Using Reverse Mortgages to Delay Social Security - What You Need to Know

October 30, 2018 - Just because you're thinking about retirement doesn't mean that you necessary want to tap into you Social Security benefits right away. That's because for every year you delay taking Social Security from age 62 on, you can increase your monthly payments later by close to 8%. That means if you are entitled to $1,000 per month at age 62, your monthly payment would be around $1,700 per month if you delayed taking payments until you are 70 years old. That sounds like a huge difference but using a reverse mortgage for money during those 8 intervening years could be a big mistake.

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The CFPB (Consumer Financial Protection Bureau) issued a report earlier last year that determined the use of a reverse mortgage to delay Social Security payments actually costs the average consumer $2,600 more than taking those payments at an earlier age. There are a number of factors that support that conclusion.

First, reverse mortgages are expensive. There are up-front fees associated with taking out a reverse mortgage. These fees mean that as soon as a reverse mortgage in put in place, the borrower owes the bank money even if they have never taken a penny in payments.

Second, interest rates on reverse mortgages are higher than on traditional mortgages. Current rates are around 6% and the rate is adjustable. Compare that to a 30 year fixed rate loan at today's rate of just under 5%. Since interest rates are currently increasing, reverse mortgage costs are also going up.

But none of this stops some loan brokers from attempting to sell reverse mortgages specifically to delay the need for Social Security. It's a practice that we don't believe to be ethical and could lead to significant problems for borrowers.

With rising costs for reverse mortgages in combination with a slowing real estate market, many borrowers are likely to find they have no equity in their homes by age 70. While the bank won't kick them out of their house simply because their reverse mortgage is upside-down, it will leave the homeowner with very few options moving forward. If you want to relocate to be closer to family, or more into an assisted care facility, you may not have any money to make those moves. And if you become ill and have to move out of your home for more than six months, the bank will force you to sell your property or they will foreclose. Once you're healthy again, you may not have a home to go back to.

Over the years, we've written a lot about reverse mortgages. Most of that writing hasn't been flattering. These are the only legal mortgages today for owner-occupants with negative amortization. They are being sold to older Americans as a panacea to cure all of their financial woes. In reality, taking out a reverse mortgage without a real understanding of them and their costs can be a "financial woe multiplier."
byJim Malmberg
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