

# Use Your Home to Stay at Home™

*A Planning Guide  
for Older Consumers*



THE NATIONAL  
COUNCIL ON  
THE AGING

**T**he National Council on the Aging (NCOA) is committed to helping older persons to maximize all resources, public and private, so that they can be as independent as possible in the residence of their choice. This booklet is one of several educational pieces developed as part of NCOA's Use Your Home to Stay at Home Initiative, a public-private partnership designed to assess and encourage appropriate use of home equity to help older people who may need assistance to remain at home.

For many seniors, their homes are their biggest financial asset. By unlocking their home equity, many more people may be able to afford services and supports they need. Greater use of reverse mortgages can also strengthen community long-term care programs by providing additional resources for financing the housing and service needs of impaired, older homeowners. The booklets in this series are funded by a grant from the National Reverse Mortgage Lenders Association.

—James Firman, CEO

*Founded in 1950, The National Council on the Aging is a national network of organizations and individuals dedicated to improving the health and independence of older persons; and increasing their continuing contributions to communities, societies, and future generations. For more information on NCOA, visit [www.ncoa.org](http://www.ncoa.org)*



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# Overview

When you are in good health, it is hard to imagine that you will ever need help with everyday tasks at home. But a serious fall or chronic illness can quickly drain hard-earned retirement dollars and leave you facing a cash crunch.

Planning for your future health needs can be frustrating. As you get older, high quality long-term care insurance may become unaffordable. Some people do not want to rely on government or deplete their retirement funds to qualify for public programs. If you are like most people, you could end up using a “pay as you go” approach, where you rely on income and savings, and hope for the best.

There is another option. For many older families, home equity is their single, biggest financial asset. Using home equity through a reverse mortgage could be an important strategy to help deal with the financial challenges of living at home with a chronic health problem. Reverse mortgages are a special type of loan that allows people age 62 and older to convert home equity into cash while they continue to live at home for as long as they want. These types of loans are called “reverse” mortgages because payments flow from the lender to the homeowner.

Many people hold onto the equity in their home as a nest-egg to deal with financial emergencies. But a reverse mortgage can be more than just a last resort. If used wisely, these loans can pay for preventive measures and day-to-day support so you can continue to live at home safely and comfortably. They can also strengthen your financial plans by filling in gaps, and can help you manage your cash flow to deal with declining health and ability.

Using home equity for a chronic health condition can seem like a good idea. But is it right for you? It is a decision you should consider carefully since the house may be your most valuable financial resource.

This booklet will help you understand whether a reverse mortgage can be a part of your financial plans for staying at home. After reading this booklet, you should be able to:

- Understand your risks for needing help at home due to a chronic health problem.
- Identify the financing options that may be available.
- Know about the benefits and challenges of using a reverse mortgage for aging in place.
- Know where to go for more information.

It is important to remember that every person's situation is unique, so there are no right or wrong answers. The information presented here will help you plan ahead so you can continue to live at home as long as possible. It also helps to talk with family and a knowledgeable financial advisor.

# What Is Aging in Place?

**I**n the past, when an older person had difficulty living on their own, it was a signal that it was time to move in with family or go to a nursing home. But for most people this is no longer the case. Today, you can continue to live on your own for many years, even as you grow older and begin to need help with everyday tasks. This is often called “aging in place.”

When you develop a chronic health condition such as diabetes, arthritis, or Alzheimer’s disease, aging in place means more than just staying put. You need a place to live that is safe and fits with your abilities. As driving becomes difficult, it is important to have reliable and affordable transportation. A wide range of paid services may be available in your community. You may also want extra funds for family caregivers or for home modifications (such as a ramp or lift) that can extend the time you can live at home.

Americans of all ages value their ability to live independently. But without a plan for aging in place, it can be hard to stay in control of your life. Knowing your health risks and financial options can make a big difference in your ability to stay in a familiar place.

