

**Home Equity as a Strategic Asset
for Retirement and
Long Term Care Needs**

Tuesday March 20, 2018

2:00 – 3:15 pm



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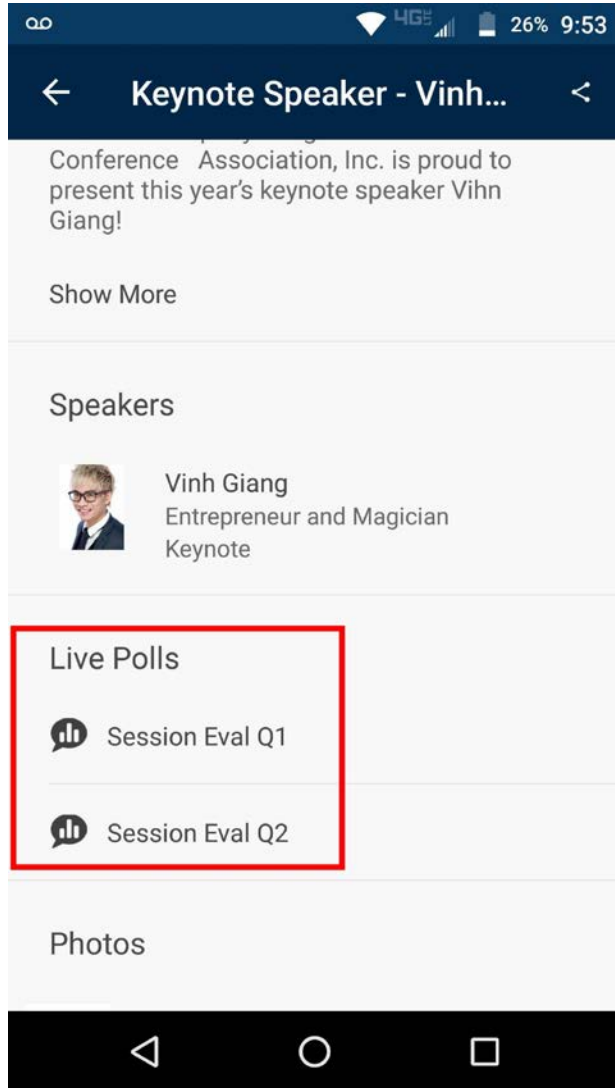
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- Amy Ford, National Council on Aging
- Barb Stucki, Independent Consultant
- Eileen J. Tell, ET Consulting LLC
- Sandra Timmermann, Gerontologist



- Statement of the problem(s)
- Brief update on reverse mortgages (and other home equity options)
- What consumers and financial advisors have to say
- Implications and issues specific to long term care

Public Policy & Alternative Finance Solutions

Financing Retirement Needs

Presented by Sandra Timmermann



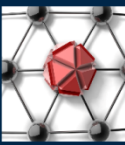
18th Annual Intercompany Long Term Care Insurance Conference

Funding retirement – the perfect storm



- Longevity rates are increasing
- More people are living longer, putting strains on government resources
- Retirement savings rates are low
- People indicate that they will work longer, but most retire earlier than anticipated
- Money has to last for a lifetime
- Health and long term care needs can chip away at retirement savings

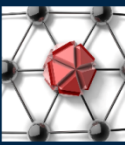
Peace of mind in retirement—what matters?



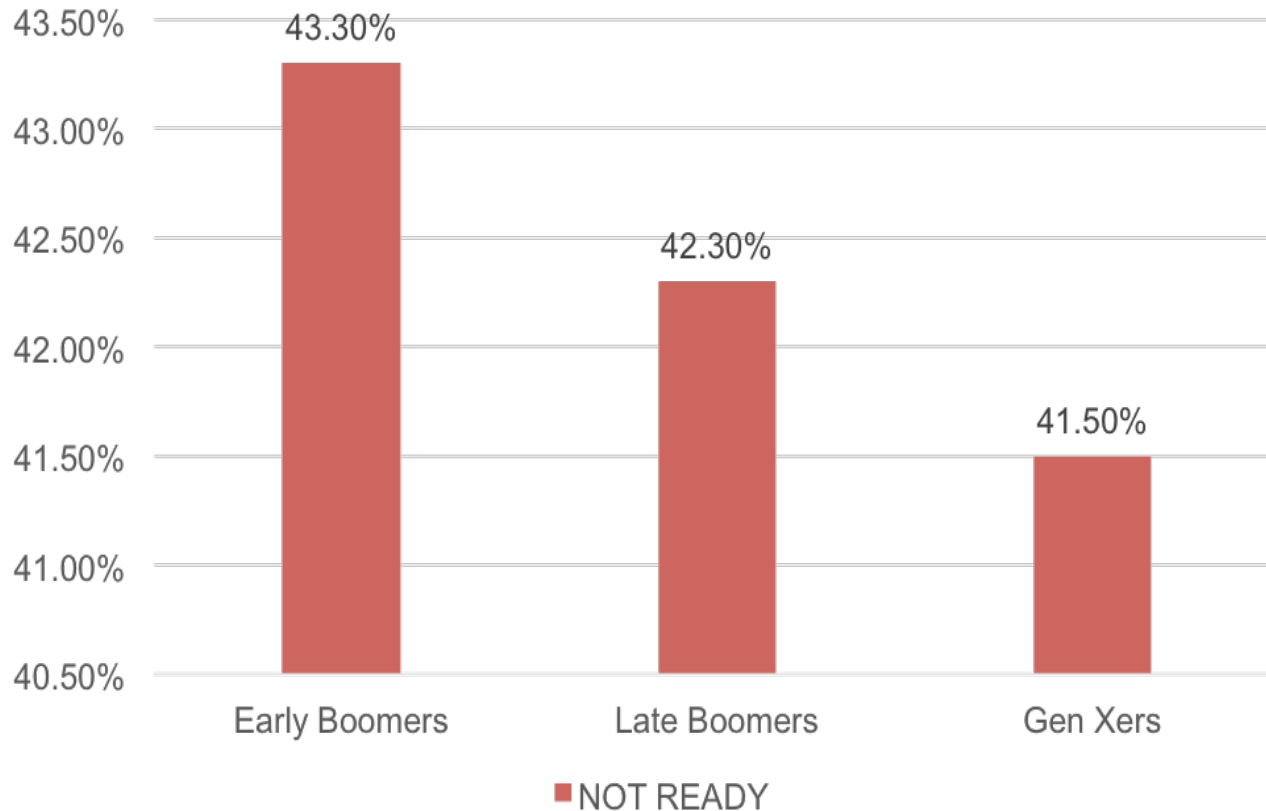
- Financial security tops the list
 - 60% Financial security
 - 14% Health optimization
 - 14% Family well-being
 - 12% Purpose
- And there are three top financial concerns
 - Rising health care costs
 - Inflation
 - Not enough money to do what they want

^dSources: Merrill-Lynch-Age Wave Studies, 2013 and 2017

But....40% not prepared for retirement

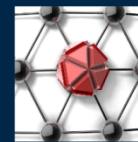


Percent **Not Ready** for Retirement
by Generation



Source: Bajtelsmit, V and Rappaport, A. "The Impact of Long Term Care Costs on Retirement Wealth Needs." Managing the Impact of Long Term Care Needs and Expense on Retirement Security Society of Actuaries Monograph. 2014.

There's a savings and planning gap



- Most people report that they are saving for retirement
 - 70% of workers age 55 and over
 - 63% of those ages 45-54
- BUT...they haven't figured out how much they will need
 - 51% of those 55 and over
 - 41% of those ages 45-54

Source: Employment Benefit Research Institute, The 2017 Retirement Confidence Survey, www.ebri.org.

There are unexpected retirement shocks



- 48% of retirees left the workforce earlier than planned
 - Health reasons (41%)
 - Changes at company (26%)
 - Caregiving (14%)
- 79% of workers today plan to work in retirement...but only 29% actually do
- 47% of retirees said health care costs higher than expected

Source: Employment Benefit Research Institute, The 2017 Retirement Confidence Survey, www.ebri.org.

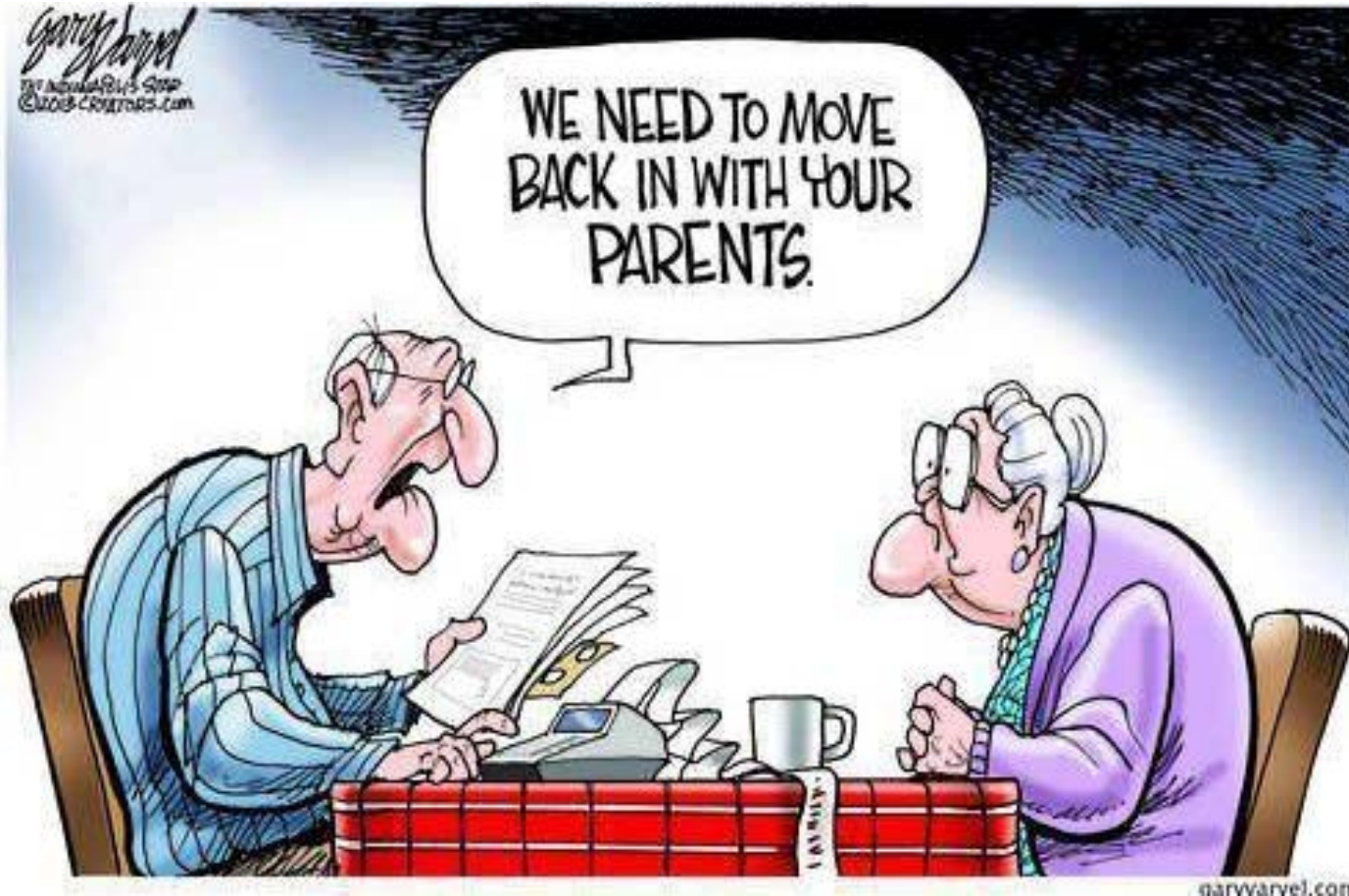
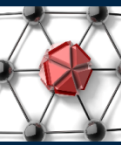


