

USING HOME EQUITY TO SUSTAIN CASH FLOW FOR AGING IN PLACE

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**National Reverse Mortgage Lenders Association Annual Conference
2021**

New research by the National Council on Aging

Cash Flow Challenges and Homeownership in Later Life

April 2021



Prepared for the National Council on Aging by:

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Using Home Equity to Sustain Cash Flow for Aging-in-Place

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What financial strategies may underlie needs-based decision-making?

- Look at the ways that older homeowners consider using home equity for financial problem-solving and retirement planning.
- Assess the prevalence and magnitude of household financial vulnerabilities for aging-in-place that can disrupt cash flow.
- Examine the attributes and objectives of HECM counseling households who face different cash flow challenges.
- Identify sources of resilience that HECM households could draw on to bounce back from trouble. This provides insights into other resources for mitigating the risk of defaulting on HECMs.
- Outline new ways to engage with older homeowners, to address the many financial risks which can reduce income or increase expenses over time.

Concerns of HECM counseling households

- Used data collected during mandatory HECM counseling sessions.
- Focused on responses to the FIT questionnaire, which asks counseling clients about their potential risks for aging-in-place, cash flow challenges, and intended uses of HECM funds.
- Included most prospective borrowers in 2017: **70,089**. Excluded households refinancing a HECM, and 2,319 with missing data.
- Counseling clients asked about 18 sources of household financial vulnerability and stress that can disrupt their cash flow over time:



