Reverse Mortgages and Long Term Care

THE ELEVENTH ANNUAL INTERCOMPANY LONG TERM CARE INSURANCE CONFERENCE

ILTCI

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

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

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

Includes over 50,000 offices nationwide where those eligible for benefits can apply

www.BenefitsCheckUp.org

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

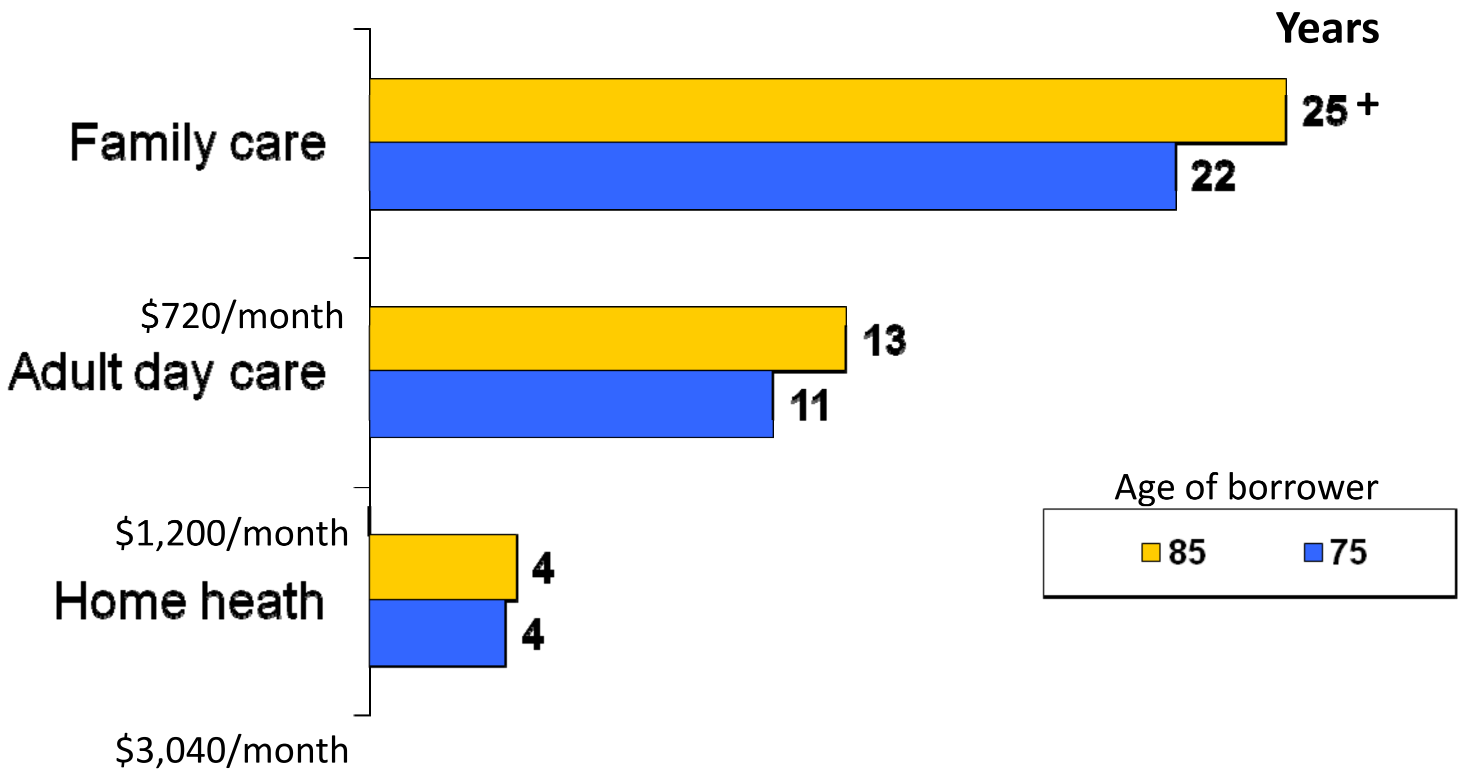
– **Cover Out-Of-Pocket Costs**
  - Pay for out-of-pocket health and disability expenses.
  - Supplement limited insurance coverage.

