Reverse Mortgages: Implications to Medicaid & SSI

Those who are 62 and older who are looking to supplement their retirement income through a reverse mortgage should also consider the implications this decision could have on their eligibility for **Medicaid** or **Supplemental Security Income** (SSI).

An important and common factor that Medicaid and SSI share is asset level limits, and depending on which payment route a borrower chooses for a reverse mortgage, the loan proceeds could disrupt eligibility.

When borrowers take out a reverse mortgage loan, they have the option of receiving their home equity through a line of credit, a lump sum, monthly payments, or some combination of these three options.

But for those who are both eligible for and receiving, or are expecting to receive certain government needs-based benefits, the lump sum payment option for reverse mortgage proceeds may not be the best route.

Most needs-based programs consider income and assets when determining whether an individual qualifies for government assistance, and while reverse mortgage proceeds generally don't qualify as taxable income, the unspent balance from a lump-sum reverse loan could put a borrower's assets over the limit.

Both Medicaid and SSI consider a recipient's assets—including money that's sitting in a bank account, when determining eligibility.

Means-Tested Benefits

So, for means-tested benefits that are available based on income and assets, reverse mortgage loan advances that are held in the borrower's bank account may be counted as assets, and thus may disrupt eligibility, according to the Neighborworks HECM counseling Training Manual, which is used nationally by certified reverse mortgage counselors to inform borrowers about the loan and its possible implications.

Borrowers who choose the lump sum option for payment have an especially high risk of losing eligibility for means-tested assistance, as they are more likely to reserve the proceeds from their loan in the bank account. This money is viewed as an asset.

Medicaid

Medicaid is another needs-based program that considers a senior's income and assets, although limits vary state by state. In 2011, typical asset limits for Medicaid benefits were $2,000 for an individual and $3,000 for a couple, although some states' limits are very generous, and other states have no limits at all.

Because of these limits, a Medicaid-eligible senior who receives a lump sum from reverse mortgage proceeds will very likely lose eligibility, according to Neighborworks, unless that money is spent immediately.

Additionally, Medicaid recipients must account for all money that goes in and out of their bank accounts.

Supplemental Security Income

SSI, a federal program for the elderly or disabled, requires its participants to have an income beneath the federal poverty level, and also considers assets. In 2011, the program had a universal asset limit of $2,000 for individuals and $3,000 for couples, so reverse mortgage borrowers who choose the lump sum option would likely become ineligible for SSI assistance.

And, if borrowers received SSI benefits at a time when their asset levels were above the limit, it's possible that they will be forced to return that money through reductions to their Social Security checks.

A reverse mortgage is a handy tool for increasing cash flow, but it's important for borrowers to make informed decisions about how they want to receive the proceeds of their loan, especially when considering means-tested benefit programs.

Although a lump sum wouldn't necessarily rule out Medicaid eligibility for seniors in some states, it will often eliminate necessary qualifications for Supplemental Security Income.

There aren't any conventional methods for getting around these asset limits, as funds stemming from a loan done through power of attorney would still be attributed to whomever is on the deed of the home.

Reverse mortgage borrowers should look into their state's requirements and determine how a reverse mortgage will affect their eligibility before deciding which kind of payment they will choose.

Note: *Medicaid and SSI are needs based programs not to be confused with public benefits such as Social Security and Medicare. Reverse Mortgage loans have no effect on your public benefits.*