Module 8: Reverse Mortgages and Other Private Financing Options for Long-Term Care

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Answers to Key Questions

- What LTC financing options are available other than insurance?
- What are the differences among these options?
- What option is best for the consumer?

Variety of Options

Home Equity	Life Insurance	LTC Annuities	Trusts	Assets/ Income	Other
Reverse Mortgage *†	Accelerated Death Benefits ‡	Deferred*†	Medicaid Disability Trusts*‡	Self Pay*	CCRC†
Reverse Annuity Mortgage* †	Life Settlements †	Immediate *‡	Charitable Remainder Trusts*		Medicaid Estate Planning*
Sell Home*	Viatical Settlements ‡				Special Purpose Loans*
Leaseback*	Limited Pay/LTC Policies				

* Does not require health screening
† Appropriate for older adults
‡ Option for those in poor health

Identifying Options

Left bottom corner identifies category

Right bottom corner identifies who may want to consider option

Use of Life Insurance

Poor Health

Reverse Mortgage – What is it?

- Loan against your home that provides you cash for its value without selling it
- Access to home equity for homeowner's age 62+
- Unlike other loans, you do not make monthly repayments
- Loan does not have to be repaid as long as the borrower lives in the home

Reverse Mortgage (continued)

- Loan is repaid when you die, sell the house or permanently move out of it
- Borrower retains title and ownership
- Borrower responsible for taxes and repairs

Reverse Mortgage (continued)

- Three types of reverse mortgages:
  - FHA-insured
  - Lender-insured
  - Uninsured
- Maximum amounts one can borrow vary by type
- Larger lending limits with private lenders, but they may have higher finance costs
- Payments received are tax-free
  - Does not affect your Social Security payments but may affect SSI eligibility

Qualifying for Reverse Mortgage

- Homeowner must be 62 years or older
- Home must be your primary residence (all types)
- No income or credit history required
- Must have little or no outstanding loan balance on your current mortgage

Qualifying for Reverse Mortgage (continued)

- You cannot incur any other indebtedness on your home once you have the reverse mortgage
- Some lenders require a free individual counseling session with a reverse mortgage counselor to help you decide

Comparing Forward vs. Reverse Mortgage

	Forward Mortgage	**Reverse Mortgage**
Loan Purpose	Purchase home	Get cash from equity
At Closing	Owes a lot and has little equity	Owes very little and has lots of equity
During the Loan	Make monthly payments to lender Loan balance declines Equity grows	Receive payments from lender Loan balance rises Equity declines

Comparing Forward vs. Reverse Mortgage (continued)

	Forward Mortgage	**Reverse Mortgage**
At the End of the Loan	Borrower owes nothing Has substantial equity	Borrower owes substantial amount Has much less, little or no equity
At Closing	Falling debt Rising equity	Rising debt Falling equity
Closing Costs	Based on amount of loan Can be financed as part of closing costs	Based on appraisal value of home, regardless of loan amount Can be financed as part of closing costs

HECM (Home Equity Conversion Mortgage) Reverse Mortgage

- Offered by Department of Housing and Urban Development (HUD)
- Federal Housing Authority (FHA) guaranteed loan
- Loan amount based on your age, value of home, equity in home, where you live, interest rate, and payout method you select

HECM Reverse Mortgage (continued)

- County limit on the maximum amount you can borrow
- Never have to repay an amount that exceeds the value of the home at the time the loan is repaid
- Counseling session required
  - Call 1-888-466-3487

HECM Reverse Mortgage – Loan Amounts

- Sample loan amounts available - $120,000 home value (Philadelphia)

Age	Lump Sum	Monthly
62	$62,600	$350
67	$67,600	$400
72	$72,800	$450

HECM Reverse Mortgage – Loan Amounts (continued)

- Sample loan amounts available - $260,000 home value (Denver)

Age	Lump Sum	Monthly
62	$145,900	$819
67	$156,500	$918
72	$167,800	$1,047

HECM Reverse Mortgage – Closing Costs

- Closing costs and interest can be financed within the loan
- Include mortgage insurance (2% of home value), origination fee (2% of home value) and other closing costs (e.g., title search, appraisal, etc.)
- Costs vary, but in one example, for a $200,000 loan, costs range from $10,000 to $14,000

Using HECM Reverse Mortgage Program to Pay for LTC Insurance

- In the future, upfront loan costs may be less if a reverse mortgage is used to pay for LTC insurance
- HUD has the statutory authority to allow a waiver of the 2% mortgage insurance fee
- However, the regulation to implement this provision has not been promulgated

General Considerations in Using Any Reverse Mortgage Program

- Funds can be used to purchase LTC insurance or pay for care
- Loans do not adjust for inflation
- LTC costs may exceed the amount received through the reverse mortgage
- May be difficult for married couple to support LTC insurance for both with amount available from reverse mortgage

General Considerations in Using Any Reverse Mortgage Program (cont.)

