The Role of Home Equity Conversion Mortgages in Retirement Funding

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According to the National Reverse Mortgage Lenders Association (NRMLA), homeowners age 62 and older had housing wealth over $12 trillion. This wealth is not liquid. It's locked up in home equity at a time when older Americans are looking for ways to fund their retirement. Home Equity Conversion Mortgages (HECMs) are one way to unlock this money, and financial planners now consider them an integral part of financial planning for retirement.

What Is a HECM?

A HECM allows homeowners 62 and older to access a portion of their home equity to use in retirement. Reverse Mortgages are available in certain states for those 55 and older and offer higher loan amounts than HECMs.

Retirement Income Planning Basics

A secure retirement income plan should meet your financial goals and address retirement risks. Financial goals may include a source of income, paying for contingencies, and leaving funds for your heirs. Retirement risks may include longevity, inflation, healthcare costs, the need for long term care, the sequence of withdrawal of your funds from your available sources, and changes in public policy. A financial planner can help you develop a plan to address these issues, and a HECM can be an important part of your plan.

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Ways to Use a HECM in Your Financial Plan

The proceeds from a HECM can be used in any way you wish. Once the HECM has paid off your existing mortgage, a financial planner can help you set priorities for the way you spend these funds, such as:

- Fund home renovations to age in place
- Purchase a new home (HECM for Purchase)
- Spend home equity first to leverage investable asset growth potential
- Coordinate home equity to mitigate sequence of returns risk
- Use tenure payments to reduce portfolio withdrawals – perhaps to keep them at a sustainable level (4-6%)
- Use tenure payments as an annuity alternative
- Delay your Social Security
- Manage your tax bracket
- Manage a Roth conversion
- Pay for long-term health care
- Fund end-of-life care
- Protect your home's value
- Create a contingency fund

If you are considering a HECM as part of your retirement plan, it's important to remember that the amount you can borrow is determined by the age of the youngest borrower, the interest rate, and the appraised value of the home or maximum claim amount, whichever is less. Also, you're responsible for property taxes and homeowners' insurance. Finally, you must continue regular maintenance and make necessary repairs to keep the home in good condition.

If you have additional questions about HECMs, I'm here to help. Call me today for more information about this retirement income option.