# Understanding Your Risks

It can be hard to plan ahead when you don't like to think about growing old. People often misjudge their chances of developing a debilitating health condition. Without good information, you may underestimate the cost of services or how long you are likely to live. Too much optimism or denial can lead to poor planning.

## Will You Live Long Enough to Need Help at Home?

No one can predict if you will require help due to a chronic health condition. But the longer you live, the greater your chances of needing some kind of assistance.

One way to estimate your life expectancy is by looking at your family's health history. If your parents and grandparents lived to a ripe old age, chances are you will too. Your health situation will also influence your longevity. For a more detailed analysis, check out the life expectancy calculator at <http://www.livingto100.com/quiz.htm>.

Other factors that increase your risk of needing help at home include:

**Gender**—Older women are more likely than men to have a chronic health problem. Women tend to live longer than men, and may outlive their family caregivers.

**Current health**—People who are in poor health or already have a chronic condition are most at risk of needing help with everyday tasks.

**Availability of help**—People who do not have family and friends nearby have fewer sources of unpaid care available to them. This can increase the cost of living independently.

## How Much Does Help at Home Cost?

Getting help at home typically involves someone coming to your home from a home health agency. You usually pay for services on an hourly basis, although daily rate or visit rates are possible. While services in the home and community may cost less than in a nursing home, these expenses can add up over time. A person who needs a few hours of help from a home health aide in the morning and at night could easily spend \$72 per day, or \$2,160 per month.

In addition, you may need to modify your home. Home modifications can range from about a hundred dollars to install a grab bar to thousands of dollars to install a lift or add a bathroom to the main floor.

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### AVERAGE NATIONAL COST OF SERVICES, 2004

Homemaker:	\$17/hour
Home health aide:	\$18/hour
Adult day center:	\$56/day
Assisted living:	\$2,524/month
Nursing home:	\$169-\$192/day (semi-private and private room)

*Sources: MetLife Mature Market Institute, National Association for Home Care, Genworth Financial.*

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These costs will vary in different regions of the country. They tend to be higher in areas where the cost of living is high. The price of services will also continue to increase in the future.

# Options To Plan Ahead

As you prepare for your future health needs, it will be important to look at your options. There is no one best choice to pay for the cost of help at home. Your decision will depend on your needs, values, and retirement goals. Most families rely on a variety of financing strategies, not just a single source.

## Home Equity

Home equity is the difference between the appraised value of the home and what you owe on any mortgages. If you've owned your house for many years, it could now be worth a lot more than what you originally paid. Tapping home equity typically involves taking out a loan that uses your home as the collateral to guarantee that you will repay the loan.

## Reverse Mortgage

People who expect to live at home for many years should consider a reverse mortgage. This type of loan allows older homeowners to convert a portion of their home equity into cash while they continue to live at home for as long as they want. To qualify, all owners of the property must age 62 or older.

Unlike conventional mortgages, there are no income requirements for these loans. Borrowers do not need to make any loan payments for as long as they (or in the case of spouses, the last remaining borrower) continue to live in the home as their main residence. When the last borrower moves out of the home or dies, the loan becomes due.

Before closing, you must have the house appraised to make sure that it meets FHA minimum property standards. You may be able to finance the cost of required repairs as part of the loan. If repairs leave you very little money to pay for help at home, however, it may not be worth it to take out a loan.

Once you get the loan, the money is available for you to spend. The money borrowers receive is tax-free, and can be used for any purpose. Borrowers can select to receive payments as a lump sum, line of credit, fixed monthly payments (for up to life in the home) or in a combination of payment options. Reverse mortgage borrowers continue to own the home and are responsible for paying property taxes, hazard insurance, and maintaining the home.

Most of the costs borrowers pay are similar to those of a conventional home loan or to refinance an existing mortgage. These can include an origination fee, appraisal fee, and third-party closing costs (fees for services such as an appraisal, title search and insurance, surveys, inspections, recording fees), and a mortgage insurance premium. Most of these upfront costs are regulated, and there are limits on the total fees that can be charged for a reverse mortgage. Closing costs can be financed as part of the mortgage.