HEALTH STATUS
LIMITATIONS
NEED FOR HELP



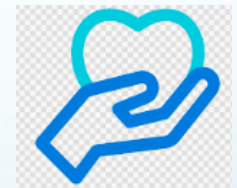
RECENT DIVORCE
RECENT WIDOWHOOD
RECENT FALL
NURSING HOME STAY



HOUSING
COSTS
LIVABILITY
AGE OF HOME



HOUSEHOLD INCOME
PENSION
LIFE INSURANCE
GET PUBLIC BENEFITS



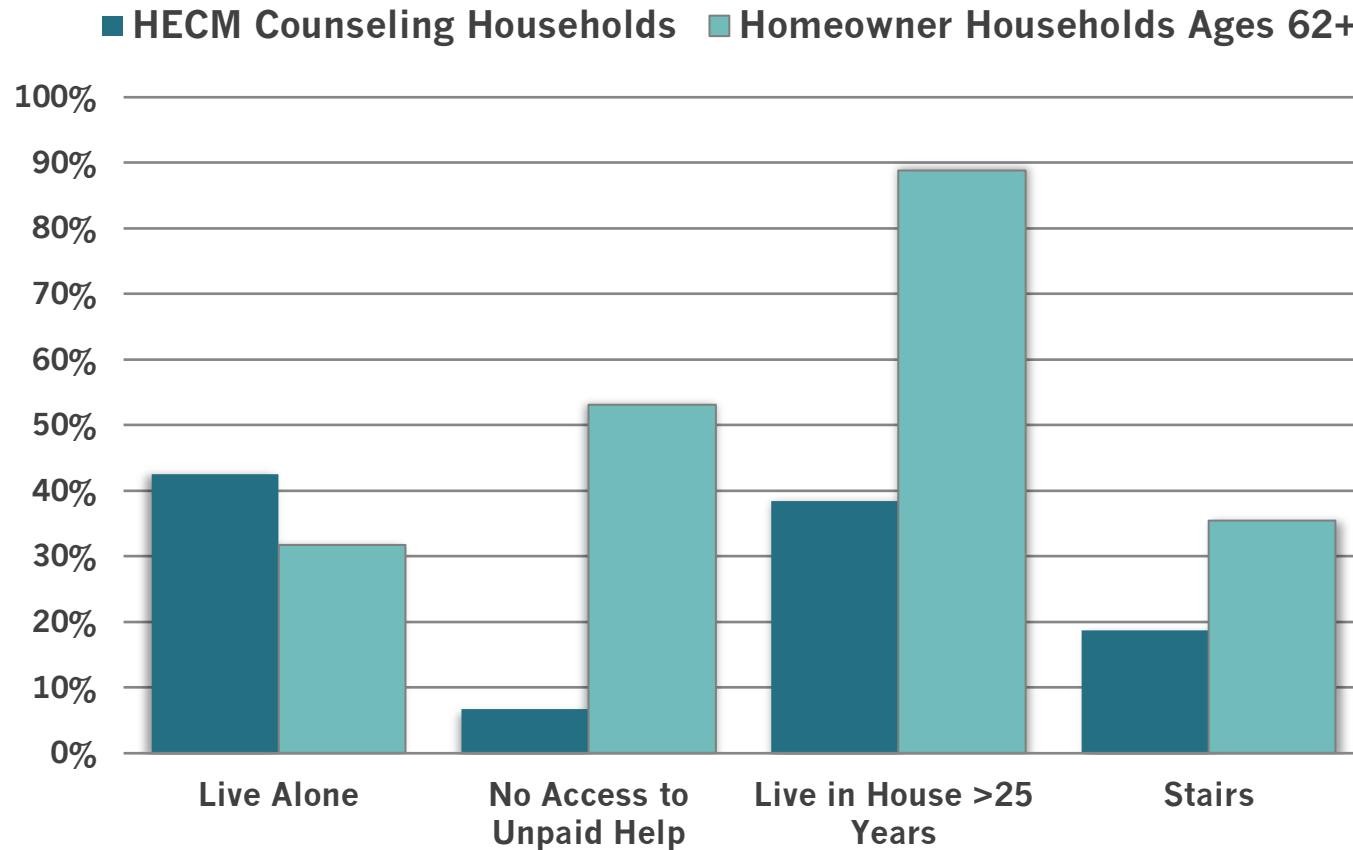
LIVING ALONE
HELP AVAILABLE

Compare HECM counseling households to homeowners ages 62+ in the US population

- Offers a broader perspective on the distinctive attributes and vulnerabilities of HECM counseling households.
- Analysis of homeowner households ages 62+ in the general population was based on a nationally representative sample from the 2014 wave of the Health and Retirement Study (HRS) core survey.
- The HRS includes a wide breadth of topics: demographics, income and wealth, family structure, physical health, health care, employment, social characteristics, and data on spouses and households.
- To compare these two groups, variables were selected from the HRS that best matched variables from the FIT questionnaire used during HECM counseling.

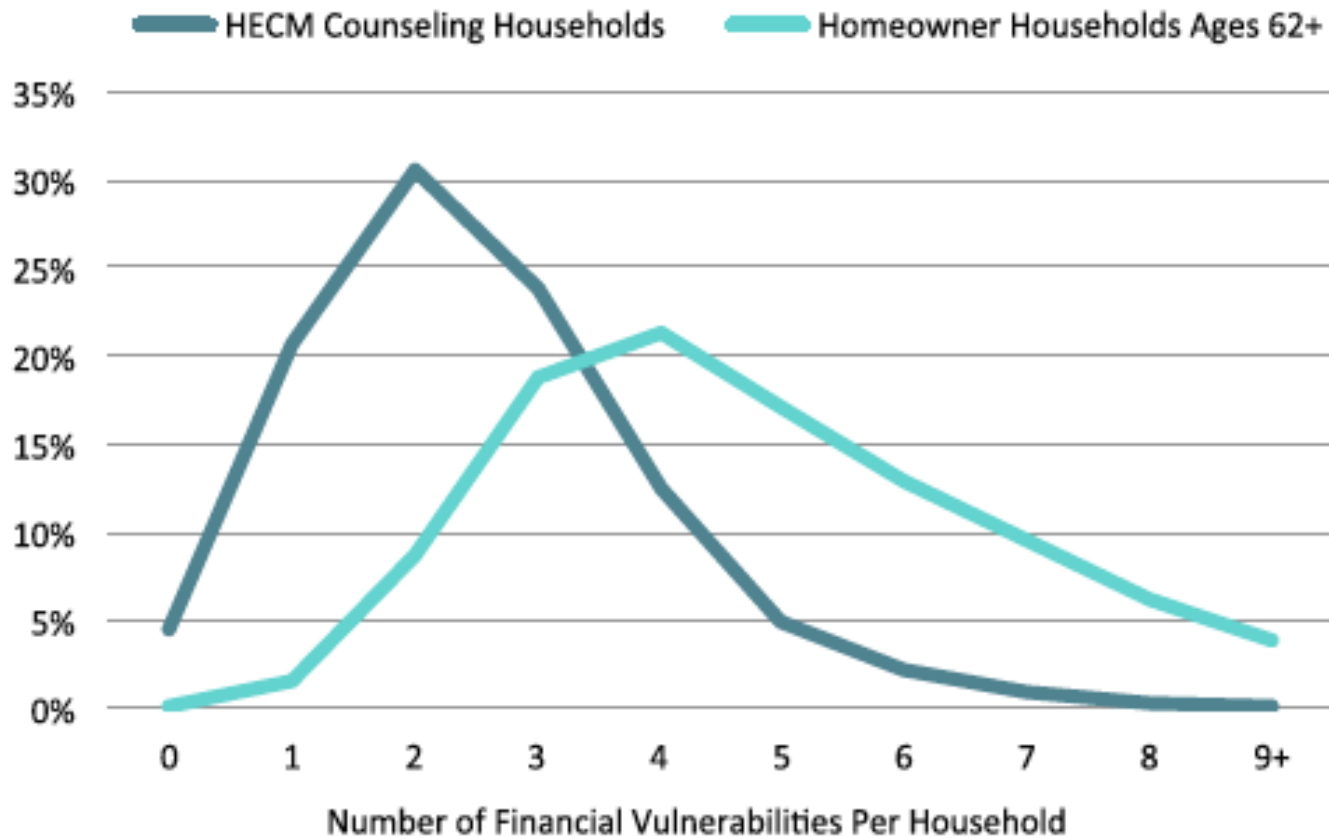
**HOUSEHOLD STRESSORS
WHICH CAN DESTABILIZE
CASH FLOW OVER TIME**

Prevalence of household stressors that can increase financial vulnerability



Source: Author analysis based on the 2017 HECM Aging-in-Place Counseling dataset and the 2014 Health and Retirement Survey.

