Home Equity and Retirement Income Planning Survey

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Mission:
• Elevate the retirement-income planning knowledge of financial services professionals in order to improve retirement security for all Americans

Priorities & Initiatives:
• Research - RICP® Retirement Income Literacy Index
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Home Equity and Retirement Planning Literacy Survey

Purpose

1. Gauge the knowledge levels of those nearing or in retirement with regards to reverse mortgages.

2. Understand attitudes about the importance of housing decisions for those nearing or in retirement.

3. Find ways to improve the knowledge base of those nearing or in retirement with regards to home equity reverse mortgages.
Data & Research Methods

• A total of 1,003 people completed the survey, 537 Males and 466 Females between the ages of 55 and 75, with at least $100,000 in investable assets and $100,000 in home equity.

• The Survey’s knowledge questions were created by College professors and reviewed by industry experts to ensure accuracy.

• This study consisted of an online survey that was conducted by Greenwald & Associates through the Research Now only survey panel. The panel members are recruited through a controlled mix of both online and offline methods, by using “By-Invitation-Only” acquisition to avoid attracting professional survey takers. Research Now does operate a pay all incentive model where members are paid if they complete the survey.
Topline Results – Knowledge Levels

• Roughly 70% of respondents failed the Knowledge Quiz
• The knowledge of consumers was tested through 10 T/F questions relating to reverse mortgages, 70% being a passing score
  o Only 296/1,003 (30%) were able to get a 70% on the quiz
  o 398/1,003 (40%) answered 4-6 correct
  o 309/1,003 (30%) answers 3 or less correct
Topline Demographics – Who Responded?

- 44% had a comprehensive written retirement plan
- 14% had considered a reverse mortgage
- 60% had a financial advisor
- 60% were over the age of 62
- 53% were male and 47% were female
- 19% had home equity of $500,000 or more
- 30% had between $100-200,000 in home equity
Topline Results – Literacy

- Average (mean) correct was 4.8/10
- Men scored an average of 5.4 compared to 4.1 for women
- Individuals age 62-74 performed better than those age 55-61
- With or without an advisor had no impact!!!
- Considered a reverse mortgage had biggest impact with an average score of 6/10 compared to 4.6/10
- Comprehensive plan 5/10 compared to no plan 4.6/10
- As both investable assets and home equity went up so did knowledge
- Roughly 10% of respondents scored a 0 correct!
Topline Results – Literacy Misconceptions

• Two Biggest Misconceptions:
  • When you should use home equity in retirement (27% correct)
  • Do heirs have to repay the debt above and beyond the house value (25% correct)

• What people understood:
  • Knew that a lump sum wasn’t the only form of payment for a reverse mortgage (71%)
  • Knew that you could enter into a reverse mortgage before the house was fully paid off (69%)
Professor Hopkins Remarks

• Retirement income planning is extraordinarily challenging. Retirement income professionals are expected to manage a variety of client risks, legal changes, and ethical issues when developing a comprehensive plan. The survey responses show that many people moving into retirement with some home equity do not fully understand reverse mortgages, including those individuals that have reviewed reverse mortgages as a potential income source.

• While a reverse mortgage is not the right solution for every retiree, it can be a helpful retirement income tool. A reverse mortgage can diversify your home equity, build in a non-market correlated source of income to help offset market and sequence of returns risk, can be used to improve cash flow by turning off payments to a traditional mortgage, and be used for tax efficiency purposes during retirement.

• Financial advisers and retirees need to at least consider home equity as part of a retirement income plan and consumers need to better understand the features and uses of reverse mortgages.
Survey Data and Results

(Take the Quiz)
1) The earliest age at which a person who is the sole owner of a home can enter into a reverse mortgage is age 62.

2) If the value of your home has grown since you bought it, entering into a reverse mortgage would result in a taxable gain to the homeowner.

3) Under a reverse mortgage the homeowner generally is not required to repay the loan until he/she stops using the home as the principal residence.

4) You cannot enter into a reverse mortgage unless your home is completely paid off and there is no outstanding mortgage balance.

5) One downside with a reverse mortgage is that if the home goes under water (the home is worth less than the amount owed to the lender), the homeowner, estate, or heirs need to pay off the additional debt.

6) The only currently available form of payment from a reverse mortgage is a single lump sum distribution.

7) The amount of money that you can borrow as a reverse mortgage depends on the age of the youngest borrower or eligible non-borrowing spouse, the current interest rate, and the value of the home.

8) A reverse mortgage is different from a traditional mortgage in that the homeowner is not responsible for any property taxes or insurance payments.

9) Generally using a reverse mortgage early in retirement to support a retirement plan is better than as a last resort towards the end of retirement.

