United Policyholders
Empowering the Insured

Financing long term care: Consider an alternative

Long Term Care Insurance policyholders have faced very tough decisions in recent years. Escalating premiums, insurer insolvencies and complex and reduced options have made those policies much less attractive as a vehicle for ensuring comfort and financial security as you age. So United Policyholders is turning to personal finance experts for guidance on alternatives. The following article is for educational purposes only and should not be construed as an endorsement or advertisement

Using a Home Equity Conversion Mortgage (HECM) to Finance Long-Term Care at Home

People are living longer, which increases the likelihood of someday needing long-term care. For mitigating the risks of not being able to afford long-term care at home, a "standby" line of credit via an FHA-insured* Home Equity Conversion Mortgage (or HECM, commonly known as a reverse mortgage) has emerged as a practical alternative long-term care insurance (LTCI).

A HECM loan allows homeowners age 62+ to convert some of the equity they have built up in their homes into funds they can use as they choose—while they continue to live in and own their homes. Unlike a traditional home equity line of credit (HELOC), a HECM has a flexible repayment feature: The borrowers can choose to pay as much or as little as they'd like each month, or defer repayment until they sell the home or no longer live in it. As with any mortgage, the borrower must keep up with the property-related taxes, insurance, and maintenance.

Here's an example "standby" strategy: A homeowner, who has no immediate long-term care needs looming and owns a home worth $636,150 (which is the maximum federal limit), takes out a HECM as early as possible (at age 62), chooses the line of credit option (in this example, the initial line of credit is $250,682), and then draws on it only if or when in-home care expenses arise. With a HECM, the unused portion of the line of credit actually grows[1]—independent of home value—providing more available funds as time goes on. And the interest accumulates only on the funds that are used.

So let's say this homeowner suffers a serious health event at age 82 and now requires in-home care. At a credit line growth rate of 7.3% in this example (calculated as Annual Percentage Rate [APR] of 6.055% + ongoing annual mortgage insurance premium rate of 1.25%), the previously untouched credit line would have grown from $250,682 at age 62 to $1,157,000 at age 82[2]—a much larger pool of funds to draw from to pay for in-home care expenses over the long term. Note: The loan has a variable rate, which can change annually.

LTCI helps pay for the cost of long-term care that is generally not covered by health insurance, Medicare, or Medicaid. It works best when people purchase LTCI at a younger age, ideally in their mid-50s. That's because premiums increase with age, and many people who are over age 60 may find LTCI to be unaffordable, or they may not qualify medically. If an applicant is priced out of LTCI or denied for health reasons, a HECM line of credit is an attractive alternative, as it has significantly lower out-of-pocket costs and a lender cannot base any credit decisions on an applicant's physical health.

To learn more about funding long-term care at home with a HECM line of credit, contact: Mary-Alice Cárdenas at www.reversefunding.com/maryalice-cardenas

[1]If part of your loan is held in a line of credit upon which you may draw, then the unused portion of the line of credit will grow in size each month. The growth rate is equal to the sum of the interest rate plus the annual mortgage insurance premium rate being charged on your loan.

[2]The information being shown is for illustrative purposes only. Scenario is a 62-year-old couple, with a home valued at $636,150 and no mortgage, securing a reverse mortgage line of credit (LOC). LOC will grow at 5.12% above the 1-Year LIBOR (margin = 3.875% + ongoing Mortgage Insurance Premium of 1.25% = 7.03%). The initial LOC is $250,682; left unused, in 10 years, when they are 72 years old, LOC will have grown to $558,526 in available funds. In 20 years, at age 82, assuming no draws the amount available will be $1,157,000. The estimates shown are based on a California property and Reverse Mortgage Funding LLC's HECM Annual Adjustable Rate Mortgage (ARM) as of 04/27/17. The initial Annual Percentage Rate (APR) is 5.62%. The loan has a variable rate, which can change annually. The rate is tied to the 1-Year LIBOR plus a margin of 3.875%. There is a 2% annual interest cap, and a 5% lifetime interest cap over the initial interest rate. This means that the maximum rate that could be imposed is 10.62%. This example assumes that the rate remains flat at 6.05%. There is a $0/month servicing fee. In this example, closing costs include an origination fee of $0, third-party closing costs of $2,982.00, and an up-front FHA Mortgage Insurance Premium of $3,180 depending on the appraised value of the property

securing the loan. The borrower receives a credit at closing of $5,566.31. Interest rates and funds available may change daily without notice. Closing costs vary by property state. In this scenario, the total cost to the Borrower is $596.00.

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