

Reverse mortgages and retirement planning

Why broker-dealers and RIAs should consider home equity strategies

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Executive summary

Broker-dealers and registered investment advisers operate under fiduciary and best-interest standards that require advisors to evaluate all reasonable strategies that may improve retirement outcomes for their clients. As home equity often represents a client's largest balance sheet asset, excluding it from the planning conversation could result in incomplete analysis, suboptimal cash flow strategies, and avoidable portfolio risk.

This white paper presents a compliance-oriented framework for allowing advisor-level discussions of reverse mortgages as a **planning input**, not a sales product. When appropriately structured, reverse mortgages could serve as a tool that complements traditional investment, tax, and distribution planning, particularly for longevity risk, sequence-of-returns risk, and cash-flow sustainability.

The paper provides compliance departments with a clear, balanced rationale for incorporating reverse mortgage education and scenario analysis within defined guiderails. These guiderails include role clarity between advisors and lending professionals, standardized disclosures, documentation requirements, and supervisory oversight designed to protect consumers and mitigate regulatory risk.

Allowing advisors to address home equity as part of broader financial strategies, without engaging in the origination, recommendation, or sale of mortgage products, enables firms to deliver more comprehensive financial planning, reinforce fiduciary responsibility, and offer retirement guidance that is fully integrated with the household's overall balance sheet. This approach supports better client outcomes while preserving strong compliance controls, consistency, and firm-wide risk management standards.

The retirement income planning gap: Ignoring a large asset

Retirement income planning has traditionally centered on financial assets that are easily quantified, liquid, and already embedded in planning software. These would include investment accounts, pensions, and Social Security benefits, all of which are easy to model and project. Home equity, however, tends to be ignored for income planning purposes due to historically limited access options, which include downsizing to a less expensive property for monthly cash flow savings and the return of equity, or refinancing to

a traditional mortgage or home equity line of credit (HELOC), all of which have their limitations.

Downsizing often means relocating to different communities and losing an established support system or a home with emotional attachments. Refinancing, if the homeowner qualifies for a traditional mortgage or HELOC, creates a monthly payment that must be added to the budget. For these reasons, home equity is often only a part of net worth calculations.

However, for many homeowners approaching or entering retirement, home equity could equal or exceed the value of their investment portfolios. When retirement income plans fail to account for this asset, advisors may unintentionally recommend higher portfolio withdrawal rates, increasing exposure to market volatility and risking early depletion of financial assets.

In contrast, plans that incorporate contingent or supplemental access to home equity could provide flexibility, reduced pressure on investment assets, and potentially improve the sustainability of retirement income strategies.

From a compliance and fiduciary standpoint, omitting what could be a client's largest asset raises important questions. Best-interest standards are increasingly interpreted to require consideration of all material financial resources when evaluating retirement strategies. As highlighted in an [Investment News commentary on "error by omission"](#), failing to evaluate home equity, including potential reverse mortgage strategies, may itself be viewed as a material oversight in the planning process, particularly when it could meaningfully impact client outcomes. While advisors are not mortgage originators, permitting them to analyze and discuss reverse mortgages as one potential method of accessing home equity helps ensure that retirement recommendations are comprehensive, well-reasoned, and aligned with client goals.

What is a reverse mortgage?

A reverse mortgage is a loan product that allows eligible homeowners to convert a portion of their home equity into cash or credit that they could access while still retaining ownership of the home. Unlike a traditional mortgage, a reverse mortgage has no required monthly principal or interest payment as long as the borrower lives in the property as their primary residence. The borrower's right to remain in the home is contingent on paying property taxes and homeowners' insurance, maintaining the home, and complying with the loan terms, just as with any mortgage financing.

The most widely used reverse mortgage is the Home Equity Conversion Mortgage (HECM), which is insured by the Federal Housing Administration (FHA). This product is available nationwide and requires borrowers to be at least 62 years old. In addition to FHA-backed options, several lenders provide proprietary reverse mortgage products with loan amounts

up to \$4 million and minimum age requirements starting at 55. While these proprietary products are not offered in every state, they provide the benefits of a reverse mortgage to a broader and younger demographic.

