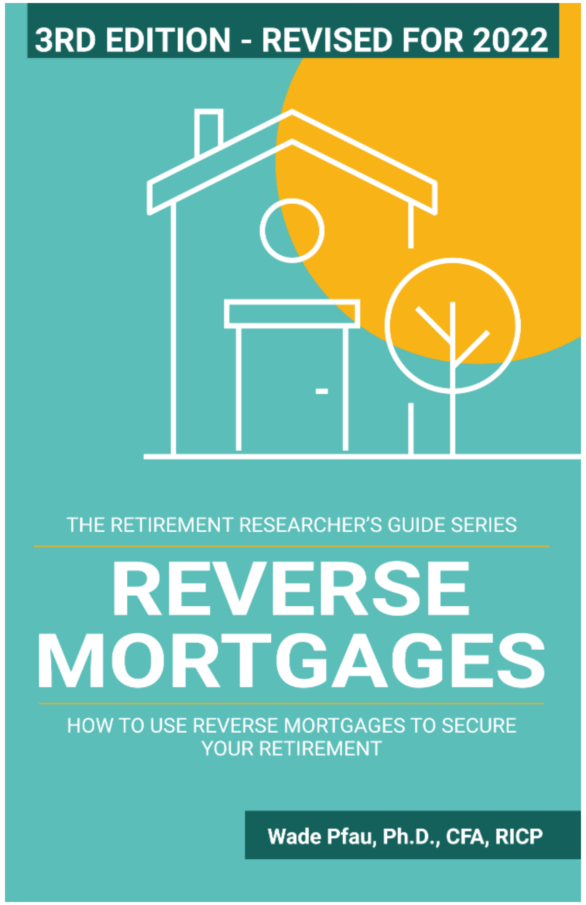
Retirement Researcher

PREPARE FOR YOUR BEST RETIREMENT™

Reverse Mortgages and the Perfect Storm Facing Retirement Income in 2022



www.Books2Read.com/ReverseMortgages

Presented by:

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RICP Curriculum Director
The American College for Financial Services & RetirementResearcher.com

THE AMERICAN COLLEGE OF FINANCIAL SERVICES

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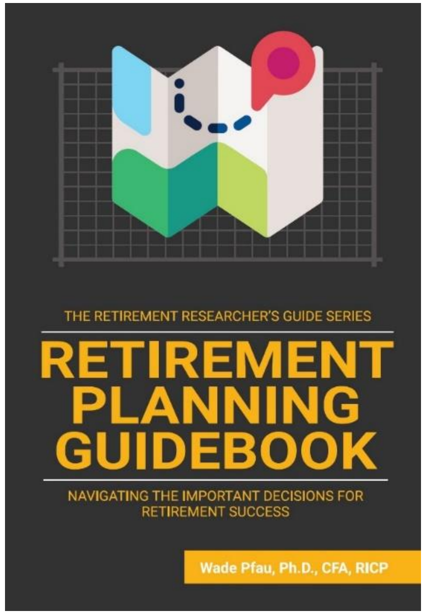
1. Retirement Income Style
2. Retirement Risks
3. Goals & Preparedness
4. Investment & Annuity Strategies
5. Social Security
6. Health Care & Medicare
7. Long-Term Care
8. Retirement Housing
9. Tax Planning
10. Legacy & Incapacity Planning
11. Non-Financial Aspects
12. Implement & Monitor



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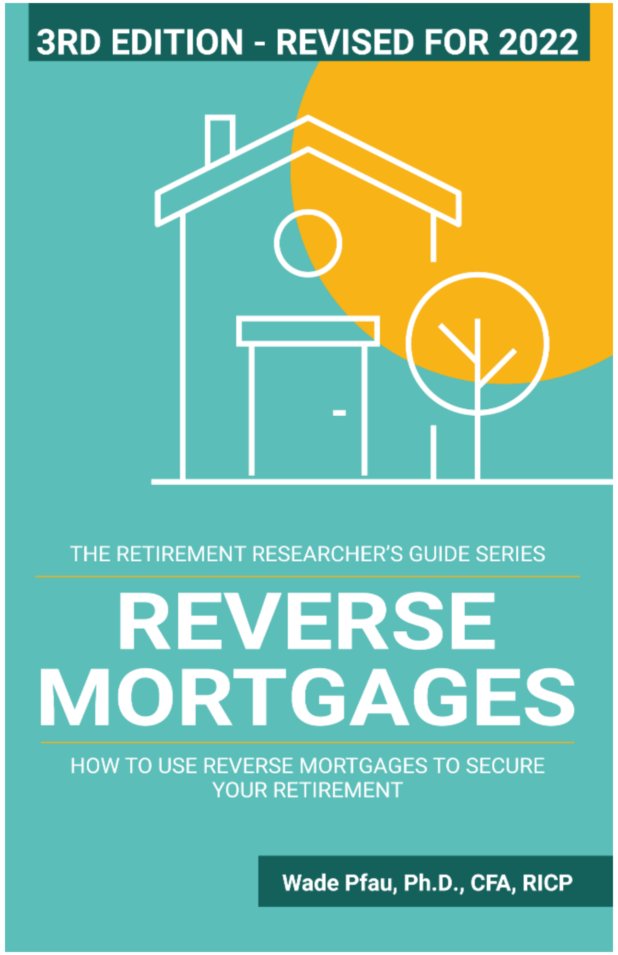
	Amazon	Bulk Order
(1st ed.) 2016	1,425	3,935
2017	2,372	4,843
(2nd ed.) 2018	1,666	3,589
2019	1,265	2,170
2020	809	1,485
2021	956	986
(3rd ed.) 2022	2,112	3,118
	10,605	**20,126**



