25 Ways to Use Your Home Equity

The Versatility of Home Equity

Pay off your mortgage, Buy Long-Term Care, Delay Social Security

By Marty Bell

THE GREENS, THE WHITES AND THE BROWNS ARE all couples that live in Reisterstown, Maryland, on the northwest fringe of Baltimore. Pre-Baby Boomers entering their 70s now, they share dinners, theatre subscriptions, gossip, stories about their adult children and a lot of laughs about being "seniors." Over the past few years, faced with disappointing decreases in their savings and home values due to the recession, they have come to have something else in common: each couple has borrowed against home equity.

Ed and Sally Green were the first of the couples to explore this.

Ed, 73, is a retired high school chemistry teacher who receives $2000 per month in social security payments and another $2000 from his pension. Sally, 71, also taught when they were first married, but gave that up to raise their children Ben and Susan, then went back to substitute teaching for a while in her 50s. She receives $1300 per month in social security, but did not teach long enough to qualify for much of a pension. Their combined monthly income is $5300 per month but reduced to $4700 per month after paying income taxes. When Ed reached 60, the Greens moved from Central Baltimore to a home with a nice yard in which they hoped to enjoy retirement and that would be more accommodating to their four grandchildren, whom they hoped would enjoy visiting. But after a few years there, between their mortgage, real estate taxes, home insurance, cable television, utilities and fuel, car lease, Medicare fees, food and incidental expenses, the Greens found themselves with monthly expenses of $6000, or $1300 short of their income. The gap was worrisome. It certainly eliminated the dinners in restaurants and theater nights they enjoyed with the Whites and the Browns. Then, on a tip from his accountant, Ed discovered that he could take a reverse mortgage, which was a loan against the equity he had built up in his home via the down payment and a decade of monthly payments. He approached a reverse mortgage lender and was told that based on the couples' ages, current interest rates and the home's value, Sally and Ed qualified for a total of $272,000. Since the reverse mortgage had to be the only lien on the property, they would need to use $207,000 of the proceeds to pay off their current mortgage. But paying off the mortgage would reduce the Greens monthly expenses by $2000 per month—and also leave them with a line of credit of $65,000. They would still have to pay their real estate taxes and homeowners insurance. But even so, their monthly expenses would be reduced to $4000 per month, which they could afford with their $4700 income. Plus they would have an additional $65,000 in the bank for emergencies or just for pleasure. And they would not have to pay back the loan until they sold or vacated the house.

The notion seemed highly appropriate and even redeeming to Ed. After all, he had worked hard for close to 40 years and spent the largest amount of earnings to support his house and provide his family with a confortable home. Now that he was retired, the home would help support Sally and him. And with his own money. It made him feel that all that hard work had not been for naught. And that all those mortgage payments had not just been an investment in his home, but also a smart way to save money for the more fragile time of life.

When the Greens enthusiastically told the White's one night over dinner at O'Brickey's Crab House about the great sense of relief they felt due to their reverse mortgage, it put an idea in Margaret White's head. Margaret, just 70, was feeling run down and weary, the lingering result of the three years she devoted to caring full time for her mother during the last three years of a 93 year life. Margaret, a career nurse, had given up a part-time job at a nursing home that provided the Whites with needed extra weekly cash to devote the needed attention to her mom. And the time she put in there left alone Dan White, who had been forced to retire at 58 from his job as a loader at BWI Marshall Airport due to back problems, which had only worsened over time. After her experience with her mom, Margaret was concerned about who could provide care to Dan or her if they were alone. In fact, if Margaret found herself unable to perform daily tasks, like dressing and showering, in which she had assisted her mom, Dan was incapable of helping her even now. With a background in healthcare, Margaret felt vehemently that the one available solution was a long-term healthcare policy. And yet, on their social security and small pensions, Dan and Margaret could just barely afford their basic monthly expenses, let alone an expensive long-term care policy. But that evening after dinner with their friends, while watching the evening news in their den, Margaret suggested to Dan that the one great asset they had in life was a home they had lived in for 35 years and that had a fully paid mortgage. The equity in the home was doing nothing for them at the moment. So why not put it to use, take out a reverse mortgage and be able to afford the $6000 per year that a long-term care policy would cost at their age and in their state of health!

The Browns fortunately did not have the health issues of their friends and neighbors the Whites, nor the monthly expense gap problem of the Greens. As a certified public accountant, Irv Brown had tried to keep up to date on the latest financial product developments so he could best advise his clients. For many years Irv spent whatever time he could steal in the jalousie room looking out on the yard painting. He dreamt of the day that he could do nothing else and would say, “Enough already” and turn his business over to his son-in-law. But one of the things Irv often preached to clients was that Social Security grew substantially at 8% per year between the qualifying age of 62 and the required withdrawal age of 70 ½. So, as was his want, he sat down with a calculator and did the numbers. At 62, he would receive about $1700 per month from Social Security. At 70 ½, he would receive nearly $3000. To bridge that gap, he could take out a reverse mortgage as a line of credit, only draw on the money when necessary and thus only pay interest when he needed some backup funds. And the untouched line of credit also had a growth factor.

Three couples in the same town with similar and interlinking lives and interests who each found a different way to use a reverse mortgage to better their financial situation and, as a result, have peace of mind. RM

25 Ways

Salary Replacement

Adding a leg to the retirement funding stool

By Bonnie Wallace

RICHARD, A RETIRED AIRLINE PILOT AND HIS WIFE Mary, were living out the retirement plans they put into place many years earlier. After raising a beautiful family of five children, Mary, age 77 and Richard, age 79, were living very comfortably. They had sold their family home in California some years earlier, and purchased a beautiful $750,000 retirement condo in a prestigious community nearer their family. They had planned well for their retirement, or at least they thought they had.

At the point of retirement, Richard and Mary elected to use a strategy sometimes known as "pension maximization." Richard would receive his maximum pension during his lifetime, and upon his death, if she survived him, Mary would receive a tax-free life insurance death benefit, in place of his continued pension.

Using the equity from her home will allow Mary to live comfortably, while actually enhancing the inheritance of her children, enjoying significant tax savings.

Several years into their retirement, Richard was diagnosed with Parkinson's disease, and over time began to lose his abilities to perform regular daily tasks. He was not given long to live.

Throughout their 54 years of marriage, Mary had always enjoyed the security in her husband's ability to manage their income and investments. With news of his disease, she felt that she was now facing the overwhelming burden of taking charge of their finances.

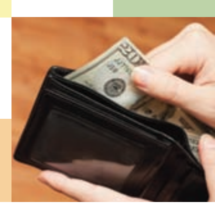
Along with the help of their Senior Financial Consultant, Richard and Mary assembled a team of professionals, which included their attorney, their CPA, and their daughter who is herself a financial professional. After a full analysis of their current financial situation and lengthy discussions, the conclusions were unanimous. A plan was devised that would address 1) the tax burden that Mary would face once her husband's pension was no longer available, 2) Mary's ability to maintain the same standard of living to which she was accustomed, and 3) Richard and Mary's desire to leave an inheritance for their children.

A HECM Reverse Mortgage was proposed as a center piece to Mary's future plan.

During his years as a commercial pilot for a major airline, Richard had provided well for his family. He had managed to accumulate over $1,000,000 in a Traditional IRA. Upon reaching the age of 71.5 years, he began taking his yearly Required Minimum Distributions (RMDs). Combined with his $96,000 per year pension income, their combined Social Security income, market asset gains, and various other interest and dividend deposits, Richard and Mary found themselves paying more taxes than they had ever expected in their retirement years.

Richard had two life insurance policies for income replacement, with a combined death benefit totaling $450,000. Upon retirement, he thought that between the growth of the IRA and the life insurance death benefit, Mary would be very secure. However, the IRA had weathered a few declines over the years, and had not grown as much as they had hoped. The value of the "pension max" life insurance seemed diminished as the cost of living had changed over the years. $450,000 was not going to be enough for Mary to live out her life without her husband, unless she were to draw down the fully taxable IRA and other investments. Richard and Mary's goal was to leave the home as an inheritance to their five children along with whatever assets remained.

After a thorough analysis of Richard and Mary's retirement



objectives and desires, the recommendation was made to utilize the $1,000,000 IRA to fund, over a seven-year period, a life insurance policy, to provide a tax-free death benefit for the children. The life insurance policy would be funded by converting the IRA funds to a Single Premium Immediate Annuity (SPIA), which would provide a guaranteed policy premium, as well as the required tax payments over a seven-year period. This part of the plan was put in motion right away.

Two years after the plan was set in place, Richard passed away. It was now time to carry out the rest of the plan. Mary now receives her husband's Social Security income of $1,590. The tax free life insurance proceeds from Richard's $450,000 policies were converted to "guaranteed income for life" payments in the amount of $3,480 per month. Lastly, a potential $2,800 per month "tenure payment" from the Reverse Mortgage brings her potential monthly tax free income to $7,870. Right now, utilization of the credit growth line will allow her potential tenure payment(s) to increase until needed, as well as provide her with the peace of mind knowing that she has access to her increasing credit line of over $400,000.

As Mary continues to pay the annual premiums on the life insurance policy for four more years, the children will share in a tax-free death benefit, equalized distribution inheritance in excess of $1,400,000, along with any other remaining assets. Mary will be relieved of the tax liability that had been their earlier burden.

