REVERSE MORTGAGE STRATEGIES:

3 key facts Advisors should know.

1

A Home Equity Conversion Mortgage (HECM) is a helpful retirement funding tool—not a last resort.

Rules regarding financial requirements and credit and income qualifications have made HECMs **safer than ever.**

Today's HECM frees up cash and offers clients **more financial flexibility** in retirement.

Studies[1] show that obtaining a reverse mortgage is a proactive way to set up a **more secure retirement**.

2

Academic research[1] supports HECM strategies for extending retirement portfolio lifespans and increasing legacy values.

A reverse mortgage can:

- Provide **alternative sources of funding**
- Allow a portfolio to stay invested longer for **potentially higher returns**
- Create a **higher likelihood** of portfolio survival
- Increase net legacy and **lower taxable income**

A HECM can also help **increase the sustainable withdrawal rate** for a retirement portfolio and be used to help **secure a portfolio** in down markets—lessening the chance of liquidating assets at the worst possible time. Funds can be repaid as markets recover with no prepayment penalties.

Plus, a HECM Line of Credit (LOC), established as early in retirement as possible:

- **Increases in value** over time, regardless of changes to the property value[2]
- **Is guaranteed to be available** as an income tax-free[3] source of funds
- Can be **tapped or left to grow** until needed

3

A reverse mortgage can improve a retirement funding plan in many ways.

Allows income tax-free[3] **incremental cash flow.**[2]

Offers several **distribution options**:[4]

- Line of Credit
- Lump Sum
- Tenure or Term Payments
- Or a combination of these methods

Eliminates monthly mortgage payments:

- Frees up cash each month
- Clients can repurpose the funds for more effective uses
- Clients must meet their loan obligations by keeping current with property taxes, insurance and maintenance

Reduces taxable income by drawing funds from a HECM LOC vs. drawing down IRA assets beyond the required minimum distribution.

Offers advantages over a standard HELOC:

- A HECM LOC grows over time—but a HELOC is set at inception, with no growth
- Guarantees LOC funds, while a HELOC can be reduced or eliminated by the lender if market conditions change
- With a HELOC, clients must make mandatory monthly payments on the loan balance

Can establish a reserve to help cover future unexpected health care expenses, helping preserve portfolio assets.

Can help avoid capital gains on other appreciated assets by:

- Drawing from a HECM LOC as an alternative to selling assets that can generate significant gains
- Leaving annuities to accumulate longer, using short-term withdrawals from a HECM rather than annuitizing earlier

Remember, all reverse mortgage lenders are not created equal.

Make sure to look for a lender that:

- **Specializes** in Reverse Mortgage products
- **Services** loans after funding
- **Offers competitive** pricing

> **Using a reverse mortgage to tap home equity is one of the most powerful options available to retirees today.**
>
> **- Alicia Munnell, Director**
> **Center for Retirement Research at Boston College**

Contact me today:

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1. Pfau, Wade D. 2016. "Incorporating Home Equity into a Retirement Income Strategy." Journal of Financial Planning 29 (4): 41–49.
2. If part of your loan is held in a line of credit upon which you may draw, then the unused portion of the line of credit will grow in size each month. The growth rate is equal to the sum of the interest rate plus the annual mortgage insurance premium rate being charged on your loan.
3. Consult appropriate government agencies for any effect on taxes or government benefits.
4. Borrowers who elect a fixed rate loan will receive a single disbursement lump sum payment. Other payment options are available only for adjustable rate mortgages.