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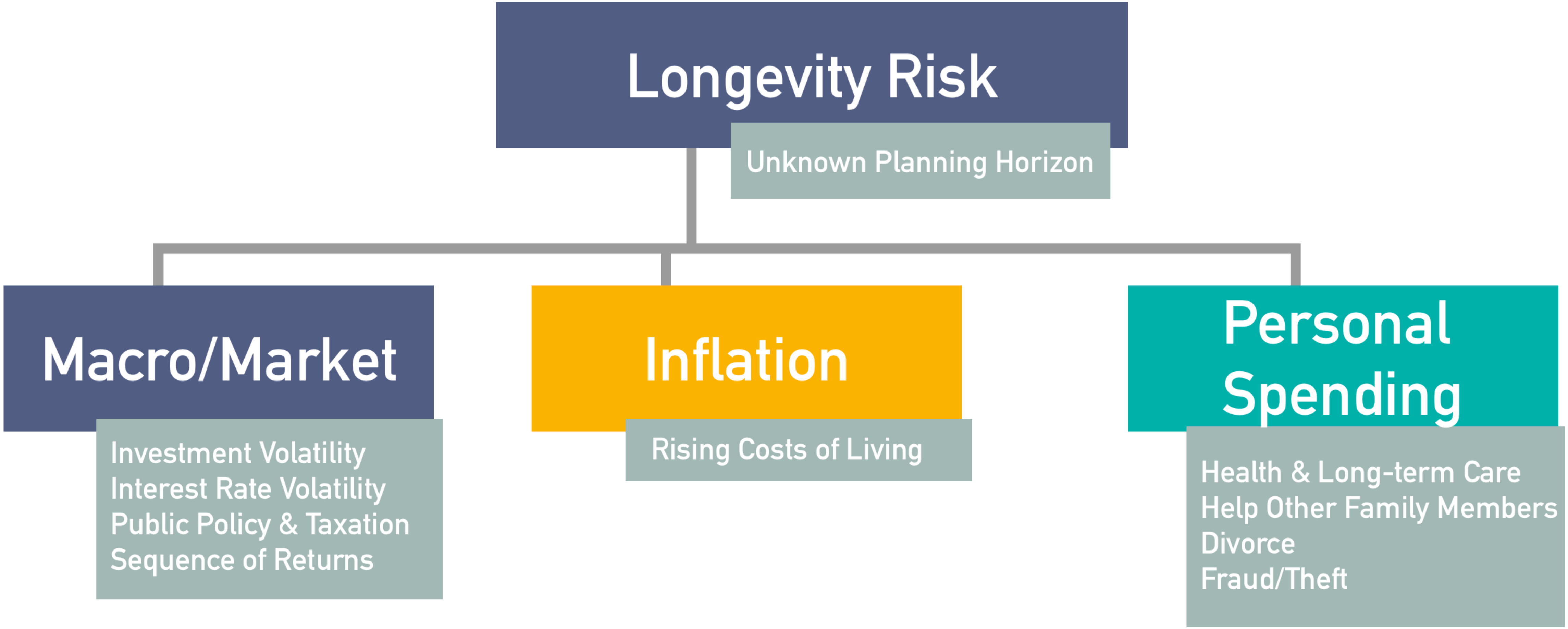
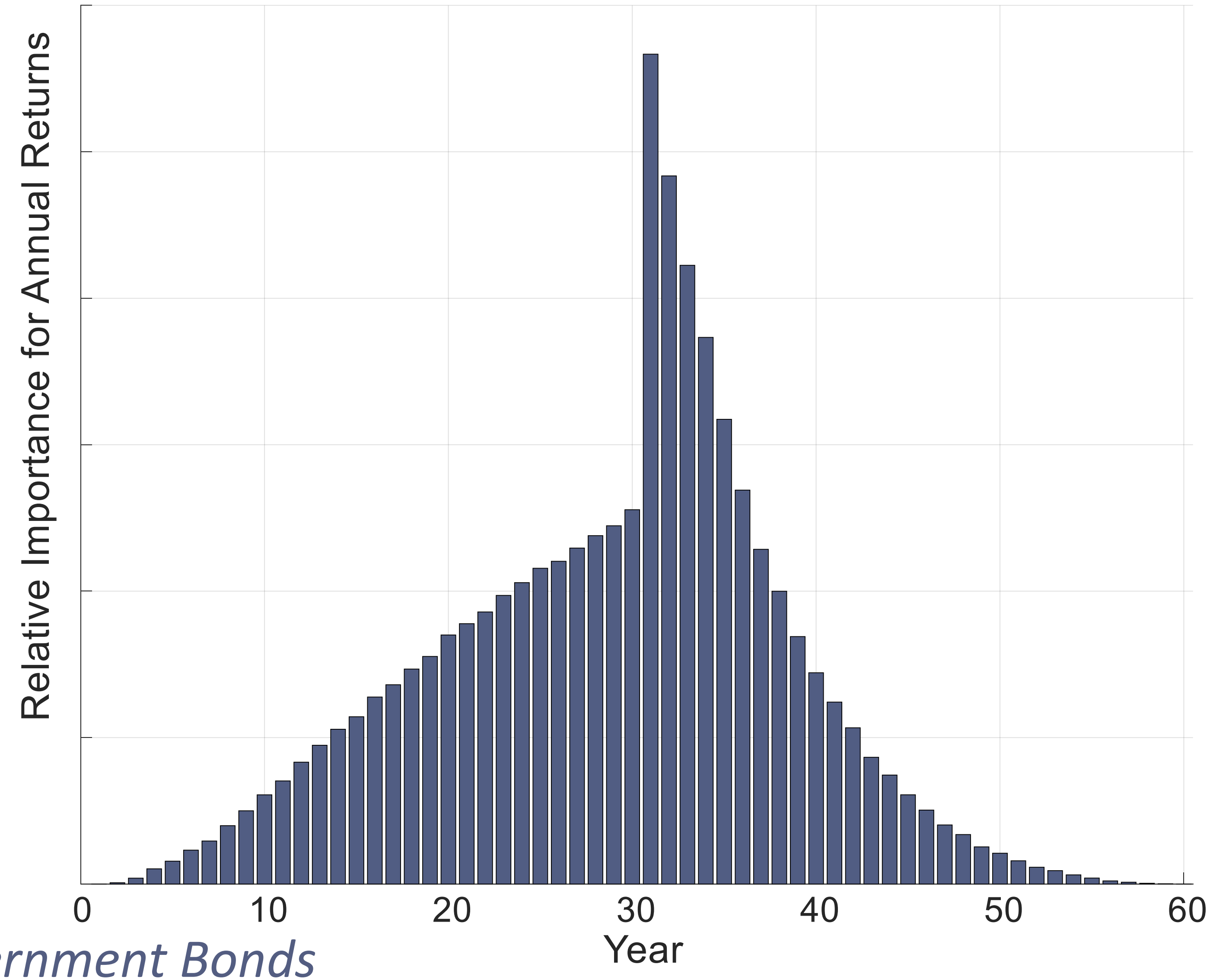
Investing for Distribution in Retirement is Different from Accumulation

Key Retirement Risks



Lifetime Sequence of Returns Risk



50/50 Asset Allocation,
Inflation-Adjusted Spending
100,000 Monte Carlo Simulations
Based on SBBI Data, 1926–2021,
S&P 500 and Intermediate-Term Government Bonds

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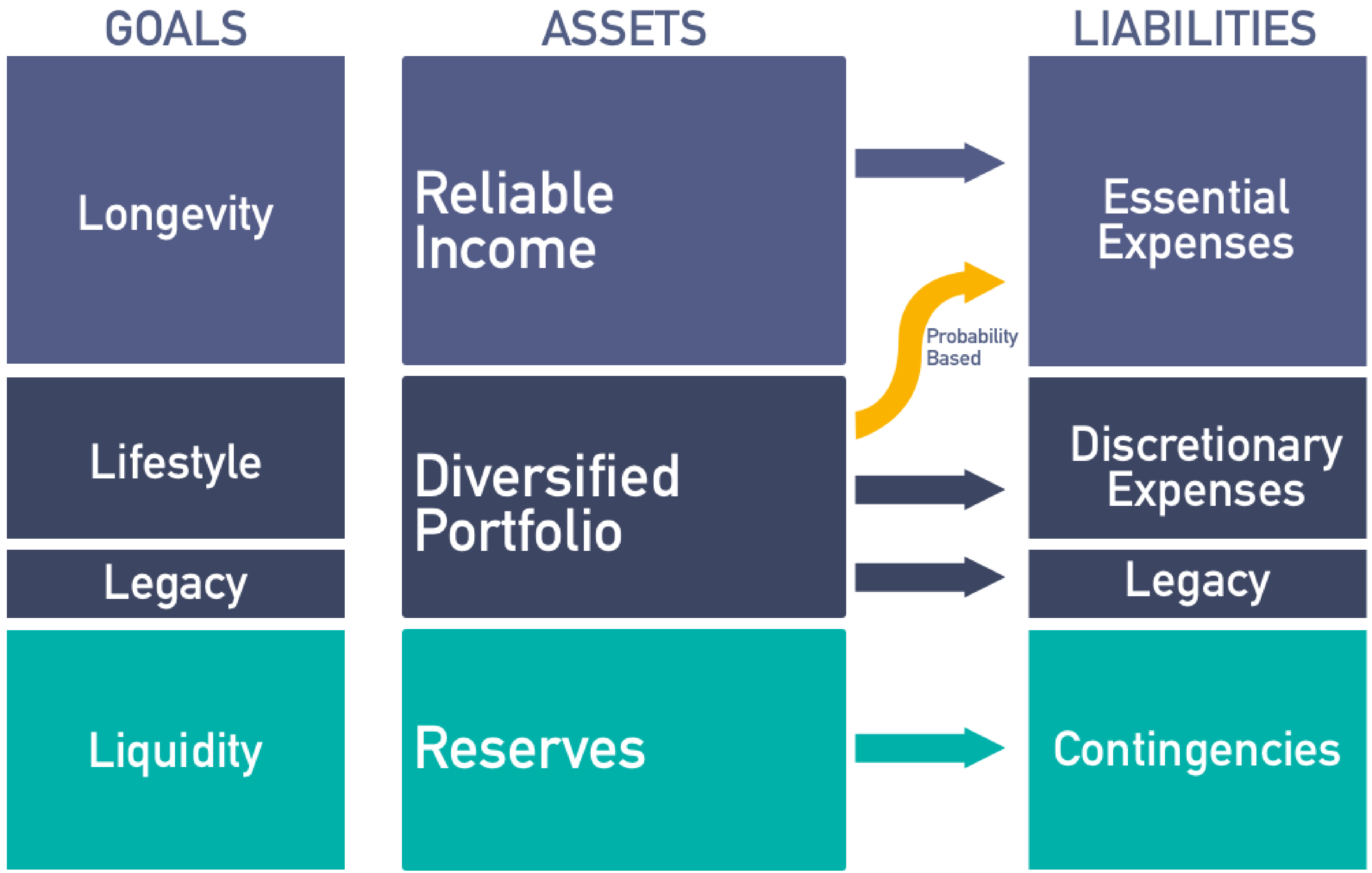
Retirement Income Optimization Map