– **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.

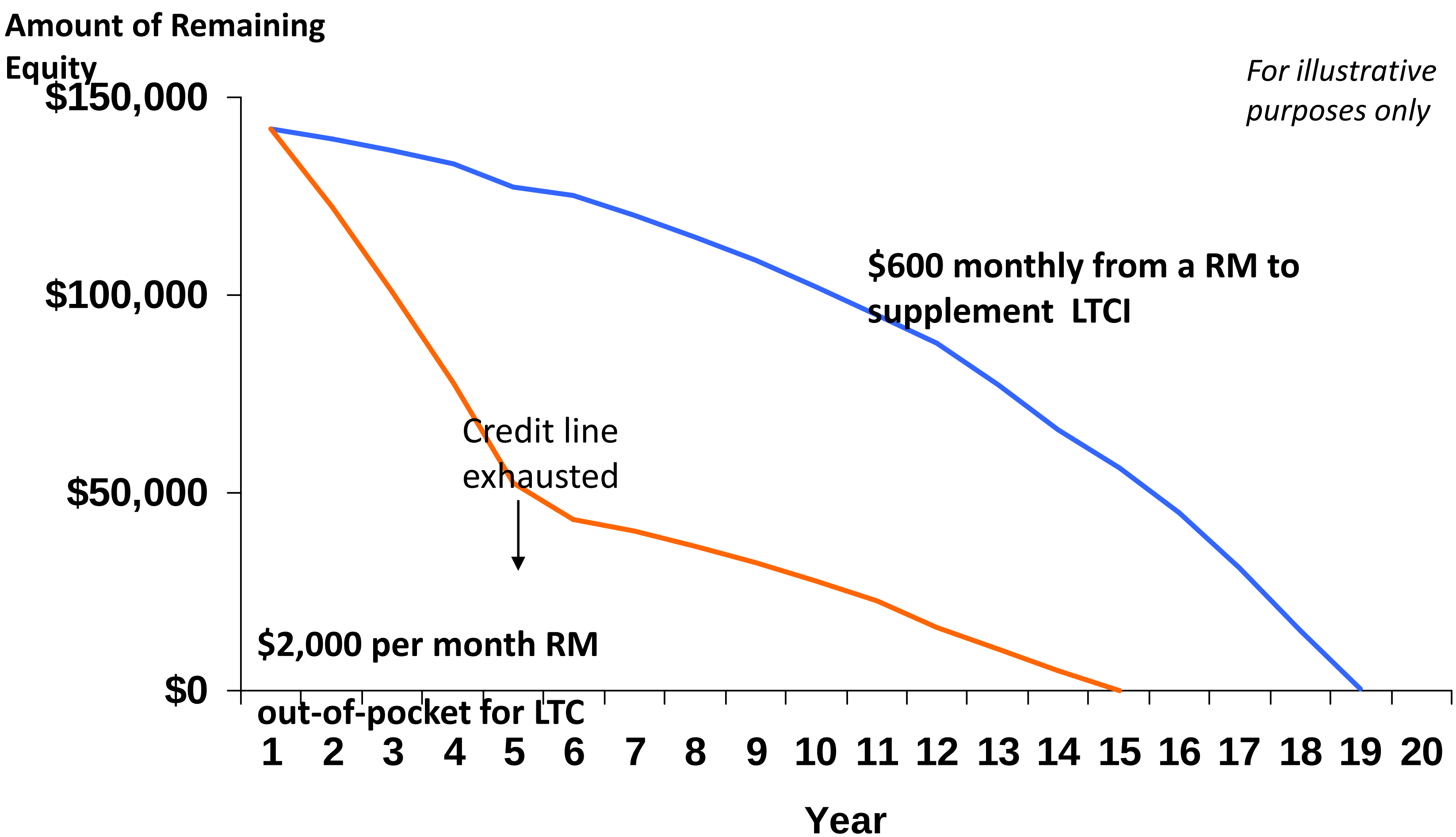
Combine RM Upfront With LTCI at Back End

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



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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