A unique feature of reverse mortgages is that you must first meet with a government-approved reverse mortgage counselor before your loan application can be processed or you incur any costs.

### **Conventional home equity loans**

A traditional home equity loan or line of credit can be useful for homeowners who are unsure how long they can continue to live at home. You can get money quickly from these loans. But you may not qualify because lenders look carefully at your income, other debt, and credit history. Conventional home equity loans can be risky. Borrowers must be able to make

monthly payments on the loan. If your health deteriorates and you can't keep up with the payments, you could lose your house.

### **Sell the House**

Living at home with a chronic health condition can be difficult. For people who need a lot of help, selling the house and moving to a place that offers more support may eventually be the best option.

## **Other Options**

### **Long-term care insurance**

Private insurance is designed to cover sizeable long-term care expenses. Comprehensive policies pay for help at home, in an assisted living facility, or a nursing home. To qualify for long-term care insurance, you must be in good health. If you already have a serious health condition such as Alzheimer's disease or a major stroke, you will not be insurable.

Policyholders need to have enough income to pay premiums for many years. If you cannot continue to pay these premiums until you need care, you will lose your coverage.

### **Medicaid**

Medicaid is a government health insurance program that pays for long-term care for people with very low income and assets, and those who run out of money paying for the cost of care. To receive help at home from this program, you must have a serious physical or mental condition. The services covered by Medicaid vary by state, and there are limits on the number of people who can be served at home under this program. States must try to recover the money they spend on care from a Medicaid beneficiary's estate after he or she dies.

**Department of Veterans Affairs (VA)**

The VA provides long-term care primarily to veterans with a service-related disability, low-income veterans, and former prisoners of war. Eligible veterans typically receive nursing home care. The VA may also pay for respite care, a homemaker, home health aide, and adult day care.

**Community Services**

Many communities offer a wide array of supportive services, such as Meals on Wheels or Dial-A-Ride, at little or no cost to seniors. Faith and charitable organizations can also help. These programs tend to target older people who are in greatest physical or financial need.

# Using A Reverse Mortgage to Stay at Home

**H**ome equity can be a useful source of cash to make living at home easier. It can be the “glue” that holds your financial plans together in retirement. Let’s consider the situation of three families who take out a reverse mortgage. They live in a house that is in good repair and worth \$150,000. They own their homes free and clear of any debt.

*Scenario #1:* Tom and Jill Smith (ages 69 and 65) bought long-term care insurance that will pay for services when they need help with personal care (such as bathing, dressing, or eating) or Alzheimer’s disease. For now they can still manage on their own, but want to add a bathroom downstairs to reduce the strain of climbing the stairs. Based on Jill’s age, the Andersons receive \$74,798 from their reverse mortgage. They take \$20,000 of the loan to install a new bathroom. They keep the rest (\$54,798) in a line of credit. These funds can be used to meet any additional expenses before they become eligible for services under their long-term care insurance policies.

This story highlights how people with a chronic condition can have a variety of unmet needs, even with good financial planning. A reverse mortgage can give you extra funds to pay for preventative measures that can reduce the risk of a serious accident.

*Scenario #2:* Lou Harrison (age 75) relies on community services such as Meals on Wheels and help from a homemaker to live at home. His big concern is his old furnace. He receives \$90,120 from the reverse mortgage and uses \$4,000 to replace the furnace. To get the loan, he also

had to spend \$6,000 to replace the old siding and do other repairs. It gives him peace of mind, knowing that his house is fixed and will grow in value over time. He keeps the rest (\$80,120) in a line of credit to pay for extra help as needed, and to get new tires for his car.

It can be challenging to find the money to pay for all the things you'll need to live at home. A reverse mortgage provides added flexibility to the family budget by letting you pay for the things you want when you want them.