Using the equity from her home will allow Mary to live comfortably, while actually enhancing the inheritance of her children, enjoying significant tax savings. RM

Work Interruption

Staying afloat when injury limits your activity

By David Darling

ON MARCH 16, 2010, AT 2:45 IN THE AFTERNOON, I received a phone call from my son, a sophomore in high school reporting his first fender bender. He was exiting the high school parking lot and another driver dented the back of his 1955 Triumph TR3. It was at low speed; no one was hurt and the other driver's pick-up truck incurred no damage.

Parents of the other driver did not want to involve their insurance company. I understood their preference to avoid an insurance claim and they agreed to pay 100% of the cost.

It was difficult to find a body shop willing and able to repair the old roadster, but I eventually found George, who restores classics in a small shop near San Diego's Lindbergh Field. He had over 40 years of experience and refused to touch plastic body panels used on modern cars.

I noticed George had a limp, so I asked if he was in pain. George said his right knee flared up from time to time and his doctor wanted him to replace it, but George wanted to defer surgery as long as possible. George had a basic group insurance plan, so most of the cost of the surgery would be covered, but he was concerned about the co-pay and the time he would be out of work. Also, he was afraid his client base would not come back if he closed the shop for a few weeks when he went through rehab.

> *George had a basic group insurance plan … but he was concerned about the co-pay and the time he would be out of work.*

George did not have business interruption insurance. He had looked into it a few months ago and decided the cost was prohibitive. As we worked together on the car we chatted about George's retirement plan. He had a decent investment portfolio, a comfortable single level home (with no mortgage) in a safe and well established neighborhood in San Diego, but he would have to keep working for seven more years to make the plan bullet proof. If he had to close the shop in less than seven years, he would likely outlive his money. That's why George was delaying knee surgery. He wanted to wait seven years so the surgery would coincide with his planned retirement date. Based on the pain George was enduring that day, I knew he could not wait. So I introduced George to a HECM Line of Credit, which could supplement cash flow during rehab and then serve as a multi-purpose safety net. George liked the concept and established a HECM LOC as a hedge against unforeseeable risks.

Four years later, I received another afternoon call. This time my daughter was on the phone; she had her own fender bender in the same high school parking lot. Someone hit the left rear panel of her 1989 Volvo wagon when they were backing out of a parking space. Again, the parents of the other driver wanted to avoid filing an insurance claim. So off I went to re-visit George. The damage to the Volvo was minor; they were built like tanks. As George quickly gave me an estimate for the repair work, I noticed he was not limping. He told me had knee replacement surgery two years earlier and it was a great success. He was pain free (other than the typical pain anyone would feel after working in an auto body shop for 45 years) and his business was humming.

I probed a bit and asked about the HECM LOC we set up for George. He broke into a wide grin. He had tapped into his line of credit to cover the co-pay on the knee operation and to cover expenses while he was in rehab. Now that he had taken on several new restoration projects, his cash flow was positive and he was paying down the balance on his HECM line of credit.

“Huh? You're paying down your balance?” I said. ‘”That's right,” George confirmed. His approach was that he could always re-borrow the money if he needed it, but if he didn't, he liked keeping the home as close to free and clear as possible. It gave him a feeling of freedom and independence. RM

Buy a New Home

With your equity? That's right

By Dennis Loxton

MRS. SMITH WAS LOOKING TO MOVE FROM FLORIDA back to the Midwest to be closer to her family. She had been relocated to Florida for work reasons about 20 years earlier and enjoyed a robust career and large circle of friends. However, with family members getting older and requiring more care, she felt this was the time to take the plunge and move back.

Starting with the lead up to the Great Recession, housing prices have been like a seesaw with a rider on one seat. Then someone got on the other side and it began to even out. At one point, the metro area that Mrs. Smith was leaving was among the top 10 markets for foreclosures in the US. However, as she looked to put her house on the market in late 2014 she found there was a very good chance that her house would have multiple offers within the first week of the listing. At the same time, the Midwest market in which she was looking had one of the lowest percentages of inventory in America – which meant that she was now looking at spending 20-30% more than originally budgeted and for a home that may not be her ideal property.

At this juncture, Mrs. Smith was faced with the decision about how to pay for the new home. She was blessed to have had most of her invested assets intact throughout the market correction of 2008-2009 and while she saved well, the vast majority of them were sitting in retirement accounts that would trigger a taxable event when sold. While she had equity in the Florida property it was only going to provide about 25-30% of the total purchase price.

She began to investigate various options for traditional (conventional) financing but had difficulty because the bulk of her income was derived from income-producing assets and changes to conforming loan guidelines made it much more difficult to qualify for a "forward" loan (which she really didn't want).

The option of paying cash was on the table but would have required a sizeable distribution from her qualified assets – which would have triggered a significant tax hit in April.

Fortunately, the realtor who was assisting her with the purchase of the property up north had attended a Lunch & Learn at his local Realtor Association and was well-informed about the concept of buying a new home utilizing a HECM for Purchase. This is a loan securitized by the equity in your new home that provides 50% of the cost and which would require only another 50% down and no monthly repayments thereafter.

The down payment would come from the proceeds of the sale of the Florida home and an affordable piece of her other assets.

When the concept was first broached, Mrs. Smith did not totally grasp it. But HECM for Purchase requires a session with a HUD approved counselor in which all her questions were answered. After the counseling session and application the entire process went fairly smoothly. The appraisal came in higher than the price, but the combination of the HECM for Purchase loan and home sale proceeds and other assets permitted Mrs. Smith to afford it.

During the closing, the title company that was handling the process remarked several times that the concept of using a reverse mortgage for purchase (while a bit different than a conventional loan) wasn't as bad as originally feared. In fact, with new regulations regarding forward mortgage closings, a HECM for Purchase closing is now much simpler.

As it turned out, Mrs. Smith was ahead of the curve. The confluence of new regulations and demographic factors may well make HECM for Purchase a primary method of relocation in active-adult communities in the years ahead. RM

25 Ways

Home Modification

Convert a room or basement to a living facility for an aging parent, relative or caregiver

By Patricia Whitlock

ONE OF LIFE'S BIGGEST DECISIONS MAY COME when our health and mobility challenges reach a point where full or part-time help is inevitable, and we are forced to decide if it is possible to stay at home or if it is necessary to move to a care facility.

Staying home is usually the preferred course. As wonderful as some care facilities may be, nothing beats sleeping in your own bed.

Studies reported by the National Institute on Aging, Journal of the American Geriatrics Society, the Centers for Disease Control and National Institute on Health among others conclude that moving into an institutional care facility is possibly the single most disruptive event that a person can experience. Individuals living in institutional care, regardless of their age, have significantly shorter life expectancies than those living in their own homes. Mortality is not only driven by their condition, but also by the impact of the significant change in environment.

A reverse mortgage borrower may come to us at that fork in the road: is it time to cash in by selling the house, or is there some way to stay here?

For a borrower who needs care, there are a couple of options available: move in with a friend or family member who can serve as a caregiver, or have a caregiver move in.

Due to reverse mortgage residency regulations, moving an aging parent into a child's home will probably prove to be a tangle of changing primary residence, proving residency, and issues of paying off the loan when the borrower is no longer a resident. Moving a caregiver into the aging homeowner's home is the more likely option.

Let's look at the case of Barbara, whose frailty required her to employ a 24-hour health care aide. When Barbara closed on her reverse mortgage loan, some deferred maintenance in her home was required. A contractor was brought in to repair the porch and front door and, while there, also installed a small bathroom in what had been a guest room closet, effectively creating a small private suite for the aide to live in. The aide could now have respite from sitting with Barbara constantly, while remaining close at hand.
A home improvement of this kind makes sense: a spare room with a bathroom added creates a sense of privacy and "hominess" for a live-in caregiver, and that person need not be a nurse, but could be a relative willing to keep an eye on Grandma. A private entrance is a bonus. 83 year-old Dorothy, who got a reverse mortgage recently, is delighted that her college-age grandson will be living in her auxiliary apartment and contributing to household expenses. She won't feel so alone, and he will probably get a home-cooked meal from time to time. The arrangement may naturally grow to that of caregiver.

Is it worth the expense of making home modifications? Brian Dwyer has been owner/operator of a real estate brokerage business for over 30 years, specializing in placing seniors and returning veterans. He notes "Making any improvements to your home will not always get a 100% return on your money when you sell."

But, he adds, there is a trend toward older home buyers seeking universal design, home modifications and upgrades that create an environment friendly to people of all ages and abilities. "Features like walk-in bath tubs, hand rails and wheelchair accessible doorways may add value to a home since so many new buyers are multi-generational." RM

Between Jobs

Affording to cope with life's little surprises By Marty Bell

MARIA BERACCA HAD A STELLAR CAREER AS A fashion magazine art director and a lot to show for it. As a graphic designer, she was a planner by nature. With the same attention to detail with which she laid out each month's issue, she planned everything from her daughter's wedding to her retirement. But unlike an issue of the magazine, everything does not always come out according to plan.

