

An Article of Interest Can Reverse Mortgages Fund Long-Term Care?

One solution to the looming problem of paying for long-term care in the U.S. may be the billions of dollars in equity that older Americans already have in their homes, a new study finds.

About 13.2 million households could qualify for an average \$72,128 apiece in reverse-mortgage loans, or a total of \$953 billion, according to the National Council on the Aging, a Washington advocacy group that analyzed 2000 homeownership data collected as part of the federal Health and Retirement Study.

That money could be used to pay for long-term-care insurance premiums, home health-care services or domestic help. The demand for in-home help often precedes, and may prevent, more serious needs requiring nursing home care, said Barbara Stucki, a consultant in Bend, Ore., who is heading the aging council's project.

"Right now, there's no funding mechanism at all that exists to help people deal with these little problems," such as the inability to walk up a flight of stairs, pay bills or carry groceries, she said. "The idea is that we can use a reverse mortgage to start addressing long-term-care needs so impairments don't actually become disabilities."

A reverse mortgage allows homeowners who are 62 years old or older to borrow against the equity in their property. The proceeds can be taken in the form of a monthly check, lump sum or line of credit. So, instead of a homeowner making payments to a bank, as with a traditional mortgage loan, the bank makes payments to the homeowner. The loan is repaid, with interest, when the borrower sells the house, moves or dies.

Reverse mortgages are typically used to pay for home upkeep or property taxes, or to supplement meager retirement incomes. Now, aging advocates are starting to target the financing vehicle as a potential way to pay for long-term care.

Such mortgages have some drawbacks. The biggest obstacles at the moment, said Dr. Stucki, are people's lack of understanding of the tool and its costs, typically 7% to 11% of the home's value or federal lending limits on its value, whichever is lower, according to the National Reverse Mortgage Lenders Association, a Washington trade group.

That said, reverse mortgages could help ease the strain on government health-care budgets. Of the 13.2 million reverse-mortgage candidates, 5.2 million households already are getting help from Medicaid or are at financial risk of needing Medicaid if they had to pay for long-term care, the council said.

Instead of being forced financially to seek government-funded care in a nursing home, these families could extract about \$309 billion from reverse mortgages to help pay for at-home care. Medicaid, the federal health program for the poor, typically doesn't require people to sell their homes to qualify for long-term care, but it mainly delivers care through nursing homes, not through in-home services.

More specifically, a \$72,000 credit line could cover the average costs of a home-health aide visiting the home for four hours a day for almost three years; or adult day-care services every weekday for a person with Alzheimer's disease for 6½ years; or \$500 a month in a family caregiver's expenses, including one day of respite care each week, for about 14 years, Dr. Stucki said.

The report is expected to include recommendations for federal incentives to encourage larger numbers of older homeowners to investigate reverse mortgages.

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