10) Because of concerns about poor money management and financial elder abuse, the Government has restricted the use of reverse mortgage proceeds to health care expenditures, long-term care costs, home improvements, and tax payments.
Question 1: The earliest age at which a person who is the sole owner of a home can enter into a reverse mortgage is age 62. [TRUE]

- 38% of the respondents knew the answer.
- 59% of those who had considered a reverse mortgage knew the answer compared to 35% who had not.
- 41% of those with a written plan knew the answer as compared to 36% without a written plan.
- 39% with an advisor knew the answer and 37% without an advisor knew the answer.
Reverse Mortgage – Taxable Growth

Question 2: If the value of your home has grown since you bought it, entering into a reverse mortgage would result in a taxable gain to the homeowner. [FALSE]

- 42% of the respondents knew the answer.
- 54% of those who had considered a reverse mortgage knew the answer compared to 40% who had not
- 47% of those with a written plan knew the answer as compared to 48% without a written plan
- 42% with an advisor knew the answer and 42% without an advisor knew the answer
Question 3: Under a reverse mortgage the homeowner generally is not required to repay the loan until he/she stops using the home as the principal residence. [TRUE]

• 59% of the respondents knew the answer.
• 75% of those who had considered a reverse mortgage knew the answer compared to 56% who had not
• 59% of those with a written plan knew the answer as compared to 59% without a written plan
• 57% with an advisor knew the answer and 62% without an advisor knew the answer
Question 4: You cannot enter into a reverse mortgage unless your home is completely paid off and there is no outstanding mortgage balance. [FALSE]

- 69% of the respondents knew the answer.
- 81% of those who had considered a reverse mortgage knew the answer compared to 67% who had not
- 73% of those with a written plan knew the answer as compared to 67% without a written plan
- 71% with an advisor knew the answer and 67% without an advisor knew the answer
Question 5: One downside with a reverse mortgage is that if the home goes under water (the home is worth less than the amount owed to the lender), the homeowner, estate, or heirs need to pay off the additional debt. [FALSE]

- 25% of the respondents knew the answer.
- 33% of those who had considered a reverse mortgage knew the answer compared to 24% who had not
- 27% of those with a written plan knew the answer as compared to 24% without a written plan
- 24% with an advisor knew the answer and 27% without an advisor knew the answer
Question 6: The only currently available form of payment from a reverse mortgage is a single lump sum distribution. [FALSE]

- 71% of the respondents knew the answer.
- 83% of those who had considered a reverse mortgage knew the answer compared to 69% who did not.
- 74% of those with a written plan knew the answer as compared to 69% without a written plan.
- 73% with an advisor knew the answer and 69% without an advisor knew the answer.
Question 7: The amount of money that you can borrow as a reverse mortgage depends on the age of the youngest borrower or eligible non-borrowing spouse, the current interest rate, and the value of the home. [TRUE]

- 39% of the respondents knew the answer.
- 47% of those who had considered a reverse mortgage knew the answer compared to 38% who did not
- 39% of those with a written plan knew the answer as compared to 40% without a written plan
- 38% with an advisor knew the answer and 41% without an advisor knew the answer
Question 8: A reverse mortgage is different from a traditional mortgage in that the homeowner is not responsible for any property taxes or insurance payments. [FALSE]

- 64% of the respondents knew the answer.
- 74% of those who had considered a reverse mortgage knew the answer compared to 62% who did not.
- 66% of those with a written plan knew the answer as compared to 61% without a written plan.
- 64% with an advisor knew the answer and 63% without an advisor knew the answer.
Reverse Mortgage – Retirement

Question 9: Generally using a reverse mortgage early in retirement to support a retirement plan is better than as a last resort towards the end of retirement. [TRUE]

- 27% of the respondents knew the answer.
- 31% of those who had considered a reverse mortgage knew the answer as compared to 26% who did not.
- 28% of those with a written plan knew the answer as compared to 26% without a written plan.
- 29% with an advisor knew the answer and 24% without an advisor knew the answer.
Question 10: Because of concerns about poor money management and financial elder abuse, the Government has restricted the use of reverse mortgage proceeds to health care expenditures, long-term care costs, home improvements, and tax payments. [FALSE]

- 46% of the respondents knew the answer
- 61% of those who had considered a reverse mortgage knew the answer as compared to 44% who had not
- 47% of those with a written plan knew the answer as compared to 46% without a written plan
- 43% with an advisor knew the answer and 51% without an advisor knew the answer
Respondent Concerns and Perceptions
Where will you live?

Have you thought about where you will live in retirement?

• 88% had thought about it
• 91% w/ advisor v. 84% without
• 90% w/ written plan v. 86% without
• People who considered where they will live performed better on quiz
Age in Place?

I plan to remain in my current home as long as I possibly can.

- 83% agreed with this statement
- Only 17% disagreed or had no feeling towards the statement
- Desire to live in place increased significantly as people aged
  - 67% of those age 62-74 strongly agreed compared to only 48% of those age 55-61
Years remaining in home?