Number of potentially destabilizing financial vulnerabilities per household

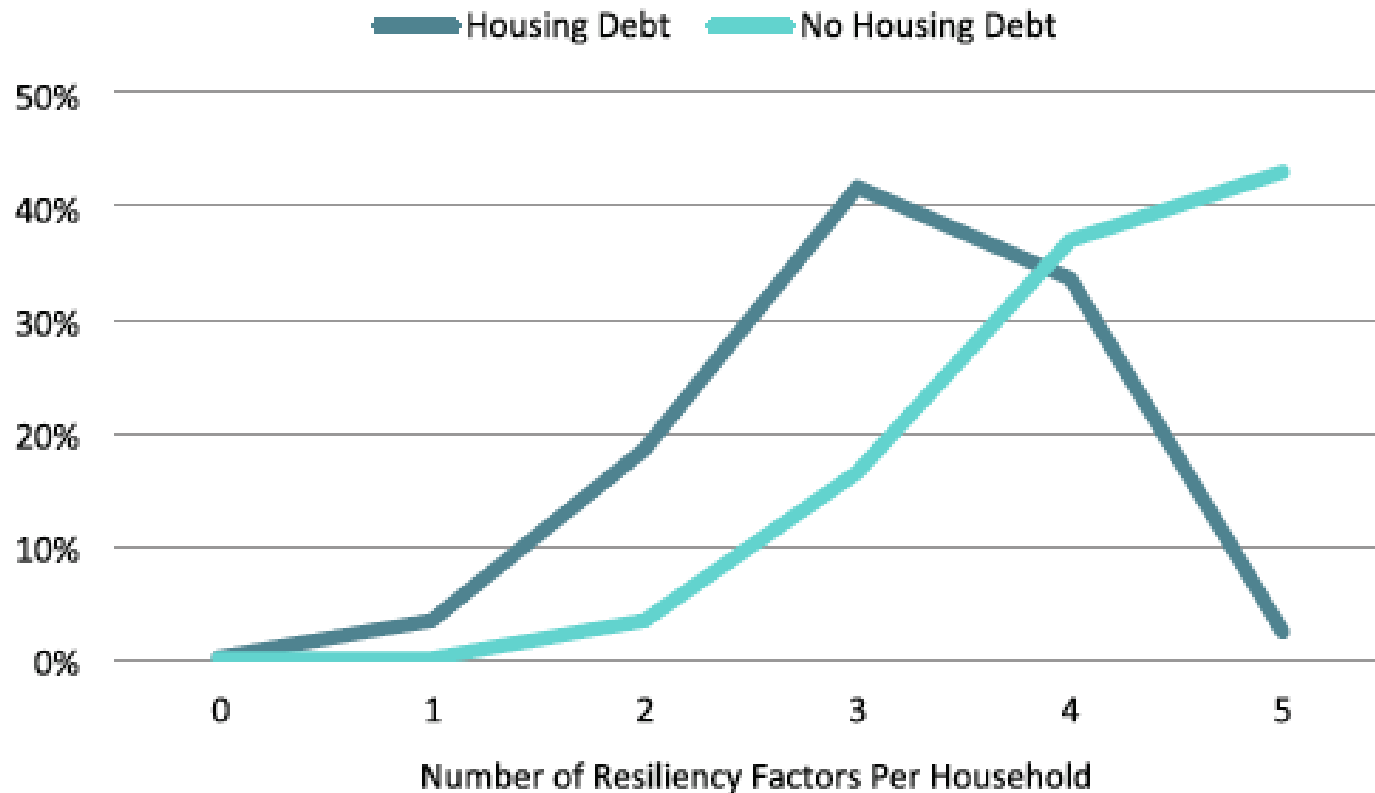


Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset and the 2014 Health and Retirement Study.

Sources of household resilience to sustain aging-in-place

- **Good to excellent health.** These homeowners may have more physical and mental capacity to respond to problems.
- **Access to unpaid help.** Households with a strong informal network of support have more social reserves available as backup, and may be better able to identify solutions and access timely information.
- **House without stairs.** Living on one floor can make it easier to adapt to physical impairments.
- **No housing debt or loan-to-value ratio of 10 percent or less.** Having fewer fixed expenses increases financial flexibility.
- **Economically secure.** Households with adequate cash flow often have more slack in their budgets to manage their finances. This can also lower stress and improve decision-making.

