5 Ways Reverse Mortgages Can Serve as Retirement Planning Tools

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In today's world, Americans face a looming retirement crisis — one that has been well-documented over the past several years and which has created a new purpose for the reverse mortgage.

Gone are the days when reverse mortgages were considered a *loan of last resort*. Now, the product is gaining steam among financial planners as a retirement tool that can hedge against future costs and provide much-needed income during borrowers' post-career days.

By using a reverse mortgage to tap into home equity and fund retirement expenses, homeowners can effectively defend against the imminent retirement crisis, research shows.

"A lot of times people have not accumulated [savings] in a disciplined way, but at the same time the value of their homes has appreciated dramatically," said Dennis Channer, principal at Cornerstone Investment Advisors, LLC, during a recent webinar hosted by Reverse Mortgage Funding (RMF) and the Financial Experts Network. "A great deal of their wealth is tied up in that value. **Home equity** becomes another available resource in the long range forecast of being successful [in retirement]."

And that's just what Wednesday's webinar, "Standby Reverse Mortgages: A Portfolio Longevity Strategy," was focused on teaching. Its purpose was to educate financial advisors on how a home equity conversion mortgage (HECM) could be used as a portfolio protection strategy.

"The ideas are endless on the different angles we can take on using the [reverse mortgage]," said Dr. John Salter, an associate professor of financial planning at Texas Tech University, who has educated financial planners on reverse mortgages for years. "There's nothing wrong with the product."

While the ways to use a reverse mortgage may be endless, Salter explained five strategies, in particular, for financial planners to keep in mind when clients are approaching retirement.

1. Use a Reverse Mortgage Instead of HELOC loan

There are benefits borrowers can get from using a reverse mortgage that they can't get from using a HELOC, Salter said. Among those benefits are line of credit growth, no monthly principle or interest payment, and the loan is not cancelable as long as requirements are met.

"If you're looking for flexibility in repaying [the loan], you get that in a reverse mortgage; you don't get that in a HELOC," he added.

A HECM is also non-recourse, meaning the borrower or their estate will never owe more than the value of the home upon sale or death.

The only downside of a reverse mortgage is the age requirement, as there is no restriction on age when using a HELOC.

2. Refinance Existing Mortgage With a HECM

Use a HECM to refinance an existing mortgage, and either pay it off or not, Salter said. In doing so, a borrower can eliminate their monthly mortgage payment.

3. Take Advantage of HECM For Purchase

While the HECM For Purchase (H4P) market has yet to take off, Salter said using a reverse mortgage to buy a home can provide some flexibility for homeowners.

"It's a way to purchase [a home] using the product up front," he said.

RMF is one reverse mortgage lender that sees the potential for the product to drive future business growth, and is focusing on making people aware the H4P exists.

4. Defer Social Security Benefits With Income Support

Americans become eligible to draw from Social Security at age 62, but benefits can increase up to 32% if they wait until age 70 to start collecting. Some people, however, may not have enough money to bridge the eight-year gap. That's where a reverse mortgage comes in, Salter says.

Using term payments from a reverse mortgage — getting equal monthly payments for a fixed period of time — can make up for the lack of Social Security benefits during that eight-year period so the borrower can maximize their retirement income.

5. Use Reverse Mortgage as Alternative to Longevity Insurance

Borrowers can initiate a line of credit today and convert that to a tenure payment — or equal monthly payments for life as long as the borrower remains in the home — at a later date.

Doing so gives the homeowner similar benefits that a deferred annuity would provide, while their asset control is never given up to an insurance company.

Ultimately, whatever strategy is used will allow older Americans to tap their home equity in a way that can provide extra income and more retirement security.

As the nation approaches the "retirement apocalypse," reminding clients that their home is a resource can help financial advisors better plan for their future needs.

"Just letting people know that [their home equity is] a backstop or another resource that's available to them [is important]," Channer said. "It's cooled my concern about being able to work with clients and ensure their financial security; it's taken some pressure off of that. And in clients' minds, once they see that as a viable resource, it starts to take the pressure off of them."