Average Net Worth of Older Americans

Age	With Home Equity	Without
55-64	\$164,448	\$57,800
65-69	\$193,833	\$66,168
70-79	\$225,390	\$68,176
75+	\$197,758	\$46,936

Source: US Census Survey of Income and Program Participation, 2014 Oanel released 2017, in Jim Worth, Wallethack, 2017.

One solution???

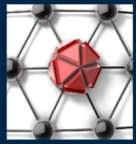


Source: <https://www.nia.nih.gov/health/publication/theres-no-place-home-growing-old>, 2016



- Savings and investments
- Inheritance
- Employer-sponsored pensions
- 401 (k) plans and IRAs
- Social Security
- Employment
- And....

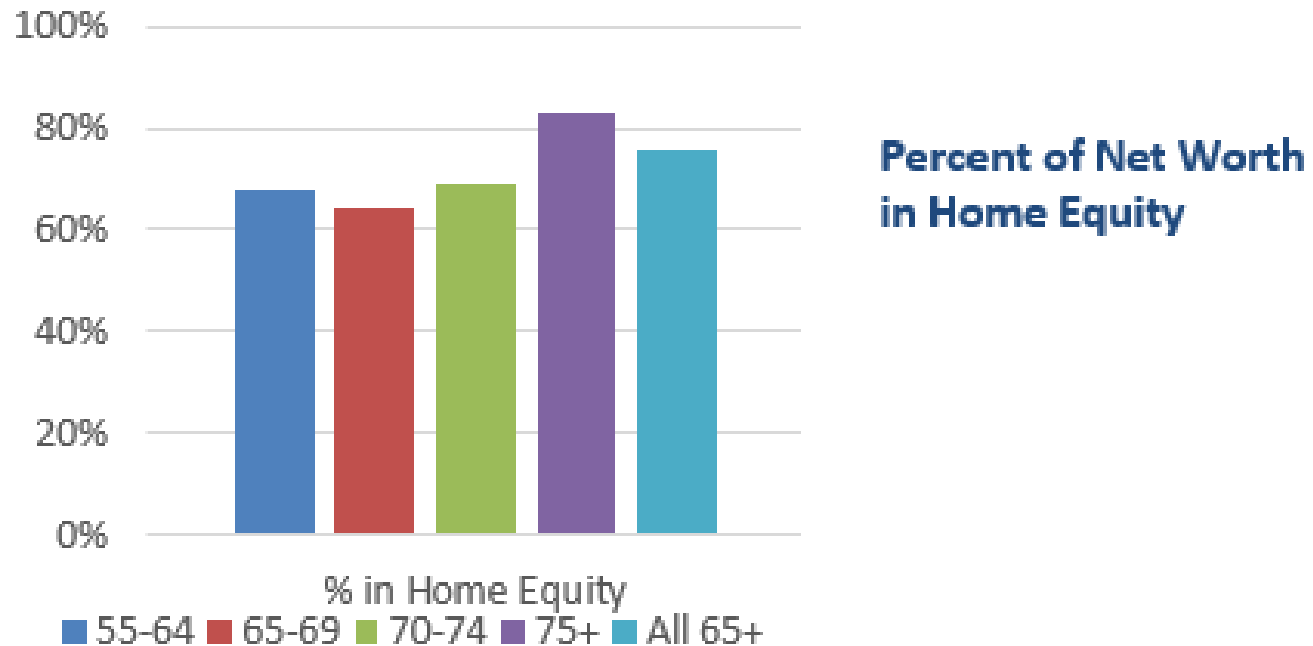
The one often overlooked....



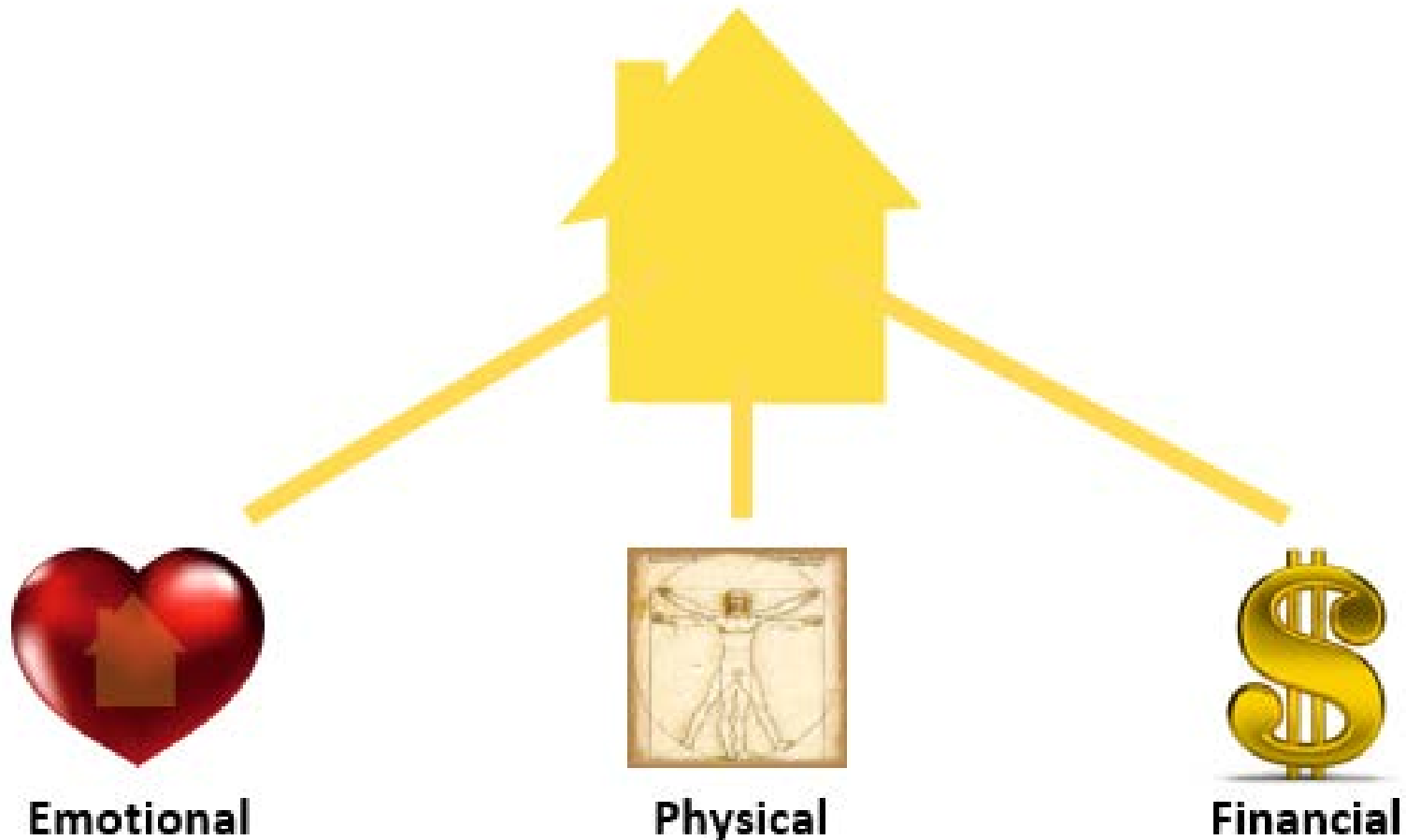
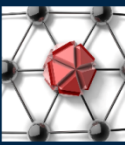
Most net worth is in home equity



- 80% of those age 65+ own their homes
- Home equity represents 60% to 80% of net worth



How We Think About Our Home



There is a strong desire to age in place



- “87% of adults age 65+ want to stay in their current home as they age. Among people age 50 to 64, 71% of people want to age in place.”