Maria, who divorced in her 40s, had mapped out a retirement plan that she would begin taking advantage of at 67, her full Social Security retirement age. But one day in her 63rd year, the recently appointed publisher of her magazine walked into her corner office and informed her that the German media conglomerate that was buying the publishing company intended to give all of its products "a younger feel." Despite an almost 40-year career distinguished by numerous national awards and invitations to glamorous, star-filled events, Maria found herself jobless.

Maria fully intended to find other work, if only to prove to the German media conglomerate she still had the stuff. Ageism was not going to deter this firebrand, or derail her retirement plan. But until she found the next job, she needed a temporary plan to pay her monthly expenses.

Maria did not want to begin collecting Social Security earlier than intended since that would mean a significantly reduced benefit for the balance of her life. At her current age of 63, she would receive $1500 per month, but at 67 she would receive $2200. Over four years, she would be sacrificing $72,000, which would take her 10 years to make up. But with an 88 year old mother still going strong and in good personal health, Maria had to plan to live well beyond 77 and at that point the extra $700 per month would make more of a difference than it would now.

Despite an almost 40 year career distinguished by numerous national awards and invitations to glamorous, star-filled events, Maria found herself jobless.

Nor did she want to tap into her 401(k), which was wisely invested by her money manager and growing annually, though not as much as it had earlier in her career. Maria had saved slightly over $800,000 that was growing at about 5% a year. By 67 she would hit her $1 million goal.

Maria had paid off the mortgage on her home in a New Jersey suburb which she had bought for $450,000 but was now worth well over $750,000. Without the burden of a mortgage, she had basic monthly expenses of about $3000 including real estate taxes, homeowners insurance, gasoline and car expenses, food, cable television and internet, phone, personal care, gym fees and a little bit of good time money.

So she sat down with her daughter, who was a personal trainer, and her son-in-law, who was an executive at a venture capital firm in Manhattan that concentrated on technology developments, and they decided together that the best option in many ways for Maria was a reverse mortgage. At current interest rates, Maria would receive at least $319,000 and possibly more if she could find a loan at lower closing costs than estimated. She would take the loan as a line of credit and draw what she needed to cover expenses until she either found another job or reached 67. The balance in the line of credit would continue to grow at about 5% a year. Her 401(k) would continue to grow at about 5% a year. Her Social

Security benefits would grow at 8% a year.

If and when Maria got a new job, she could either carry the outstanding balance she had accumulated which would grow due to interest but did not need to be paid until the home was sold or no longer Maria's principal residence. Or, with a new source of job income, she could pay the reverse mortgage balance down and maintain a line of credit. But the components of her retirement plan would still be in place. And, in fact, her line of credit balance would likely be comparable to the amount of additional savings she would have added to her 401(k) if she had maintained her salary at the magazine for **another** four years.

She would take the loan as a line of credit and draw what she needed to cover expenses until she either found another job or reached 67.

As it turned out, on the evening that Maria celebrated her 64th birthday with her daughter and son-in-law at a new Flatiron District sushi restaurant opened by a celebrity chef, she announced that she had been hired as a design consultant for a new line of bath products that intended to build a brand with a "1970s Look." Towards the end of dinner, the son-in-law fiddled on the calculator on his cell phone to determine if Maria was better off paying off the $36,000 she had drawn and $9,000 in final closing costs that added to her loan balance, or carrying it. With the son-in-law lost in his cell, when the dinner check arrived, even though it was her own birthday, Maria grabbed it. RM

Longevity Insurance

Using home equity to "insure" retirement success

By Colin Cushman

IN AN ENVIRONMENT WHERE MORE AND MORE people are concerned about outliving their retirement savings, using home equity as a means of longevity insurance cannot be overlooked.

Establishing home equity-based longevity insurance is accomplished via a Home Equity Conversion Mortgage (HECM, commonly known as a "reverse mortgage"). When utilized for this purpose the HECM might just be one of the smartest risk management tools available in retirement planning.

Recent academic research into the strategic use of HECMs as part of a comprehensive, long-term retirement plan has spurred new interest in the product. As a result, many members of the financial planning community are advocating that their clients who are 62 or older exchange their traditional mortgages for HECMs.

Why would an experienced financial advisor recommend that clients refinance into a HECM rather than continue with their current traditional mortgage? The answer is simple—because a traditional mortgage and a HECM are basically the same product, but a HECM comes with the added benefit of a growing line-of-credit, which has the ability to convert at any time into monthly cash flow. This feature, which is not present in traditional mortgages or HELOCs, makes the HECM a great home equity-based form of longevity insurance.

Traditional Mortgage vs. HECM

Traditional mortgages and HECMs are essentially the same. In fact, if borrowers make the same payment on a HECM as they do on their traditional mortgage, they'll end up with a zero balance at exactly the same time as they would with a traditional mortgage (assuming the same starting balance, interest rate, and term).

Said differently, the HECM follows the same amortization schedule as a traditional mortgage. The only real difference between the two is what makes a HECM so beneficial to your clients—the growing line-of-credit that accompanies the HECM loan.

Although a HECM does not require monthly payments, if your borrowers opt to make monthly payments, they will not only reduce their HECM loan balance but also increased their available line-of-credit, which grows at the current note interest rate plus 1.25%. The growing HECM line-of-credit, has the unique ability to exceed the value of the home.

The Risks of Retirement Funding

The ability of a retirement plan to sustain a borrower's lifestyle hinges on two risks—market returns (in particular, the sequence of returns) and life expectancy (or longevity risk). Because of these risks, there always will be some probability, from 0.01% to 100% that a retiree could drain his or her portfolio significantly.

Thornburg Investment Management used two sequences of returns to illustrate this point in the article "Sequence of Returns & Reverse Dollar Cost Averaging.[1]" The first sequence mimics actual market performance from 1989 to 2008, with strong gains in the first half of the examined period and greater losses in the latter half at the time of the Great Recession. The second sequence reverses that performance and runs the returns backwards from 2008 to 1989, so that the larger losses occur earlier.

Thornburg applied the sequences to a scenario involving a client with a $1-million portfolio (100% invested in S&P stocks) with a 5% withdrawal rate (annually inflation-adjusted at 3% average) and found that the "consequences of a bad sequence of returns, especially early in retirement, can mean premature depletion of the portfolio. Retirees need to avoid being in the position of having to sell during inopportune market environments." In other words, if due to market conditions and outside events, your client's portfolio decreases in early years, it might not recover.

Building on Thornburg's analysis, consider the example of a 62-year-old client with a $600,000 diversified portfolio and a 6% withdrawal rate (inflation adjusted at 2.5% annually). For the 1989-2008 period, the client starts with $600,000 and 20 years later has nearly $1.8 million. Using the same portfolio balance and draw for the reversed sequence (2008-1998) results in the client almost depleting his or her entire portfolio by age 80.

While many borrowers and their financial advisors may view the chance of portfolio depletion as very low, BlackRock forecasts that individuals with a 60/40 diversified portfolio and a 6% withdrawal rate have a 26.2% chance that the portfolio will not last longer than 20 years[2]. Given this scenario, BlackRock recommends that individuals with these figures consider changing the composition of retirement plans.

But what if a plan adjustment isn't practical or doesn't meet your client's needs and desires? That's when a HECM line-of-credit could be utilized as an insurance against longevity risk. The HECM can act as a tool in your client's retirement-plan toolbox that serves to replace cash flow.

Using a Growing HECM Line-of-Credit to "Insure" Against Longevity Risk

To fully appreciate how a growing HECM line-of-credit can fit into a client's retirement plan, consider the same example from above, but add in a HECM secured by a home valued at $600,000 with no existing traditional mortgage. A HECM on this property would allow a 62-year-old to establish a $300,000 HECM line-of-credit. Simply by allowing the HECM line-of-credit to compound, that $300,000 would grow to almost $1.2 million by the time the client reaches age 80, as seen in the chart below. At that point, should it be necessary, the HECM line-of-credit could be converted into a stream of monthly payments to replace the depleted portfolio income.

