The American College Is Keen on HECMs. Here's Why

By Kerry Pechter *Thu, Jun 2, 2016*

'We thought it was very much in our wheelhouse to show people how reverse mortgages should be used and how they shouldn't be used,' said Jamie Hopkins, co-director of the New York Life Center for Retirement Income at The American College.

Few financial advisors mention reverse mortgages when they talk to their 60-something clients, and few older clients consider these instruments. The American College, which sponsors the Retirement Income Certified Professional designation, would like to reverse that situation.

With its recent survey of upscale Americans over age 55 regarding these federally-insured loans against home equity (see today's RIJ cover story), the Bryn Mawr, Pa-based academic institution deliberately took a public stand—not that they are good or bad but that they have a legitimate place in any retirement advisor's financial toolkit.

"Whether it's for a legacy or for long-term care expenses or for use strategically at the beginning of retirement, a lot of people will have to consider using their home equity at some point. So we said, 'Let's try to lead that conversation," said Jamie Hopkins, the co-director of the New York Life Center for Retirement Income at the College as well as an attorney and professor of taxation (below).

"We're not taking a particular stance on the product. But we thought it was very much in our wheelhouse to show people how reverse mortgages should be used and how they shouldn't be used," he told *RIJ* recently.

"Reverse mortgages aren't right in every situation. But the changes in the last couple of years have made them worthy of a second look. The question is, how can we help the decisions around home equity become coordinated into retirement income planning better?"

he added.

In a recent series on home equity conversion mortgages (HECMs) and lines of credit (HECM-LOCs), as reverse mortgages are also known, *RIJ* explored some of the reasons why these products aren't more popular, given their potential benefits. They allow people over age 62 to borrow amounts equal to about half or more of their home equity (depending on the age of the youngest borrower, prevailing interest rates, etc.) while continuing to live in their homes. No payments on the loan are due until they die or move, and they pay only the usual taxes and maintenance in the meantime.

There were several reasons. Reverse mortgage pricing is not very transparent, which, coupled with the uncertainty of life expectancies, makes it hard for people to gauge the cost or the value of their loan. HECMs also lack a strong distribution network. Broker-dealer advisors have little or nothing to gain by recommending them, and a lot to lose (questions from FINRA, their self-regulating body, which traditionally doesn't approve of reverse mortgages).

But when The American College was creating its RICP designation, Hopkins and others decided that retirement advisors should learn about reverse mortgages, that the school was the right institution to teach the subject, and that the inclusion of HECMs in the designation's curriculum would be a distinguishing feature.

"As we got further into the retirement income planning arena, and looked at the Baby Boomer assets and how to be strategic about it, you could see that people don't have a lot saved. But they do have Social Security and home equity. Average Americans have twice as much wealth in their homes as they do in other assets. So making the right decisions about Social Security and about the home is important," Hopkins told *RIJ*.

Yet few advisors think to leverage this wealth. "Nobody is giving advice in this area," Hopkins said. "Rarely do I run into RIAs who plan for home equity or any other aspect of the home. It falls outside their planning process. But it's ridiculous to ignore two-thirds of peoples' wealth. People just assume that when they die the house will go to the kids. That's the default plan. But a default plan is not a very good plan. So we said, as a college, shouldn't we be involved in this topic?"

Changing trademark

"We're a school that's trying to change its trademark from life insurance to comprehensive planning. There are no other places that own the thought leadership in [the HECM] area.

Social Security and qualified plans are huge topics, you can’t own those topics, but we thought we could make a big impact in this area. I said, ‘Let’s play to where the puck is going to be.’ As a group, the baby boomers won’t collectively make through retirement without using their homes. At some point, most of them will have to use it,” Hopkins said.

Several well-known academics have explored the use of home equity within a retirement income strategy, including economics Nobelist Robert Merton. “But it’s only one professor here or there. We are in the right space to do this. We have the RICP program, we have Wade Pfau (the head of the school’s doctoral program in retirement income) as a researcher on the topic, and we had the New York Life Center for Retirement Income,” he added.

When we created the RICP, “we knew we’d talk about housing decisions, and include descriptions of the basic reverse mortgage and the Saver’s HECM, going through all the features,” he said. “Then we made a more strategic decision. We said, how we pull all the ideas about the home—prepaying the mortgage, taking single-purpose or special purpose loans, home-sharing—and approach them systematically.”

That was a potentially risky move, given the poor reputation of the reverse mortgage industry. But “we haven’t seen pushback,” Hopkins said. “At the beginning we thought, Will companies ask us why we’re doing this? And sometimes an advisor in the RICP program asks why we’re talking about these things. But we get the same kinds of questions about variable products and mutual funds. Any product can be used poorly. But we think there is a spot for reverse mortgages in financial planning. We think it needs to be part of a comprehensive retirement plan.

“The state of reverse mortgage planning looks like the state of long-term care planning a decade ago. People didn’t discuss it. They just assumed that you’ll run out of money and end up on Medicaid and they didn’t buy the insurance. We’ve seen that begin to change, as more people begin planning for their long-term care needs and incorporating long-term care into their retirement plans,” he told *RIJ*.

“We have this incredibly silo-ed approach to reverse mortgages,” Hopkins added. “The advisor says it’s not his territory. People got to a broker and find that they just get products and not advice. You get a piecemeal approach to financial planning and that’s not how it should work, ideally. A planner should be able to say, here are x, y, z things, and here are the reasons to do them or not do them. Today we don’t get that. I like to say that retirement planning is like ‘shooting a moving target in the wind.’ That’s what makes it so hard.”