All current reverse mortgages, whether FHA or proprietary, include consumer protections such as non-recourse clauses and required third-party counseling, which ensures the borrower understands the product, their options, and is mentally competent to make financial decisions. Despite these measures, misconceptions persist from earlier versions that lacked regulation and transparency. Today's reverse mortgages, however, limit borrower liability, require informed consent, and allow homeowners to retain the title if all loan terms are met.

At their core, reverse mortgages are a way to access illiquid home equity in a structured manner. When evaluated alongside alternatives such as HELOCs, downsizing, or traditional refinancing, reverse mortgages are among several tools that may be relevant depending on client objectives, risk tolerance, and time horizon.

Strategic advantages in retirement planning

When integrated into a retirement plan, reverse mortgages could address several structural risks that retirees commonly face. One of the most significant is sequence-of-returns risk, which occurs when poor market performance early in retirement coincides with ongoing portfolio withdrawals. Having access to home equity as an alternative source of cash flow can reduce or delay the need to liquidate investments during these periods, allowing portfolios time to recover and potentially improve long-term sustainability.

Another significant risk that retirees face is the probability of long-term care expenses. Reverse mortgages may serve various purposes in this context, including funding home modifications that support aging in place or covering costs for in-home care services. Leveraging home equity can be an effective strategy to address this risk, either as a supplement to, or a replacement for, traditional long-term care management solutions.

Reverse mortgage proceeds are treated as loan advances rather than income, which means they are not subject to income taxation. This characteristic can enhance tax efficiency by reducing reliance on taxable distributions from retirement accounts or capital gains from investment sales. In certain scenarios, this may help smooth tax brackets, manage Medicare premium thresholds, or coordinate withdrawals across account types more effectively.

In addition to addressing risk mitigation and tax considerations, reverse mortgages could enhance planning flexibility. Given that a significant portion of many clients' wealth is concentrated in tax-deferred retirement accounts and real estate, access to home equity, such as through a reverse mortgage line of credit, could provide a valuable contingency resource. A recent [publication](#) from the Center for Retirement Research at Boston College

noted that in any given year, 83% of households will experience an unexpected expense such as healthcare, home and auto maintenance, support for family members, and more. On average, the report noted that unexpected expenses could average 10% of retirement income per year. Having access to home equity can provide flexibility and options for managing these unplanned expenses, helping to reduce financial stress.

Reverse mortgages as a coordinated withdrawal tool

In 2012, Sachs and Sachs published a foundational [article](#) in the Journal of Financial Planning that evaluated three distinct strategies for utilizing home equity, specifically with a reverse mortgage (HECM) line of credit, to safeguard an initial withdrawal rate. The first strategy involved the conventional use of a reverse mortgage, which is to put one in place only after a portfolio is exhausted. The second strategy adopted a coordinated approach, leveraging the reverse mortgage during market downturns as an alternative to liquidating portfolio assets. The third strategy proposed using the reverse mortgage as the primary funding source, deferring portfolio withdrawals until all reverse mortgage proceeds were exhausted.

The study found that both the second and third strategies, which incorporate home equity before portfolio exhaustion, significantly enhanced cash flow survival probabilities and offered greater potential for improved net worth than using the reverse mortgage solely as a last-resort loan.

Product innovation and evolving home equity solutions

The reverse mortgage market has continued to evolve in response to changing homeowner demographics, housing values, and interest rate conditions. In addition to federally insured HECM loans, proprietary reverse mortgage products have emerged to address planning scenarios that fall outside traditional product limits. These proprietary offerings work well with higher-valued properties, enabling homeowners whose residences exceed FHA lending caps to access home equity based on their home's full value.