I plan to remain in my current home as long as I possibly can.

• 21% expected to spend 20+ years in home (was slightly higher for those age 62-74 as compared to those 55-61)
• 42% expected to stay in house less than 10 years
• 58% expected to stay in house more than 10 years
House as a legacy asset?

How important is it for you to leave your home as a legacy to your children or other heirs?

• 19% listed this as extremely important
• 45% listed it is as not important
• Was less important for those who had considered a reverse mortgage and more important for those who had not
Where will you move?

If you leave your current home, where will you be most likely to move

- 44% stated a more livable home
- 35% stated a smaller home
- 15% stated a less expensive home
- 14% will never leave their home
- 10% stated a home that is closer to their networks
- 7% stated a nursing home
Rent or Buy?

When you leave your current home, will you buy or rent your new home?

• 64% said they would buy
• 5% said they would rent
• 31% said they were not sure
• Only demographics that had a major impact were assets – people with more assets were more sure that they would buy
• Only 1% of those with 1 million or more plan on renting
Home Equity and Retirement?

Have you considered how you will use your home equity in retirement?

• 44% said they have considered home equity
• 56% said they have not considered home equity

• A written comprehensive plan had a big impact on considering home equity – 52% with a plan considered it, while only 38% without a plan considered home equity
Do you feel comfortable spending down your home equity by using it as an income source in retirement?

- Only 25% felt comfortable spending home equity in retirement
- 63% of those that considered a reverse mortgage felt comfortable with spending home equity
- Existence of an advisor or written plan had no impact
- Men felt slightly more comfortable – 28% compared to 21% of women
- Those with $500,000 in home equity felt slightly more comfortable with 28%
Consider Reverse Mortgage?

Have you considered using a reverse mortgage as part of your retirement plan?

- 14% of respondents have considered a reverse mortgage
- 17% of men as compared to 12% of women
- Higher percentage under age 62 had considered than those above
- Existence of advisor, written plan, assets, and home equity value had no real impact
- Only one person in the survey had entered into a reverse mortgage – they performed extremely well on the exam (they did pass!)
Why didn’t you get a Reverse Mortgage?

Why did you decide not to enter into a reverse mortgage?

• Main reason was they didn’t “need it” because of sufficient income (44%)
• Age restriction (too young) was second response with 18%
• 10% said they were just not ready
• 9% found it too risky or not beneficial
• 6% considering other options
• 3% planning on moving
• 3% because they are not retired yet
Benefits of Reverse Mortgage?

I view reverse mortgages as a positive tool that can improve my retirement security.

- Average response was a 3/7 (disagree)
- Only 10% of respondents strongly agreed with the statement
- 35% strongly disagreed

- The general view was that reverse mortgages are not a good tool for their retirement security (existence of a plan or advisor did not seem to matter)
Perceived Reverse Mortgage Knowledge

How knowledgeable do you believe you are with regards to reverse mortgages?

• Average response was a 4.1/7 (moderately knowledgeable)
• 20% stated they were very knowledgeable (55% passed the quiz)
• Only 14% stated they had very little knowledge and only 5% stated that they were not knowledgeable at all
Concluding Thoughts & Takeaways
Conclusion

• The respondents on average did not know a lot about home equity with the average correct response being 4.8/10

• Most respondents had not considered home equity as an income source and were not comfortable with spending down their equity as a retirement income source

• However, for most respondents, keeping the home as a legacy goal was not a major issue

• Having an written financial plan helped improve knowledge of respondents, but it did not increase their ability to consider reverse mortgages – in fact neither did the existence of an advisor.
Conclusion

• Financial advisors need to do a better job educating and talking to their clients about home equity

• Only about half of the group that is okay with using home equity as a retirement income source have considered a reverse mortgage – showing a big opportunity out there

• Legacy goals do not look to be a major roadblock for most people with regards to their housing decisions – but for some people it will likely be a deal breaker as they want to live in place forever and leave the home to their children

• Confidence about reverse mortgage knowledge was a lot higher than their actual knowledge levels were
Additional Information

• The American College New York Life Center for Retirement Income
  - [http://retirement.theamericancollege.edu](http://retirement.theamericancollege.edu)

• The American College Cary M. Maguire Center for Ethics in Financial Services
  - [http://ethics.theamericancollege.edu](http://ethics.theamericancollege.edu)

• Retirement Income Certified Professional® (RICP®) designation
  - [https://ricp.theamericancollege.edu](https://ricp.theamericancollege.edu)

• Jamie Hopkins, Forbes contributor – Twitter – @jamiehopkins521
Retirement Risks: How To Plan Around Uncertainty For A Successful Retirement
Retirement Success In 10 Steps: How To Stretch Your Dollar To Last Through Your Golden Years
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