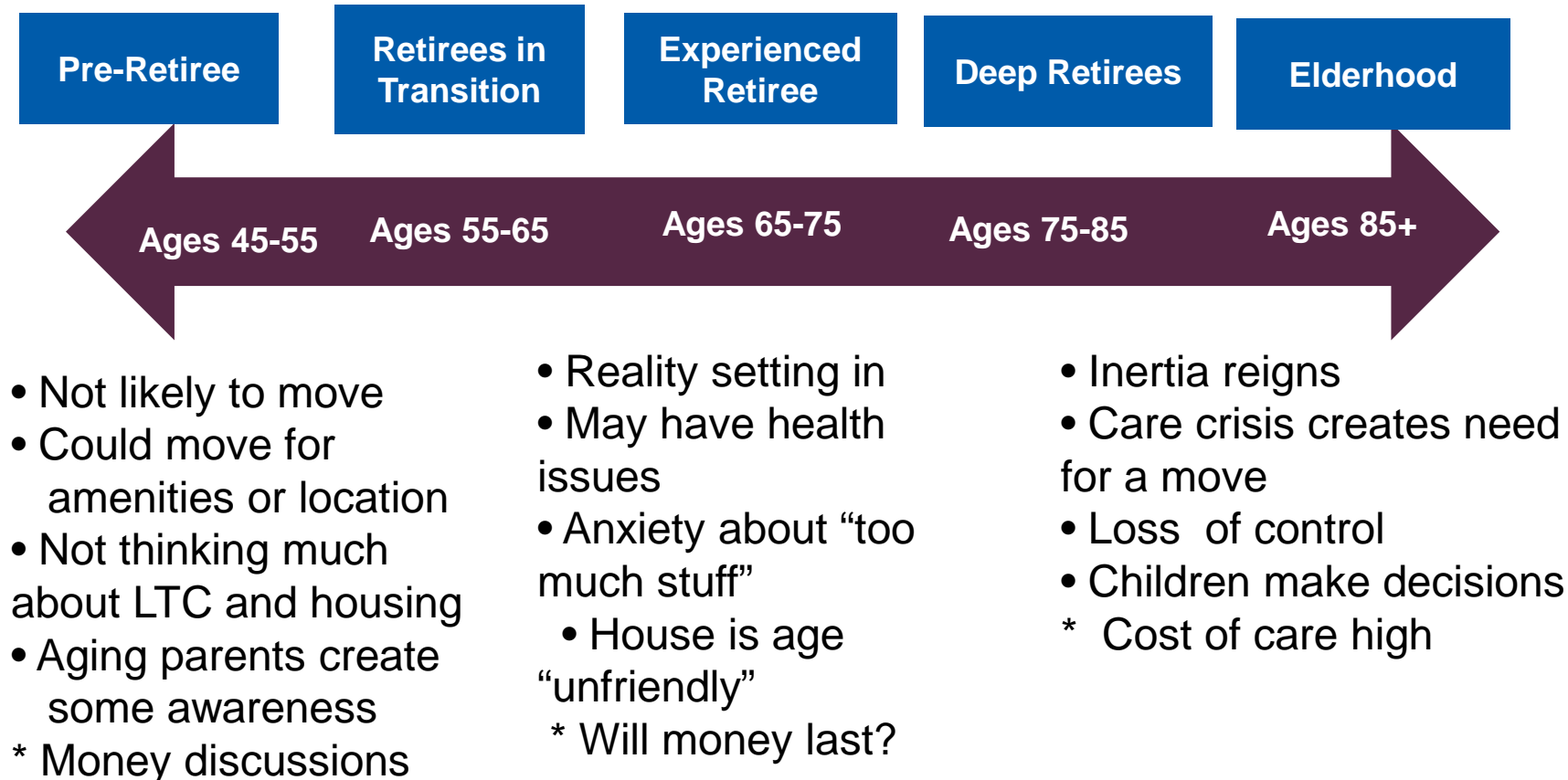


Source: AARP PPI, “*What is Livable? Community Preferences of Older Adults*,” April 2014.

Housing concerns change with age



What Retirees are Thinking About Housing



Source: Sandra Timmermann, Ed.D., 2016



Coming to Terms with the Link Between Housing, Retirement Finances, Aging and LTC



- Supplement income
- Remain at home longer
- Pay expenses
- Retrofit the house
- Pay for care
- Have funds in reserve
- Stay active and engaged in the community



Reverse Mortgages Today
Presented by Amy Ford



Reverse Mortgages 101



- Borrower can access cash from their home equity
- Can be accessed in a variety of forms, known as disbursement options, or payment plans
- It is a non-recourse loan
- The borrower retains the title of the home
- Must keep the home in good repair, and pay property taxes and insurance
- Loan amount depends on the value of the home, borrower age, and cost of the loan

The Home Equity Conversion Mortgage (HECM)



- Dominates the reverse mortgage market
- A HECM is the FHA-insured product.
- To be eligible, you must:
 - Be 62 or older
 - Occupy the home as your primary residence
 - Own your home- existing mortgage must be paid off before or at closing
 - Live in an eligible property
 - Complete required up front counseling
 - PASS A FINANCIAL ASSESSMENT



- A lump sum
 - Pay off existing mortgage
 - Modify your home
- A line of credit
 - A reserve for unexpected expenses
 - A source of income
 - Interest accumulates so balance can grow over time
- Monthly payments
 - Either for life or a fixed period of time



- Financial assessment
- Property tax and homeowner insurance set asides
- Up-front draw limits
- Protections for non-borrowing spouses
- Adjustments to up front and ongoing Mortgage Insurance Premiums (MIP)
- Changes to the Principal Limit Factor (PLF) tables

**Consumer (and Financial Advisor) Views
on Using Home Equity in Retirement**

Presented by Eileen J. Tell





- Sponsored by National Council on Aging (NCOA)
- Funded by Reverse Mortgage Funding LLC
- Research partners: Martino Flynn & Intel Comperemedia
- Consumers and Financial Advisors
 - A 20-minute online survey (April 2016). N = 1,002 older homeowners
 - Survey of 254 financial advisors
 - Series of 13 focus groups in three nationally representative cities (Rochester, NY, Minneapolis, MN and Denver, CO) with 112 participants ages 60 to 75. (Fall 2016)

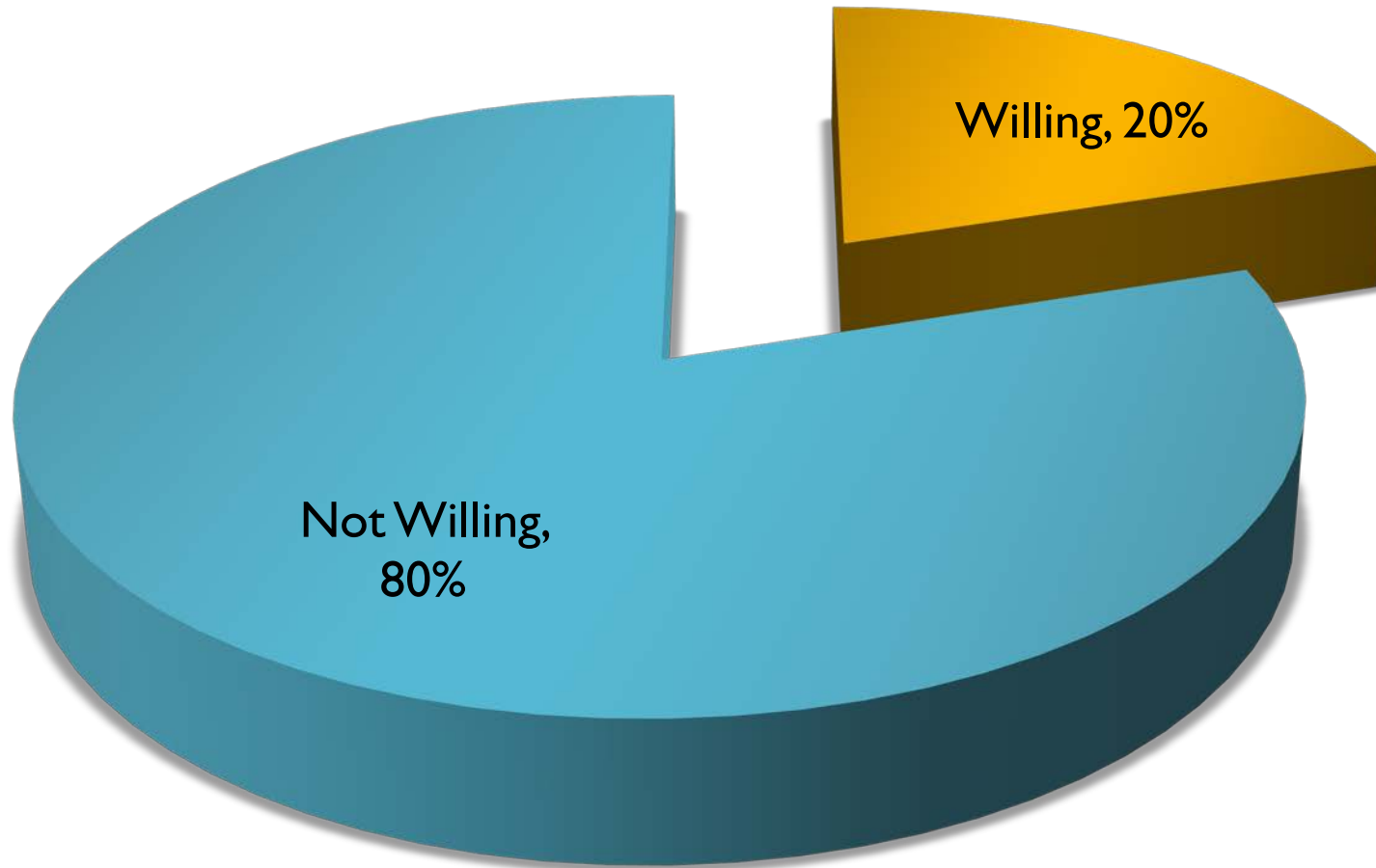


- Identify consumer retirement concerns
- Gauge understanding of and interest in home equity release products
- Explore the hypothesis:
 - When loan features presented without product names, the Reverse Mortgage Line of Credit will be seen more favorably than a traditional Home Equity Line of Credit (HELOC)
 - The Reverse Mortgage Line of Credit has a negative image based on name alone

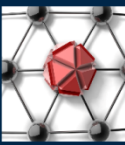


- Consumers cite critical concerns about retirement, yet overlook or do not understand how to tap existing home equity to address these concerns
- Based on features alone, both consumers and advisors prefer the Reverse Mortgage Line of Credit
- Older homeowners and financial advisors have negative view of the Reverse Mortgage Line of Credit, based exclusively on product name.
- Response driven by pre-conceived notions and limited product understanding

