

Empowering Private-Pay Clients to Make Wise Financial Decisions for Long-Term Care: Use of Home Equity

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National Council on Aging

- **Mission: To improve the lives of older Americans.**
- **Impact Areas.**
 - Enhance the ability of frail and vulnerable seniors to live in communities with dignity, choice and financial security.
 - Improve health and reduce disability.
 - Increase access to benefits and resources.
 - Expand meaningful work and volunteer opportunities.

Helping frail and vulnerable seniors to remain in the community

- Improve LTC financing through advocacy and improving options to use home equity.
- Strengthen LTC related decision-making and personal actions via decision support tools and the Aging in Place reverse mortgage counseling network.
- Reduce or postpone the need for LTC via falls reduction programs.
- Strengthen the formal and informal LTC workforce through advocacy and R&D.

Home equity agenda

- **Research on how to expand the appropriate use of home equity as a LTC financing option.**
 - CMS, AoA, ASPE, Robert Wood Johnson grants to assess benefits/risks, government incentives, Medicaid links.
 - Use research to inform public policy, strengthen protections and improve reverse mortgages (RMs) for impaired elders.

- **Enhance decision-making for home equity.**
 - Partnering with AoA to provide high quality, needs-appropriate RM counseling.
 - Develop decision support tools for aging in place and RMs.
 - Provide counselors with other important tools such as BenefitsCheckUP and Long Term Care Counselor.

Role of Home Equity as a Private Funding Option for LTC

LTC planning timeline

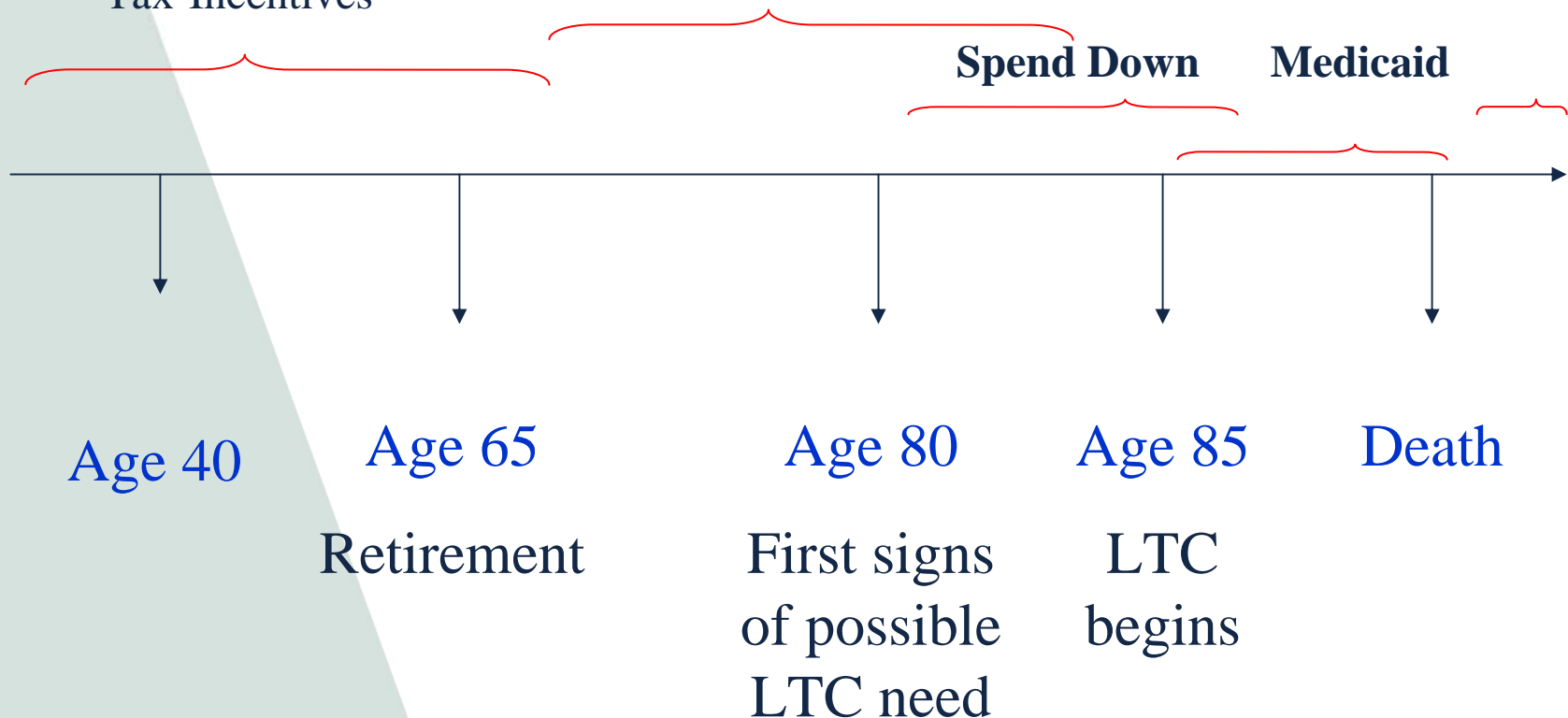
Early Planning

- Insurance
- Accrue Savings
- Home Equity
- Annuity
- Tax-Incentives

Late Planning

- Home Equity Conversion**
- Use of Savings
- Transfer of Assets

Estate Recovery



Loan options to tap home equity

- **Conventional home equity loan/line of credit.**
 - Available from local bank. May offer lower costs for short-term needs.
 - Risk of foreclosure and predatory loans.
- **Reverse mortgages.**
 - Help borrowers 62+ stay in the home for many years.
 - Most popular – HUD Home Equity Conversion Mortgage (HECM).
 - Substantial upfront costs.
- **Single purpose loan – State or local programs to help with repairs or property tax deferral.**
 - Low cost cost loans for limited amounts.