Most HECM counseling households had multiple sources of resilience



Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset.

CASH FLOW
DOES HOUSEHOLD INCOME
MEET EXPENSES?

Elder Economic Security Standard™ Index (Elder Index)

Elder Index

Measuring the income older adults need to live independently



SHARE

The site contains new state, county and metropolitan area data for the 2020 Elder Index, last updated on February 16, 2021.

STEP ONE



Choose Your Location(s)

County, State, and/or Metropolitan Area

Choose some options

Select up to four counties and states using the drop-down menu or by typing in the name. For more than four locations, please [contact us](#).

STEP TWO



Choose Your Filters

Household*

- Single
- Couple

Housing Status

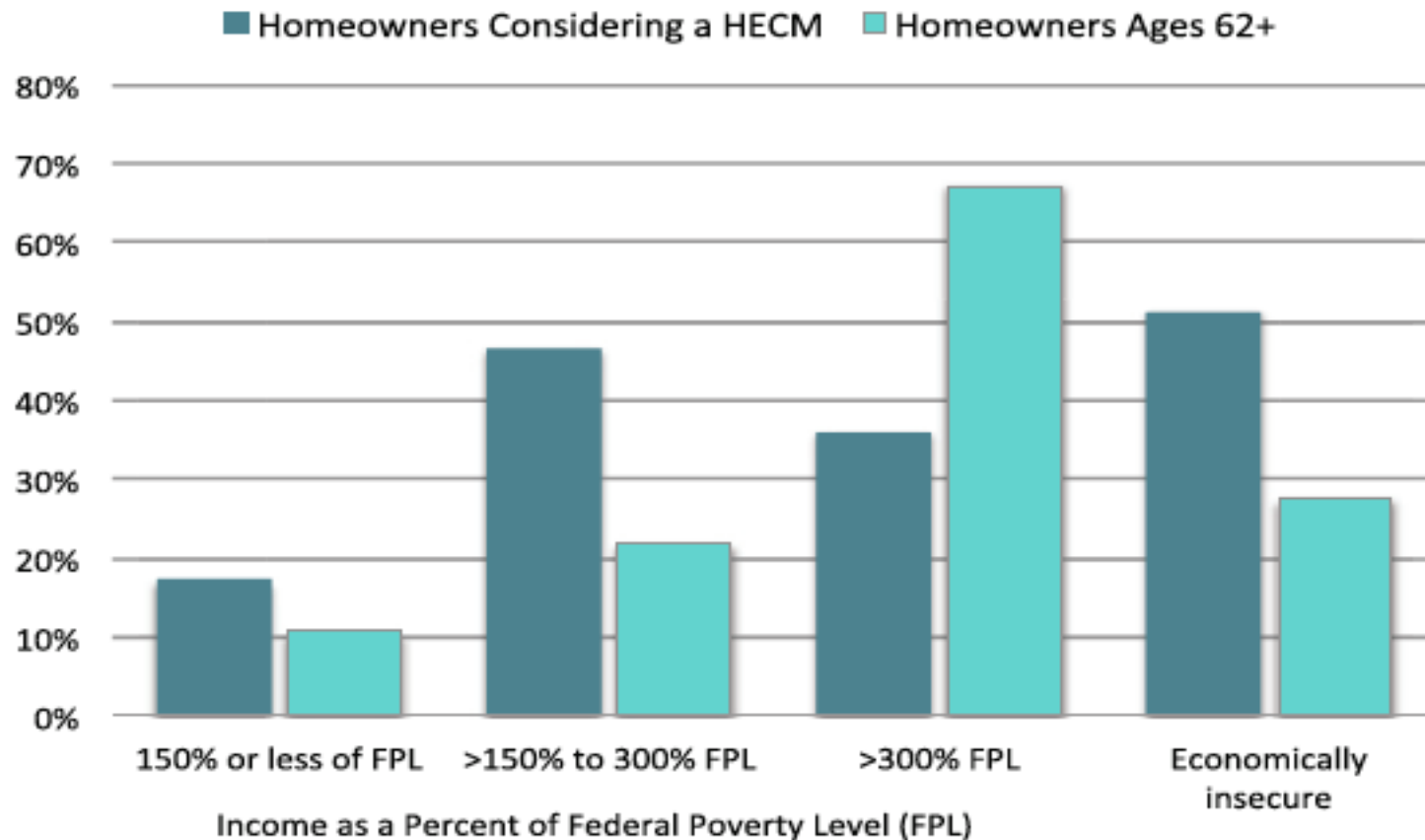
- Renter
- Homeowner, mortgage
- Homeowner, no mortgage