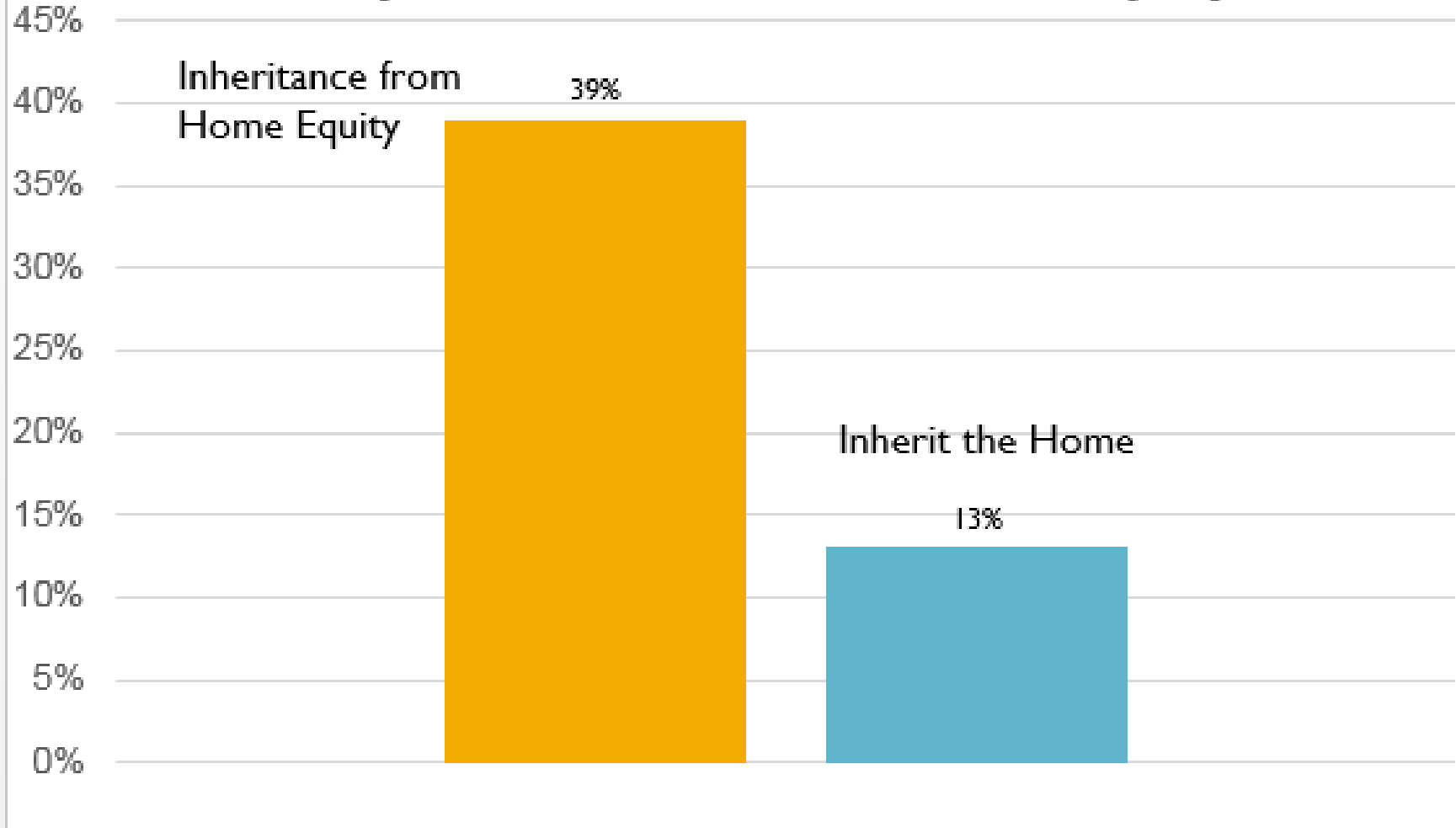
Don't see using home equity as solution



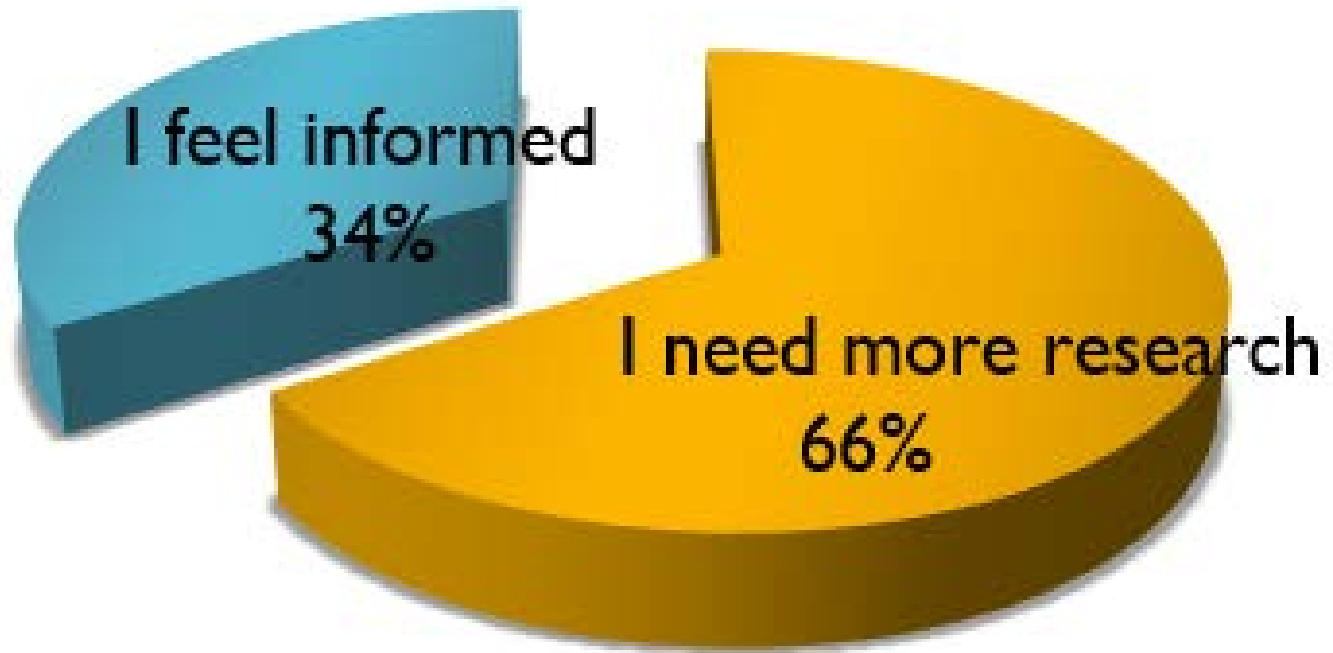
Family concerns part of the reluctance



Family Desire to Maintain Home Equity



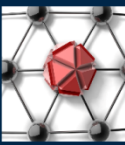
Also lack understanding of options





- **Focus groups:**
 - Each group asked to evaluate Loan Product A and Loan Product B
 - Indicate features they like, dislike or don't understand
 - Discussed features before after product reveal
- **Survey:**
 - Test and control group – matched samples
 - Test group reviewed Loan Product A vs. B without product names (Not Named)
 - Control group reviewed same descriptions with product names (Named)
 - Consumers and financial advisors

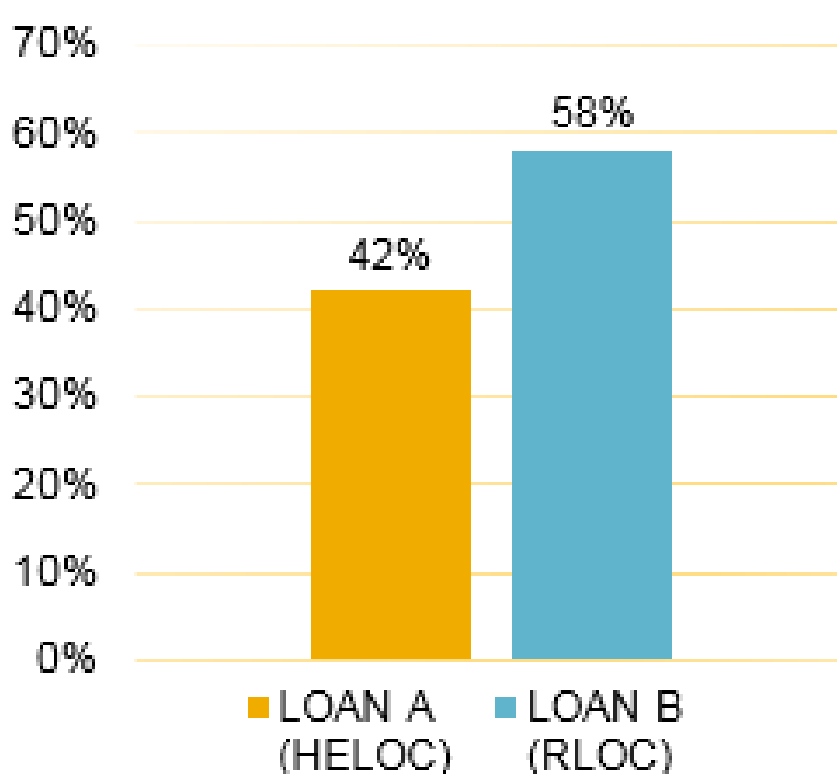
Which product do you prefer?



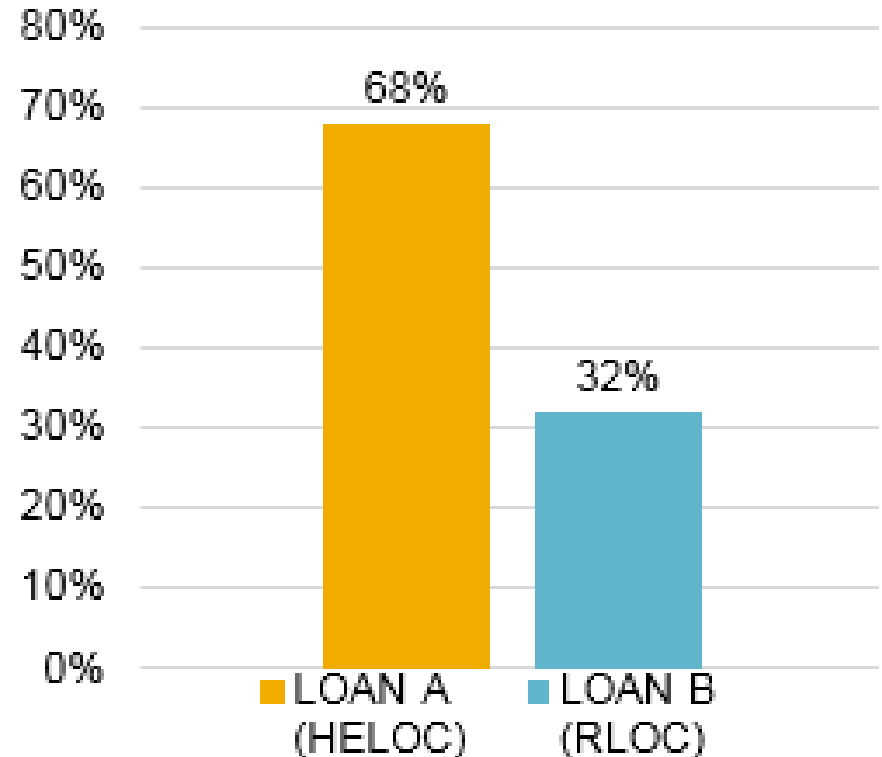
Survey “Product Name” Test Results

CONSUMERS

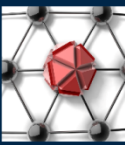
Not Named



Named



Product Confidence and Concerns Influenced by Name



Attribute	NOT-NAMED TEST	Product A (HELOC)	Product B (Reverse)
Concern: Too Risky		48%	35%
Concern: Complicated		19%	16%
Confidence: Consider it		11%	17%
Confidence: Use for everyday		6%	8
Confidence: Use for major expenses		20%	23%
Confidence: Use for emergency expenses		51%	49%

