

2017 NRMLA EASTERN REGIONAL MEETING

Reverse
Mortgages
in a Time of
Change



WOMEN AND RETIREMENT SECURITY

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Reverse
Mortgages
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WOMEN AND RETIREMENT SECURITY: DEFINING THE PROBLEM

Presenter:

Linda K Stone FSA

WISER Fellow

Women's Institute for a Secure Retirement



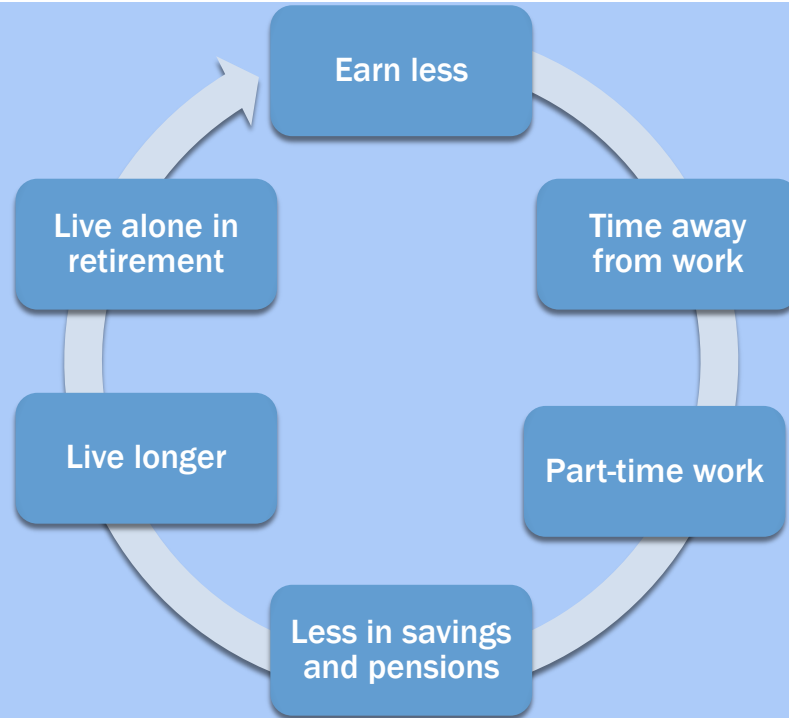
Learn more at:

wiserwomen.org

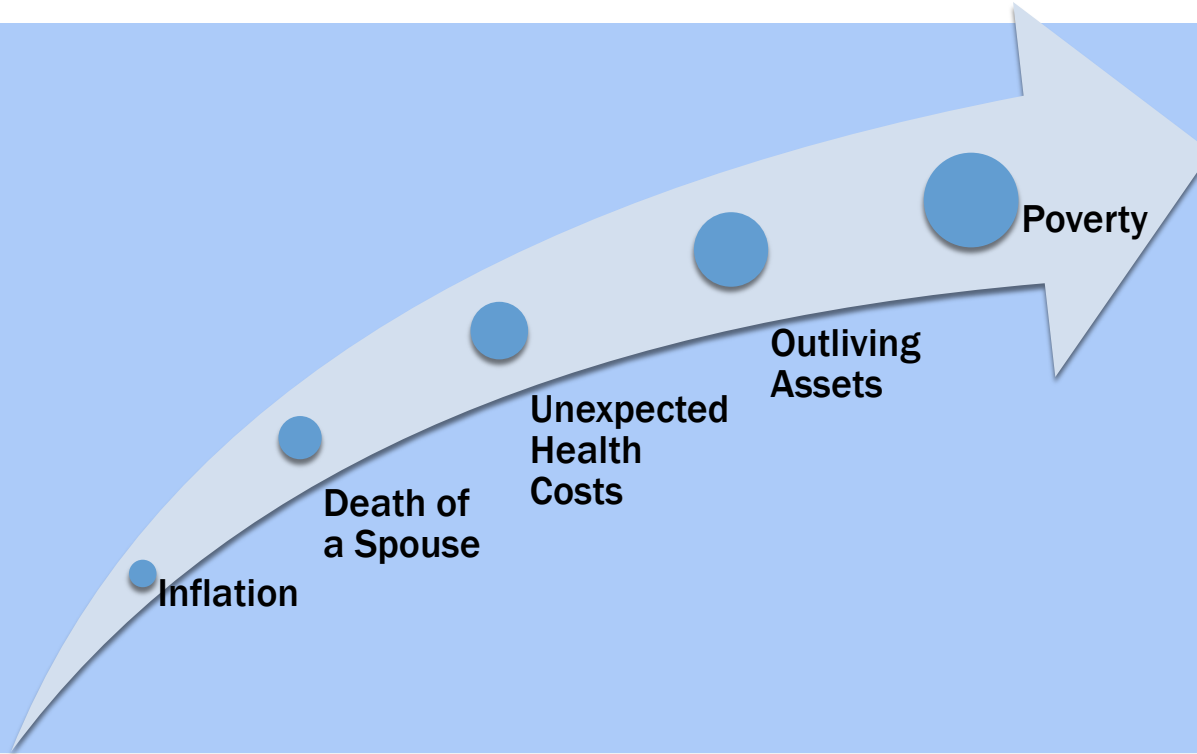
WHY FOCUS ON WOMEN?

