REPRINTED FROM THE

FRIDAY, MAY 12, 2006

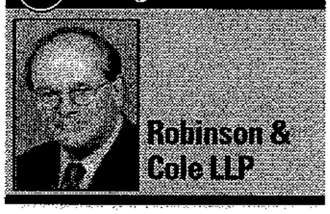
ne NEW ENGLAND

Real Estate Journal

THE LARGEST BUSINESS PUBLICATION OF ITS KIND IN THE NATION

Baby boomers, unleashing home equity, annuity mtges.

dm Dwight Merriam



We have a demographic and financial alignment of cosmic dimensions that has blasted annuity mortgages from their largely somnolent state to the forefront of retirement funding tools.

First, we have the enormous force of a demographic phenomenon. The oldest of the baby boomers are just turning 60, as I did last month. This age cohort, born from 1946 to 1964, numbers 76 million.

Second, the boomers have unequalled home equity. The locked-up value of their homes is staggering – older members of this segment have an average of $112,000 in equity in their homes, and in hot markets the number is certainly larger. Home equity accounts for half of all of an average boomer household's total net worth.

Cape Cod is a good example of where demographics, locked-up equity, and high values have come together to create particular pressure. Twenty-four percent of residents are over 65 years old, twice the national rate. Winter occupancy has increased from 57% in 1990 to 64% in 2000, suggesting the boomers are moving in to retire. According to the Barnstable Registry of Deeds, as reported in a recent Cape Cod Times article, the median sales price for properties valued above $50,000 was $354,900. Yet, the household incomes are among the lowest in Mass. — $46,000 compared with $50,200 statewide, because many are living on pensions, retirement funds and social security.

Third, older Americans have not done a good job in retirement planning. Traditionally, retirement income came from Social Security, private pensions, and personal savings. The security of Social Security is in question, many pensions have been lost in corporate collapses, and Americans have not saved much. The rate of personal saving in the United States has fallen sharply in recent years, from 8% 20 years ago to about 1%. This is among the lowest rates for an industrialized country and may be compared with 13% in Japan, 12% in Germany, and 15% in France. Clearly, home equity is essential to the support of boomer retirees.

With a reverse mortgage a homeowner receives money from a lender, most often a bank, based on the value of the home, the equity in it, the age of homeowner, and an interest rate. For example, AARP reports that a 65-year-old owner of a $200,000 home in Westchester County, New York, could get a maximum reverse mortgage loan of $104,029. Payment can be a lump sum, a line of credit, or payments over time (the reverse annuity mortgage).

The reverse mortgage can be a trap for some. The amount of cash out is sometimes surprisingly small. In the Westchester example, the homeowner can only unlock half of the value. Might it be better to sell the home, invest the proceeds, and move to a small apartment? Some instruments require repayment at a certain level. You could outlive the mortgage and be left with nothing. Like most mortgages, there will be fees to pay. They are typically twice those of a conventional mortgage. In the Westchester example, ElderLaw Answers.com says the fees would be $10,000.

The reverse mortgage works best with rising home prices and low interest rates. When home prices stagnate or fall, and interest rates creep up — which they may be doing right now — a reverse mortgage, especially with an adjustable rate, could be a bad deal.

Accumulated proceeds of an annuity mortgage may make the borrower ineligible for Medicaid and SSI. Proceeds from a reverse annuity mortgage may be counted as income against Medicaid and SSI limits whether or not they are spent when received.

AARP has an excellent website for such mortgages including a calculator. www.aarp.org/money/revmort

The "bottom line" – we baby boomers will look to unlock our home equity because it is likely the greatest part of our wealth, but we will need to be careful to do so in ways that avoid unintended consequences and provide sufficient resources for what we hope will be a long retirement.

Dwight Merriam, Esq., FAICP, CRE is with Robinson & Cole LLP, Hartford, Conn.