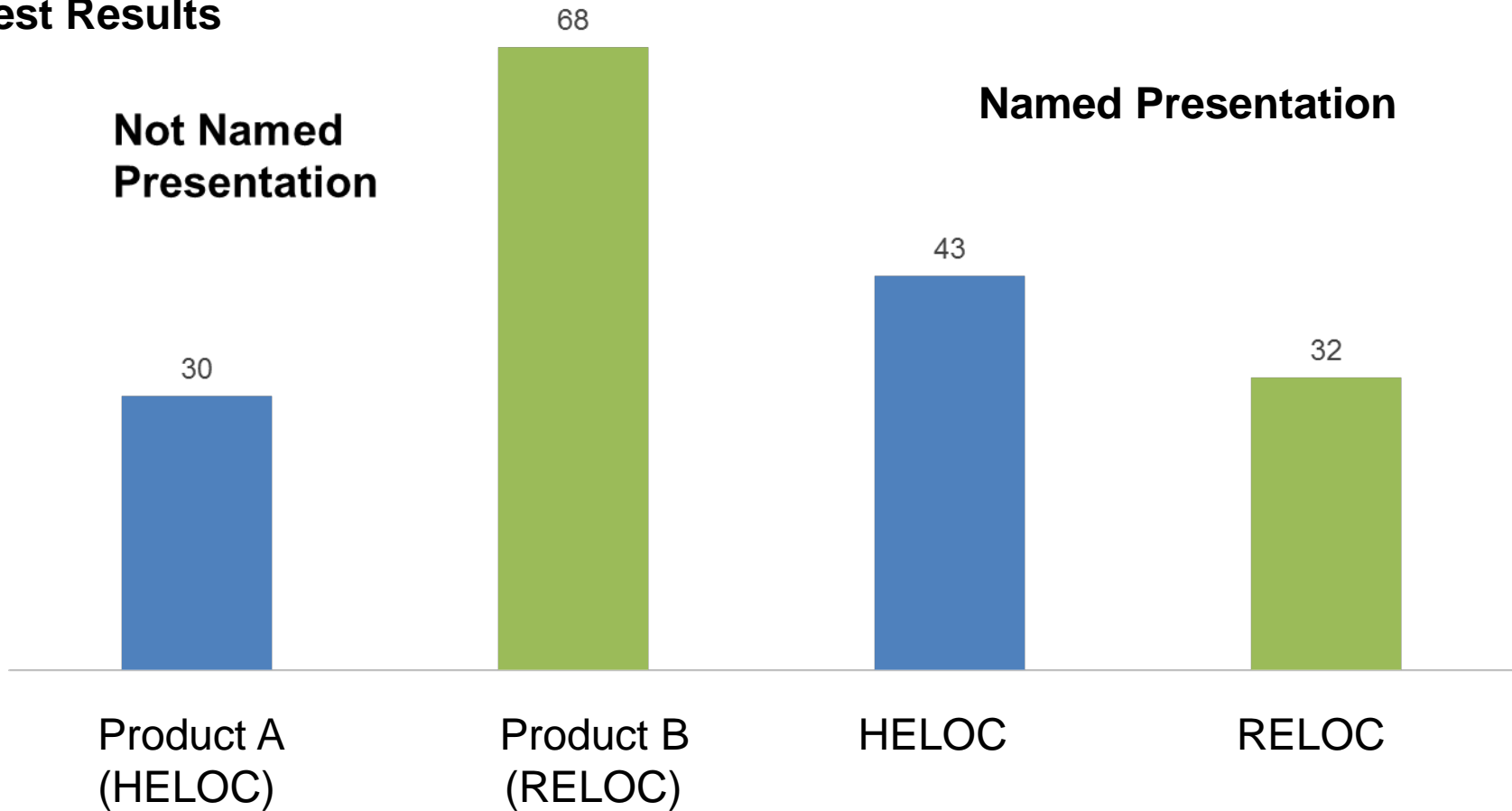
Attribute	NAMED TEST	HELOC	Reverse
Concern: Too Risky		37%	42%
Concern: Complicated		12%	21%
Confidence: Consider it		16%	14%
Confidence: Use for everyday		6%	9%
Confidence: Use for major expenses		25%	16%
Confidence: Use for emergency expenses		56%	50%

Which product do you prefer



Financial Advisors

Survey
“Product
Name”
Test Results



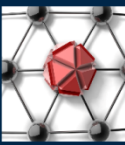


- Overwhelming preference for Product B
- Once product names revealed, HECM product viewed as less desirable
- Still, after reviewing the loan descriptions based only on features, most consumers open to learning more about the Reverse Mortgage Line of Credit
- Acknowledged they had limited understanding and misperceptions of it

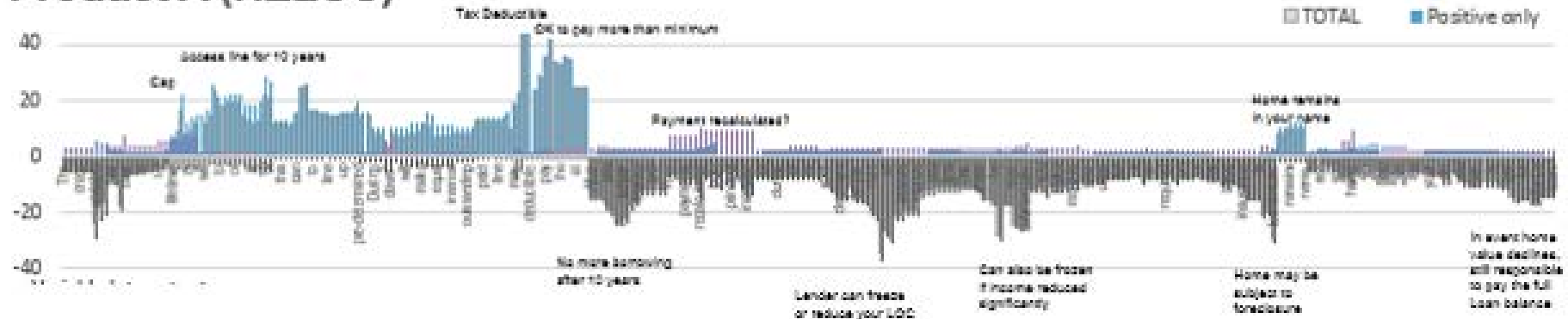


- Less risky
- Option to make payments or not
- Heirs not at risk for repayment over value of home
- Counseling component
- Consumer protection features
- Lender more constrained in when and whether it can cancel the loan

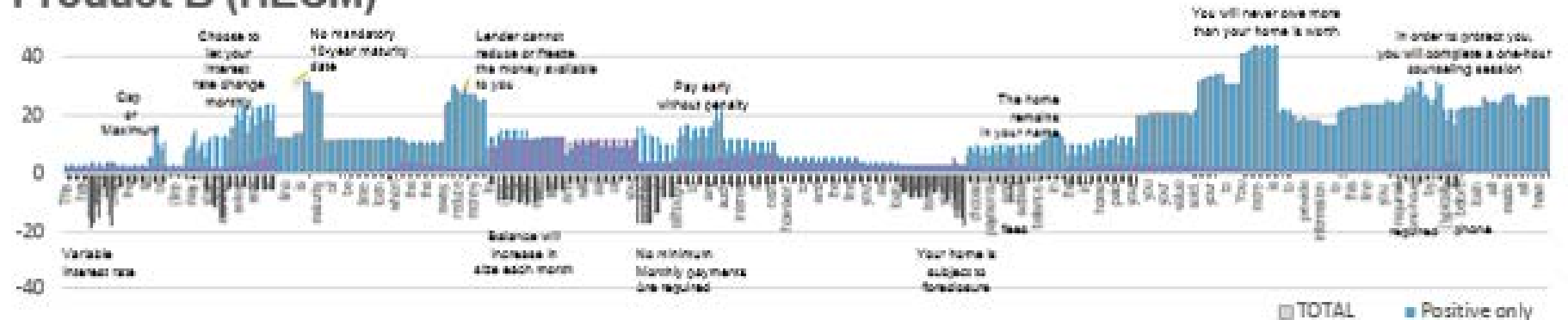
Sentiment graphs



Product A (HELOC)



Product B (HECM)

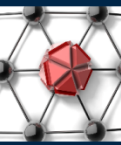




- Desire to age in place at odds with feelings about leveraging home equity
- Home equity release products poorly understood
- Consumers' perceptions of home equity loan products highly influenced by product name, all else being equal
- Important role for objective information and education

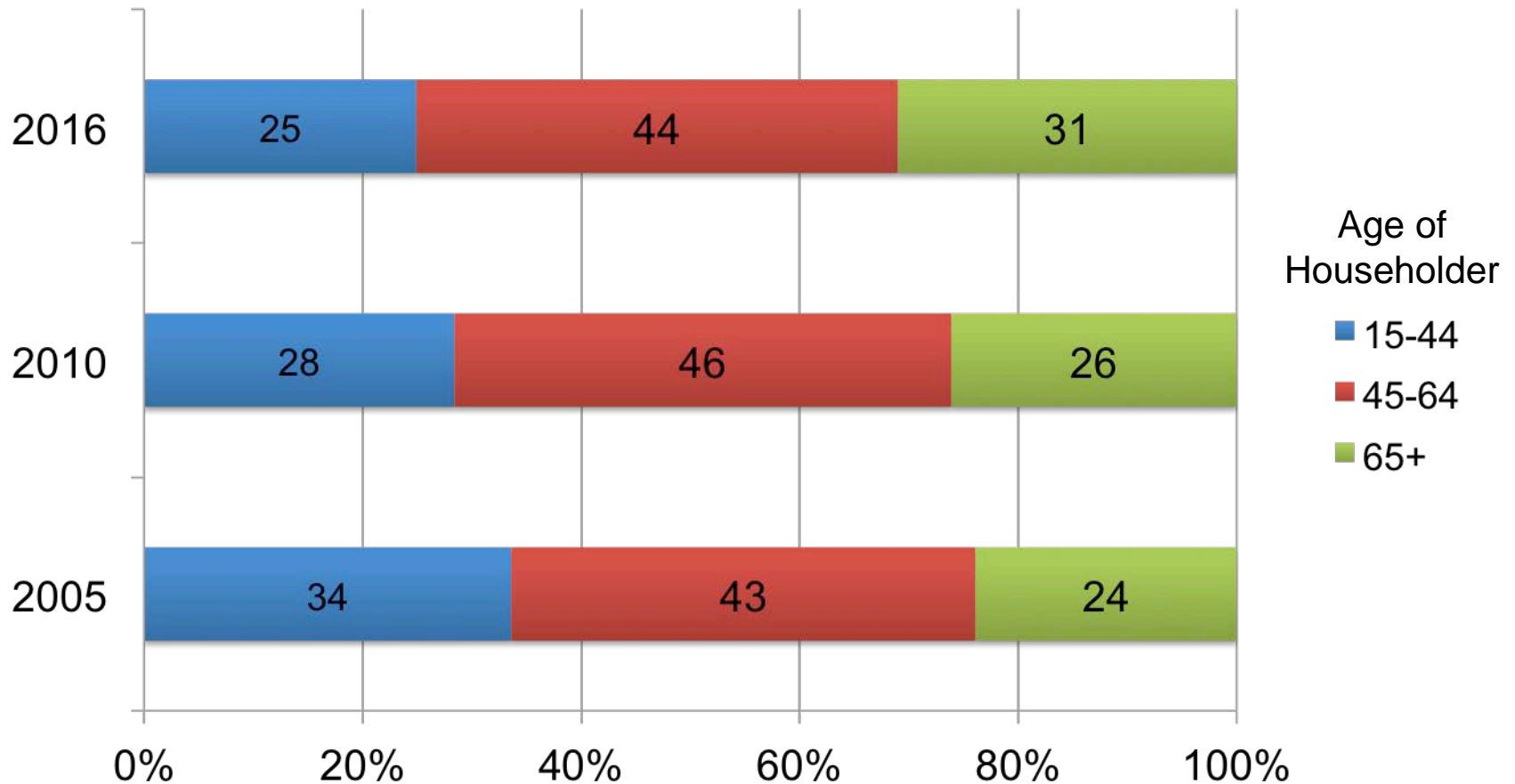
**Using Home Equity for Long
Term Care Needs:
Challenges and Opportunities**
Presented by Barbara R. Stucki