- At age 65+, there are 6 million more women than men
- At 85+, there are 1.9 million more
- Women make up 71% of the 85 and older population
- The age 85+ numbers are expected to double/triple over the next three decades
- This is the most likely group to end up living in poverty in old age even if they have never been poor

ISSUES UNIQUE TO WOMEN



FINANCIAL RISKS OF LONGEVITY





Age Wise is a series of infographics to help individuals understand how life expectancy and the decisions they make impact their plans for a happy, healthy and well-funded retirement.



**SOCIETY OF
ACTUARIES**

You may live much longer than you think.

Many people base their planning on what their grandparents or parents experienced, but **individual life expectancies have improved dramatically over the past century**. Current trends suggest that...



1 out of 3 males

&



1 out of 2 females

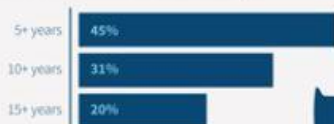
who are in their
mid-50s today
will live to be **90**

Will your **retirement income plan** be enough?

Couples should consider their combined planning timeline.

For a couple who are 65 today...

Odds a wife outlives her husband by...



Odds a husband outlives his wife by ...



25% will die within 5 years of each other, and
there is a **50%**
chance that **one person in the couple will be alive at 92.**

It's not just luck or genes.

Some **factors** that influence how long you live may be **beyond your control**. Others depend upon the **choices you make** every day. A successful retirement plan will address both.



Personal Health
& Safety Habits



Medical Knowledge
& Access to It



Social Connections



Genes / Gender



Compliance with
Medical Advice



Prenatal & Childhood
Conditions



Education



Health & Safety of
Your Neighborhood

FOR MOST MARRIED WOMEN, WIDOWHOOD IS INEVITABLE

- Women are 4X more likely than men to outlive their spouses
- 85% of women over the age of 85 are widows
 - many spend 15+ years windowed
- Widowhood has a financial impact
 - on Social Security & household income (which declines by 40%)
- YET...if couples do any financial planning, they usually just plan for their years as a couple

PROTECTING YOUR FINANCES DURING A DIVORCE

- Find out what your rights are to your spouse's retirement plans
 - pension, 401(k), 403(b) etc.
- Check if your spouse has more than one plan and strive to retain your pension and/or rights to your spouse's pension
- You need to get a separate court order stating your right to a portion of your ex's pension
 - a “qualified domestic relations order” or QDRO
- A divorced woman who was married for 10 years can receive Social Security based on ex-husband's work record

WOMEN AND RETIREMENT SECURITY: AN ADVISOR'S PERSPECTIVE

Presenter:

