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Retirement planning and reverse mortgage

Borneo Post (KK), Malaysia

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"Retirement is planning combined with life goals"

THE famous psychologist Viktor Frankl knew a lot about looking for meanings in life. In his book *Man's Search for Meaning*, Frankl wrote, "Happiness cannot be pursued, it must ensue. One must have a reason to be happy".

We often visualise life after retirement as happy and stress-free. Without a financial aspect for life after retirement, many retirees find themselves feeling stress and restless.

The EPF announced that members' basic savings threshold (RM240,000 at age 55) recorded a drop from 36 per cent to 27 per cent as a result of the Covid-19 related withdrawals to supplement income during the crisis. On top of that, 70 per cent of contributors who withdraw their funds at age 55 use up their savings in less than ten years after retiring.

The percentage of the population aged 65 and above in Malaysia has hit 7.5 per cent and is predicted to make up 14 per cent of the population by 2044.

Given the current situation, Cagamas Berhad, the (National Mortgage Corporation of Malaysia) looked for other avenues and launched a reverse mortgage scheme last year to address income insecurity for senior citizens. Let's look some element of reverse mortgage:

What is reverse mortgage?

A reverse mortgage is a type of loan that lets retired or senior citizens borrow against a part of their home's equity. Unlike the



By: Gunaseelan Kannan

traditional mortgage, instead of making monthly mortgage payments to the banker, the borrower receives money from the banker. When the retired person moves or dies, bank will sell the property to pay off the loan and the heirs get any excess proceeds from the sale.

How does reverse mortgage work?

The process of using a reverse mortgage is simple: It starts with an individual who already owns a loan free house (home equity). The homeowner decides the need to liquidity, which comes with removing equity from their house.

Once the homeowner applies for reverse mortgage, the financial institution does a credit check, appraised value and goes through other legal matters. If approved, the home equity payment will be paid as lump sum or periodic payment (monthly, quarterly or annually), depending on what the owner chooses.

The repayment of the loan, inclusive of interest, generally only occurs after the death of the homeowner, or when they move out or sell the house. The next of kin may opt to repay the loan and take back the property or sell the property to repay the loan and interest.

Benefits of reverse mortgage

Reverse mortgages are ideal for retirees who don't have a lot of cash savings or investments but do have a lot of wealth built up in their homes. A reverse mortgage allows you to turn home equity as cash that you can use to cover expenses in retirement.

Potential to receive regular income as long as you occupy the home as your primary residence. Instead of having to sell your home in order to liquify your asset, you can keep the property and still get cash out of it.

This means you don't have to worry about potentially downsizing or moving out of your neighborhood. Heirs may either choose to sell the home to repay the loan or to keep the home and pay off the reverse mortgage.

Disadvantages of reverse mortgage

Reverse mortgages have costs that include interest, legal fee, insurance and others. Homeownership is a key path to building generational wealth. As home equity is used, fewer assets are available to leave to heirs. We can still leave the home to heirs, but they will have to repay the loan balance.

Cagamas Bhd, the national mortgage corporation, has



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The process of using a reverse mortgage is simple: It starts with an individual who already owns a loan free house (home equity). The homeowner decides the need to liquidity, which comes with removing equity from their house. — Bernama photo

introduced a reverse mortgage scheme (Skim Saraan Bercagar) to help the elderly fund their retirement by using their home as collateral for a loan.

The scheme allows retirees aged 55 and above to borrow against the value of their fully paid homes and convert it into a steady monthly cash payout throughout their lifetime to supplement their retirement funds, while continuing to stay in their homes.

Cagamas chairman, Datuk Bakarudin Ishak remarked that the scheme represents the agency's continuous efforts to address financial gaps in the marketplace.

"This comprehensive and

integrated solution focuses on retirees who might be affected due to a lack of savings and aims to help them maintain their standard of living," he said.

For the pilot period, he stated it has allocated RM100 million to assess the reception of Malaysians to the scheme.

"Should the scheme be received well by the market, Cagamas will increase the allocation according to the needs of the time," he said.

Ultimately, the decision to take out a reverse mortgage is one you should weigh very carefully. Though it's an easy way to get cash, it could put your finances at more risk in the long run. Be sure you fully understand reverse

mortgage pros and cons before taking one on.

Gunaseelan Kannan, CFP, a financial adviser representative by Bank Negara Malaysia and a licensed financial planner by Securities Commission (CMSRL/B4198/2013), is currently pursuing his Doctorate research on entrepreneurship, financial planning and financial technology. He also lectures on accounting, finance and business fields in Asia Pacific University of Technology and Innovation (APU). He is the Winner of Malaysian Financial Planner of the Year 2020, from Financial Planning Association of Malaysia. He can be reached at gunaseelan.kannan@gmail.com.



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SUMMARIES

"Retirement is planning combined with life goals" THE famous psychologist Viktor Frankl knew a lot about looking for meanings in life. In his book Man's Search for Meaning, Frankl wrote, "Happiness cannot be pursued, it must ensue. One must have a reason to be happy". We often visualise life after retirement as happy and stressfree. Without a financial aspect for life after retirement, many retirees find themselves feeling stress and restless.