Health Status

- Poor health
- Good health
- Excellent health

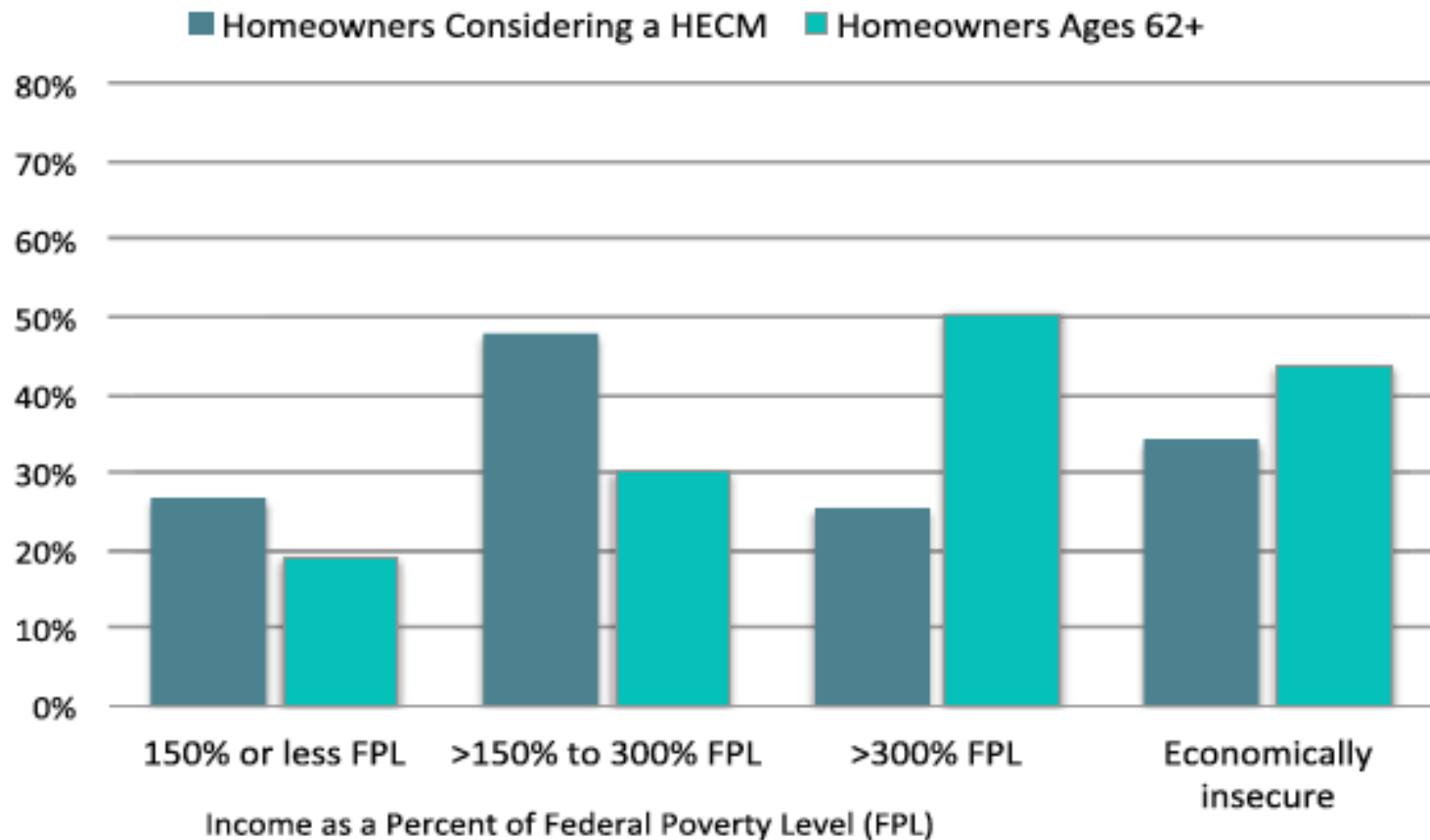
Apply

HECM counseling households with a mortgage were more likely to be economically insecure



