WHY DO SMART PEOPLE STILL CHOOSE REVERSE MORTGAGES

Beginning in 2012, academic researchers with no stake in selling reverse mortgages ran the numbers. They reached a conclusion that surprised the financial planning profession: used a particular way, a reverse mortgage improved retirement outcomes.

That research is the honest case for this product.

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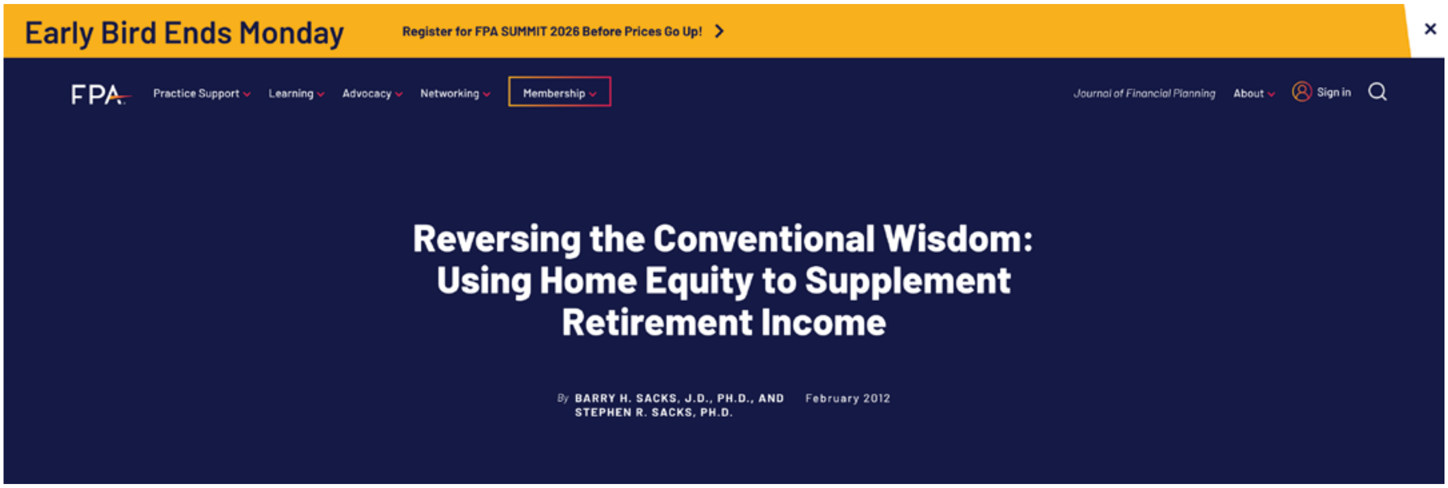
The Study That Started It



In February 2012, the *Journal of Financial Planning* published Barry H. Sacks and Stephen R. Sacks, “Reversing the Conventional Wisdom: Using Home Equity to Supplement Retirement Income.”[1]

Their question was narrow and technical. Retirees living off an investment portfolio face what’s called *sequence of returns risk*, the danger of withdrawing money during a market downturn, which locks in losses and permanently damages the portfolio. The Sacks brothers asked whether a reverse mortgage line of credit could serve as an alternative source of cash in down years, leaving the portfolio alone to recover.

They found that active use of a reverse mortgage credit line throughout retirement significantly increased cash flow survival rates and residual net worth, compared with waiting to establish a line of credit only after the investment portfolio was exhausted.

The counterintuitive part is the residual net worth finding.

Retirement researcher Wade Pfau, summarizing the results, reports that for withdrawal rate goals between 4.5% and 7% of the initial portfolio balance, residual net worth after thirty years was 67% to 75% more likely to be higher with the coordinated strategy than with using the reverse mortgage as a last resort.[2]

