Will proceeds received from a reverse mortgage affect Social Security, Medicare, other government benefits, or pension benefits?

It is often suggested that funds received from a reverse mortgage do not affect either government or private retirement benefits; however, there have been cases where the government considered those funds as assets which resulted in the disqualification for Medicaid.

The following are three examples when funds from a reverse mortgage can affect government benefits:

(1) If a borrower is on Medicaid, any reverse mortgage proceeds he or she receives must be used immediately to stay within state and/or federal government guidelines for Medicaid recipients.

(2) Any funds that are retained by a borrower count as an asset and must be included when calculating Medicaid eligibility.

(3) Any income that is generated from the investment of funds received from a reverse mortgage – depending on the tax status of the investment vehicle being used – may be required to be included in the amount of Social Security benefits that are taxable, and at the level those benefits are taxed.

**Planning Point: According to the National Reverse Mortgage Lenders Association, a taxpayer can prevent losing Medicaid coverage by spending all reverse mortgage proceeds in the same calendar month. Only the amount that remains the following month counts as an asset.**