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Financial advisers should avoid error by omission and consider reverse mortgages

The vast majority of financial services professionals still fail to incorporate home equity planning or reverse mortgages into their practices

Over the past few years, I have been very outspoken about the need for financial advisers to incorporate reverse mortgages into their practices, especially those acting under a fiduciary duty of care or doing retirement income planning.

As a professor at The American College of Financial Services, I have woven material about reverse mortgages into the coursework for the CFP, CLU, ChFC and RICP. Of these, the RICP, which focuses specifically on retirement income planning, has had the greatest impact on advisers with regard to reverse mortgages. I have seen eyes open, policies change, and financial planning practices include reverse mortgage conversation in their process.

However, despite some substantial improvements over the past five years, the vast majority of financial services professionals still fail to incorporate home equity planning or reverse mortgages into their practices. And yes, this is a failure. In my opinion, not including home equity and reverse mortgages in the financial planning process is the largest failure of the financial services profession at this time.

Financial services professionals are here to serve clients and make their lives better. Advisers who believe that they act in the best interest of their clients need to consider including home equity and, consequently, reverse mortgages into their practices when doing retirement income planning. A best-interest model requires the adviser to review those factors that might reasonably impact any recommendation. The home, a potential reverse mortgage or an existing forward mortgage are clearly factors that need to be considered when reviewing a client's financial plan. While many advisers do review the existing mortgage and perhaps recommend refinancing, this is usually where the advice stops — leaving a wide range of factors affecting the client's situation unexplored.

The reality is that the home is too large an asset to be ignored when doing financial planning. For many clients, it is going to be their largest asset. Furthermore, from a cash flow perspective when doing retirement income planning, an existing mortgage payment or a coordinated reverse mortgage could represent the largest cash flow items for a retiree.

This begs financial advisers to answer two questions: 1) Is it reasonable to ignore the client's largest asset when developing a financial plan? and 2) Is it reasonable to ignore a government-insured mortgage product that could substantially improve the client's situation? Most likely, the answer to both these questions is no. It is not reasonable to ignore the home as an asset, and it is not reasonable to ignore a reverse mortgage for retirement-age homeowners.

By ignoring home equity and the benefits of a reverse mortgage, the adviser may be placing the client in a worse situation than if there had been an error of omission. The failure to plan or the failure to consider an option can also lead to liability.

As most advisers remember, this occurred not too long ago with long-term care planning. Many advisers said they would not sell long-term care insurance, so they stopped including long-term care planning as part of a comprehensive plan. Remember what happened? Attorneys started suing and questioning how an adviser could ignore this major risk. As a result, advisers have incorporated long-term care planning into their practices, even if it does not always lead to the purchase of long-term care insurance.

This is a clear blueprint of what could occur with home equity planning and reverse mortgages. In fact, one can make a solid argument that home equity planning is even more fundamental to financial planning than long-term care planning.

While advisers do not need to start recommending reverse mortgages to all their clients, they should be well-informed about the product. They should also be familiar with the research findings from experts like Wade Pfau and Barry Sacks that illustrate the benefits of incorporating a reverse mortgage into a retirement income plan. In fact, even the Financial Industry Regulatory Authority Inc. states that reverse mortgages are a valuable planning tool in the right situation and should be explored by advisers.

The reality is that financial advisers operate in an environment with increasing liability, as well as broadening fiduciary responsibilities that emphasize planning over sales. Today, advisers cannot ignore a client's tax situation, investment allocation or risk tolerance level when providing advice. But somehow advisers continue to ignore the potential benefits of home equity and reverse mortgages.

There are a number of reasons why advisers do not incorporate home equity planning and reverse mortgages into their practices, including compensation models, a lack of education and specific compliance policies. However, if advisers are truly committed to doing what is in the best interest of their clients, this needs to change. The financial advisory world needs to embrace home equity and reverse mortgages. Anything else is not reasonable.

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