

Eye on elder issues

EYE on ELDER ISSUES
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Reverse Mortgages can help pay for senior health care under the right circumstances

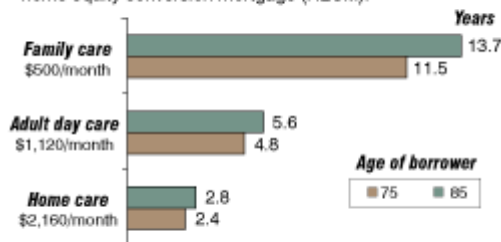
More than any previous generation, the Baby Boomers have notoriously waited to a later age to have children or have decided not to have children at all. So, what happens when the last surviving spouse at age 82 becomes ill, has little in the way of assets with income limited to public benefits, and wants to remain in her home for the duration of her life, but cannot afford the typical home expenses, health care costs, or any extras to enhance her well-being?

One of the hottest topics being talked about by financial planners and insurance agents is that of REVERSE MORTGAGES. As per the name, "reverse mortgage," the revenue stream is reversed with the lender making payments to the senior. Essentially, **a reverse mortgage allows a senior to use the equity in their home to pay expenses while continuing to live in the home.**



Reverse mortgage funds could pay for home care over time

Likely duration of funds based on monthly withdrawals from a home equity conversion mortgage (HECM).



*Estimates based on home equity conversion mortgage (HECM) amount for a \$100K home and an annual creditline interest rate 4.35%.

Source: NCOA analysis using the AARP reverse mortgage calculator ©2005. The National Council on the Aging.

The money paid to the senior can be in the form of a lump sum payment, as monthly payments or as a line of equity, or a combination. The amount of money obtained by such a mortgage depends upon the value of the house, the age of the senior, the type of mortgage selected, and current interest rates. The funds obtained are not restricted: they can be used for health care expenses, in-home care, home repairs, lifestyle enhancements or even debt reduction. There are no taxes paid on reverse mortgages since you are "borrowing" your own money and there is no effect on Social Security or Medicare benefits.

Here is an example of a situation where a reverse mortgage is advisable:

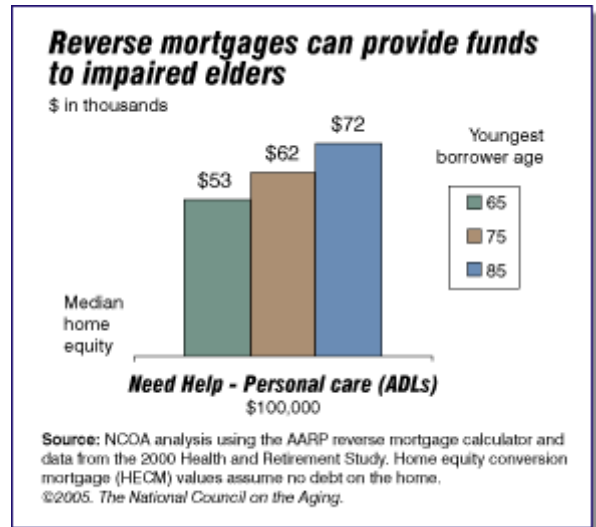
Allene is 76, has Social Security income of \$700 per month, \$1,200 in the bank, no stock, no life insurance, no pension. Her home in Canton, Ohio has a value of approximately \$65,000. Allene cannot afford the taxes, maintenance and insurance on her home, after she pays for her food and prescriptions. Allene had allowed her home owner's insurance to expire, and was suffering significant health care problems as she was "going without" several prescriptions and basic medical procedures. Allene was advised to obtain a reverse mortgage which provided her approximately \$500 per month of additional income for the balance of her life. This additional income has allowed her to stay in her home and has given her sufficient income to maintain

her basic health care. Seniors with low income and significant home equity are perfect candidates for reverse mortgages.