Another innovation in the reverse mortgage market are proprietary second-lien products. Traditionally, reverse mortgages, both HECM and proprietary, have always been in a first-lien position. However, the new second-lien products provide homeowners with existing forward mortgages an additional financial planning option. By allowing borrowers to keep their original mortgage and add a reverse mortgage as a subordinate lien, they could have greater liquidity without sacrificing favorable initial loan terms. This solution is especially beneficial for those who refinanced at low interest rates and want to preserve their competitive first-lien rate while also accessing additional cash.

As the second-lien product is a reverse mortgage, it functions the same way. There are no required principal or interest payments for as long as the homeowner continues to live in the property as a primary residence. The borrower is still responsible for timely payments on their first lien mortgage, and the borrower's right to remain in the home is contingent on that, along with paying property taxes and homeowners' insurance, maintaining the home, and complying with the loan terms, as they would with any mortgage financing.

From a retirement planning perspective, proprietary reverse mortgages, both traditional and second-lien, expand the range of households for whom home equity strategies may be relevant. Clients with significant real estate wealth but comparatively modest financial portfolios may otherwise face pressure to liquidate investment assets or prematurely restructure income plans. The availability of proprietary solutions allows advisors to model scenarios that incorporate housing wealth into the overall retirement strategy, providing added options and flexibility to the financial plan.

For compliance purposes, the evolution of proprietary products lies not in product promotion, but in recognition of the broader planning landscape. As home equity access options diversify, restricting advisor discussions to traditional reverse mortgage products may limit the ability to evaluate reasonable alternatives. Allowing advisors to engage in high-level educational discussions about proprietary options, including the second-lien reverse mortgage, supports comprehensive analysis while preserving appropriate boundaries between advice, education, and product utilization.

Client profiles

Reverse mortgages are not universally appropriate, and suitability analysis remains essential. They are most often considered for clients who are asset-rich but cash-flow constrained, and who intend to remain in their homes for an extended period. Clients with limited pension income or those seeking to preserve portfolio assets for longevity or legacy purposes may also find home equity strategies with a reverse mortgage worth evaluating.

Conversely, reverse mortgages may be less appropriate for clients planning to relocate in the near term, those with strong aversions to debt, or households for whom preserving home equity for inheritance is a priority. The advisor's role should not be to advocate for a specific outcome, but to ensure that the client understands the range of available options and the tradeoffs associated with each.

Risks, tradeoffs, and advisor responsibilities

As with any financial option, reverse mortgages involve costs and tradeoffs that must be evaluated carefully. These may include upfront fees, ongoing mortgage insurance premiums, and the depletion of some or all of the home equity. Advisors should compare

these factors against the costs or fees of other liquidity resources such as portfolio withdrawals, which may incur income or long-term capital gain taxes, insurance policy loans, which may decrease death benefits, traditional refinancing, including home equity lines of credit, which could add to the monthly budget, or downsizing strategies which may involve relocating to an area outside of existing support networks.

Housing market risk and longevity assumptions also warrant consideration. While reverse mortgages include non-recourse protections, the strategy presumes continued residence in the home. Changes in health, family circumstances, or housing needs could alter the suitability of the approach over time.

Advisors discussing reverse mortgages must ensure that clients have a clear understanding of how the loan works, what obligations remain, and how the strategy aligns with broader financial and estate planning goals. Documentation of assumptions, alternatives considered, and client preferences is critical from both a planning and compliance standpoint.

Compliance and regulatory considerations for broker-dealers and RIAs

From a regulatory perspective, reverse mortgages represent a unique financial product; however, many compliance departments have not allowed their associates to include them in client conversations. This is often a result of a former FINRA investor alert that noted reverse mortgages as a loan of last resort for investors who had exhausted all other sources of liquidity. The alert was revised, however, in 2014, mainly due to the review of the Sachs and Sachs work previously noted. The current FINRA investor alert, as of January 2014, recommends the prudent use of home equity in retirement planning, which is the suggestion of this paper.