*Scenario #3:* Janet Zibley (age 85) has arthritis, which makes it difficult to manage on her own. She pays a neighbor \$1,000 per month to help around the house. But when she needs more assistance from a home health aide, her monthly bill for services can be over \$3,000. At her age, Janet receives \$106,754 from a reverse mortgage. Her line of credit would cover monthly expenses of \$1,000 for over 12 years, or \$3,000 each month for over 3 years, at the current interest rate.

When an unstable health condition disrupts the family budget, it can be easy to come up short when it is time to pay the bills. A reverse mortgage credit line can help you manage cash flow since the money is available when you need it. You only pay interest on the amount that you use.

## How Much Money Will be Available to Pay for Help at Home?

The amount that you can borrow is based primarily on the age of the youngest homeowner, the value of the home, the type of reverse mortgage, and the current interest rate. The different types of reverse mortgages include:

- *Home Equity Conversion Mortgage (HECM)*—This program is offered by the Department of Housing and Urban Development and is insured by the FHA. HECMs are the most popular reverse mortgages, representing about 95% of the market.

- *Fannie Mae Home Keeper loan*—Borrowers can receive more cash from these loans than with a HECM since the loan limit for this product is higher.
- *Financial Freedom Cash Account loans*—This product is available to seniors who own homes that are worth more than \$600,000. These “jumbo” loans are especially helpful to homeowners with expensive homes since there is almost no maximum home value under this plan.

Loan amounts can vary by tens of thousands of dollars among the three types of reverse mortgages available in the market. So it will be important for you to consider your options carefully when selecting a loan. To find out how much money you may be able to get from a reverse mortgage, use the simple, on-line calculator offered by AARP ([www.rmaarp.com](http://www.rmaarp.com)) or the National Reverse Mortgage Lenders Association ([nrmla.edthosting.com](http://nrmla.edthosting.com)).

Reverse mortgages can pay for help at home for many years. The average home health aide charges about \$72 for a four-hour visit, which adds up to \$2,160 per month for daily care. Adult day care services cost on average about \$56 per day, or \$1,120 per month.

At these rates, a 75-year-old borrower who has a typical home (worth \$122,790 in 2004) may be able to use a reverse mortgage to cover the typical expenses of an adult day program for over six years, or daily home care visits for about 3 years (Figure 2). Since lenders offer higher loan amounts at older ages, an 85-year-old borrower would be able to pay for more assistance or for a longer period.

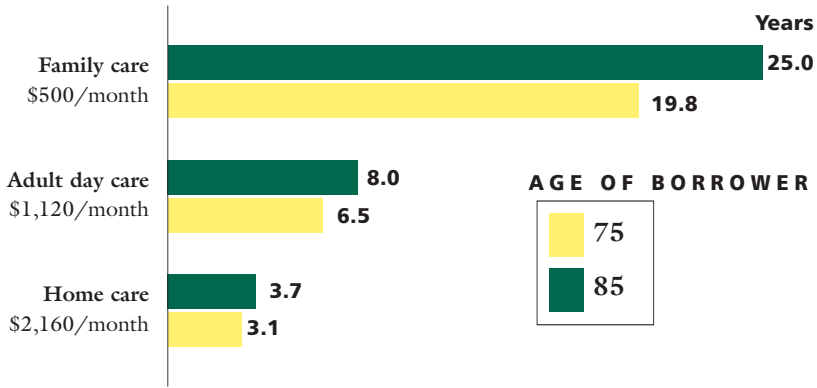
## What’s Left?

Not all reverse mortgage borrowers end up living in their homes for the rest of their lives. Some face health problems that require them to leave the home. Alternative settings, such as an assisted living facility or a retirement community, can be expensive. If

**FIGURE 2**

**Duration of funds to pay for home and community care from a HECM creditline**

Likely duration of funds based on monthly withdrawals from a HECM creditline (years)\*



\*HECM estimate based on median home value in 2004 (\$122,790) and an annual creditline interest rate of 5.46%. Source: NCOA analysis using the AARP reverse mortgage calculator.

your house is your main financial asset, you will need to make sure you have enough home equity or other resources left over to pay for a move to a more appropriate place, if needed.