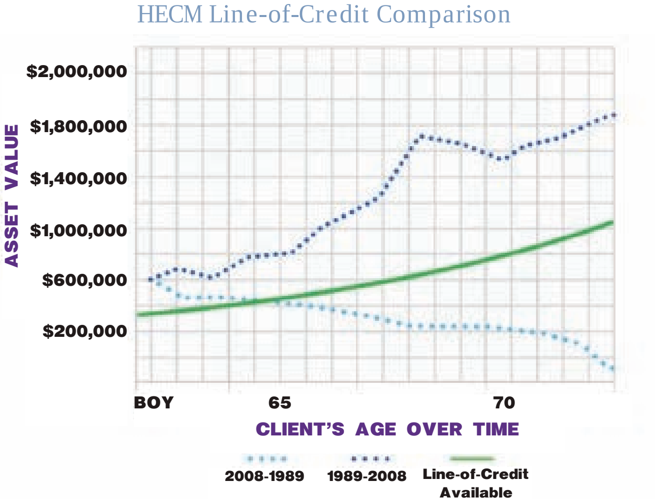
Longevity Insurance continued on page 20

[1] Thornburg Investment Management, Inc., "Sequence of Returns & Reverse Dollar Cost Averaging," Road of Retirement: The Process of Managing Retirement Income, 2014

[2] BlackRock, Inc., "Withdrawal Rates: Making Your Assets Last," Withdrawal Rates One-Pager, 2012

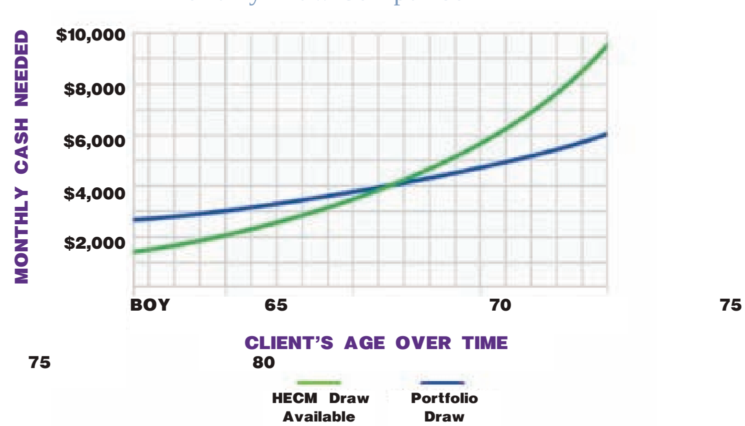
Longevity continued from page 19

Sequence of Returns & HECM Line-of-Credit Comparison



In this example, the HECM line-of-credit could be converted to monthly cash flow payments ("tenure payments") that grow enough to replace the needs from the portfolio by age 71. Should portfolio drain occur after 20 years, tenure payments would be nearly double the inflation-adjusted 6% draw of the original portfolio. Furthermore, the HECM line-of-credit is liquid and remains available at any time and can serve as a means to stay within budget.

Portfolio & HECM Line-of-Credit Monthly Draw Comparison



As illustrated above, the growing HECM line-of-credit is a powerful risk-management tool that can serve as "longevity insurance" in the event of negative market returns, extended longevity, or unanticipated expenses. RM

Help Adult Children

Supporting your family through emergencies By Mark Reeve

ROBERT DAVIS OF SAN MARCOS, CA. WAS 68, HIS home was free and clear from the bank and he had some sizable assets and a nice pension to retire comfortably on. He lived a pretty simple lifestyle in the same home he had owned for over 40 years. Unfortunately, Mr. Davis lived alone, having lost his wife to cancer about six years prior. It was a painful loss for him and he still showed sadness talking about it. His only other family members were his adult daughter Cathy and her two young kids, his only grandchildren.

Cathy was an only child and Robert took great care of her. He paid for her schooling, where she majored in education, which led to her teaching elementary school. Shortly after Cathy graduated from college, her Dad paid for her wedding and contributed for a down payment to get the young couple into their first home.

Robert loved his daughter and was glad to be able to offer these gifts to her. Shortly into his retirement from his successful career as an engineer, and right after his wife's passing, Robert was hit with some additional bad news. Cathy's husband had become abusive. In order to provide the proper safety needed, she moved back in with her dad. Over the next few years, Cathy was able to get a divorce and distance herself from her ex-husband. She was doing well with her career. It was at about this time that Robert contacted a loan officer regarding a reverse mortgage.

Robert selected the closest lender to him since he wanted someone to come to his home to discuss the program. Together, Robert and the loan originator went through the options and the client's figures. Robert wanted $200,000 from the HECM to buy Cathy a new home with cash. He did not want his daughter to be burdened with a mortgage payment. They had signed a purchase agreement that weekend on a new home close to Cathy's work. It was ideal for Cathy and the kids to start a new chapter in their lives. Robert was reluctant to use his crucial assets for this home as he felt he would need them to fund his retirement.

The loan originator put together the proposal as instructed; he and Robert spent quite a bit of time on the amortization schedule, looking to ascertain the future home's equity position over time. Robert had spent quite a bit of his own time researching the program and knew it quite well.

As the men began to work together to close the transaction, the loan originator told Robert what a great father he was to support and sacrifice for his daughter. Robert said, "Cathy needs this now. Why should she have to wait until I die to get her inheritance? This way, I can see her enjoy her inheritance while I am still alive." RM

Grandchildren's College

Assuring a good education By Larry Wolf

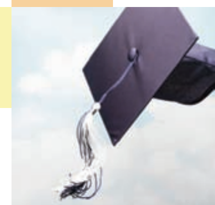
JACK AND PAM HAVE THREE CHILDREN WHO THEY wish to assist with college expenses by setting up college funds for the grandchildren. They have investigated and believe that a 529 Plan would work best. A 529 Plan is designed to help save for higher education expenses. Tax benefits are similar to a 401(k), but withdrawals are non-taxable when used for higher education expenses. The individual who opens the account, not the beneficiary, retains full control of the funds in the 529 plan. There are no income restrictions, and the maximum amount that can be contributed is substantial. These amounts vary by state. In Virginia for example, the maximum is $350,000 for each student.

Both Jack and Pam are in good health and are financially secure. Their goal is to plan for the grandkids future, but not strip their assets as they do this. They are ages 67 and 62 respectively, all is well now, but no one knows what the future holds.

Pam works full-time and Jack is retired collecting a pension, Social Security, and military benefits. The market value of their home is $600,000, with a lien of a HELOC for about $130,000. They requested a reverse mortgage proposal which showed available funds for them after payoff of the lien and closing costs of approximately $156,000. They then scheduled an appointment to discuss in detail how a reverse mortgage could fit into the plans for their grandkids' college expenses, while leaving assets alone, and utilizing equity in their home.

Their three children are married, two of them have two children, and a recently married son has a child on the way. An intriguing factor was that Jack and Pam could pull funds from a reverse mortgage, give to the parents who would then establish a 529 Plan with tax free funds. In the future if used for higher education purposes it will still remain tax free. The plan allows for transferring from one child to another when certain events take place, such as military duty.

As they discussed the various options available, the reverse mortgage appeared to be the best plan to satisfy their goal of financing the higher education of the grandkids, with tax-free funds, and keeping control of the funds with the parents through the 529 Plan to insure tax free distribution in the future. If they utilized a 401(k) distribution instead it would be taxable and diminish available assets. With the reverse mortgage, Jack and Pam know that their wishes have been met and they need not have to be concerned with this aspect anymore.



The parents decided to bring their kids in on the discussion to explain what they were considering, and to see what if any questions they had. They had plenty.

Are our parents losing their home? Do they no longer own the home? What happens as they grow older? What if we, the children, want to buy the house? Knowing that the parents would be set and the house could become theirs at, hopefully, a much later date, clinched their support for the reverse mortgage to be used to establish a 529 Plan for the grandkids.

There would be many additional discussions held with parents and children to answer new questions, and continue to address ownership of the property as this concerned all. But after two months of questions and answers, counseling was completed, a full application was taken, the loan closed, and the college fund was set up. RM

Filling the Gap Until Social Security

The years in between work and play By Marty Bell

AS JOHN AND JILL GOT CLOSER TO RETIREMENT, they tried to assess the best time to begin to take their monthly Social Security benefits. They began a discussion wisely by listing their goals. Their intent was to reduce their income taxes so they could maximize use of their savings, travel a couple months a year, while they were still physically able, have enough funds to remain in their home on their own, and set aside a nest egg for in-home, long-term care and other health care costs should they be needed.

At 66, his full retirement age (FRA), John was eligible for $2000 a month in Social Security (SS) benefits. But SS benefits grow at 8% a year after 66 and if he waited until age 70 to collect SS, he would collect $2720 a month.

If he began taking SS at 66, John would have collected $24,000 per year or $96,000 by the time he reached 70. He was in good health and assuming he would live to 90, he would have collected $576,000 total from SS.

If, however, he waited until 70 to begin taking his SS benefit, he would collect $32,640 per year. Making up the $96,000 he did not collect between 66 and 70 would take him 11 years. But if he lives to 90, he will have collected a total of $652,600. The total difference over his lifetime did not seem as impactful to John as the extra $8,240 per year.

Jill chose early retirement at 63 and based on her work record would receive $1000 per month is SS benefits. Though that would also grow if she postponed taking benefits, the couple needed to consider their monthly income and expenses.

They calculated their expenses at $4500 per month. John would receive a pension of $1500 per month from his career as an administrator at Westinghouse. If Jill took her SS immediately upon retiring, John would be able to collect a spousal benefit of 50% of Jill's benefit or $500 per month (until he claimed his own SS benefit). This would set their income at $2500 per month, $1500 short of their expenses. John also had a 401(k) account with a balance of $250,000.

So their options were:

- John could take his SS benefits at 66 and the couple could just cover their monthly expenses with the 401(k) as their nest egg;
- John could delay his SS benefits to eventually receive a larger benefit and draw down on the 401(k) account for four years;
- John and Jill could find another means of additional money to fill the four-year gap, such as utilizing some of their home equity.

So they began to explore the home equity option. Meeting with a reverse mortgage lender, they discovered that they could receive a loan of $176,000 on their home after $9000 of closing expenses. They could put their loan proceeds in a line of credit that would grow at the current note interest rate plus an additional 1.25% And unlike both SS benefits and 401(k) withdrawals, this money would not be subject to income tax.

And they were convinced that utilizing home equity to supplement their Social Security, pension, and savings was the best possible plan.