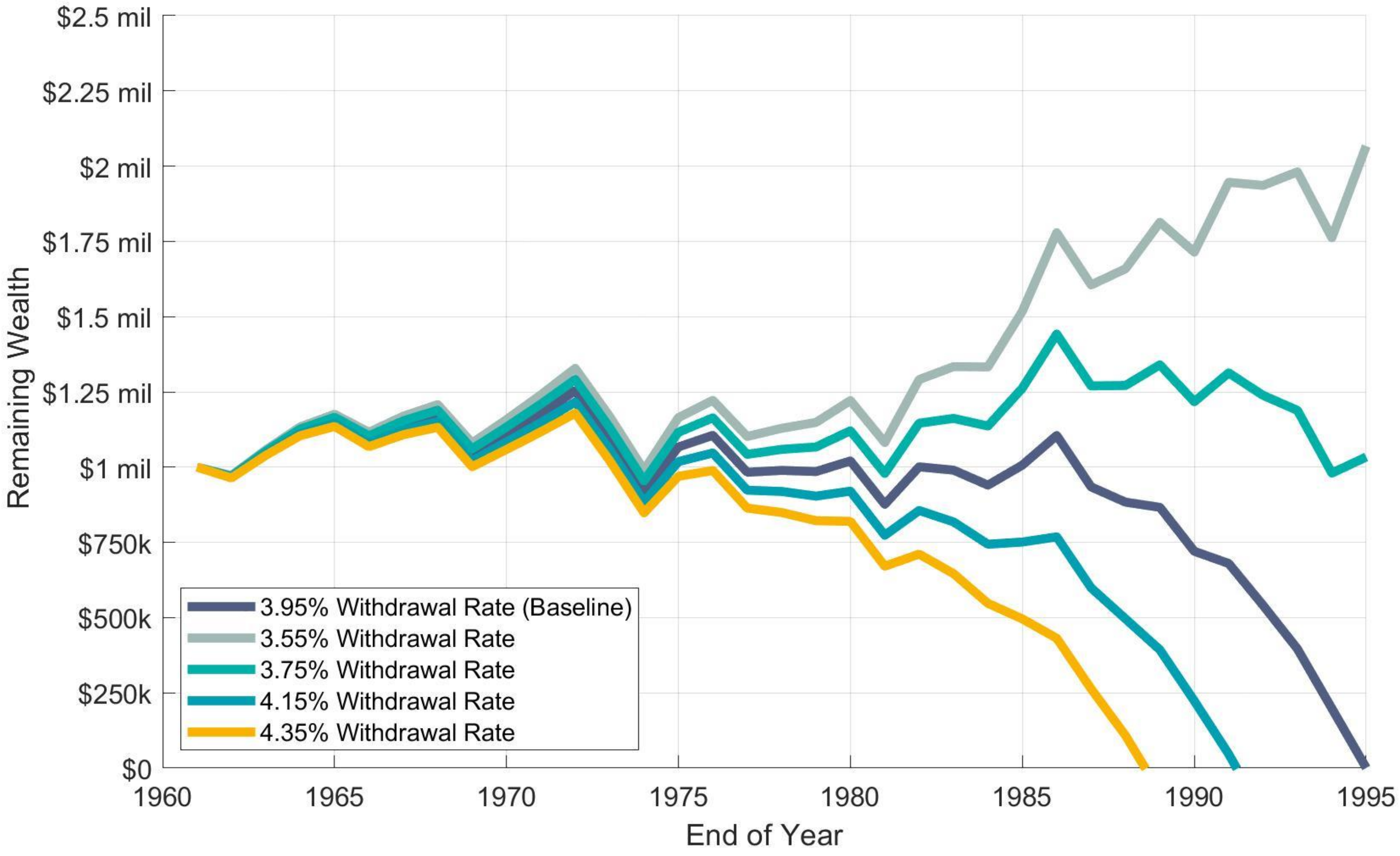
Potential Reverse Mortgage Uses

Portfolio Coordination for Retirement Spending	Use HECM as a Last Resort
	Use Tenure Payments to Reduce Portfolio Withdrawals
	Coordinate HECM Spending to Mitigate Sequence Risk
Portfolio/Debt Coordination for Housing	Refinance Existing Mortgage to Eliminate Ongoing Payments
	HECM for Purchase for New Home
	Fund Home Renovations to Allow for Aging in Place
Funding Source for Retirement Efficiency Improvements	Social Security Delay Bridge
	Tax Bracket Management or Pay Taxes for Roth Conversions
	Tenure Payment as Annuity Alternative
	Pay Premiums for Existing Long-Term Care Insurance Policy
Preserve Credit as Insurance Policy	Support Retirement Spending After Portfolio Depletion
	Protective Hedge for Home Value
	Provides Contingency Fund for Spending Shocks (In home care, health expenses, divorce settlement)

Managing Volatility & Longevity

- **Spend Conservatively**
  (tenure payment, refinance mortgage, Social Security delay bridge)
- **Spending Flexibility**
- **Reduce Volatility**
- **Buffer Assets – Avoid Selling at Losses**
  (coordinated spending strategies)

Sequence Risk and the Impact of Changing the Withdrawal Rate



Sequence Risk and the Portfolio Impact of Spending Levels
Inflation-Adjusted Spending Defined as a Percentage of Retirement Date Assets, No Fees
Using Robert Shiller's Data, 1962-1995, Asset Allocation: 60% Large-cap Stocks, 40% 10-Year Treasuries

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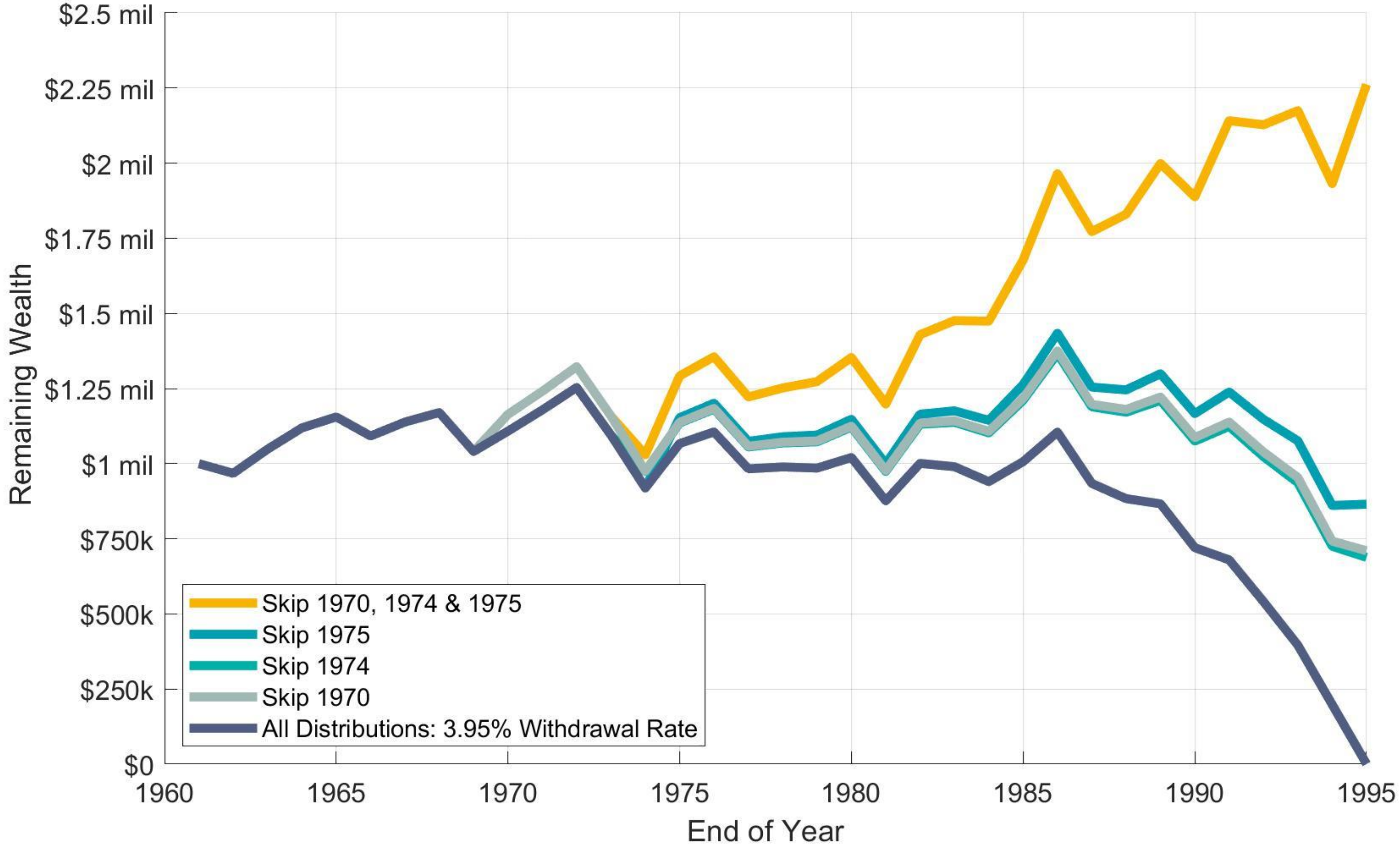
Sequence Risk and the Impact of Skipping Distributions