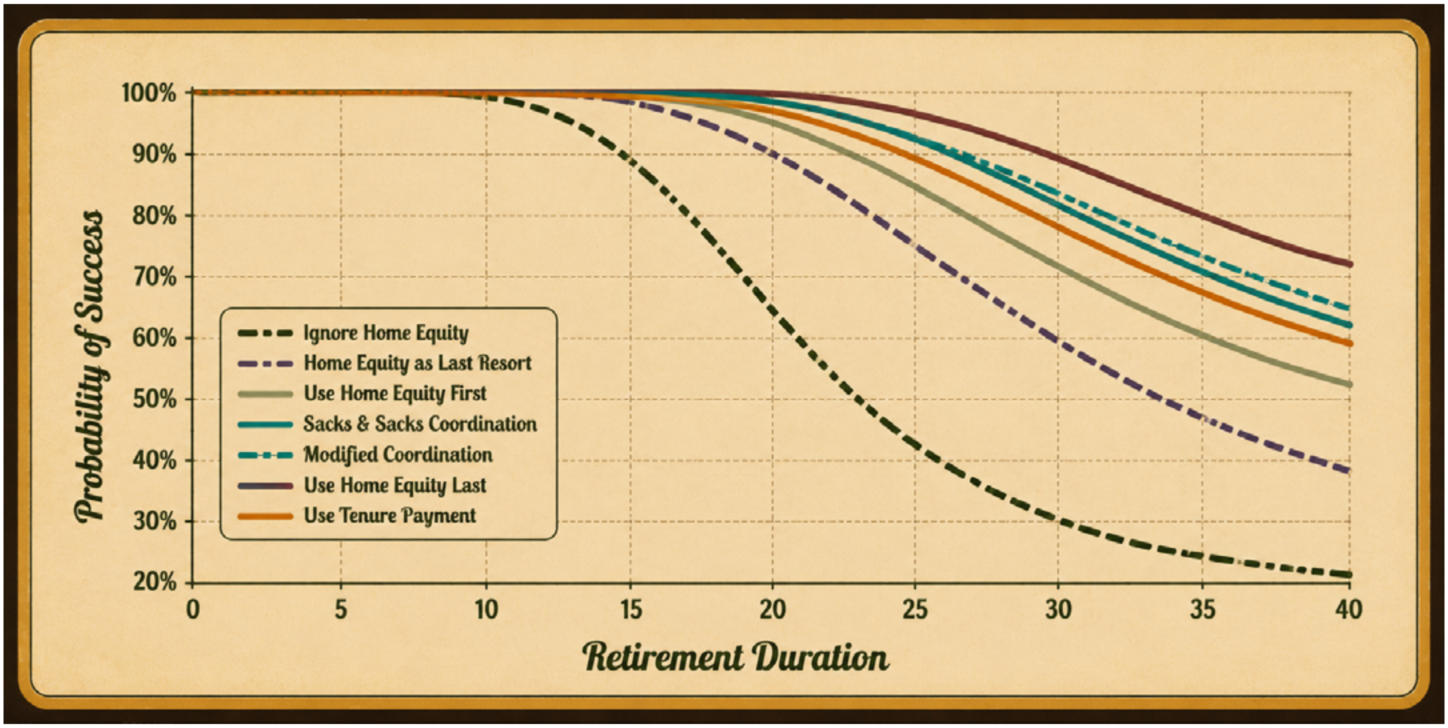
In simple words, households that used home equity strategically often ended up with more left over than households that avoided touching it. That finding got the profession's attention.

A single study proves little. What makes this research credible is that a separate team reached the same conclusion without knowing about it.

John R. Salter, Shaun A. Pfeiffer, and Harold R. Evensky published "Increasing the Sustainable Withdrawal Rate Using the Standby Reverse Mortgage" in the same journal. They developed conclusions quite similar to the Sacks brothers, and their research provided independent confirmation that a reverse mortgage line of credit can help mitigate sequence of returns risk without harming legacy goals.[3]

Why the Line of Credit Specifically

Nearly all of this research points at one payout structure, and understanding why explains most of the informed interest in this product.



A HECM line of credit has a feature that exists in essentially no other lending product: the unused portion grows over time. The HECM line of credit functions as a tool to mitigate the impact of portfolio losses early in retirement.[4]

So What Does an Informed Borrower Actually Do Differently?

The pattern across all this research is consistent, and it's nearly the opposite of how reverse mortgages were historically sold:

- **They set it up early and don't use it.** The line grows while untouched, which is exactly the point.