- Homeowner will still require funds to pay for taxes, repairs, and maintenance
- Heirs can retain home by repaying reverse mortgage
- Heirs can “keep the difference” if the home’s sale price exceeds the loan balance at the time the loan is repaid

Reverse Mortgage Annuity

- An annuity is purchased with a portion of the loan amount
- Annuity continues if borrower sells home or moves
- Available on a limited basis
- Considerations:
  - Same as a reverse mortgage
  - May include additional charges
  - Tax implications

Sell Home

- Home can be used to pay for LTC by selling it
- Option not for everyone
- Considerations:
  - Unable to pass home to heirs
  - Proceeds may be insufficient to cover LTC expenses
  - Market conditions

Leaseback

- Investor purchases home
- Seller rents the home on a long-term lease
- Investor possesses property once seller stops living there
- Considerations:
  - Home may stay in family
  - Potential taxes on proceeds
  - May lose public assistance

Accelerated Death Benefit

- Death benefit cash advance, tax free
- Qualification due to poor health condition
- Amount of $ based on contract provisions and health condition (2% of face amount for nursing home, 1% for home care)
- Considerations:
  - More limited benefits than typical LTC insurance
  - Little or no death benefit for survivors
  - Need to maintain premium payments
  - May affect Medicaid eligibility

Life Settlements

- Insurance policy is sold for present value
  - Females age 74+, males age 70+
- Use of the proceeds is unrestricted
- Considerations
  - Can fund LTC costs or insurance
  - May have nothing left for beneficiaries
  - Health not an issue
  - Tax liabilities

Viatical Settlements

- Life insurance policy sold to a third party for a fraction (50% or more) of the death benefit (proceeds are tax-free)
- Must be terminally ill
- Considerations:
  - Available to someone who would not qualify for LTC insurance
  - Settlement may be insufficient to cover LTC expenses
  - Survivors would not receive any proceeds
  - >50% of applicants are declined

Single Pay Life/LTC Policies

- Funded through lump sum payment
- Pays for LTC expenses and has a death benefit
- Considerations:
  - Large lump sum needed for meaningful LTC benefit
  - If care needed in early years, benefit may be insufficient
  - Planning for inflation is difficult, requires additional payments

LTC Annuities – Deferred

- Available to age 85, seven broad health questions most can satisfy
- Two funds: one for LTC expenses, the other is a regular cash fund
- Considerations:
  - If LTC fund not used, can be passed to beneficiaries
  - Need to plan for inflation
  - LTC costs may exceed benefit amount
  - Tax implications

LTC Annuities – Immediate

- Available to someone who is uninsurable or already receiving LTC
- Single premium payment converted into monthly income
- Pay-out schedule is based on age and gender
- Considerations:
  - Resources may be limited if inflation is not planned for
  - Income stream may be insufficient
  - Tax implications

Medicaid Disability Trusts

- Exempt from rules regarding trusts and Medicaid eligibility
- Limited to disabled individuals
  - Trust for disabled person under age 65
  - Trust managed by non-profit association
- Considerations:
  - Does not shelter all money in trust
  - Discuss with legal and tax advisor

Charitable Remainder Trusts

- Assets gifted to public charity at fair market value
- Grantor receives payment from the trust and a tax deduction
- Considerations:
  - Limited to affluent people
  - Payment to grantor may be insufficient to cover LTC
  - Assets transferred subject to 60-month look-back period

Assets and Income

- Pay for LTC needs as occur
- Considerations:
  - Need sufficient assets to pay for care
  - Do not know when care needs will occur or for how long
  - Can use funds for other than LTC
  - Requires advanced planning
  - Cannot control rate of return on investments

Continuing Care Retirement Community (CCRC)

- Full continuum of services
- Provides housing, health care, and social services
- Entrance fee and monthly payments
- Many types of CCRC contracts
- Considerations:
  - May provide little or no home care
  - Health screening
  - Unaffordable for many

Medicaid Estate Planning

(Artificial Impoverishment for Medicaid Qualification Purposes)

- Risky option of re-arranging finances to preserve assets
- Must be done well in advance of the need for Medicaid or run the risk of being disqualified
- Lose control of assets and financial independence

Medicaid Estate Planning (continued)

- Limits care choices and may receive inferior care
- Considerations:
  - Elder law attorney required
  - Ethical?

Special Purpose Loans

- Low interest loans
- Provided by government agencies
- Loan used for home modifications, not LTC costs
- May enable someone to remain at home to receive care
- Loan repaid when borrower no longer lives in home

Other

Special Purpose Loans (continued)

- Considerations:
  - Not available to everyone
  - Improvements specified
  - If move to nursing home, loan payment due

Other