Sequence Risk and the Portfolio Impact of Skipping a Year of Distributions
Using Robert Shiller's Data, 1962-1995, Asset Allocation: 60% Large-cap Stocks, 40% 10-Year Treasuries

Case Studies with Historical Data

Case Study Characteristics

- Case is based on current HECM rules and tax laws
- Historical data is used to test strategies in different market environments.
- A couple both turn 62 in early 2022; already retired.
- Planning age: 95
- $870,000 in investments ($260k taxable with $130k basis, $510k in IRA, $100k in Roth IRA)
- $435,000 home, no mortgage
- HECM terms: 2.125% lender's margin, $18,600 upfront costs financed, uses 1-year Treasury for effective rate
- Social Security: $45,000 annually if claimed at 67

Case Study Characteristics (continued)

- Spending goals: $66,000 pre-tax inflation-adjusted; An extra $10,000 fixed through age 74; And federal income taxes need to be paid
- Spending strategy: Any Social Security, HECM distribution, and RMDs first, then spend from (1) taxable, (2) IRA, (3) Roth IRA
- Taxes are tracked for federal income tax for ordinary income and preferential income sources, tax on Social Security benefits, Medicare IRMAA surcharges, net investment income surtax
- Asset allocation: 60% stocks (large-cap US), 40% bonds (10-year Treasuries)
- Legacy: 100% of taxable account, 75% of IRA, 100% of Roth IRA, 95% of home value less loan balance due on HECM (not less than $0 because non-recourse)

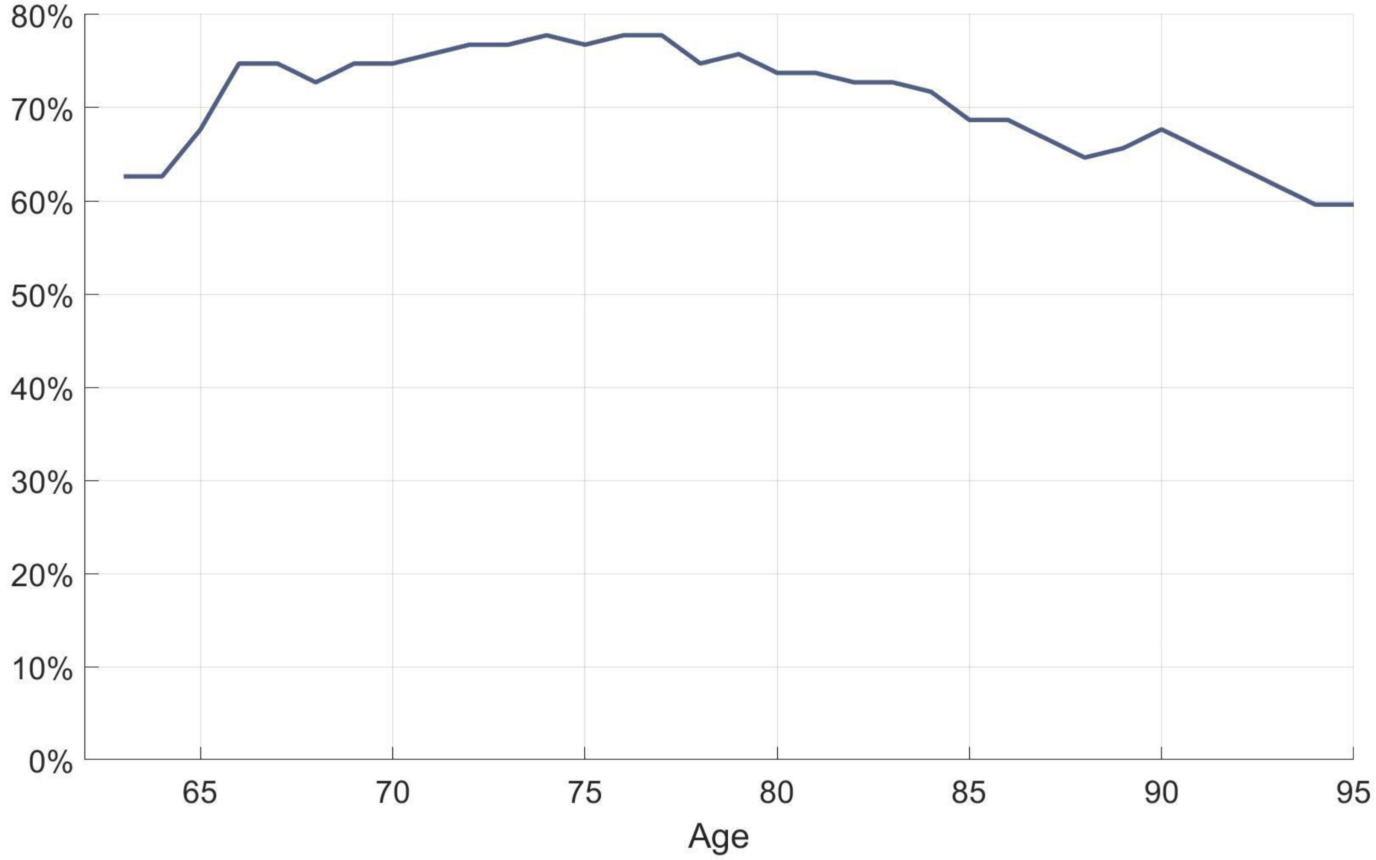
Summary Statistics of U.S. Returns and Inflation Data, 1890-2021

	Arithmetic Means	Geometric Means	Standard Deviations
Large-Cap U.S. Stocks (Total Returns)	11.0%	9.5%	18.0%
Large-Cap U.S. Stocks (Dividend Yield)	4.1%	——	1.6%
10-Year Treasury Bonds (Total Returns)	4.8%	4.6%	6.6%
10-Year Treasury Bonds (Bond Yields)	4.5%	——	2.4%
1-Year Treasury Bills	4.3%	4.3%	3.0%
Home Prices (Case-Shiller Index)	3.7%	3.4%	7.3%
Inflation (Consumer Price Index)	2.9%	2.8%	5.2%

Source: Robert Shiller’s website (www.econ.yale.edu/~shiller/data.htm)

Understanding Line of Credit Growth

Probability that the Net Principal Limit is Larger at a Subsequent Age When Opened at Age 62 as Compared to Opening at a Later Age