That said, advisors affiliated with broker-dealers or registered investment advisers (RIAs) should not be directly involved in originating or selling mortgage products when including reverse mortgages in retirement planning analyses. Instead, their focus is on assessing the potential implications of accessing home equity, much as they would evaluate pension selections, annuity choices, trust structures, charitable or family gifting strategies, or Social Security options.

Compliance frameworks could reinforce this distinction by explicitly defining the advisor's responsibilities. Advisors may inform clients about the mechanics of reverse mortgages, highlight situations where such products may be suitable or unsuitable, and refer clients to licensed mortgage professionals for specific loan-related inquiries. Importantly, under the Real Estate Settlement Procedures Act (RESPA), lenders are prohibited from compensating advisors for mortgage-related referrals, ensuring that conflicts of interest are managed and that holistic client guidance is maintained.

Thorough documentation and written evaluations of alternative solutions further reduce regulatory risk. By objectively considering reverse mortgages alongside other strategies and demonstrating alignment with client objectives, advisors substantiate their adherence to best-interest standards.

Practice management and modeling client outcomes

From a firm perspective, enabling informed discussions supports consistency, transparency, and risk management. Rather than clients encountering reverse mortgages through unvetted external sources, the advisory relationship remains central, with decisions evaluated in context. Ultimately, incorporating home equity analysis into retirement planning reflects an evolution toward more complete, client-centric advice rather than an expansion into product sales or promotion.

The parameters for informed client discussions are often centered around financial planning software illustrations. Some popular planning programs, including RightCapital, Moneytree, MoneyGuidePro and eMoney Pro, all have options to model reverse mortgages, either as a dedicated input or through workarounds that may achieve similar results.

No matter what planning software is used, the most effective way to include a reverse mortgage is to model it as both a **source of cash flow** and a **growing liability**. This dual treatment reflects economic reality and aligns with how reverse mortgages impact household balance sheets over time. Modeling options include:

Comprehensive modeling

Using “Other Income” with a manual input “Liability” approach allows advisors to show how reverse mortgage proceeds can supplement retirement income, either as a steady payment stream or as a contingency funding source, while also illustrating the corresponding increase in loan balance and decline in net home equity. Cash flow reports demonstrate how housing wealth can reduce reliance on portfolio distributions, while net worth projections show the long-term implications on estate values and legacy goals.

This approach could be particularly valuable when reverse mortgages are modeled to:

- Reduce sequence-of-returns risk in early retirement.
- Fund long-term care or healthcare expenses.
- Provide tax-efficient income without increasing Adjusted Gross Income.
- Supplement withdrawal strategies to safeguard asset longevity.

Limited modeling

Some software options only allow for reverse mortgage proceeds to be modeled as a payout stream or lump sum. While this method could be useful for high-level discussions about income sufficiency, it often fails to capture the cumulative impact of the loan balance on home equity. When used by itself, this approach may unintentionally overstate future net worth or underrepresent the actual cost of accessing home equity.

Line of credit modeling

When reverse mortgages are structured as lines of credit, they could function as an alternative resource rather than a fixed income stream. Modeling the reverse mortgage as a line of credit allows advisors to coordinate home equity draws with portfolio withdrawals, creating a more dynamic income strategy, subject to software limitations. This could be especially effective in down markets, where temporary reliance on home equity may preserve portfolio assets and improve long-term outcomes.

When properly modeled, this strategy reframes home equity from a passive asset into an active risk-management tool, which could enhance portfolio longevity and provide behavioral benefits by reducing the pressure to sell investments during times of market stress.

Key planning considerations for advisors

Regardless of the modeling approach used, several considerations are essential when integrating reverse mortgages into retirement plans. Reverse mortgage proceeds are loan advances, not taxable income, and should be modeled accordingly. Clients remain responsible for property taxes, insurance, and home maintenance, all of which must be reflected in retirement budgets. Additionally, whether modeling for the FHA product or the proprietary product, some options have variable interest rates. If that is the case, advisors should stress-test plans using higher interest rate assumptions to evaluate the long-term impact on equity and plan sustainability.