To fill the income/expense gap until John collected his SS benefit, they would draw $18,000 per year for four years. Then, when John reached 70 and began to collect his benefit, they would have enough monthly income to cover expenses and leave a small cushion, still have close to $100,000 in their HECM line of credit that continued to grow, and not yet have touched the $250,000 in John's 401(k).

So John and Jill returned to the goals with which they began their planning. Using the home equity support plan, they checked off their goals one-by-one and saw that each one would be achievable. And they were convinced that utilizing home equity to supplement their Social Security, pension, and savings was the best possible plan. RM

Health Insurance

Bridging the gap until Medicare kicks in

By Harlan Accola

DAVE AND LINDA TURNED 62 WITHIN A MONTH of each other and they were feeling really good about their upcoming retirement. They had worked out a good plan with their financial advisor.

Dave had worked as an engineer and been with one company for the last 20 years. He had a 401(k) that was slightly over a million dollars

Linda worked in health care for many years then, due to her own health issues, needed to cut back on hours and for the last 10 years operated a home business doing medical transcribing. It was not as lucrative as working full time but it was what she could manage.

Dave and Linda planned to hold off on social security until at least 67. Dave enjoyed his job and planned to work until at least 65 before they would start drawing on any reserves. They owned a $300,000 home with only about $50,000 left to pay. With payments of $1200 each month, their mortgage would be gone in about four years when they were 66. Linda had a $300,000 rollover IRA from her last job that they would not draw on until at least 67. They were all set with health insurance through Dave's employer until Medicare kicked in at 65.

But even the best laid plans can be derailed by a few small events and changes: Dave's company was sued over a mistake on a very large project and was forced to lay off dozens of employees. Dave was one of them. Six months following his 62nd birthday, he found himself unemployed with a small six month severance package that was paid out as a bonus on his last check. While he started looking for another job, Linda made an appointment with their advisor. She was very concerned because with her health issues they needed the coverage that Dave's health insurance provided them. Under COBRA, they could continue coverage for 18 months after Dave was let go, but the cost was $1500 monthly. After the COBRA extension expired and they found a new plan, the high expense was likely to continue. They needed to find a way to bridge that 2 1/2 year gap. Linda knew her home business was not going to have enough income to cover that increased expenditure.

Their first thought was to abort the plan of delaying the social security filing and start drawing all the money needed out of the taxable IRA accounts. But the financial advisor recommended taking out a Home Equity Conversion Mortgage, paying off their forward mortgage and thus eliminating the $1200 per month mortgage payment.

After the COBRA extension expired and they found a new plan, the high expense was likely to continue. They needed to find a way to bridge that 2 1/2 year gap.

They would hold the rest of their reverse mortgage proceeds in a line of credit and draw on it to pay their health insurance costs. They would only need to draw from the LOC for 2 1/2 years while they waited to become eligible for Medicare.

By utilizing proceeds from a reverse mortgage, Dave and Linda avoided paying income tax on money drawn from their IRA. And they were able to keep their retirement funding plan utilizing both of their savings in place.

Dave and Linda walked out of their financial advisor's office with a feeling of relief. They realized that what seemed like a disaster at first had some positive results.Now they could start spending time together and travel to see their grandchildren, growing up too fast, in neighboring states, which they didn't have much time for while Dave was working full-time. In fact, Dave stopped looking for work and decided to pursue something that he had wanted to do for a long time. His church needed some engineering work done so they could build a homeless shelter and soup kitchen. The HECM reverse mortgage not only changed their lives but helped improve the lives of many others in the community. RM

Medicare Parts B and D

The coverage you need to pay for By Mark Olshaker

ERICA MCKENZIE IS A FREELANCE WRITER WHO HAS made a successful career out of covering business and regulatory issues on Capitol Hill. She had come to Washington to work for a national weekly magazine and did well there until management felt a need to cut back on salaried staff. Since then, she has established a reputation as a solid reporter and incisive commentator working for a range of magazines and small newspapers.

But the best thing that happened to her in Washington was the night at an industry dinner when she met William, Bill" Reinhardt, a widower with two grown children. Bill, a CPA who worked as comptroller for a family-owned real estate management company, had lost his wife Jean around the same time that Erica and her husband divorced. If it was not exactly love at first sight, according to Bill, "Right away, we knew there was something there."

They were married eight months later. Erica gave up her rental apartment in Southwest and moved into Bill's Tudor-style house in Cleveland Park.

Bill has been thinking about retirement for some time and wants to travel to places he has been reading about all his life. That had been the goal with Jean, before illness interrupted their plans. Once he remarried, he and Erica decided he would continue to work until she reached Medicare age, so that she could get health insurance coverage on his company's plan.

Because Erica has been an independent writer and Bill worked for a small company, neither has a pension plan, though they've each tried to put some money into Individual Retirement Accounts; Erica from the time she had to go out on her own and Bill once he finished paying for his children's education.

While Erica shares Bill's travel aspirations, she also has a wish of her own: trying her hand at a novel.

Erica's 65th birthday is fast approaching, and this seemed like a good time for her and Bill to sit down and really plan out their financial lives. Using his accounting projections, Bill has determined that if he retires and Erica cuts back on her freelance workload, the prudent move would be for him to take Social Security now and defer Erica's until she turns 70. Combined with income from their stock account and a modest annuity Bill purchased some years ago, he figures that will be enough for them to live on and travel as they please.

The big issue when he retires, as far as Bill is concerned, is healthcare. He has spent many hours on the Medicare, AARP and National Council on Aging websites analyzing the various Medigap supplemental health insurance plans. After evaluating the 11 standard plans, he has decided that Plan G, which includes a foreign travel emergency provision, is the best one for them. And after comparing the various entities offering the plan in their area, he settled on the local Blue Cross provider.

He has added up the monthly cost for each of them: Part B Premium – $104.90; Plan G premium – $116.35; Inpatient premium – $6.00; Part D Prescription Drugs – $304.00; Dental – $40.00. This comes to $571.25. For both of them, it comes out to $13,720 a year. This takes a significant chunk out of their operating income, but being a prudent accountant, Bill doesn't want to take a chance that future healthcare expenses could impoverish them.

With his professional knowledge of the housing industry, Bill has long been considering the possibility of a reverse mortgage when the time was right. Now it was.

Given Bill's age and the much-appreciated value of the paid-off Cleveland Park house, they had a number of options. At first he considered a tenure plan that would provide a fixed monthly sum to cover healthcare costs. But as he thought about it, depending on how much Erica continued to work or if she happened to sell a novel, they might be able to afford healthcare premiums many months out of their normal budget. And being a prudent accountant, Bill didn't want to take on more debt than he needed, even if, as with a reverse mortgage, there was no pressure to repay it. So he has opted instead for a line of credit that would give them the flexibility to pay for Medicare and Medigap when their monthly budget required, but would continue to accrue value.

"That is health financial planning," Bill notes. RM

25 Ways

Long-Term Care

Paying actual costs or purchasing insurance By Michel McKnight

WHEN THINKING ABOUT LONG-TERM CARE THERE are two different types of costs to consider: The first is the actual cost of long-term care and the second is the cost (or premium) to pay for long-term care insurance. A reverse mortgage can be useful in either situation.

Paying out of pocket

Alice and Jose's marriage was a 40-year love story. After a wonderful 36 years of marriage, disaster struck. Alice was diagnosed with Alzheimer's disease. The family pulled together to care for Alice but it eventually became clear that she would need full-time care. Jose became her caregiver. He remained devoted to her until she passed two years later.

Even though the house seemed empty and lonely it was his home and full of the memories of the beautiful life they had shared. It was the place he wanted to be.

A year later, Jose had a stroke. He would now need full-time care. The family knew that he wanted to remain at home. Without a salary, he could not qualify for a traditional line of credit.

A friend suggested that they look into a reverse mortgage. The house had been paid for many years ago. After doing some research they decided to apply. They interviewed caregivers and found a young man with a nursing background. He and Jose clicked right away. A nice room in the house was prepared for the young man. He stayed with Jose for the next three years until Jose passed quietly in the night.

The family will always feel grateful that the reverse mortgage allowed Jose to pay the cost of having a caregiver so he could stay at home surrounded by the things he loved.

Paying the Premium

Don and Linda were high school sweethearts. They graduated from high school, went to college, had a family and enjoyed success in their careers. Being busy raising a family and developing their careers they didn't stop to think about the challenges they might have in later life.

After retirement, they cultivated new friends who shared some of the same interests. Don loved to golf and Linda volunteered at the local cat sanctuary. One afternoon Linda was called to come in to work at the cat sanctuary on an emergency. Her friend at the sanctuary had been in a car accident. After her shift, she and Don called the friend's husband to find out how Linda's friend was doing. The husband told them that things weren't looking good. It had been a serious accident and his wife had suffered a spinal cord injury.

As the days and weeks went by, Don and Linda tried to be a comfort to the husband, but his wife wasn't improving. The cost of care for her was going to be astronomical. Their retirement funds were not going to last long. He would have to "spend down" their assets in order for public assistance to start paying for her care.