Growing numbers of seniors already tap home equity

- One in three senior homeowners in 2005 had some type of home loan vs. 23% in 1997.
- Median loan size grew from \$19,000 in 1997 (23% of home value) to \$48,000 in 2005 (31% of value).
- Seniors with homes worth \$500,000+ (may be up to \$750,000) no longer qualify for Medicaid LTC unless they take out a home loan.

Reverse Mortgage Basics

Reverse mortgages basics

- Allows homeowners age 62+ to convert home equity into cash while living at home for as long as they want.
- Many different types of reverse mortgages.
 - HECM program and many new proprietary loans.
 - Fixed and adjustable interest rates, no closing cost loans, varying lender margins, variable loan sizes.
- The size of the loan is determined by the borrower's age (more at older ages).
- Funds can be used for any purpose, and are tax-free.

Reverse mortgages basics

- Can receive payments as a lump sum, line of credit, monthly payments (for up to life in the home).
- Loan comes due when the (last) borrower moves out, dies, sells the home, or stays in a nursing home over 12 months.
- Borrowers continue to own the home. They are responsible for repairs, insurance, and taxes.
- Upfront loan costs can be substantial (HECM).
 - FHA mortgage insurance – 2% of value of home.
 - Origination fee to lender – up to 2% of value of home.
 - Other closing costs.

Consumer Protections

- Borrowers must receive counseling before taking out a loan.
- Lenders must inform borrowers of estimated loan costs.
- Upfront HECM costs are regulated, and there are limits on fees and interest rate increases.
- Right to stay at home as long as pay property taxes, insurance, and home maintenance.
- Never owe more than the house value at the time of sale or repayment of the loan.

Medicaid treatment of home loans

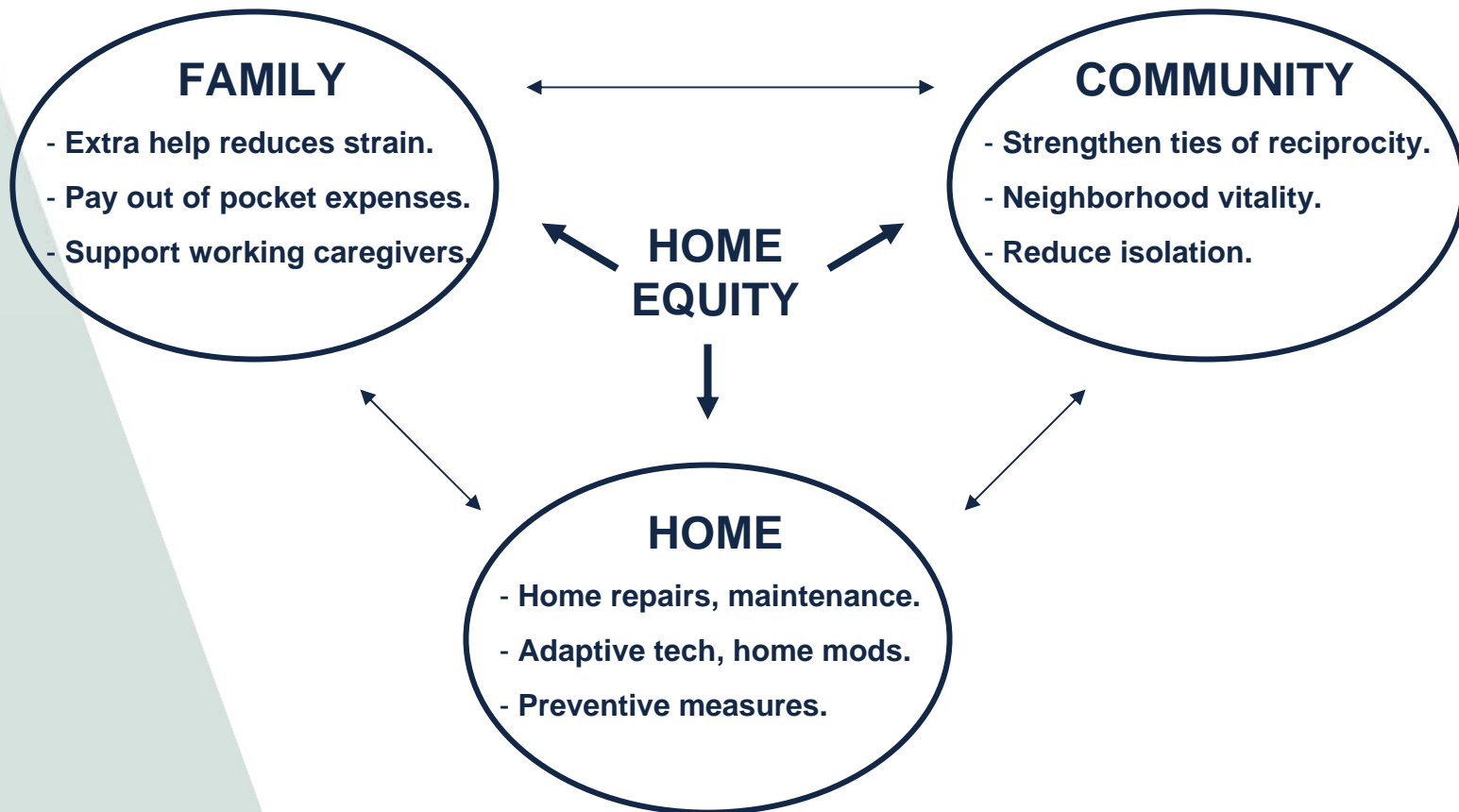
- Unused funds in a line of credit do not count as a resource for Medicaid LTC eligibility.
- Cash received from a loan does not count as income during the month it is received.
- Any cash left in the bank at the end of the month is counted as a resource for eligibility.
- Loan funds can be used for any purpose that benefits the senior. They cannot be transferred.
- Home loans may be in first lien position – so they get paid before any estate recovery.