In the case above, a reverse mortgage may be a very viable alternative. It could supply needed funds to allow the senior to live comfortably in her own home for the rest of her life. Furthermore, she can use the money from her reverse mortgage to pay for health care not covered by Medicare or Medicaid, such as eyeglasses and dentures, for additional in-home care, or for overhead expenses such as home repairs or utilities.

In general, the older the person and the more valuable the home, the larger the loan. Conversely, a younger person will be severely limited in the amount they can obtain because their life expectancy is longer and the value of the house is usually lower. Thus, a younger senior (say 62 years old) with a modest priced home (which may not be paid-off), will be very limited on the amount they can actually borrow.

Some aggressive planners have argued recently that reverse mortgages should be forced upon older persons to pay for long-term care insurance as an alternative to going on Medicaid. Members of the National Academy of Elder Law Attorneys work with seniors faced with this option and have come to the conclusion that this policy would not be in the best interest of older persons or of society as a whole.



Long-term care insurance is an excellent tool for younger, healthier individuals to pay for long term care. In fact it is the position of NAELA to encourage the purchase of long-term care insurance at younger and younger ages, when such policies are more affordable and the person is more likely to be of insurable health. As a person ages, however, health issues arise making such persons uninsurable or, if still insurable, the insurance becomes prohibitively expensive.

Paying for this prohibitively expensive insurance through a reverse mortgage is like using credit cards to pay off a home loan. The senior is paying for an expensive product with an expensive loan. Furthermore, the target audience is the most vulnerable audience; that being middle class seniors who have little money other than their house. **This policy is tantamount to condemning the homes of middle class seniors, without recompense, to feather the pockets of the banking and insurance industries. Such a policy would be flawed and considered as business taking advantage of seniors.**

Other problems would arise if reverse mortgages became mandatory to pay for long-term care insurance. Under this scenario, the exhausted equity in the home (used to pay insurance premiums) would not be available to keep vulnerable middle class seniors in their homes as they age and run out of money. Also, if such seniors wanted to later sell their homes and buy another, they would first have to pay back the mortgage, leaving inadequate funds to purchase a replacement home...leaving those seniors without a home at all.

There is also a complete disconnect between the "ideal" timing for purchasing long-term care insurance and taking out a reverse mortgage. Relatively younger seniors who are better candidates for long-term care insurance are not good candidates for a reverse mortgage. On the other hand, while older seniors may be better candidates for a reverse mortgage, they are often poor candidates for long-term care insurance.

The National Academy of Elder Law Attorneys (NAELA) supports the use of reverse mortgages by older persons if doing so will improve the quality of their lives and allow them to live in their homes for a longer period of time, but not if such older persons will be forced to sell their homes, losing their dignity in the process. Such mortgaged funds should be used for major home modifications that may be necessary to accommodate a disability, not long-term care insurance they may never need. Used for this purpose, money will be freed up to keep people at home longer, delaying the need for a nursing home.

Reverse mortgages should remain an effective tool to assist older persons meet the challenges of

daily living as they age. Home equity should be considered a SUPPLEMENT to Social Security, Medicare and Medicaid, not a replacement.



For more information about elder law attorneys and the National Academy of Elder Law Attorneys, visit <http://www.naela.org/>. Established in 1987, NAELA provides a resource of information, education, networking and assistance to those who deal with the many specialized issues involved with legal services to the elderly and people with special needs.

***Note to Our Readers:** This e-newsletter, **Eye on Elder Issues**, is presented as a public service by the National Academy of Elder Law Attorneys (NAELA). We are pleased to send you this issue and welcome your comments. You can expect to receive this newsletter monthly as NAELA explores, reports and provides insight on timely topics affecting our nation's seniors and their families. In addition, the growing population of Baby Boomers is addressing issues for themselves and their families that are new and unique. This publication is intended to explore those issues from all sides and to educate consumers, aging network professionals, law makers, and members of the media.*

Please feel free to forward this e-newsletter or suggest additional recipients to us.

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