Senior Life Solutions
Your Reverse Mortgage Specialists!™

HUD Enacts New Reverse Mortgage Lending Limits: Higher Limits Help to Alleviate the Gamble of Retirement

By Scott Kaul

In our business we are fortunate enough to meet with seniors every day, from many different walks of life, and have the opportunity to discuss their retirement plans and dreams.

Working within the Reverse Mortgage Industry, we basically assist 4 types of clients: 1) Those seniors who DON'T have enough retirement savings and social security income to enable them to live comfortably, 2) Those seniors who DO have enough retirement/social security income to live comfortably, but want the extra piece of mind of having access to additional income when needed, 3) Those seniors who DO have enough retirement/social security income to live comfortably, but want extra income to fund their dreams…..whether it be a second home, a motor home, an exotic trip someplace, or even a home remodel, and 4) Those seniors with adequate retirement/social security income but want to utilize a reverse mortgage for their estate planning needs (whether it's to fund life insurance, long-term care insurance, or just to minimize their estate in order to minimize inheritance taxes).

We find some of our clients more fortunate than others. Most of us have had some sort of retirement plan offered through our work, whether it is a Simple IRA, a 401k plan, stock options, or even an Employee Stock Ownership Plan (ESOP). And although the days of a full pension being part of an employment compensation package are pretty much gone, we still meet with those individuals lucky enough to have such a plan, particularly one which is adequately funded and secure. Those are the clients we sometimes refer to as "employment compensation package lottery winners."

And until recently, I wasn't aware of what a significant role the state lotteries (including Lotto here in WA) play in some people's true retirement plans.

There are many different plans to choose from for retirement planning; some are simplistic, some are conservative, some are flexible, and some are-shall we say…… "creative". However, until just last week, I never realized how ineffectual some plans are in comparison to others. According to a survey recently commissioned by the Financial Planning Association and the Opinion Research Corporation for the Consumer Federation of America, just 26% of adults surveyed think they could accumulate $200,000 net worth in their lifetime, and an amazing 21% said their most practical strategy for accumulating several hundred thousand dollars would be to win the lottery!

Sometimes it may feel like the road to success is always under construction, but in reviewing the WA Lotto odds (about 1 in 14,000,000), it certainly doesn't appear that road is held together by lottery tickets!

About half of those surveyed (55% to be exact) were more realistic in their view of retirement planning; they agreed the best way to accumulate several hundred thousand dollars would be to save a little bit each month. This could be done in an individual retirement account (such as a Roth IRA or other plan), a workplace retirement account like those mentioned above, or as is evidenced with many of our clients, even within a mortgage payment.

Although the safest way to plan for retirement may be a combination of all the above plans, the plain truth is that many people who are looking for that retirement financial boost are unaware that their best chances aren't necessarily found at the local Minute Mart in the form of a lottery ticket. For many, the answer is found right underneath their feet: it's the equity in their home!

For illustration purposes, let's use the example of a $200,000 mortgage, spread over 30 years, at 6.75% annual interest. If someone were to take $25 a month and add that to their monthly mortgage payment, as opposed to the lottery, that person would end up eliminating approximately 13 mortgage payments. That equates to $16,861 in monthly payments, and wipes out over $10,000 in interest! Using that same example noted above, if someone were to take $50 a month and invest it in their home, that person would eliminate 3 years of mortgage payments. That equates to $46,692 in monthly payments, and wipes out over $18,900 in interest!

The bonus with both these illustrations is that the additional investment would go towards an asset that is continuing to appreciate in value. In WA, that equates to a 290% increase in property values over that past 25 years! Considering the fact our state ranks 13th

nationally in Home Price Trends, it's clear that money spent on WA real estate has proven to be a wise investment. It may not be as exciting as the lottery, but at least the odds will be in your favor.

And the U.S. Government just made it easier to obtain more money from your home investment. On a nationwide basis, the lending limit for HUD reverse mortgages was just increased, thus allowing seniors aged 62 and older to tap into more of their home's equity.

This federally insured program enables senior homeowners to access the money they have locked up in their homes in the form of equity, and do so on a tax-free basis. They can use the money any way they wish, and the best part about it is there are no payments to make on the loan. Instead, the money you've already accumulated is paid to you, hence the name "reverse." Contrary to popular belief, the senior DOES NOT end up signing the title over to the lender. In fact, they remain on title to the home and can live in the home for as long as they choose!

With this type of loan (called non-recourse), no other asset of the estate will be required to pay the loan back. Also, the senior (or his/her estate) will never owe more than the home is worth, no matter how long they live, no matter how long they stay in their home, and no matter how large their loan grows. Many seniors are finding a reverse mortgage an ideal way to supplement their monthly income and put the word "Golden" back into the term "Golden Years."

Before heading down to the local Minute Mart with notions of investing your retirement hopes in lottery tickets, review your personal situation with a knowledgeable professional who can explain how a reverse mortgage may help you. Hopefully, you will end up with disposable income enabling you play the lottery for fun as opposed to need!

Scott Kaul is President of Senior Life Solutions, a Vancouver based company specializing in reverse mortgages. For more information on how a reverse mortgage may assist you with your retirement goals, please call (360) 944-9004. Senior Life Solutions can also be found on the internet at www.seniorlifesolutions.net.