

Promoting Aging in Place: Planning and Financing LTC

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Older Americans Act (OAA)

- National Aging Services Network – federal state and local partnerships – AoA, SUA, AAAs, tribal organizations, and community providers
- Provides HCBS to over 8 million elderly a year
- Current reauthorization includes Choices for Independence

Choices for Independence

- 3 Pronged Strategy
 - More Choices for High-Risk Individuals
 - Healthy Lifestyles
 - Empowering Individuals to Make Informed Choices

Choices for Independence

More Choices for High-Risk Individuals

- Flexible service dollars target to moderate/low income at risk of nursing home
- Consumer directed approach model after Cash and Counseling
- Healthy Lifestyles
 - Build prevention into community living
 - Builds on AoA's Evidenced-Based Prevention Initiative
 - Programs include falls prevention, chronic disease management, physical activity, nutrition

Choices for Independence

- Empowering Individuals to Make Informed Choices
 - One stop shop resource centers, ADRCs (Aging and Disability Resource Centers)
 - Source of information & support options, including private financing, assessment, streamline eligibility
 - Public Education - Own Your Future LTC Awareness Campaign
 - Federal-state partnership
 - Phase III – authorized by DRA, expand to all states and comprehensive consumer website
 - Educate consumers on why and how to plan including use of reverse mortgages

RM as LTC Financing Tool

- Reverse mortgages turn home equity to cash for use in financing LTC personal and other needs
- LTC Insurance does not pay for prevention, home modifications, etc. that keep people in their homes; RMs fill that gap
- RMs promote aging in place, reduces risk of Medicaid spend down and/or institutionalization
- New Medicaid eligibility rules – home equity cannot exceed \$500,000 (up to \$750,000 at state discretion)

Basic Features of a Reverse Mortgage

- Loan for homeowner 62+ -convert equity to cash while in home
- Must own home free and clear, or have only small mortgage left that can be pre-paid or part of loan
- No income requirements, and no monthly payments
- Receive lump sum, line of credit, or monthly payments (for up to life in home)
- Use for any purpose, tax free
- Loan due - (last) borrower dies, sells, or in NH over 1 year
- Borrower responsible for repairs, taxes, insurance

Consumer Protections for RMs

- Borrowers can live in the home as long as they want without making a monthly payment.
- Never owe more than the value of the house at the time of sale or repayment of the loan.
- Must receive counseling from a HUD-approved agency before they can take out a loan.
- Borrowers can cancel the loan for any reason within three business days after closing.

Types of Reverse Mortgages

- Home Equity Conversion Mortgage (HECM)
 - HUD – insured by FHA
 - Represents 90% of market
- Cash Account Loans – Financial Freedom Senior Funding Corporation
 - Designed for high worth homes
 - Offer loans with no closing costs
- Fannie Mae Home Keeper loan

Potential of Reverse Mortgages

- Over half net worth of seniors is in home or other real estate (over \$2 trillion)
- About 82% of seniors are homeowners & 74% have no mortgage
- Of 21.5 homeowners 65+, 15 million qualify for RM
- 13.2 million households could receive at least \$20,000 in RM

Potential of Reverse Mortgages

- Median home value – owner 65+ in 2003 = \$122,790
- HECM loan range: age 75-\$52,950, age 65 - \$67,261, age 85 - \$82,884 at age 85
- Estimated amount of care for age 75 :
 - Family care @\$500/mo = 19.8 years
 - Adult day care @\$1,120/mo = 6.5 years
 - Home care @\$2,160/mo = 3.1 years

Potential of Reverse Mortgage

- Janet, age 85, has arthritis-pays neighbor for help around house \$1,000/mo. When Janet needs more assistance from home health, her monthly bill for services can be over \$3,000/mo. Janet has home equity of \$150,000. At her age, she could get \$102,378 from a reverse mortgage. Line of credit could pay monthly expenses of \$1,000 for over 13 years, or \$3,000/mo. for 3 years.
- (From Congressional testimony by Barbara Stucki on 5/17/06)

Potential of RM on Medicaid

- Over \$308 billion in home equity could be tapped through HECMs by households on/at risk for Medicaid.
- 1 million households on/at risk for Medicaid who need LTC could tap over \$57 billion in HECMs for care.
- Greater use of reverse mortgages by 2010 could reduce Medicaid long-term care expenditures for seniors.
 - 4% increase \$3.3 billion annual reduction.

Barriers to Reverse Mortgages

- Still new idea, misunderstandings/fear of losing home or not passing on to children
- Limits on loan amounts and exclusion of other loans (RM must be primary debt)
- Financial product barriers
 - Up front loan costs: closing costs, mortgage insurance fees
 - Servicing fees – federal regs allow up to \$35/mo

RM Activity/Promotion in States

- 12 states (CA,IN, MI, MT, NB, NJ, NY, NC, OH, RI, TX, and WA) promote use of reverse mortgages to finance LTC
- MN – Legislation for Reverse Mortgage Incentives program tied to state LTC program
- RI and NJ – charge lower origination fees
- MT – offers reverse mortgage program to help seniors age in place
- Total numbers of RM nationwide: 195,000

AoA Initiatives Promote Planning and Empowerment for System Change

- Support Reverse Mortgages for LTC Project
 - Look at ways to encourage impaired elders at risk of spend-down to use reverse mortgage
 - Collaboration with NCOA, ASPE
 - Funding for studies in project states (MN, WA, city of LA) to identify barriers, promote consumer understanding and utilization of resources
- Participate in Reverse Mortgage Counseling Project
 - Look at how to put RM counseling in aging network
 - Pilot projects include use of ADRCs as counseling vehicle

Resources on Reverse Mortgages

- Use Your Home to Stay at Home consumer brochures (www.ncoa.org).
- Reverse Mortgages for LTC: Blueprint for Action report (www.ncoa.org).
- AARP Reverse Mortgage Calculator (<http://www.rmaarp.com/>)
- Testimony – Subcommittee on Health, Committee on Energy and Commerce, US House of Representatives (5/17/06) – by Barbara Stucki, PhD, (<http://energycommerce.house.gov/108/Hearings/05172006hearing1900/hearing.htm>)
- Own Your Future: National Clearinghouse for LTC (website being developed)