Age 62 vs. Later Ages

Lender's Margin: 2.125%

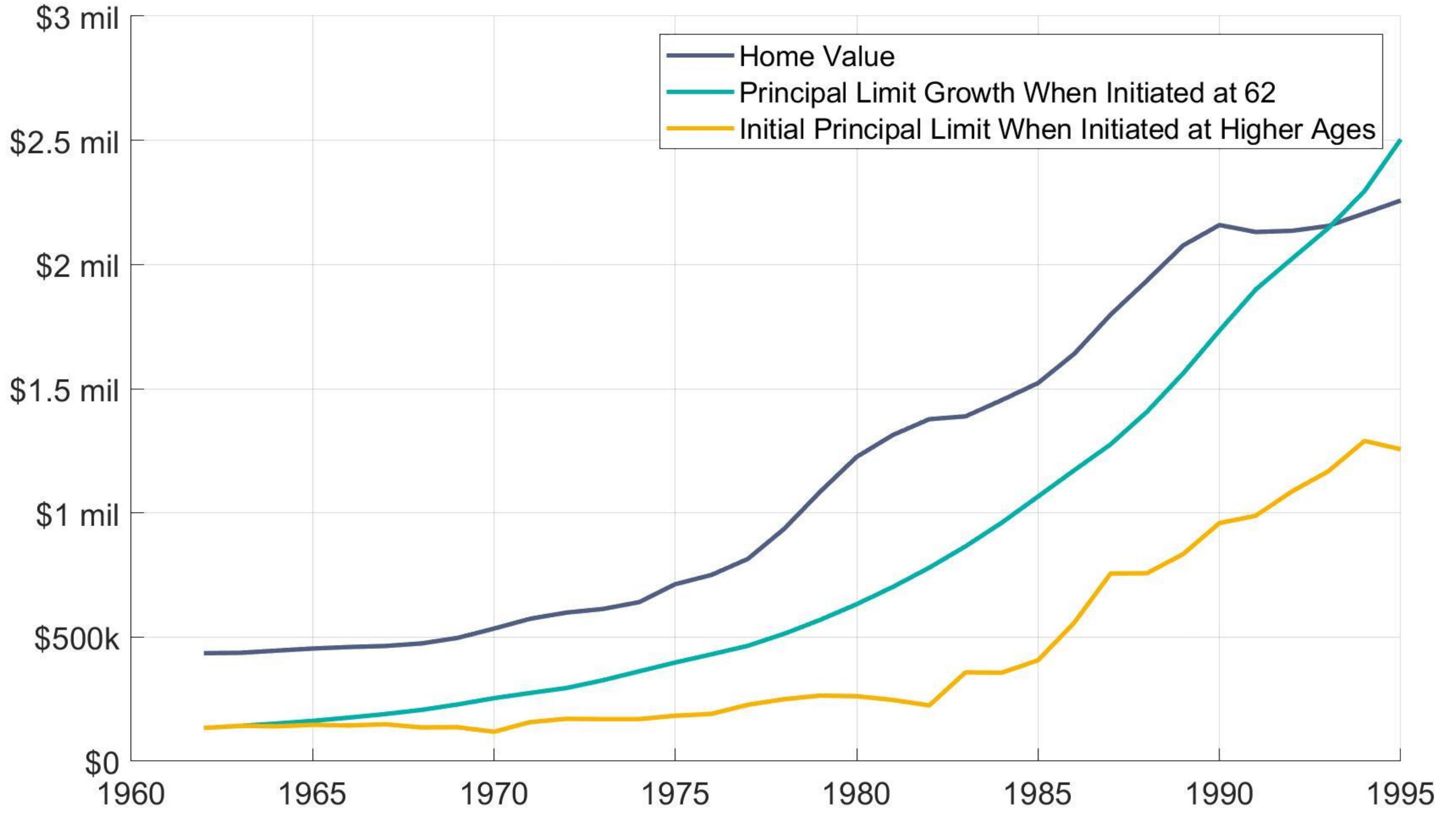
Home: $435,000

Upfront Costs: $18,600

Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Understanding Line of Credit Growth

Comparing Principal Limits Based on When the Reverse Mortgage Opens
For a 62-Year Old, Market Data for 1962-1995



Age 62 vs. Later Ages

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Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Portfolio Coordination for Retirement Spending

An idea whose time had come?

"Reversing the Conventional Wisdom: Using Home Equity to Supplement Retirement Income"

Barry Sacks and Steven Sacks

Journal of Financial Planning, February 2012

"Standby Reverse Mortgages a Risk Management Tool for Retirement Distributions"

John Salter, Shaun Pfeiffer, and Harold Evensky

Journal of Financial Planning, August 2012

Thesis: Strategic use of a reverse mortgage standby line of credit can create retirement income efficiencies through its contribution to managing sequence of returns risk in retirement

HECM Strategies for Portfolio Coordination

- Use Tenure Payment
- Portfolio Coordination Strategy
- Portfolio Coordination Strategy with Voluntary Repayments

- Home Equity as Last Resort ("Conventional Wisdom")

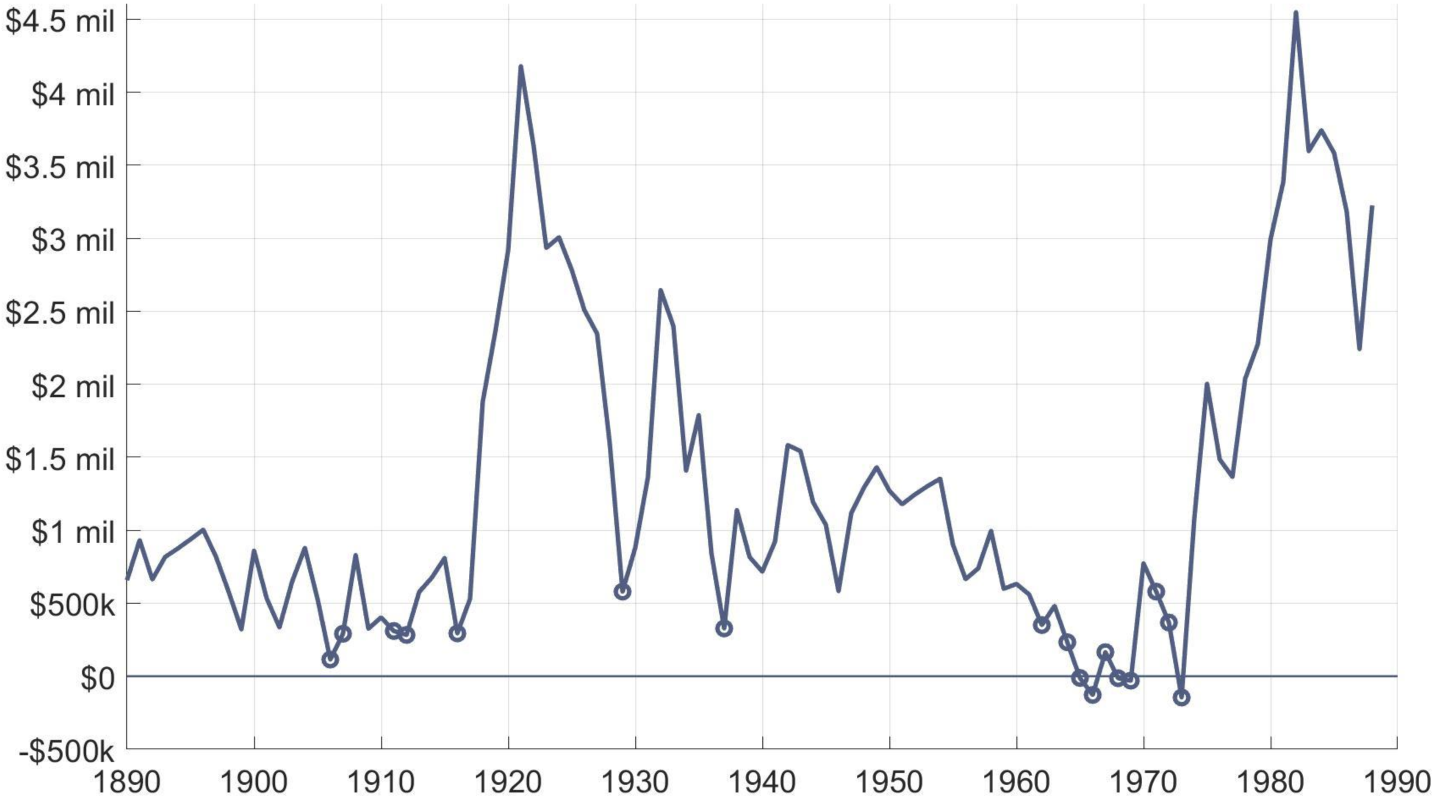
Portfolio Coordination – Decision Rule

Note the investment balance at retirement ($870,000 in this example)

When taking distributions:

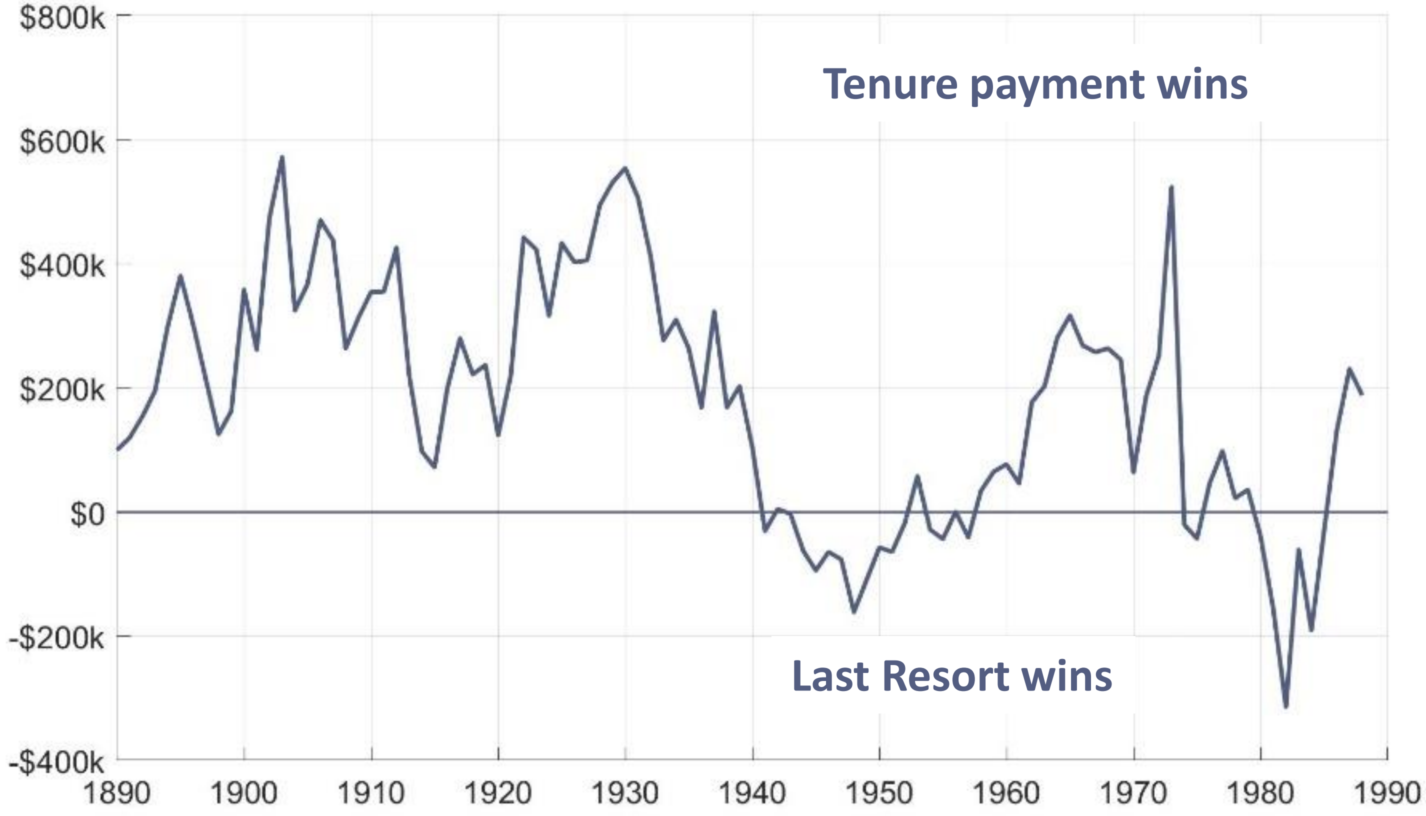
- Spend from investments if current value exceeds initial value (> $870k)
- Spend from HECM if current value is less than initial value (< $870k)

Net Legacy Value with Last Resort Strategy



Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Comparing the Tenure Payment Strategy to the Last Resort Net Real Legacy Wealth (Tenure Payments - Last Resort)



Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

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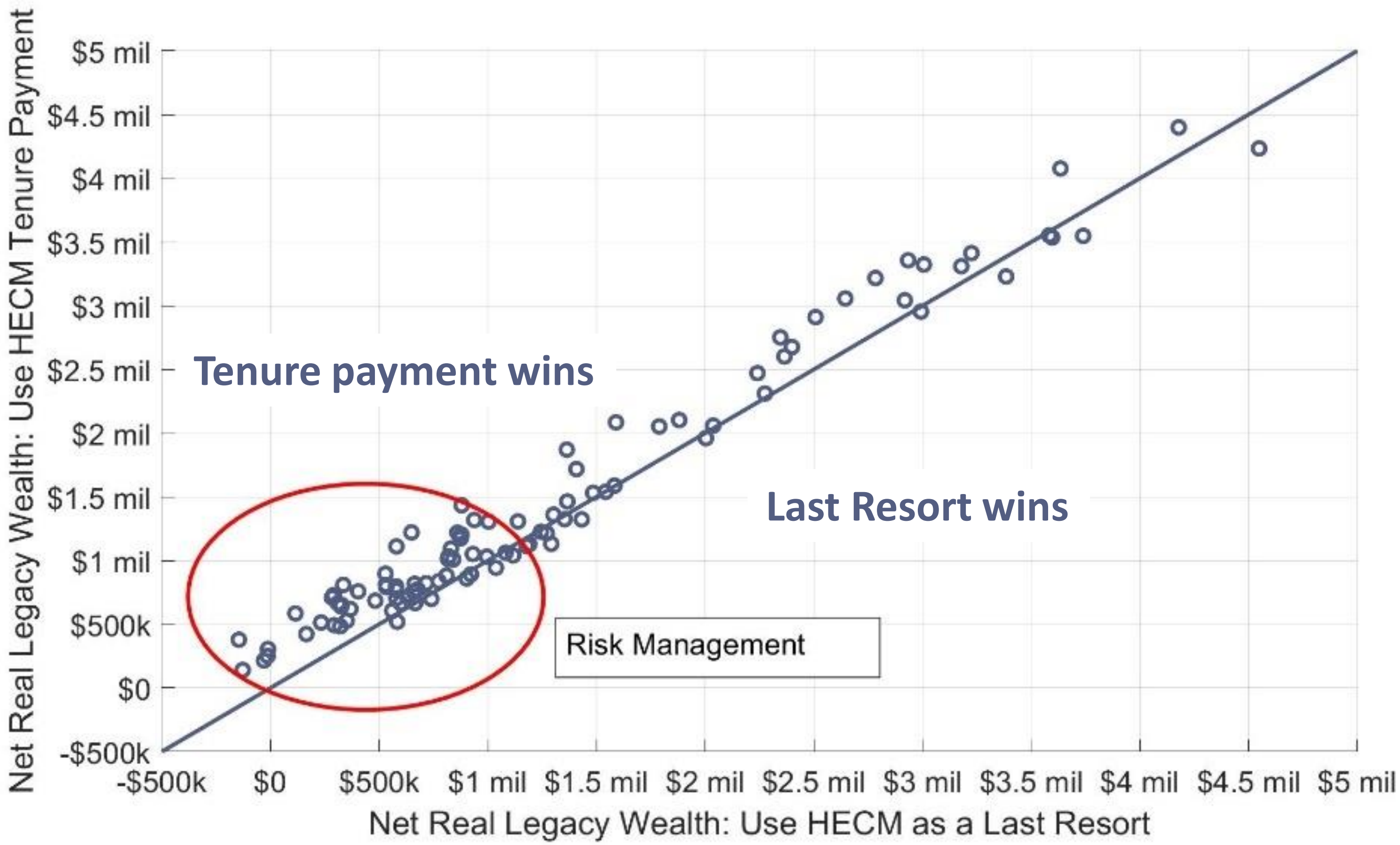
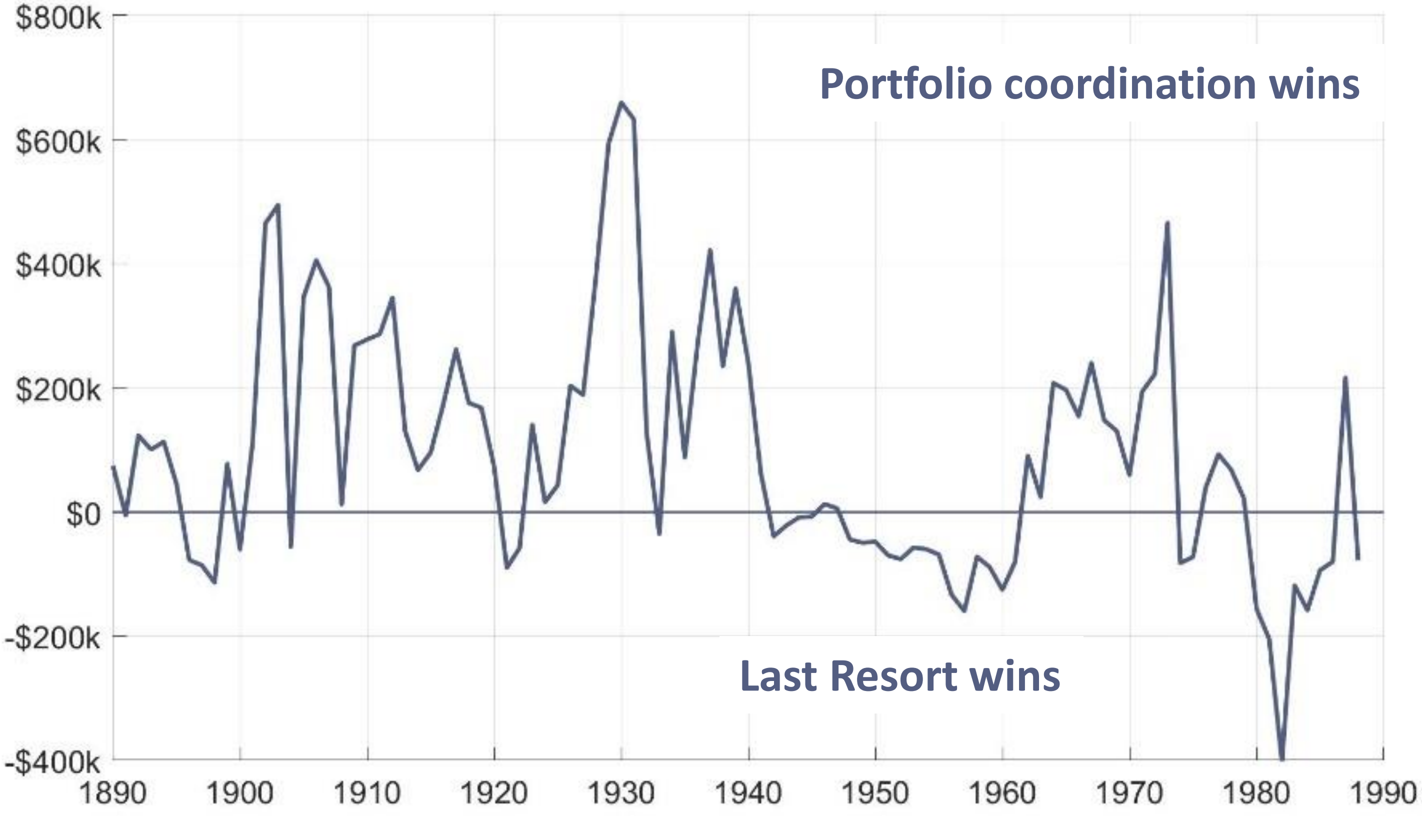


Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Comparing the Portfolio Coordination Strategy to the Last Resort Net Real Legacy Wealth (Portfolio Coordination - Last Resort)



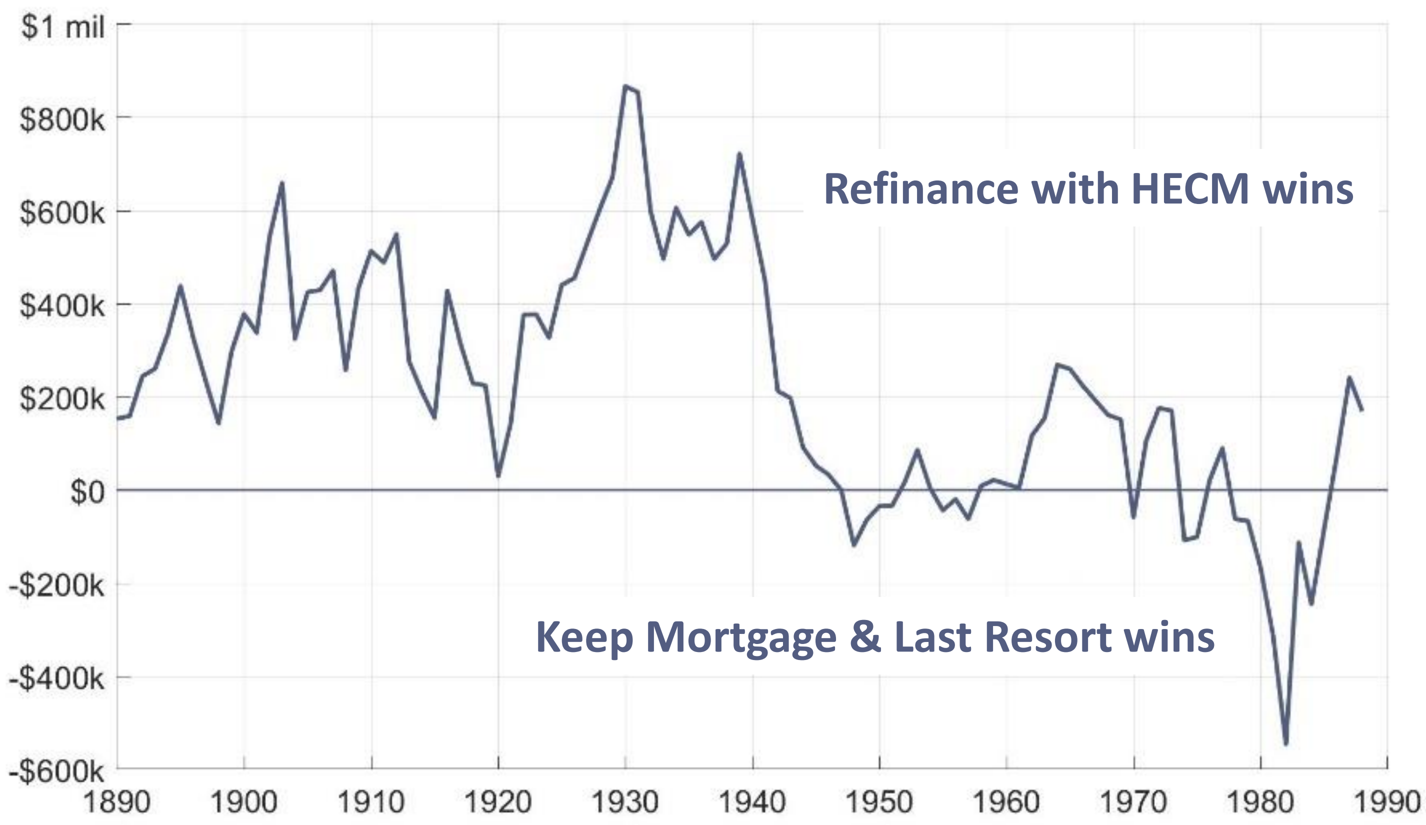
Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Refinancing a Traditional Mortgage with a HECM

Example for Carrying Mortgage into Retirement

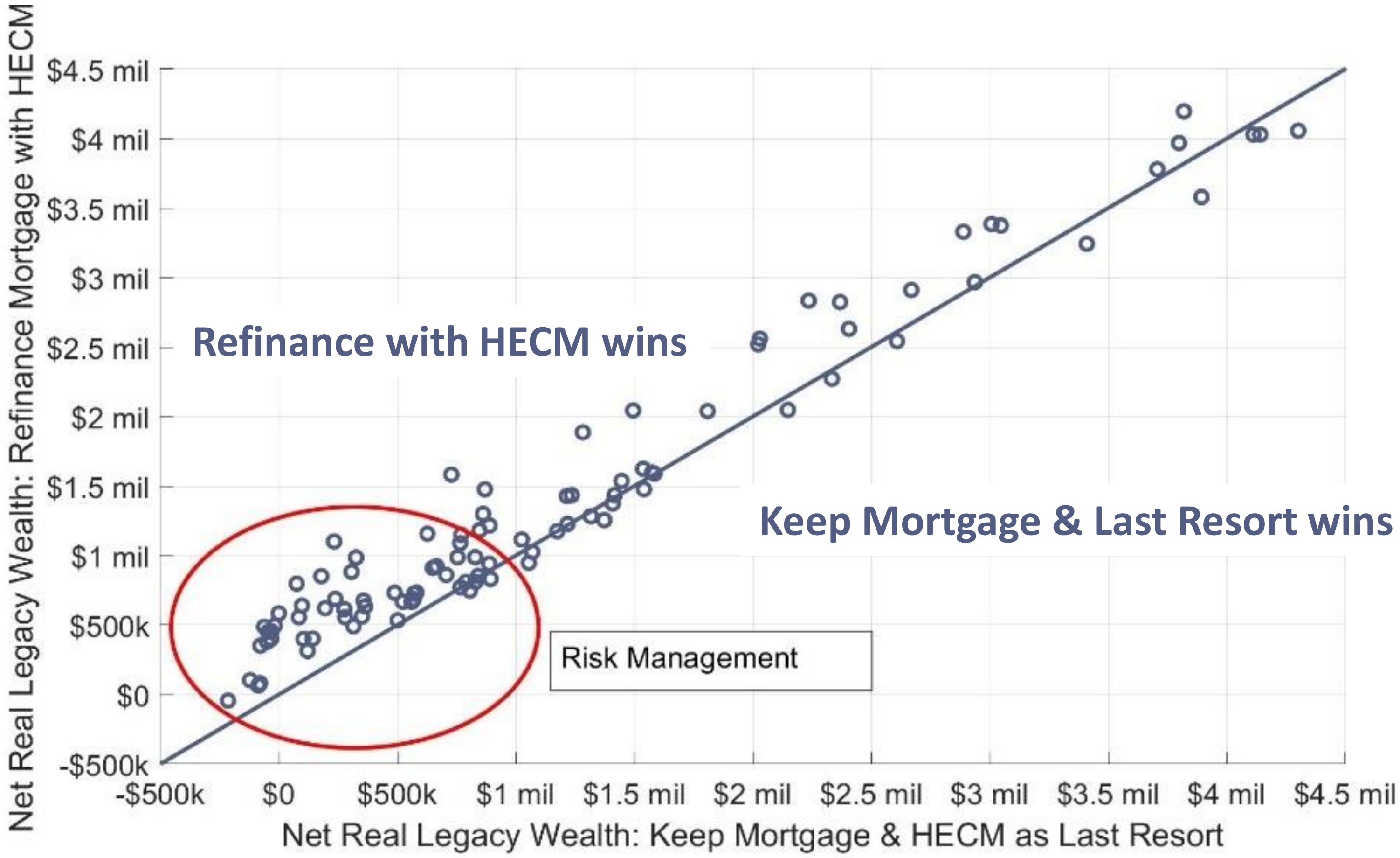
- Carry a mortgage into retirement vs. Use HECM to refinance mortgage
- If leftover principal limit, use tenure payment with rest
- If HECM is not sufficient, cover remainder with portfolio distribution
- Same case study, except:
  - home was purchased 20 years earlier, 10 years left on the mortgage
  - price grew with home price index, worth $435,000 today
  - Taxable portfolio is $115,048 larger to account for average remaining mortgage balance today