- Two big themes
- Using home equity for LTC
- New opportunities to release housing wealth
- Policy and other implications

Seniors own a growing share of homes



Proportion of homeowner households by age

Note: Data from the American Community Survey. "Home" includes diverse owner-occupied units such as single family homes, attached and multi-family units, mobile homes, condos.

Goal is to strengthen the LTC system



A robust and efficient LTC system should incentivize:

- Family participation
- Efficiency
- Planning
- Purchasing appropriate products
- Using appropriate care settings
- Healthy lifestyles

Source: Hegelman, RR et al. *Designing a Solution for the Nation's LTC Problems Using the Delphi Method*.
Presentation at the 2013 Society of Actuaries annual meeting.

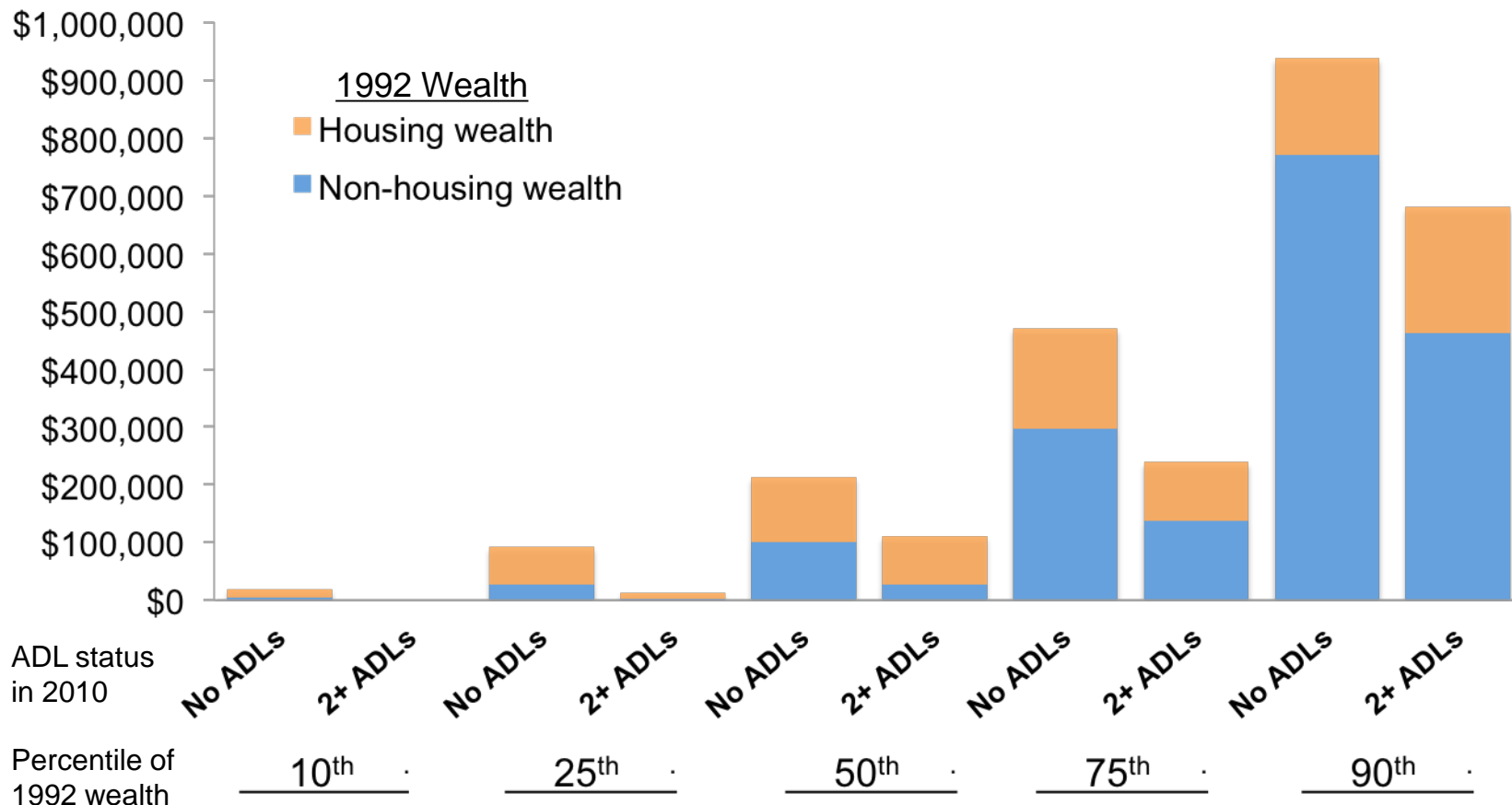


- How much home equity do seniors who need LTC services/supports (LTSS) have?
- How feasible is it to “self insure” LTSS with home equity?
- Do seniors use home equity for LTSS?
- Will Boomers still have some home equity left when they need to pay for LTSS?

Home equity important for LTSS planning



Distribution of Total Household Wealth in 1992 Among Adults Ages 52-60, by 2010 Disability Status (2012 Constant Dollars)

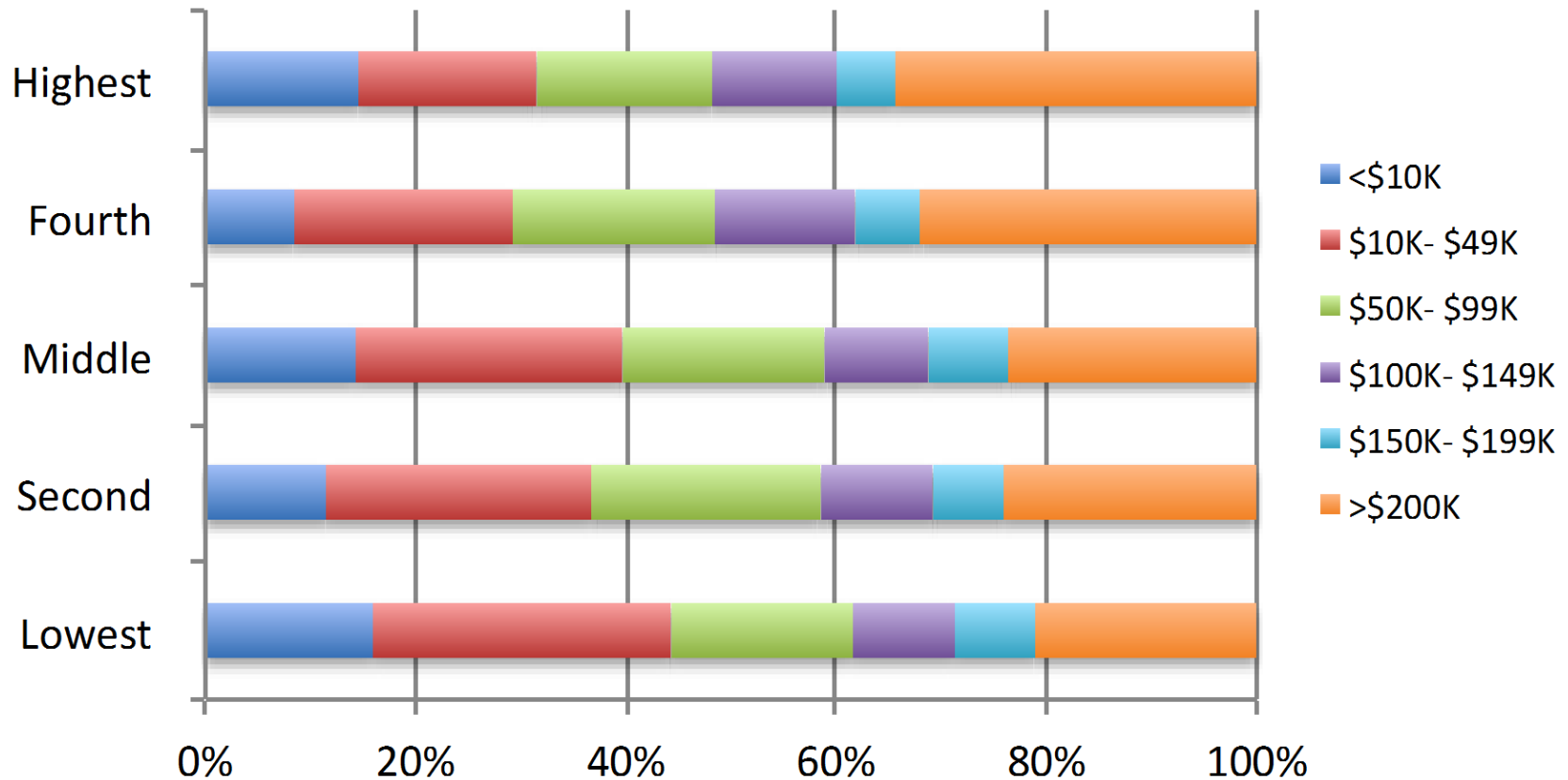


Source: *Income and Wealth of Older Adults Needing Long-Term Services and Supports*. Statement of RW Johnson, The Urban Institute, Before the Commission on Long-Term Care August 1, 2013. Author's computations based on adults in the Health and Retirement Survey who did not have ADL limits in 1991 and who still lived in the community in 2010.