Don and Linda were horrified. They had a modest retirement fund and some money in savings but they knew that if something unexpected happened to one of them, the cost could leave them destitute. They had talked about long-term care insurance but they were both in excellent health. They didn't feel that the cost of the insurance was justified. Until now, they were reluctant to spend the money earmarked for their "Golden Years" on something that they might never need. Suddenly, the importance of having a plan in place became apparent.

Linda made a call to their financial planner to ask her opinion. The financial planner gave them several choices for different levels of coverage. The policies were quite expensive and would likewise necessitate a change in their lifestyle in order to pay the premium. They decided that a reverse mortgage line of credit would allow them to pay the premium without dipping into their retirement or savings account. They got a reverse mortgage and just drew enough to pay the premium. The reverse mortgage gave Don and Linda peace of mind that if something unexpected happened they would be covered. RM

Stay in Your Home

And be able to afford it By Laurie A. Libby

THELMA IS A FEISTY 79 YEAR OLD WIDOW, WHO owns a gorgeous home in Southern California. She enjoys a very busy life, full of volunteer work that includes teaching as well as acting as a booking agent for a well-known pianist in the area. Her monthly expenses exceed the income she brings in, which only includes social security and a small retirement pension. She does, however, have a nice stock portfolio left by her late husband valued at approximately $200,000. Thelma decided she needed to somehow generate more income each month and arranged a visit to her financial planner.

Friends advised Thelma to cash out her retirement account or sell her house so she would have more money to continue her lifestyle. Like many other people, Thelma thought selling her home, which is worth more than $600,000 and has been paid off for years, might be the best option to improve cash flow. Much as she loved her home, it was important to Thelma to continue her lifestyle.

Prior to her visit with her financial planner, Thelma tracked her expenses for three months and categorized where all her money was spent. She was surprised to learn how large an amount was spent on entertainment/food costs. She also recognized that she spent too much money on make-up and skin care, but she loved using the more expensive natural products and wished to continue doing so. As she reviewed her list of expenses several times, she acknowledged there was nowhere she would be willing to cut costs.

When they finally met, Linda, the financial planner, suggested that Thelma consider a reverse mortgage. Linda explained that she could generate the additional monthly income she desired while keeping the home she loved. Linda had recently accepted a meeting with a Certified Reverse Mortgage Professional and learned that clients could maintain their money under her management, avoid tax implications when withdrawing funds from tax deferred retirement programs and most importantly, allow invested funds to grow. Linda felt that funds that stayed invested could double over the next 10 years if handled wisely. She saw that this strategy could help many of her clients and was anxious to apply this new knowledge when doing year-end reviews. Over 35% of her clients were of retirement age and many others would reach that benchmark within 10-15 years. Linda decided to adopt the reverse mortgage as a resource for her homeowner clients to consider, right alongside the other "mainstream" options to increase cash flow, such as asset withdrawal. She found it prudent to use a "tax free" asset first. This made more sense than selling the home someone in Thelma's situation loved and lived in for 40 years, and possibly triggering a tax event.

Linda explained to Thelma the implications of cashing out her assets and helped her understand the income tax implications of withdrawing her money as well as the costs of selling her home and relocating. A reverse mortgage appeared to be her best choice in terms of overall costs and meeting the objectives of staying in her home and increasing her monthly income.

Thelma, like many people, initially responded, "But the bank will take my home when I am gone. I want to leave it to my son!" Linda dispelled that misperception. She then did a quick calculation on the loan officer's web site and saw that Thelma could obtain approximately $1,800 per month for the rest of her life. Linda explained that this money would be drawing from the value/equity of her home. She also explained that while Thelma was drawing a monthly payment from her home, her assets under management would grow over the years and that could be the legacy she leaves to her son. That made sense to Thelma: one asset for her, one asset for her son! RM

Accidents and Care

Paying for short term needs By Marty Bell

DORIS FELL IN HER BATHROOM. THEN SHE FELL again. The third time she fell, Ben, her husband tried to catch her and they both banged into the granite counter and ended up in the hospital. Fortunately, the injuries were not serious. Just some bruises. But Doris' doctor was concerned. Doris, 86, admitted she was using her scooter regularly instead of walking and the muscles in her legs had atrophied. The doctor strongly recommended that she immediately begin a physical therapy regimen to strengthen her thigh and calf muscles and regain stability. Furthermore, to protect 88 year old Ben from having to physically support his wife, he recommended bringing in a caregiver, for at least eight hours a day, and until he felt Doris had become steadier.

To this point, Doris and Ben felt that they had their basic expenses under control. Ben, who ran his own women's wear shop until he retired at 65, was a budgeter. He had planned retirement. He and Doris had paid off the mortgage on the home they had lived in for 40 years in Westbury, New York covered their expenses with Social Security and a regular draw on their retirement savings, even had a small cushion to visit their kids and grandkids in Chicago a few times a year. But the accidents were not in Ben's budget. And he had avoided assuming the cost of long-term care insurance, which he now regretted.

The physical therapy costs were manageable for a while. The therapist Ben found for Doris felt they needed three one-hour appointments per week at $100 per appointment. Of the weekly $300 costs, 80% or $240 would be covered by Medicare, leaving a weekly cost to the couple of $60 per week. The Medicare coverage had a cap of $3700, so it would cover 15 weeks or so.

The caregiver, however, would cost $15 an hour or $120 per day or $840 per week and would not be covered by insurance. This extra $3500 per month was not something Ben and Doris could afford on their current income without disrupting their retirement plan and worrying about running out of money.

So Ben researched other sources of additional funding and concluded that the best option for Doris and him was a reverse mortgage line of credit. With their home valued at $450,000, based on Doris's younger age, Ben calculated they were eligible for a credit line of $283,000 after paying fees of $9,700. The physical therapist hoped to restore Doris's strength and stability within three months, which would require draws from the line of credit account of about an additional $10,000. This was appealing to Ben because:

1. The couple would only accumulate interest on the amount they drew plus the closing cost;.
2. If the rehabilitation required more time than the therapist estimated, additional money was easily accessible;
3. The money left in the line of credit would continue to grow; and
4. In the event there were future health emergencies, they would be prepared financially.

Ben called his daughter in Chicago to run his plan by her. He started to apologize for spending what he always considered his children's money. But his daughter cut him off at the pass. Her advice was to spend whatever he had to take the best care of mom and him and not worry about the kids. They were doing just fine.

During the first 15 weeks of therapy, the physical therapist saw Doris gaining strength, but she did not yet feel confident leaving the couple on their own. Doris could tell she was progressing, and enjoyed it, but she agreed she could use more conditioning and longer support. The therapist recommended another six weeks of therapy and care. With the Medicare payments reaching their limit, the therapy would cost Doris and Ben another $1800 and the caregiving would cost another $12,600.

Without the reverse mortgage line of credit, the additional costs would have been a deep concern for the couple. But now they didn't hesitate. With the reverse mortgage line of credit in place, they could confidently provide the best care for Doris. RM

Portfolio Growth

Avoid tax consequences of selling off other assets

By Clayton Behm

IN RESPONSE TO AN AD I RAN, A GENTLEMAN WE will call Tom invited me to his home to begin a reverse mortgage application. On the day of the appointment I drove up to a beautiful home in a very affluent community that was easily worth $1.5 million. Tom is an 80 year old who lost his wife a year earlier. He had been a very successful stock broker and his wife the top realtor for a major national real estate company. They had done very well financially. Tom showed me around his beautiful home and his office where he devotes his days to investing and monitoring his $3 million stock portfolio.

We settled in at his kitchen table and I began the application. At the point where I asked about monthly income he responded that it was $19,000. I wondered if he heard me correctly. When he confirmed that it was indeed his current monthly income, I set my pen down and asked, "Then why am I here?" He replied, "Clay, the reverse offers a monthly tenured payment that is tax free, doesn't it?" "Yes, it does I replied." Then he proceeded to tell me that was why he wanted the reverse mortgage. The $19,000 per month income he was receiving was coming from social security, 85% of which was taxed, and his IRAs, on which he had to pay capital gains and income tax. By replacing some of the income with his reverse mortgage monthly tenured payment, he would reduce his income tax obligation.

By replacing some of the income with his reverse mortgage monthly tenured payment, he would reduce his income tax obligation.

As a sophisticated investor Tom realized he could maintain his luxurious lifestyle and allow his portfolio to continue to grow. He has two children and grandkids that he wants to leave as large an estate to as he can. Taking less from his IRAs and paying less in taxes will help him to do this.

To make sure this was the best choice for Tom, I discussed the scenario with a local CPA. Tom would be in the 33% federal and 9.3% state (California) tax brackets. Depending on the balances in his IRAs, his RMDs, capital gains, his social security benefit, and his new tax free payment of $3,161 from the reverse mortgage, Tom could be saving over $10,000 a year in taxes while continuing to maximize his investment portfolio.

In another similar transaction, a Certified Financial Planner who has become a source of referrals asked me to help her clients I'll call the Smiths, Michael and Mary. While our general impression may be that CFPs and other financial advisors manage a relatively small group of very rich clients, I have found most actually manage clients in the category of mass affluent. While the definition of mass affluent can vary it generally refers to the mass of people who have $500,000 – $1,500,000 in investable assets. The Smiths fall into the lower end of this category.