Need for Consumer Information and Decision Support

Why older homeowners need help

- **Home equity is the most important asset of many seniors.**
 - Most seniors own a home (82%), even at older ages (75+: 78%).
 - Seniors own about \$2.5 trillion in home equity in total.
- **Decisions that seniors make about home equity will have big impact on families and the LTC system.**
 - About \$1 billion could be available through reverse mortgages for aging in place.
 - Seniors who transfer the home lose control of their biggest asset.
- **Rising home values increase the risk that seniors could become victims of financial scams.**
 - Foreclosure is a growing problem due to the rise in sub-prime and exotic home loans.
 - Borrowers risk impoverishment if they do not use loans wisely.

Broader role of home equity for aging in community



Potential contribution of ADRCs

- **Expand funding options to meet immediate LTC needs and to plan ahead.**
 - Support for earlier intervention (“pre-Medicaid”) and prevention to keep small problems from becoming major catastrophes.
 - Resources for everyday expenses that are not covered by insurance.
- **Help seniors make better use of home equity as a LTC risk management tool.**
 - More seniors retain control over the house versus transferring or selling it in crisis situations.
 - Integrate private resources with public programs to sustain elders in the community and stretch loan dollars.
- **Shift from crisis intervention to promoting resilience.**
 - Home equity as an intergenerational resource that can sustain elders and support family caregiving.
 - Home equity can support community efforts to help seniors be active and continue to live at home.

**Aging in Place
Mortgage Counseling Network
(AIPN) Reverse**

What is the AIPN?

- **NCOA's new national counseling program.**
 - Started June 1, 2007. Pilot-testing through September.
 - Will recruit new agencies August-September.
- **Brings together the best of the aging network and the best of housing and credit counseling.**
 - NCOA is developing the AIPN in partnership with AoA and Money Management International.
 - 12 AIPN counselors from 8 ADRC/AAAs in 7 states (CA, IN, LA, MD, MN, MT, OH).
- **Offers a more robust RM counseling experience that helps potential borrowers review their:**
 - Ability to continue to live at home, and how long.
 - Potential duration of funds to pay for essential services.
 - Eligibility for public benefits with BenefitsCheckUp.

Why an Aging in Place Network?

- Counseling for HECM loans is mandated by federal law.
- HUD recognizes that seniors have “aging in place” issues which require advice beyond current HECM counseling.
- Consumers and aging professions are not well informed about the best ways to use home equity.
- Help ADRCs to become the “place to go” for independent advice on RMs – before seniors go to a lender.
- AIPN can provide support and funding to ADRCs that offer HECM counseling.

What is involved in AIPN counseling?

- **AIPN counselors must:**
 - Pass the HUD HECM counselor exam.
 - Attend webinar training sessions on AIPN counseling protocol and software.
 - Be available to conduct counseling sessions each week.
 - Fulfill AIPN reporting and time-sensitive HUD requirements.

- **Counseling sessions are usually done by telephone for clients from around the country.**

- **A session typically lasts 75 minutes. After the session, counselors send out a client packet.**

- **Agencies are reimbursed \$100 per counseling session from HUD grant funds.**

Brainstorming

Questions to start the discussion

- **How important is it to the mission of your agency to help non-Medicaid seniors?**
 - What role does your agency have in educating seniors about financial issues?
 - Is counseling seniors about private financing options a high priority for your agency?
 - How might RM counseling through the AIPN fit with other agency activities? Any concerns?
- **What financial challenges do seniors face?**
- **What tools do you currently use to advise non-Medicaid clients with financial issues?**
- **What new strategies and tools could help non-Medicaid clients make wise financial decisions for living in the community?**