Financial risks for LTSS



Expected Lifetime Family Out-of-Pocket LTSS Expenditures, by Income, Among Seniors Who Need to Pay for Care

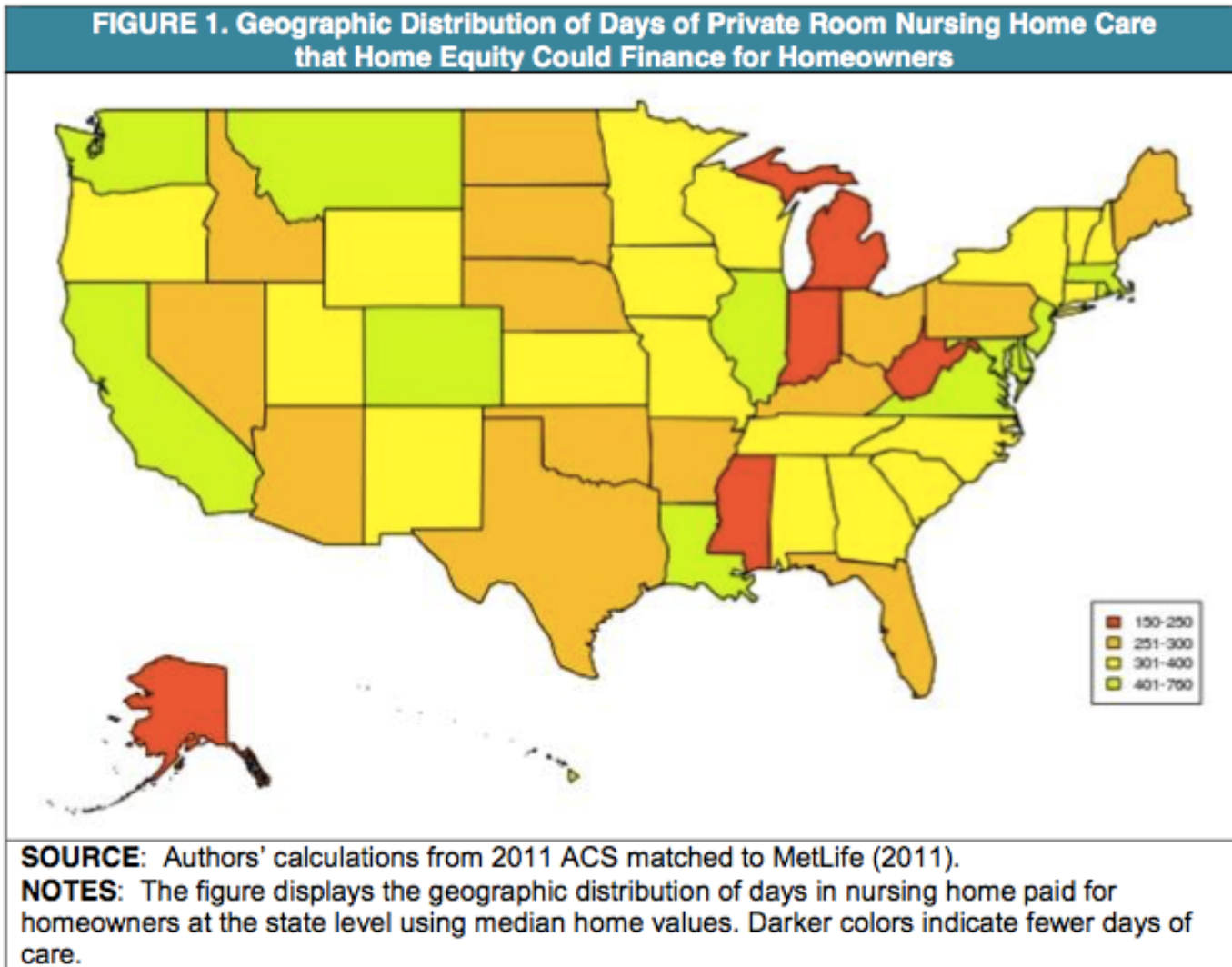
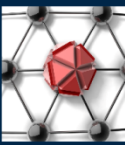


Source: Author computations based on data from DHHS Assistant Secretary for Planning and Evaluation (2014). *Long-Term Services and Supports for Older Americans: Risks and Financing*.



- Strategy - Sell the house and move
- ALFs rely on home equity
 - About 83% of Assisted Living (ALF) residents pay privately, often by selling the house.
 - Industry estimates suggest up to 60% of ALF residents were former homeowners.
- Challenges of ALFs
 - Late life strategy: Average resident age is 87.
 - Average length of stay is 22 months.
 - Social model of care for residents with 2+ ADLs.

Ability to use home equity for nursing home



Source: Linder S (2016). *How Much Nursing Home Care Can Home Equity Finance?* ASPE Research Brief, March 2016.

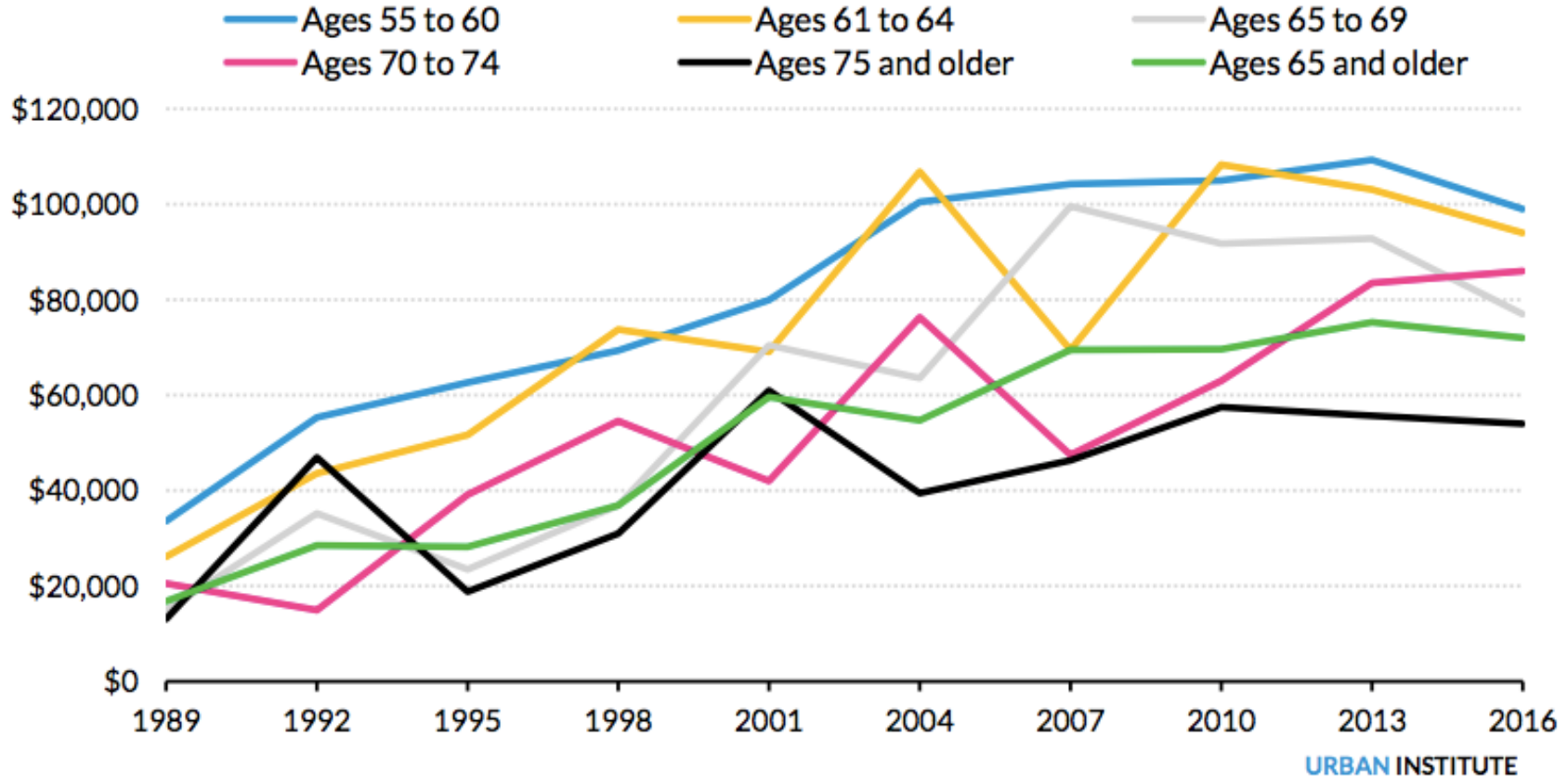


- Little data on use of home loans for health expenses
 - 4% of home equity lines of credit (HELOCs).
 - 5% of reverse mortgages.
- About 11% of family caregivers take out a loan or borrow to cover out-of-pocket costs.
- Challenges
 - As an illiquid asset, home equity is costly to access.
 - Need a meaningful amount of funds to stay home.
 - Mixed signals on using home equity in retirement.