Mike, 65, is a retired factory worker and Mary, 64, a retired school teacher. Mike receives $1,600 in social security and Mary $3,800 in CASTRS (a California teacher retirement pension). They have about $400,000 in retirement assets under management by my referral source. The concern of the CFP was they were drawing down rapidly on their investable assets and increasing their tax liability because of capital gains.

Since they owned their $360,000 home free and clear they had several options. The CFP and his clients determined that a better situation for the Smiths was to supplement their guaranteed income with a tax free term payment from a Home Equity Conversion Mortgage (HECM) and thus eliminate the draw down on their assets and payment of capital gains. Because of health issues and a curtailed life expectancy, the CFP and the borrowers felt a 20-year term payment would be appropriate. The Smiths are now receiving $1,324 per month tax free while their investment portfolio goes untouched and continues to grow.

I find many boomers are now discovering the advantage of reducing taxes and allowing continued investment portfolio growth by depending on a reverse mortgage to cover monthly expenses. And this is an attractive option to those financial planners who learn about it. RM

Credit Card Debt

Eliminating a long-term burden By Marty Bell

WHEN THEY MET IN THE 1970S, WHILE WORKING their first jobs out of college, Mike and Harriet enjoyed New York on credit cards. Mike was an editor for a sports newsletter, Harriet started as an assistant to an editor at Random House and between them they made under $300 per week. Their apartment rent at the time ate up about a week and a half's salary. Mike was from Baltimore and Harriet from Cincinnati and they were both big fans of movies and theater and always dreamt of working in Manhattan. Now that they were there, they were not going to let first-job salaries stop them from indulging in the attractions.

Mike and Harriet married—he proposed on the walk along the East River after seeing Woody Allen's "Manhattan"—and both rose in their careers to prestigious editorial positions at magazines and publishing houses. They had two boys and it was the cost of private school in New York that eventually persuaded them to buy a home in South Orange, New Jersey, just 25 minutes from the tunnel (if you drove at the right time of day). Life seemed to work out as well for them—except for their credit card addiction. Something else always seemed more important than paying off the plastic. Their balance of a couple of thousand dollars in their early years of marriage grew into tens of thousands as they had to pay for their mortgage and real estate taxes and clothes and camp and music lessons and sports for the kids. And interest rates that were in the low teens when they first qualified for the cards rose up into the mid-twenties. Their monthly credit card payments were generally minimum payments, which never seemed to reduce the debt but a hair.

Now, there was one bright light in their apportioning of their assets: In their 25th year of marriage, Mike and Harriet reached 62 years of age. And, partially because they had considered it the priority, their $540,000 home was paid off. They owned it free and clear.

With no further monthly mortgage payments, Mike and Harriet thought they could now, finally, start to dig their way out of the credit card abyss they had dwelled in since college. They could apply the $1000 or so a month they had been paying for their mortgage to their credit card debt of $57,000. But that debt was still growing at more than 17% per year, which would mean the $1000 per month payment would hardly do more than cover the year's interest.

But that debt was still growing at more than 17% per year, which would mean the $1000 per month payment would hardly do more than cover the year's interest.

But there was a better solution. They met with a reverse mortgage loan originator and discovered they could qualify for a loan of $300,000. They could then pay off the credit card debt and eliminate the exorbitant interest immediately. Including closing and mortgage insurance costs, they would have an outstanding loan balance of about $67,000. But the interest on the balance would be less than a third of the interest rate on their credit card debt. The remaining $233,000 from the reverse mortgage proceeds would sit in a line of credit that grew at almost the same rate as they would pay in interest. It would be there for them for any emergencies they might face as they aged. And they would not have to make any payments on the reverse mortgage proceeds until they sold the house.

On the day that they closed on their reverse mortgage, Mike and Harriet felt that a large burden they had carried since college had been lifted. The credit card debt was finally gone. So they decided to celebrate. They jumped in the car and went to Manhattan for dinner and to see a show. Mike paid for both with his ATM card. RM

Monthly Expenses

Home equity supplements Social Security and savings By Marty Bell

IN PLANNING HOW TO FINANCE RETIREMENT, THE tools you usually depend upon are Social Security, Medicare and, hopefully, some savings. For most of us, who have been accustomed to receiving a salary on a timely basis and first directing that income towards paying monthly bills, the sudden absence of a salary upon retirement requires a significant financial and emotional adjustment. Social Security, a stable monthly payment we can count on, is a cleverly conceived method for replacing some of the salary. Medicare is a product devised to allow a senior to afford basic healthcare needs at a reasonable fee that takes into account the end of regular salary. And we all hope that we can accumulate enough additional savings to fill in the gap between monthly Social Security payments and monthly expenses as well as to cover the additional healthcare that Medicare does not. This is a simple and sensible approach to retirement. The problem usually occurs, however, in the savings segment. No matter how well we may intend to plan, the cost of life keeps getting in the way. Or, on some historical occasions, the economy gets in the way and does not deliver the growth we anticipated. In either case, we are left short of what we need. And so we reach a juncture where our savings cannot fill in the gap. So where do we turn to find the means to fill the monthly gap between income and expenses, or to fix the problem that has sprung up in the home that has aged as we have aged, or to afford treatment for an unforeseen medical emergency?

Addressing life's surprises has encouraged many people to turn to home equity as an additional funding source. Homeowners have more assets than they may realize or than traditional thinking may indicate. In most cases in America, where home ownership has been a national priority, the largest asset of people entering or part of the senior sector is their home. In fact, 80 per cent of America's seniors have significant equity in their homes. As a society, our traditional thinking has been that the home is the asset that we leave behind to help support the future generation of our family, which may be admirable but, as we have discovered, not always practical.

A home has cash value. And that primarily comes from what you have earned by your work. As long as that cash is inaccessible it is dead cash. So if you find yourself in need of extra cash, why not have a method of accessing some of the cash value of your home? This all seems perfectly logical; probably more logical than letting the cash remain dead when you cannot afford your daily life.

A reverse mortgage is one source of extra cash for those who need it and own equity in their homes. It is a creative financial conception and a versatile option for solving various retirement funding problems. In your retirement toolbox, it is a like an electric drill/screwdriver combination that may not be used as frequently as some other tools, but can be adjusted to perform a lot of different and sometimes challenging tasks.

Like the electric drill/screwdriver, it is a bit of a complex product to understand, but by no means daunting. The complexity is necessary by the very nature of what occurs. I don't look at the complexity as a problem—and neither should you. You just need to take the time to understand what the qualifications are for obtaining it, what the process is for accessing it, what your responsibilities are once you have it, and what your obligations are when the loan becomes due. There are a number of ways in which to get this information or to answer any questions you may have throughout the delivery and borrowing processes and at the end of your loan, not the least of which are counselors. Almost all reverse mortgages today are part of the Home Equity Conversion Mortgage (HECM) program that is regulated and insured by the Federal Housing Administration, a division of the cabinet department, the Department of Housing and Urban Development. There is no other financial product (and perhaps no other product of any kind) that requires you sit through an educational session with a government-agency trained and approved counselor before obtaining it. RM

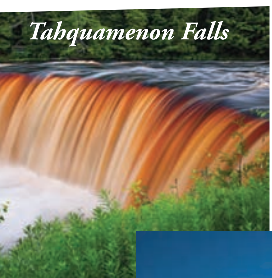
25 Ways

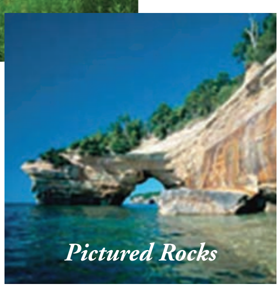
Real Estate Taxes and Property Insurance

Create a set aside and never miss payments

By Jon Maiolatesi

ONE OF THE HEAVIEST BURDENS FOR OLDER homeowners is paying property taxes and insurance. They are expensive, and they always seem to come due at the wrong time. But what if there was a way to insure that the taxes and insurance were paid each year in a timely manner and the burden of those obligations were removed from the homeowner's personal household budget?


Tahquamenon Falls


Pictured Rocks

Don and Mary live in the Upper Peninsula of Michigan in a rural town called Paradise, located between The Tahquamenon Falls and The Pictured Rocks in Northern Michigan. It is a truly beautiful place to live and retire, and a number of Michigan retirees locate there for the relaxing way of life.

Don and Mary's home is near the entrance to a nature trail that is used to visit these majestic Tahquamenon waterfalls. They spend much of their time supporting nature seekers by helping to maintain the trails, and they participate in fundraising spaghetti dinners and events to keep The Tahquamenon Pathways up and running.

Like many retirees, Don and Mary struggled to pay taxes and insurance on their free and clear home especially after Don lost his job and they were left living on just his social security income. The monthly budget was tight, but they made it work from month to month. However, twice a year when the property tax and insurance bills arrived, there was often not enough in the checking account to cover them. It certainly seems like a simple task to budget for bills that you know will come due each year, but for people on fixed incomes, sometimes financial obligations must get reprioritized during the year, and when the due dates arrive, there's an unexpected shortfall. For Don and Mary, the situation was stressful and always on their minds.

After doing some extensive research about reverse mortgages, they discovered that a HECM might enable them to draw money out of their home to pay property charges when needed. Their house was free and clear, and they figured they could use a HECM line of credit to pay their annual taxes and insurance.

