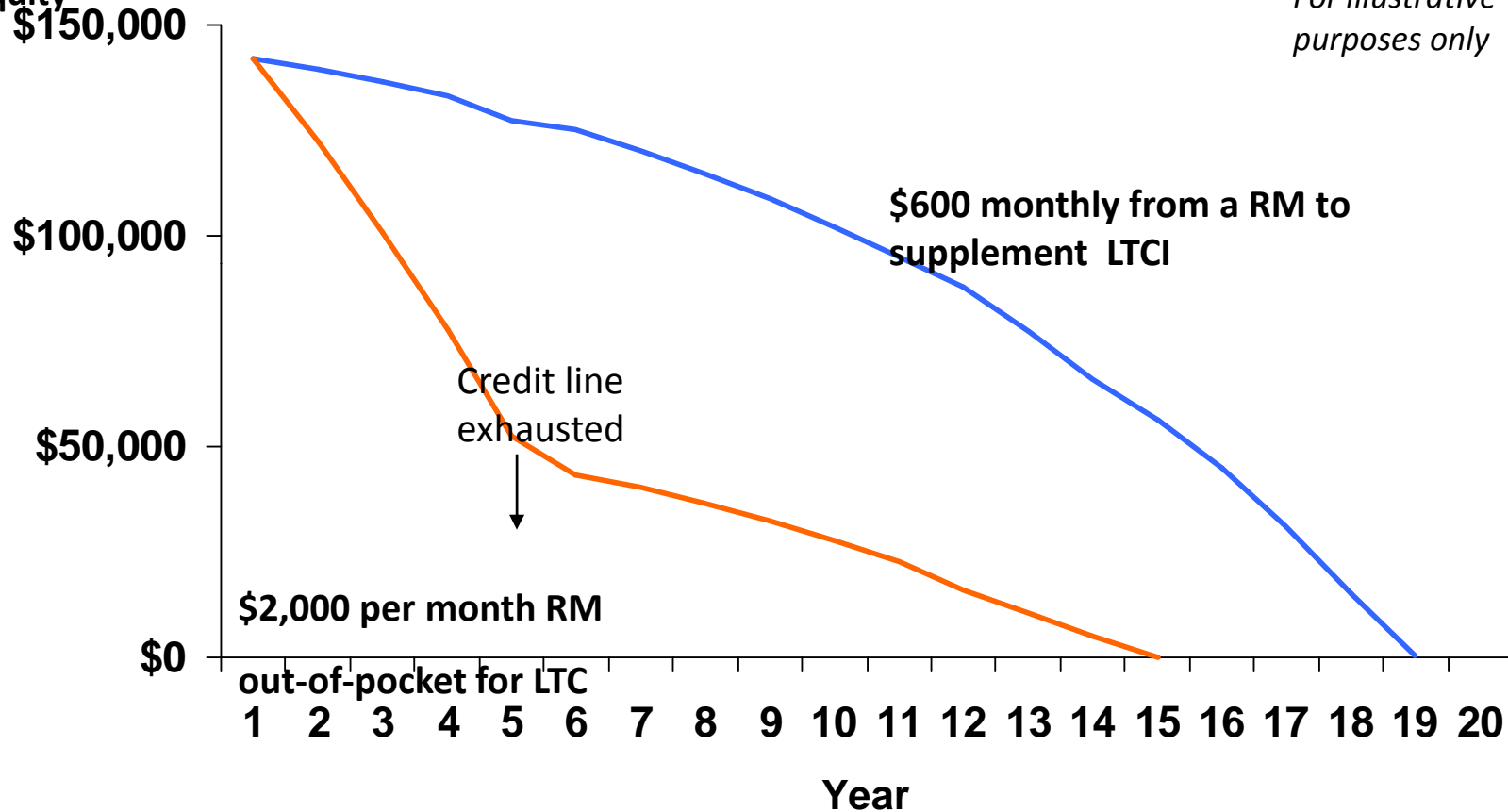
*Estimates based on HECM Standard adjustable rate loan for a \$250,000 home and an annual credit line growth of 4.09%. Source: NCOA analysis using the AARP reverse mortgage calculator.



LTCI Can Protect Home Equity

Amount of Remaining
Equity

*For illustrative
purposes only*





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.



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