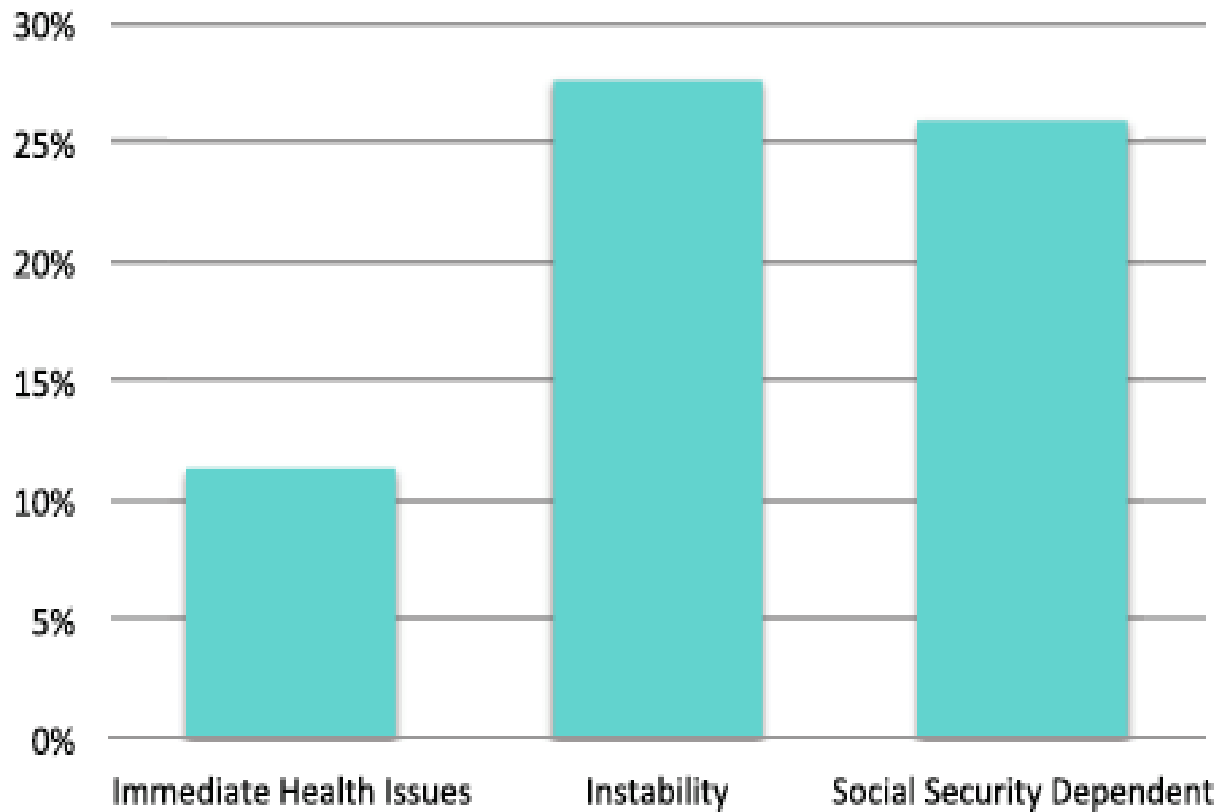
Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset and the 2014 Health and Retirement Study.

HECM counseling households with no mortgage were less likely to be economically insecure



Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset and the 2014 Health and Retirement Study.

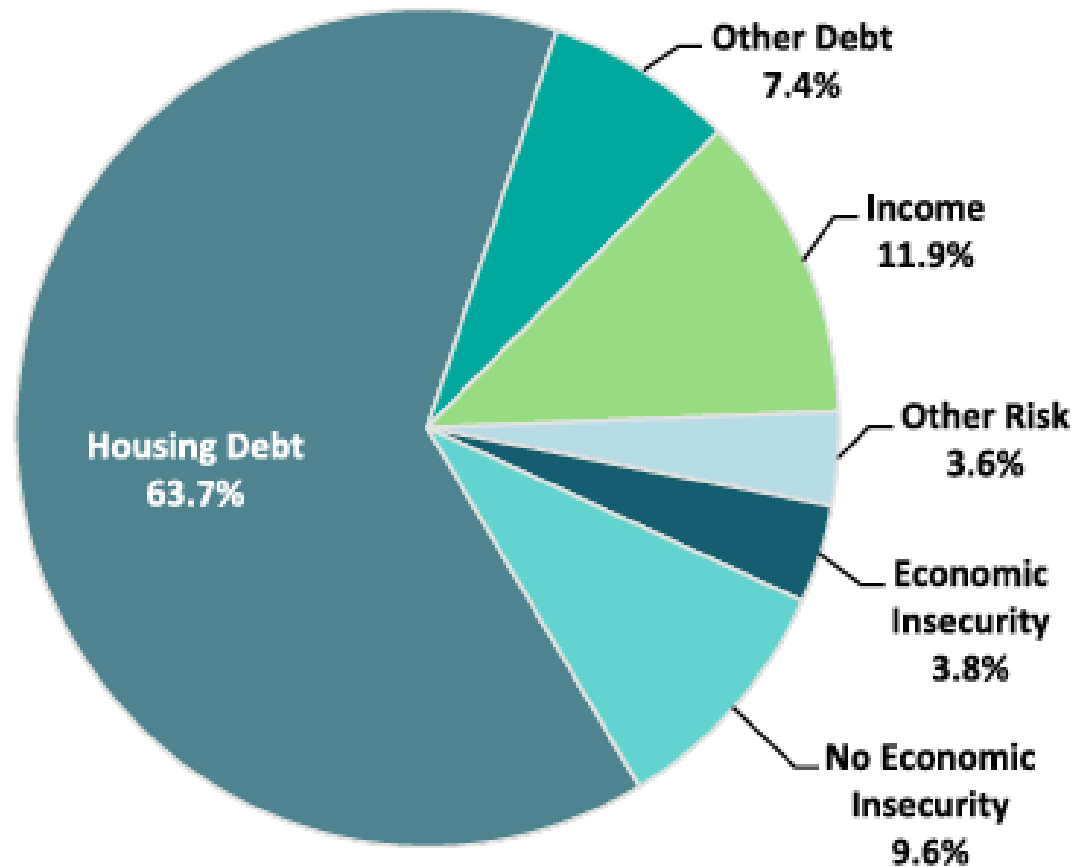
Many HECM households may have been at risk for a destabilizing financial shock



Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset.

**STRATEGIC USE OF HECMS
TO MANAGE
CASH FLOW CHALLENGES**

Cash flow risk groups among HECM counseling households



Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset.

Attributes of cash flow risk groups

Demographic Attribute	Housing Debt	No Housing Debt				Total
		Cash Flow Concerns		No Cash Flow Concerns		
		Other Debt	Income	Economic insecurity	No economic Insecurity	
Age group						
Under 70	34.9%	41.6%★	32.4%	34.6%	34.7%	35.2%
70-79	46.2%	41.0%	39.8%	34.7%	42.7%	44.1%
80+	18.9%	17.4%	27.9%★	30.7%★	22.6%	20.7%
Living arrangement						
Married/partner	46.8%	41.8%	36.1%	31.5%	46.4%	44.3%
Unmarried/not alone	13.1%	14.4%	13.1%	15.5%	12.2%	13.2%
Unmarried/alone	40.0%	43.8%	50.8%★	53.1%★	41.4%	42.5%
Health status						
Good	80.7%	78.0%	77.7%	69.4%	84.1%	80.0%
Fair	17.0%	19.7%	19.7%	24.6%★	13.2%	17.5%
Poor	2.3%	2.4%	2.7%	6.0%★	2.7%	2.5%

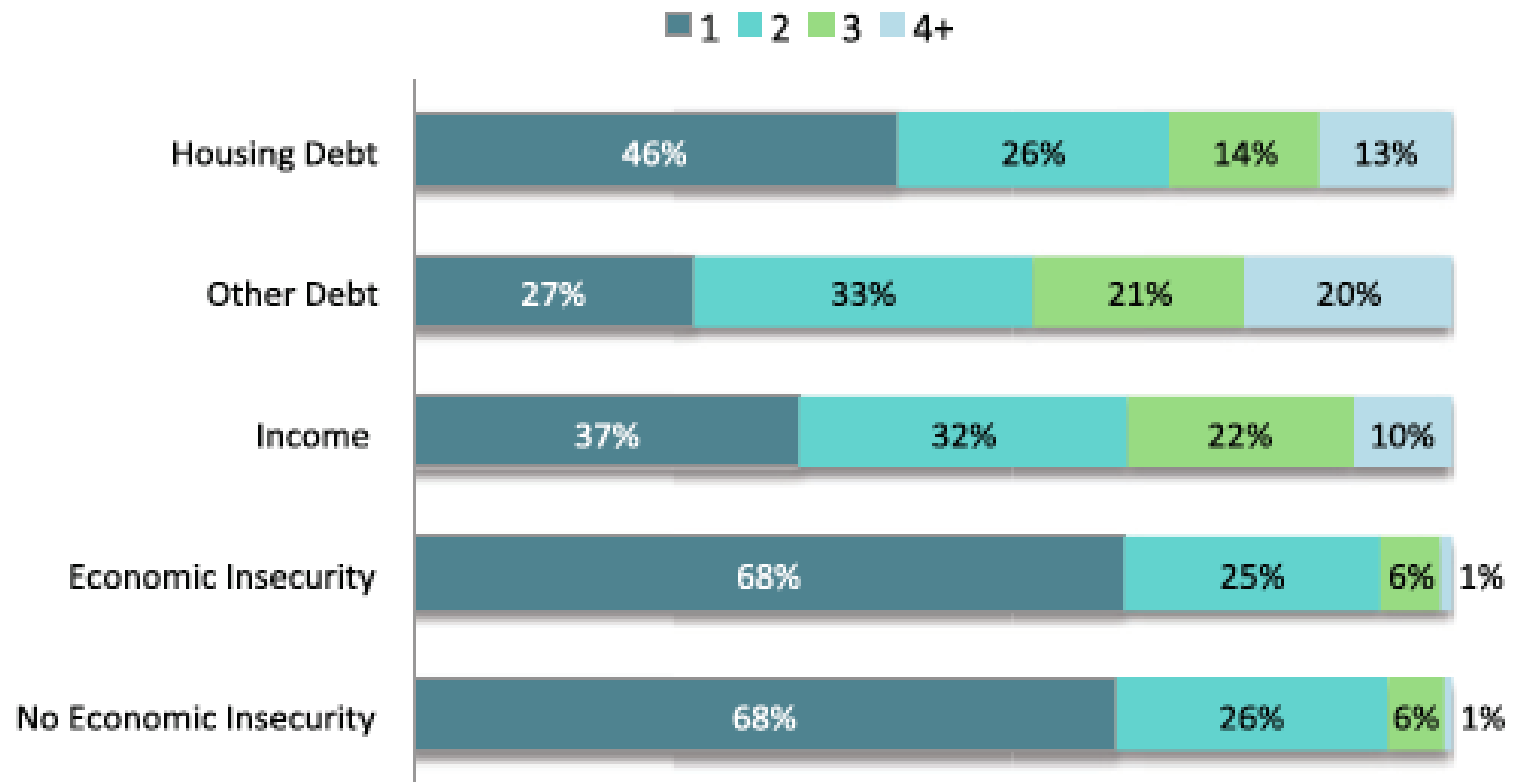
Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset.