When they were applying for the loan, the loan originator explained that they could voluntarily set up a Life Expectancy Set Aside (LESA) from which their property taxes and insurance could be paid.

Even though a LESA was not required for them to qualify for the loan when their finances were assessed, the loan originator suggested that Don and Mary set up the LESA to relieve them of worrying about paying property taxes and insurance on the home going forward. This amount of money put into the set aside would significantly reduce the balance of funds available to them immediately. But, in exchange, Don and Mary would be able to entirely eliminate the worry and stress of budgeting for these expenses. They no longer had to worry about the taxes and insurance getting paid, they no longer had to budget for them each month, and they no longer had to compromise other necessary expenses and obligations to meet their property charge liabilities.

> *Their house was free and clear, and they figured they could use a HECM line of credit to pay their annual taxes and insurance.*

For Don and Mary, the real benefit to getting their reverse mortgage was, for the most part, just getting the LESA put in place. Using this voluntary LESA strategy, Don and Mary were able to use the HECM as a true retirement planning tool instead of just as access to liquid cash. RM

25 Ways

Health-Related Technology

Enable yourself to live at home alone

By Ed O'Connor

TOM WAS A SUCCESSFUL WRITER IN HIS EARLIER days, having written for *Reader's Digest*, *Time* and *Life* magazines on a regular basis. He published 18 books, including one on how to save money in everyday tasks. Tom was a big proponent of staying up on things that concerned up to date information and the use of technology in his work. With the advent of the internet as we know it and computers back in the 80's, Tom was enthralled at how these little machines could do things for you and help you get things done. Being a writer, he was fascinated by the simple use of the personal computer and basic word processing that allowed him to do his job so much more easily.

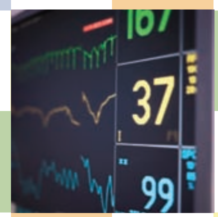
Because of his interest in all things technological, he started writing columns on this subject, getting away from his usual human interest stories in the magazines. His books were more spy and police novels, and he managed to keep them interesting with all the new spy gadgets.

As the years went on though, the magazines started commissioning him less and less to do regular columns. His books still sold, but the sales were not predictable and his income went from being regular to a bit unpredictable. So he explored getting a reverse mortgage. He had a very large mortgage and he felt that paying this off would take a huge burden off his monthly costs and allow him to budget his income better. He was also making sure that his wife would be able to stay in the home, because she would not be able to afford the mortgage on her own without his income.

The reverse mortgage took so much pressure off of Tom that he was able to immerse himself in his writing again, gaining a few more regular columns and even starting the research on a new book. Since his cash flow was freed up, he was able to buy the latest and greatest laptop to do his work. He never had a laptop because he saw that as a luxury he could not afford.

Unfortunately, Tom received very bad news about six months after the closing. He was diagnosed with a very rare form of cancer that was quite aggressive. Because of his actions in taking out the reverse mortgage and freeing up his cash flow, Tom was able to make some decisions for himself that would ultimately help him along during his final months.

Ultimately, Tom's desire was to remain in his home, no matter what. He purchased a stair lift to help him get up and down the stairs at his home and he even purchased a home health monitoring system that would allow his children to maintain contact with him and observe his medication use without being present in the home, as they lived across the country. This allowed his wife to be able to visit the grandkids and not worry about Tom, for at least a few days at a time. Without the extra cash that Tom had available now, he would not have been able to do these things. Believe it or not, Tom was actually enjoying himself purchasing these things and researching the technology used in them, giving him a different focus at a time that he really needed it. He even contracted with a medical device company that installed a special modem which allowed him to send diagnostic results directly to his doctor's office. It was pretty expensive, but it was the only way to get this information to the doctor without visiting the hospital every day. Tom needed constant monitoring and this helped him get some expert assistance from within the comfort of his own home.



Tom would be fascinated by the new technology being developed today to support aging issues. Accessing your home equity can enable you to take advantage of technological advancements during tough times. RM

Standby Cash Reserve

Don't sell depressed assets By Carolyn Fields

MR. ROBERTS HAD BEEN AN ENGINEER AND MRS. Roberts had been a homemaker raising their three children to become financially secure, independent adults. Mr. and Mrs. Roberts had planned for the day when they could retire and just enjoy "the good life."

When Mr. and Mrs. Roberts finally did retire in April of 2004, they moved from New York and purchased a new home in The Villages, a Florida retirement community, paying $285,500 cash. Mr. Roberts did not want to take on a mortgage, concerned that if something happened to him, his wife would not be able to keep up the payments. The Roberts found the retirement lifestyle they desired–golf in the mornings, pickle ball in the afternoon, social events to attend to. It doesn't get much better than that.

Then in 2007 when the stock market crashed along with the real estate market, Mr. and Mrs. Roberts' retirement dreams began to fade and Mr. Roberts' Engineer instincts kicked in. Since he was 70 ½, he was required to take at least a minimum distribution on his IRA. His IRA had not been performing as he had wanted due to the decline in the investment market. He had already met with his financial advisor as well as his tax consultant to discuss his various options to maintain the lifestyle they had and to secure their future from continuing regression of the market. His financial advisor suggested that he meet with a loan originator to investigate the opportunities that a reverse mortgage might avail him.

So Mr. and Mrs. Roberts set up the appointment. Mr. Roberts explained his dilemma, that his IRA investment had lost value due to the market deterioration. He said he felt that even though the real estate market, at the time, was weak that given their home's location, it would again begin to appreciate in the future. At the time, the value of his home was estimated at approximately $500,000.

Mr. and Mrs. Roberts were informed about the various options offered by a reverse mortgage--setting up a tenure payment or a term payment, or cash to invest themselves, or setting up a growing line of credit. It was when he learned about the line of credit and its growth rate that Mr. Roberts really began to perk up. The loan originator made made sure the Roberts both understood that the line of credit was not earning them interest but was growing or becoming more available for them to borrow based on the note rate plus 1.25%. With the line of credit, the accrued interest and FHA mortgage insurance expense was only on the amount borrowed so they could control the amount of the retained equity for the most part. Unlike most bank home equity lines of credit, the reverse mortgage line of credit had a "built in" growth feature. So, when interest rates go up, as they probably would, the growth rate goes up.

To make sure they understood what was required of them if they proceeded with the reverse mortgage, the loan officer explained their obligations: they must reside in the home as their primary residence, pay their property taxes, homeowners insurance and other possible charges associated with maintaining the property.

Mr. Roberts asked if the amount withdrawn from the line of credit had to be included as income on his taxes. No, he was told, as it is pulling the equity from his home. He was advised to verify that with his accountant. He said, "So, I could in essence, stop my IRA draw except what I am required to take, which is taxable income, and replace it with draws on my reverse mortgage line of credit whenever I wanted, which is non-taxable? That will reduce my entire tax bracket."

He continued, "So in essence, my reverse mortgage can become my 'Roberts National Bank' without affecting my income structure." That was correct. In addition, if something happened to him, his wife would not have to be concerned about making a mortgage payment since one is not required with a reverse mortgage.

It did not take them long to make the decision to proceed with the reverse mortgage and they closed in about 35 days.

In the six years since closing on the reverse mortgage, the Roberts investments have returned to their approximate pre-recession value. In addition, their property value has continued to increase in value year after year. So his "Roberts National Bank" worked just as he had planned. RM

Retirement Plans, Estate Plans and Wills

Plan for the future

By Glen Smart

BEN AND HIS WIFE MARY HAD VERY CAREFULLY planned most aspects of their life together. They raised a family and worked hard to pay off their home. As a recently retired executive for a large company, Ben was experienced at budgeting and planning for unexpected circumstances. Ben and Mary were essentially debt-free as they entered the period when they could relax and enjoy the benefits of their hard work. If only life followed the plan!

Shortly after Ben's retirement, Mary was diagnosed with a form of cancer for which traditional treatments offered little hope. Ben and Mary had medical coverage that they thought would take care of their needs but didn't plan on having to pay out-of-pocket expenses for experimental treatments to extend Mary's life. Each individual injection was $7,000 and because they were classified as experimental, were not covered by insurance. Sadly, Mary passed away just 22 months after her diagnosis but not before she and Ben had spent hundreds of thousands of dollars from their retirement plans on the uncovered medical bills and devastated the financial plans they had made.

Within a month of Mary's passing, Ben engaged the services of a financial planner who recommended a reverse mortgage as part of the reformulated plan. The reverse mortgage gave Ben access to tax-free funds with which he could restart his retirement. Ben was able to use the reverse mortgage to pay the final medical expenses, make necessary changes to his will, and replace the lost cash flow due to liquidating his funds. Although still very emotional about Mary's passing, Ben had comfort in knowing that his financial plan was back on track with the reverse mortgage in place.

The sheer number of seniors who don't have a Will, estate plan, or retirement plan in place is surprising. For many, it's a matter of not being able to afford to pay to have the documents drawn by professionals or not having the funds for a true retirement plan that isn't month-to-month. For others, it is a matter of procrastination or a desire to just "let the kids handle it when I'm gone." Without these instruments,, you take the risk of leaving your family in chaos. RM