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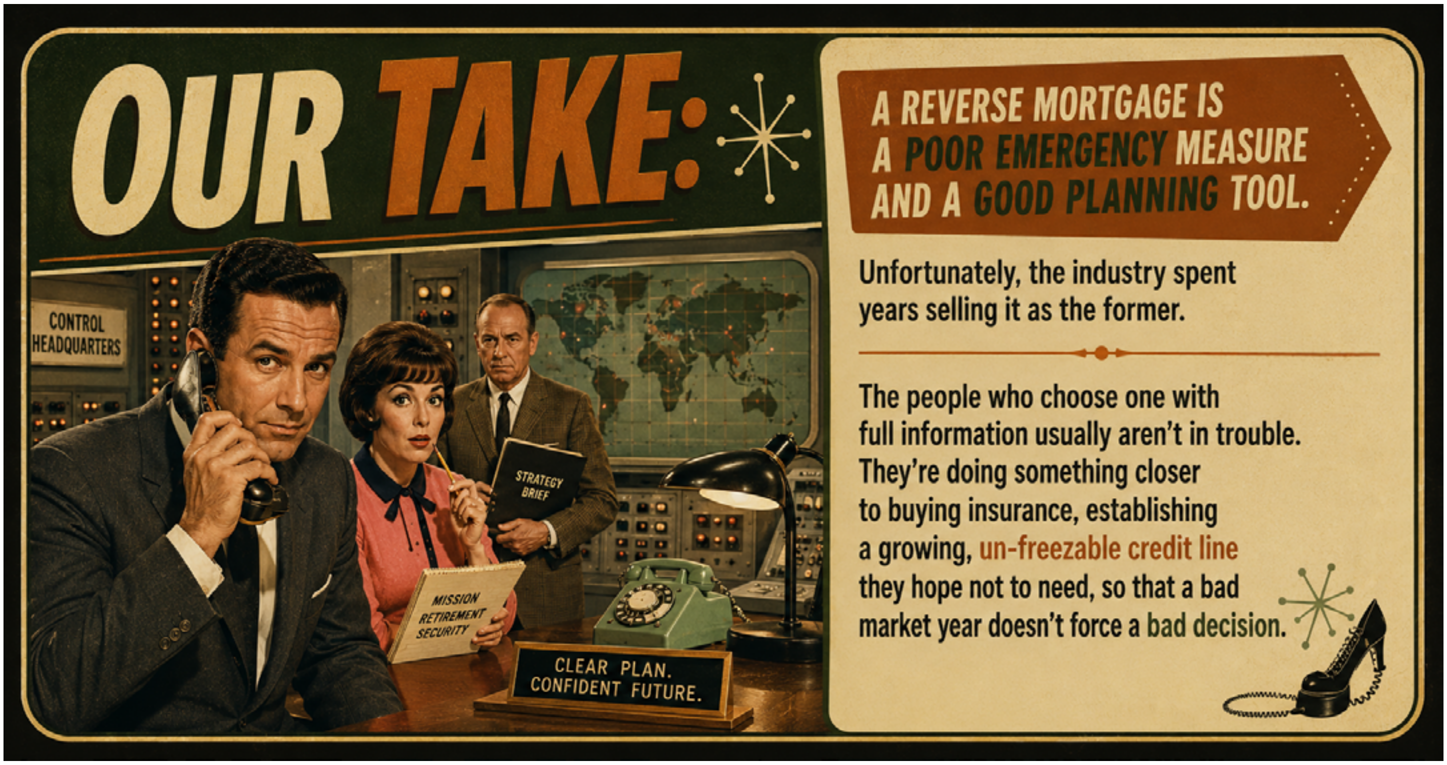
- **They avoid the large lump sum.** The research is about a standby credit line, not cash at closing.
- **They treat it as risk management,** not income, a buffer for bad market years, not a spending account.
- **They plan to stay in the home long-term,** which is what makes the fixed upfront costs worth absorbing.

Our Take

A reverse mortgage is a poor emergency measure and a good planning tool. Unfortunately, the industry spent years selling it as the former.



The people who choose one with full information usually aren't in trouble. They're doing something closer to buying insurance, establishing a growing, un-freezable credit line they hope not to need, so that a bad market year doesn't force a bad decision.

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If that describes your situation, this research is worth taking seriously.

Everything above is published research you can look up independently, which is the point. Keep reading through our educational library at www.greenmonarch.com, where we cover the costs, the catches, and the rest without the spin. When you want to talk through whether the standby strategy fits your situation, call (800) 345-2041.

SOURCES

1. https://www.financialplanningassociation.org/article/journal/FEB12-reversing-conventional-wisdom-using-home-equity-supplement-retirement-income
2. https://retirementresearcher.com/improving-retirement-income-efficiency-using-reverse-mortgages/
3. https://www.financialplanningassociation.org/article/journal/DEC13-increasing-sustainable-withdrawal-rate-using-standby-reverse-mortgage
4. https://www.financialplanningassociation.org/article/journal/APR16-incorporating-home-equity-retirement-income-strategy

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