Al Tocman, MBA, CRPC

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NRMLA 2017 Eastern Regional Meeting: Reverse Mortgages in a Time of Change

WOMEN AND RETIREMENT SECURITY: HOME EQUITY STRATEGIES

Presenter:

Lorraine Geraci

VP, Learning and Development

Finance of America Reverse

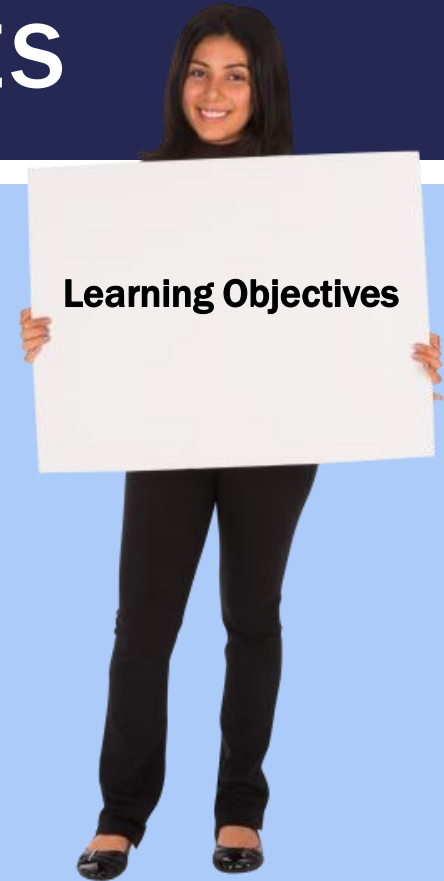


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LEARNING OBJECTIVES

- Equity Options for Retirement
- HECM Background and History
- Program Statute
- How the HECM works
- Consumer Protections
- Benefits and Strategy examples
- Summary



EQUITY OPTIONS FOR RETIREMENT



Home Sharing

Sell Existing Home

Home Equity Loan

HECM

HOME SHARING

- Another way to assist with reduced retirement income is to share a home with other older adults.
- This will allow sharing of household expenses and assist the homeowner with aging in place.

THE HELOC OPTION

When you compare a traditional home equity (HELOC) line of credit to other options:

- **HELOCs have payment requirements.** Traditional lines of credit require at least interest payments.
- **HELOCs have term limits.** Traditional lines of credit have term limits, generally 10 or 15 years. Then they amortize or have balloon payments.
- **HELOCs can be canceled.** Traditional lines of credit can be canceled.

INSURANCE AND SAFEGUARDS

The original statute of **the National Housing Act of 1987**
“meet the special needs of elderly homeowners by reducing the effect of the economic hardship caused by the increasing costs of meeting health, housing, and subsistence needs at a time of reduced income, through the insurance of home equity conversion mortgages to permit the conversion of a portion of accumulated home equity into liquid assets”

Mortgage Insurance Premium

STRATEGY: LONG-TERM CARE

- Statistics show that one out of every two people will need long term care for an average of two and a half years, at a cost of up to \$15,000 per month, depending on location.
 - These expenses can represent a substantial risk to household wealth.
- Insuring against this risk has been difficult due to high premiums for long term care insurance, with no guarantee of return.

STRATEGY: LONG-TERM CARE

- There is also concern that there could be premium increases in the future
 - John Hancock raised long term care premiums in 2014 by 45%!
- Using home equity can offset the costs of long term care, and provide older adult homeowners with peace of mind having this safety net in place

STRATEGY: PURCHASE NEW HOME

- One in three Baby Boomers say they want to move, and want a lifestyle equal to or better than their current one.
- Moving does not necessarily mean downsizing. Some people want a community-based lifestyle in planned developments or urban centers. Others want to be closer to family or move to a different climate.

STRATEGY: PURCHASE NEW HOME

- The HECM for Purchase program enables the borrower to purchase a new home, and build a line of credit at the same time.
- The HECM Purchase program uses the same calculations as the regular HECM refinance program. LIBOR options also allow the homeowner to pay down the outstanding balance and build a line of credit for future use, if desired.