When the last borrower dies or moves out of the home, the reverse mortgage becomes due and needs to be paid. How much equity would be left at this point depends on the amount of money you used from your loan, how long you kept the loan, interest rates, and any home appreciation.

If, at the end of the loan, your loan balance is less than the value of your home, then you or your heirs get to keep the difference. An important protection offered by reverse mortgages is that you (or your heirs) will never owe more than value of the home at the time you sell the home or repay the loan. This is true even if the value of your home declines.

# Concerns About Using A Reverse Mortgage

A reverse mortgage is not a financing option that is appropriate for everyone. These loans can be very costly for borrowers who do not continue to stay in their home for several years. Reasons why a person might be concerned about taking out this type of loan include:

- Closing costs can add up to more than 5 percent of the value of your home (for example, 5% of a \$100,000 home would be \$5,000). These costs can be financed into the loan.
- Borrowers may use up a large part of their home equity over time, reducing the amount they can leave as an inheritance to the family.
- If you are the sole borrower and you need to stay in an assisted living or nursing facility for more than a year, your loan will become due and will not be available to pay for care in these facilities.
- It typically takes 45 to 90 days from application to loan closing. Issues such as home repairs and questions about title to the home may slow down the process.

It is important to evaluate your financial planning options with a critical eye. Tapping home equity is often more than just a financial decision. It can also be an emotional issue that touches deeply held values. Older people with limited financial resources may be able to avoid using home equity by turning instead to government programs.

# Where To Go For More Information

The National Reverse Mortgage Lenders Association offers consumer publications and a website with a reverse mortgage calculator. They can also help you to find a reverse mortgage lender in your state: [www.reversemortgage.org/default.aspx](http://www.reversemortgage.org/default.aspx). or call them at 866-264-4466 (toll free).

*Home Made Money*, a brochure describing reverse mortgages is available from AARP online at <http://www.aarp.org/revmort-basics/Articles/a2003-04-07-homemademoney.html> or by calling 1-800-424-3410. AARP's website provides a detailed overview of reverse mortgages that includes a calculator to estimate how much you can get from this loan: [www.rmaarp.com/](http://www.rmaarp.com/)

The Financing Long-Term Care website offers planning tools and fact sheets to educate you and your family about how to plan ahead: <http://www.financinglongtermcare.umn.edu/>

The BenefitsCheckup is a quick, confidential, and free web service that helps you identify public program for which you may be eligible and connects you to federal and state programs: <http://www.benefitscheckup.org/>

## COMMON MISCONCEPTIONS ABOUT REVERSE MORTGAGES

**A reverse mortgage is where the bank takes your house at the end.**

Incorrect! With a reverse mortgage you and your spouse continue to own the home, and are the only names on the deed or title. Reverse mortgages are designed to tap only a portion of your equity, so you may be able to pass on an inheritance, or have money left over from the sale of your home should you decide to move.

**Reverse mortgages are only for desperate seniors, or for the "house rich, cash poor."**

Incorrect! This type of loan is used by homeowners from all walks of life to enhance their retirement years. The growing popularity of this product highlights its benefit to help homeowners deal with many different financial situations.

**You must be debt-free to qualify for a reverse mortgage.**

Incorrect! Even seniors with an existing mortgage and other debts may qualify for a reverse mortgage. The reverse mortgage can eliminate the need to continue to make monthly payments on that debt, freeing-up valuable cash on a monthly basis.

**When a reverse mortgage comes due, the bank sells the home.**

Incorrect! When the loan must be repaid, you or your heirs can either pay the balance due on the reverse mortgage and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage. You or your heirs keep money left over from the sale of the home, above and beyond the reverse mortgage balance.





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