Seniors' housing debt is growing



Median Mortgage Amount for Elderly Homeowners with a Mortgage



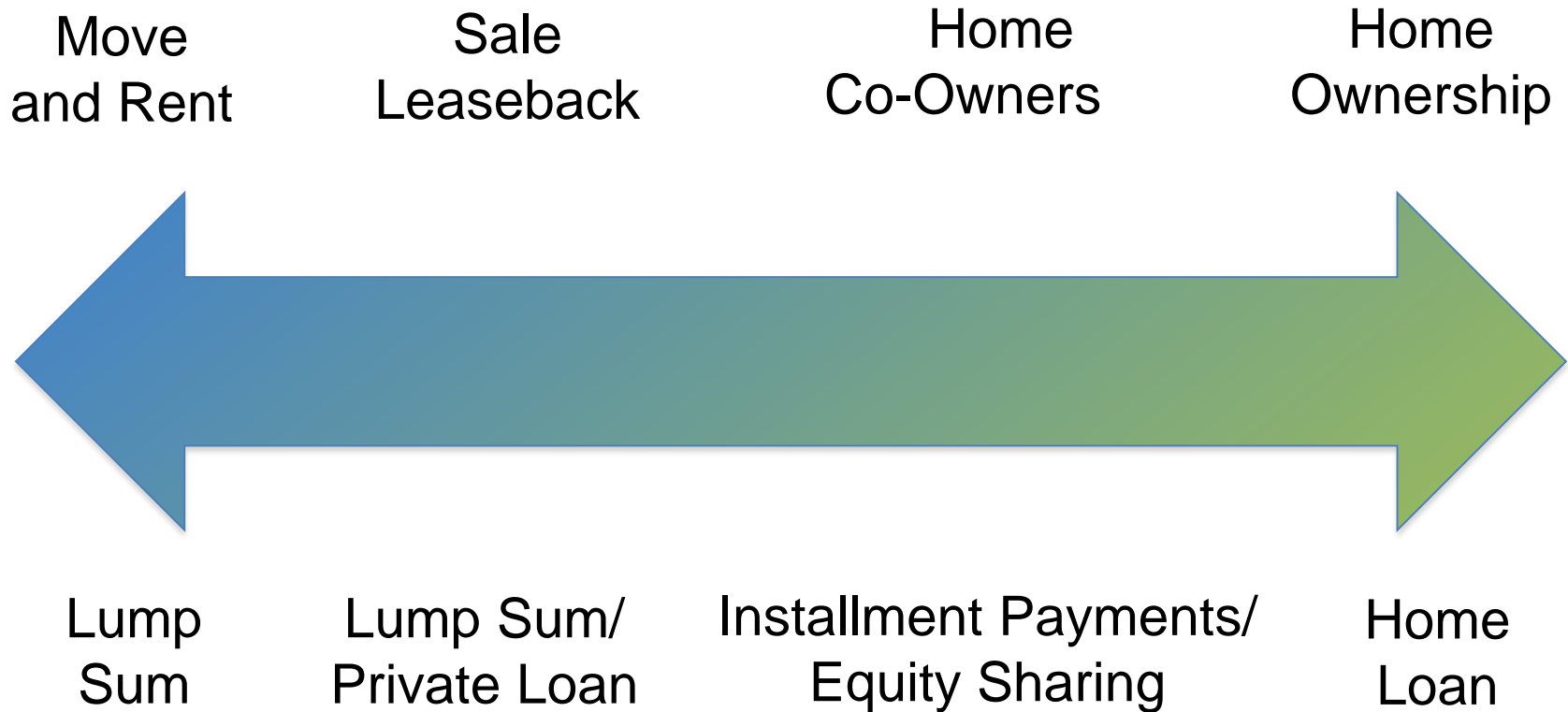
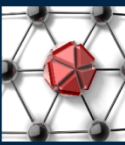
Source: Goodman L et al. (2017). *What the 2016 Survey of Consumer Finances Tells Us about Senior Homeowners*. The Urban Institute.

Time to rethink Medicaid LTC and the house?

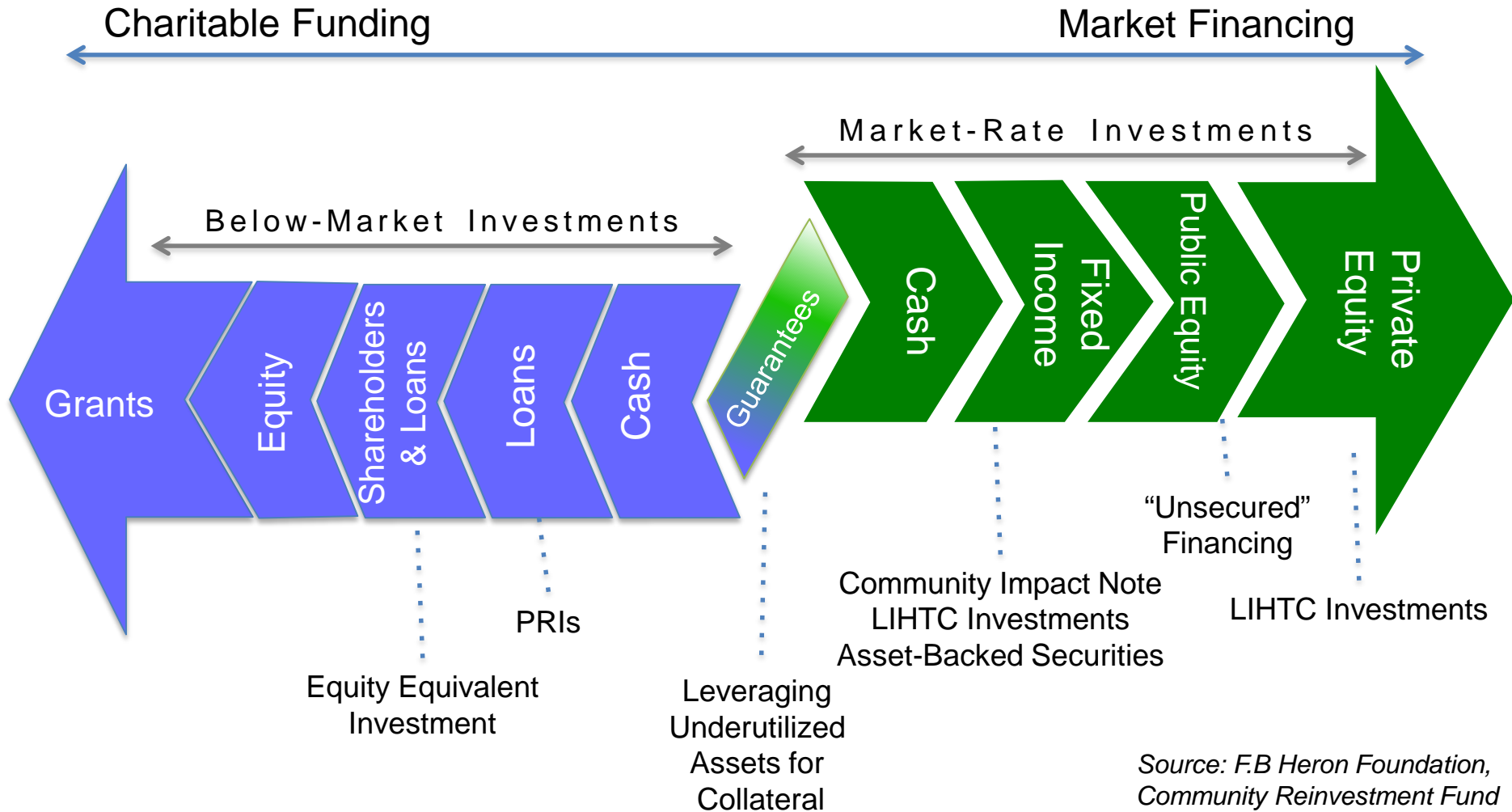


- Lien on home since 1982 for non-poor seniors
 - State can use it to recover cost of Medicaid LTC.
 - Many limits on recovery such as if a spouse, disabled/minor child, or caregiver lives in home.
- 2017 limits on home equity for Medicaid eligibility range from \$550,000 to \$840,000
- Challenges for using home equity
 - Approach is punitive and outdated.
 - Protects heirs but often locks up home equity to support caregivers and impaired elders at home.
- Can use reverse mortgage if proceeds used within the month they are received

Home equity release continuum

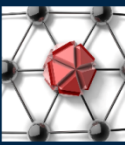


New financing to make HE release affordable?

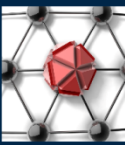




- Match financing with needs - bridge loans, family loans, ADL tenant, community revolving fund.
- Enlist impact investors to attract new capital to make loans more available and affordable.
- Foster public/private partnerships to launch a new marketplace that connects impaired seniors with products that offer lower costs.
- Create a secondary market for aging in place financing products and attract new investors that enhance the availability of capital.



- Expands LTCi options for the middle market
 - Wrap around to shorter-term LTCI policies.
 - Helps preserve LTC insurance for catastrophic needs.
 - LTC insurance is homeowners insurance!
- New option for short-term planning
 - “Just in time” financing supports prevention efforts.
 - Allows for early intervention and care management.
- Cost effective and efficient
 - Improves the home environment as a place to age.
 - “Supported aging in place” increases well-being, enhances resilience, and promotes innovation.



- Key focus: It is a middle-market strategy that can make aging in place a reality
- Growing opportunities to finance new ways to liquidate home equity for LTC
- Need to ask the right questions!!
- Home equity is NOT a silver bullet, but may pay a substantial portion of out-of-pocket costs
- Home equity will NOT replace insurance or public programs



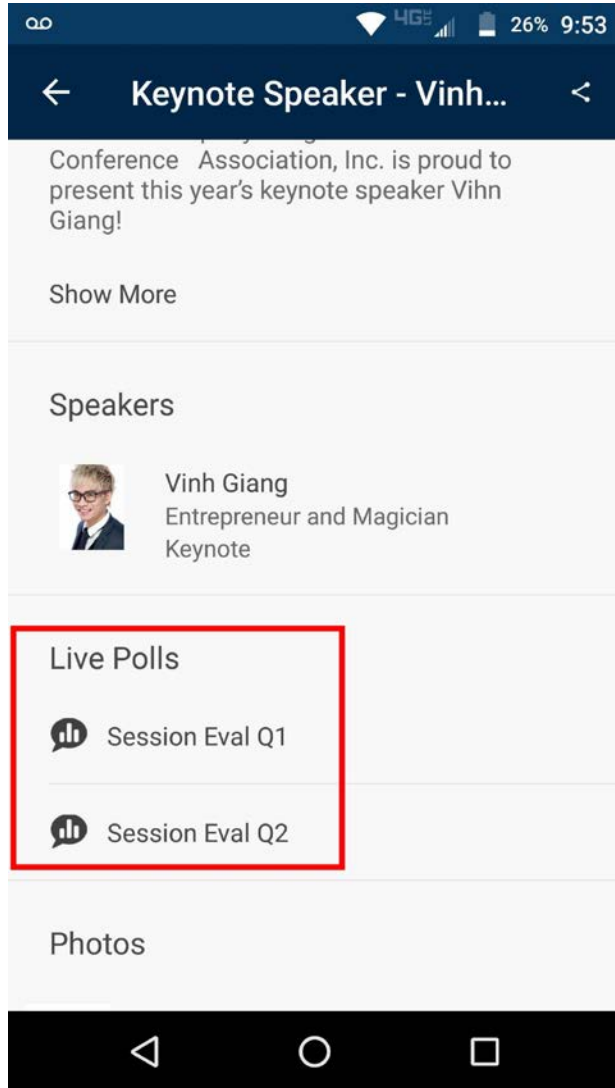
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Speaker Contact Information



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- Eileen J. Tell, Principal & Owner, ET Consulting, LLC., eileenjtell@gmail.com
- Sandra Timmermann, Gerontologist and Visiting Professor, American College of Financial Services [Sandratimmermann1@gmail.com](mailto:Sandraticimmermann1@gmail.com)