STRATEGY: SOCIAL SECURITY PLANNING

- A 66-year-old woman is now eligible for \$2,379 per month in Social Security benefits. If she waits until age 70, the monthly payment increases to \$3,295.
- She is healthy and anticipates a long life, and needs the higher monthly benefit, but wants to retire now.

What are four additional years of retirement worth?

STRATEGY: SOCIAL SECURITY PLANNING

- She owns a \$350,000 house.
- She obtains a reverse mortgage now, and opts to receive term benefits of \$3,295 per month until age 70, when Social Security benefits begin.
 - At that point she can opt to keep the remaining funds in a line of credit, or manage her distributions another way.

What are four additional years of retirement worth?

STRATEGY: FIXED INCOME PLANNING

- Advise customers who are considering an annuity to compare it to a HECM.
- When people choose an annuity they use upfront cash to purchase an income stream. Annuity payments in excess of original purchase basis are taxable.

STRATEGY: FIXED INCOME PLANNING

- However, a reverse mortgage leverages their equity so they can save their cash. The HECM enables them to establish a line of credit, and offers the flexibility to convert it to tenure payments later.
 - Borrowers can stop and start payments at any time, subject to a \$20 payment plan change fee.
- In addition, payments from a reverse mortgage are loan proceeds, and not taxable.

STRATEGY: LINE OF CREDIT

- Adjustable Rate HECMS
- Line of Credit option if equity left over post mandatory obligations
- Line of Credit grows no matter the home value appreciation or depreciation
- Accessible anytime. Does not get frozen. Any pre-payment will be put back into LOC.

STRATEGY: DIVERSIFY REAL ESTATE HOLDINGS

- A 70-year-old woman wants to purchase a \$350,000 vacation condo in Florida. She owns a \$650,000 home in Connecticut, and is eligible for \$360,288 in HECM proceeds.
- During the first year she can only withdraw 60% of the HECM proceeds, or \$216,172. She withdraws that amount, and uses it as a down payment on the condo, leaving a balance due of \$133,828 on the purchase price.

STRATEGY: DIVERSIFY REAL ESTATE HOLDINGS

- She leaves the remaining HECM proceeds ($\$360,288 - \$216,172 = \$144,116$) in a HECM LOC.
- During Year 2 the balance of the HECM proceeds becomes available to her, so she withdraws \$133,828 from her HECM LOC to pay off the condo.

STRATEGY: DIVERSIFY REAL ESTATE HOLDINGS

- She now owns two homes with NO payments other than taxes, insurance and maintenance. She also still has \$10,288 (\$144,116 - \$133,828), in her HECM Line of Credit, PLUS any line of credit growth she earned during Year 1 on \$144,116.
- Her real estate holdings are diversified, and help to hedge against potential declining real estate appreciation rates in the two regions where she owns property.

ENHANCE AND MANAGE WEALTH

“New academic research demonstrates how HECMs can play a vital role in retirement planning – not just as a tool of last resort but as a strategic way to provide greater financial flexibility to seniors with ample savings.”

Source: Salter, Pfeiffer and Evensky, “Standby Reverse Mortgages: A Risk Management Tool For Retirement,” Journal of Financial Planning, 2012.

SUMMARY

Home Equity Conversion Mortgages have helped over a million older adult homeowners since the late 1980s. They enable these homeowners to use their home equity to gain peace of mind, establish wealth management tools for estate planning, and remodel homes so they can age in place.

They also allow homeowners to assist loved ones, satisfy mandatory financial obligations so they can free up cash for other needs, or purchase a new home without a monthly mortgage payment.

SUMMARY

Women sometimes face a unique challenge managing financial resources and recognizing various options that using home equity can provide. Through education and a collaborative effort from all angles, we can provide guidance, resources and most importantly...choices.

QUESTIONS



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