InvestmentNews
The Home Page for Today's Leading Financial Advisers

Boomers warm to reverse mortgages

By Kathie O'Donnell
May 11, 2007

Reverse mortgages, a relatively small part of retirement income now, will gain popularity as baby boomers age, a Fidelity Investments executive told attendees at the Investment Company Institute's meeting today in Washington."When you think about the baby boomers burning the candle at both ends, [will they tap] their home equity to eat out more often? I think [so] absolutely," said Stephen Deschenes, an executive vice president at Fidelity Investments Life Insurance Co., a unit of Boston-based Fidelity.

Following his speech, Mr. Deschenes said that baby boomers would take a reverse mortgage to maintain their lifestyles that for two reasons.

"One, they're more aggressive and probably less frugal than the previous generation," Mr. Deschenes said.

"And, two, home equity has played a bigger part in their overall financial life than for their parents, so I think reverse mortgages are definitely going to be part of the overall solution for more boomers."

If you go to Florida today, people who have saved well and have defined-benefit plans aren't too worried about outliving their money, he said. But for the next crop of retirees, the story is different.

"The statistics have almost reversed in 30 years," Mr. Deschenes said.

"In 1975, one out of two workers had a defined-benefit plan and one out of six had a defined-contribution plan."

In 2005 "one out of six have a DB plan and one out of two has a DC plan," Mr. Deschenes said. "So it puts much more pressure on the individual to manage their life in retirement."

Just 22% of retirees have an income plan, which takes into account how they will draw down assets and live their life in retirement, he said.

"And we've found that to be a very startling statistic, and one where there's a huge opportunity for improvement," Mr. Deschenes said.