Illustrative case study: Integrating home equity into a retirement plan

The following hypothetical case study is intended solely to illustrate how reverse mortgage analysis may be incorporated into the retirement planning process. It does not represent an endorsement of any specific product. Instead, it demonstrates the analytical framework an advisor might use to evaluate a range of retirement income strategies in the client's best interest.

Consider a married couple, both aged 67, who recently retired and are seeking income planning advice. The couple owns their primary residence outright, with an estimated market value of \$900,000, and holds approximately \$750,000 in combined retirement accounts. Social Security benefits will provide a baseline level of income, but the couple

would like to budget for higher spending in the early years of retirement, mainly to accommodate additional travel desires.

To manage that budget, the advisor models systematic withdrawals from the investment portfolio to supplement income at a rate that may be higher than historically considered safe. While this approach meets immediate cash flow needs, stress testing shows that a higher withdrawal rate reduces asset longevity projections, which will affect later-life liquidity needs when expenses are projected to rise again due to higher healthcare costs.

Because of this, the advisor expands the analysis to consider the couple's home equity as a potential planning option, including downsizing the residence, establishing a HELOC, or accessing home equity through a reverse mortgage. The advisor does not recommend or originate any loan, but provides high-level education on how each option works, the assumptions involved, and the associated tradeoffs.

When the reverse mortgage is modeled, the analysis shows that supplementing cash flow from home equity as needed rather than relying on higher-than-safe withdrawal rates improves the projected portfolio longevity. And because reverse mortgage proceeds are loan advances rather than taxable income, the analysis includes tax savings from a lower portfolio withdrawal rate, as well as the accrual of debt from the reverse mortgage.

Throughout the process, the advisor documents the rationale for considering home equity, the alternatives reviewed, and the factors affecting suitability, including the clients' intention to remain in their home long-term, their comfort with borrowing, and their legacy objectives. Ultimately, the clients elect to further evaluate the reverse mortgage option with a licensed mortgage professional, while retaining the advisor as the coordinator of the overall retirement plan.

From a compliance perspective, this case study illustrates that permitting advisors to discuss reverse mortgages does not require product advocacy. Rather, it enables advisors to evaluate all material assets, compare reasonable alternatives, and document decisions in a manner consistent with fiduciary and best-interest standards.

Conclusion: A call for holistic retirement planning

As longevity increases, housing wealth grows, and market uncertainty persists, retirement planning must continue to evolve beyond the narrow focus of traditional financial assets. For many clients, home equity is not merely a lifestyle consideration but a material financial resource that could meaningfully affect income sustainability, risk exposure, and long-term outcomes. Reverse mortgages, when evaluated objectively and discussed within appropriate guiderails, represent one regulated method of accessing that resource.

From a compliance perspective, the central issue is not whether reverse mortgages are suitable for all clients, but whether advisors should be permitted to analyze and discuss them as part of a comprehensive planning process. Policies that categorically prohibit

discussion of home equity strategies risk producing incomplete analyses and may inadvertently limit an advisor's ability to demonstrate a best-interest, fiduciary-aligned decision-making process. In contrast, best practices that emphasize documentation, alternative comparisons, and role clarity allow firms to manage risk while supporting more complete client advice.

Importantly, permitting discussions around home equity does not require product endorsement, origination, or compensation. Advisors could remain focused on education, planning analysis, and coordination, while licensed mortgage professionals handle product-specific recommendations and execution. This separation preserves boundaries while ensuring that clients receive guidance that reflects their full financial picture.

As the home equity landscape continues to evolve, through proprietary solutions, second-lien structures, and other innovations, compliance frameworks that allow informed, well-documented advisor discussions will be better positioned to support both investor protection and improved retirement outcomes. Allowing advisors to consider housing wealth alongside portfolios, pensions, and Social Security is not an expansion of product options, but a natural progression toward more holistic, client-centric retirement planning.

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