Financial goals of cash flow risk groups

Reason For Considering a HECM	Housing Debt	No Housing Debt				Total
		Cash Flow Concerns		No Cash Flow Concerns		
		Other Debt	Income	Economic insecurity	No economic Insecurity	
Improve Cash Flow						
Eliminate/lower debt payments	88.2% ★	100.0%	0.0%	20.6%	20.0%	67.8%
Increase income						
Pay for daily expenses	29.6%	30.4%	94.6% ★	0.0%	0.0%	33.7%
Pay for health/LTC expenses	3.6%	6.2%	7.6%	15.0% ★	9.1%	5.4%
Help family	1.6%	3.1%	1.9%	2.9%	3.7%	2.1%
Increase quality of life	28.7%	32.1%	42.6% ★	29.0%	31.2%	31.6%
Planning						
Major purchase in next 12 months	3.6%	8.9% ★	6.6%	6.2%	6.0%	4.8%
Future expenses	17.3%	29.8% ★	22.4%	25.3%	12.8%	19.0%
Emergencies	24.3%	34.7% ★	32.7%	29.5%	35.7% ★	27.9%
Deploy Asset						
Home repair or renovation	17.0%	36.0% ★	25.4%	37.7% ★	27.7%	22.1%
HECM for home purchase	5.2%	0.1%	0.6%	4.5%	11.8% ★	4.8%
Investment, LTC insurance, annuity	0.7%	1.4%	1.4%	0.6%	1.2%	0.9%

Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset.

Total number of reasons homeowners reported for considering a HECM



Source: Author analysis based on the 2017 HECM Counseling Aging-in-Place dataset.

SUMMARY AND IMPLICATIONS

Underlying financial strategies

Aging solo: More HECM counseling clients lived alone (43%) compared to homeowners ages 62+ in the US population (32%).

Financial flexibility: HECM counseling households faced fewer financial vulnerabilities and may have higher resiliency but were burdened by debt.

Specific strategic objectives:

- **Maintain financial stability:** 49% of HECM households may have been at risk for a destabilizing financial shock; 45% were economically insecure vs. 39% of homeowners ages 62+ in the US population.
- **Retirement planning:** the Other Debt group had many under age 70 who wanted to plan for future expenses. 7% of prospective HECM borrowers.
- **Strategic asset deployment:** the No Economic Insecurity group had no immediate cash flow concerns and were especially interested in HECM for Home Purchase. 10% of prospective borrowers.
- **Health and long-term care:** the Economic Insecurity group was interested paying for LTC. HECM counseling clients were more likely to have had a recent fall or nursing home stay vs. homeowners ages 62+.

Opportunities and challenges

A **cash flow perspective** helps to identify underlying sources of vulnerability and financial need that motivate older homeowners.

- Financial planners are starting to recommend HECMs to reduce the risk of running out of retirement income (sequence of returns risk).
- The Elder Index help to quickly identify households who may be vulnerable to a cash flow shortfall, even if they are not poor.
- HECM counseling FIT data offer timely insights into vulnerabilities.

In today's uncertain times, it is important to highlight and strengthen **household resiliency**. This is another valuable use of home equity.

Older homeowners likely face **multiple financial risks** for aging-in-place, and may have limited funds to mitigate all these risks.

- Additional consumer financial education can help older homeowners make wise choices and avoid a **cascade of troubles**.
- Decision-support tools can foster more **proactive use of home equity**.

Additional information

Learn more about the National Council on Aging: www.ncoa.org.

NCOA research reports can be found at:

<https://www.ncoa.org/article/how-home-equity-and-cash-flow-impact-aging-in-place>

Access the Elder Index: www.elderindex.org

Academy for Home Equity in Financial Planning:

<https://ahe.illinois.edu>

Contact Barb Stucki: barbstucki@bendnet.com