Comparing the HECM Refinance to Keeping the Mortgage & Last Resort Net Real Legacy Wealth (HECM Refinance – Keep & Last Resort)



Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Comparing the HECM Refinance to Keeping the Mortgage & Last Resort Net Real Legacy Wealth



Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Social Security Delay Bridge

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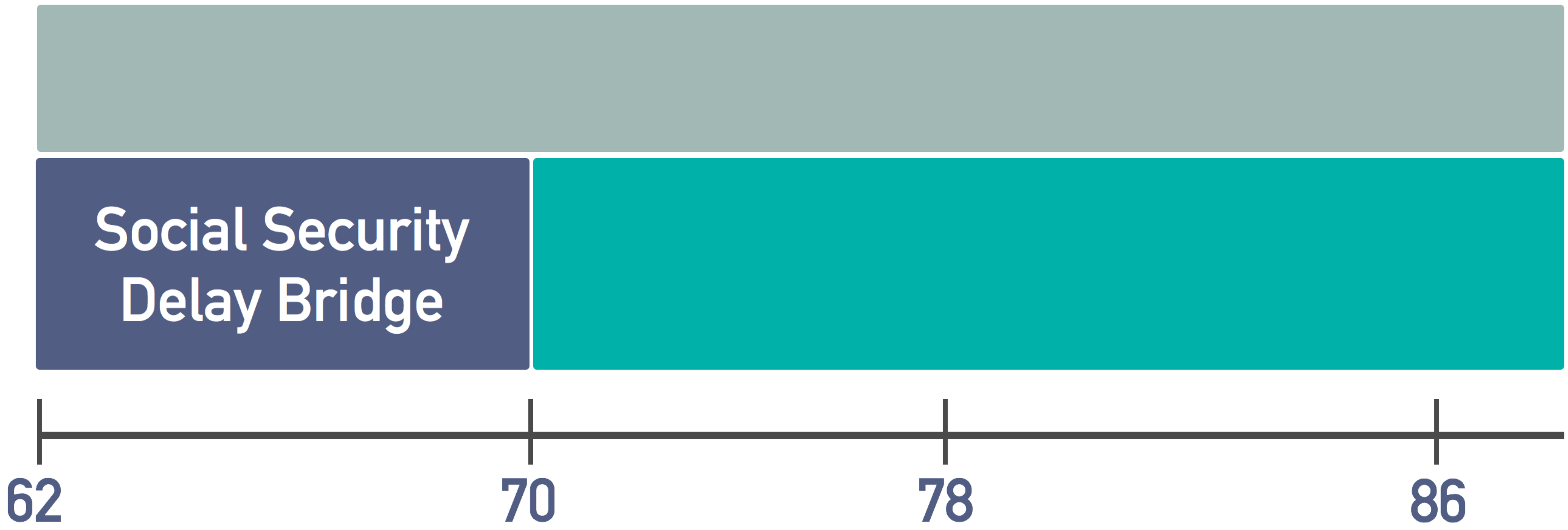
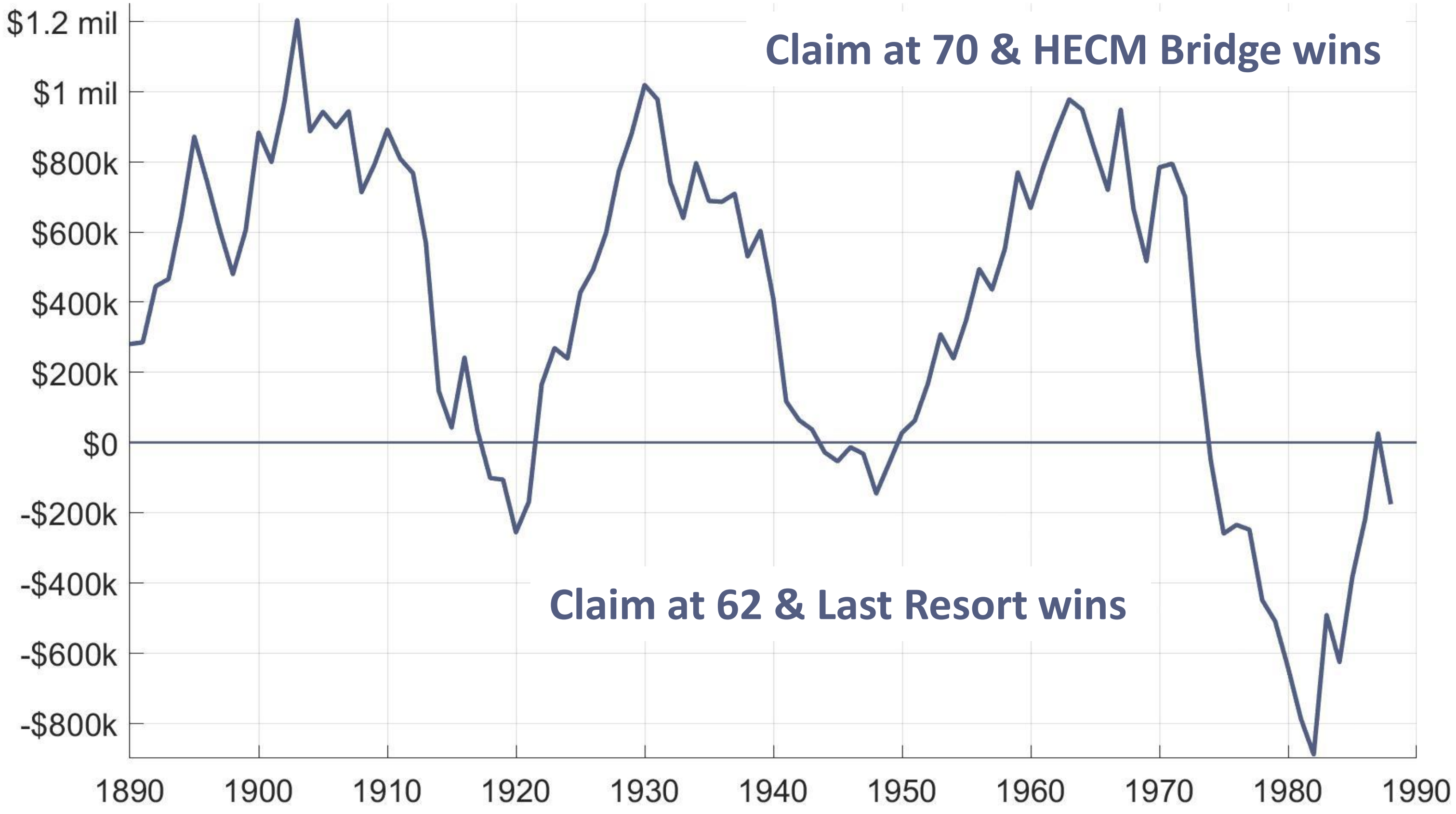


Comparing the Claim @ 70 and HECM Bridge to the Claim @ 62 and Last Resort Net Real Legacy Wealth (70 & Bridge – 62 & Last Resort)



Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

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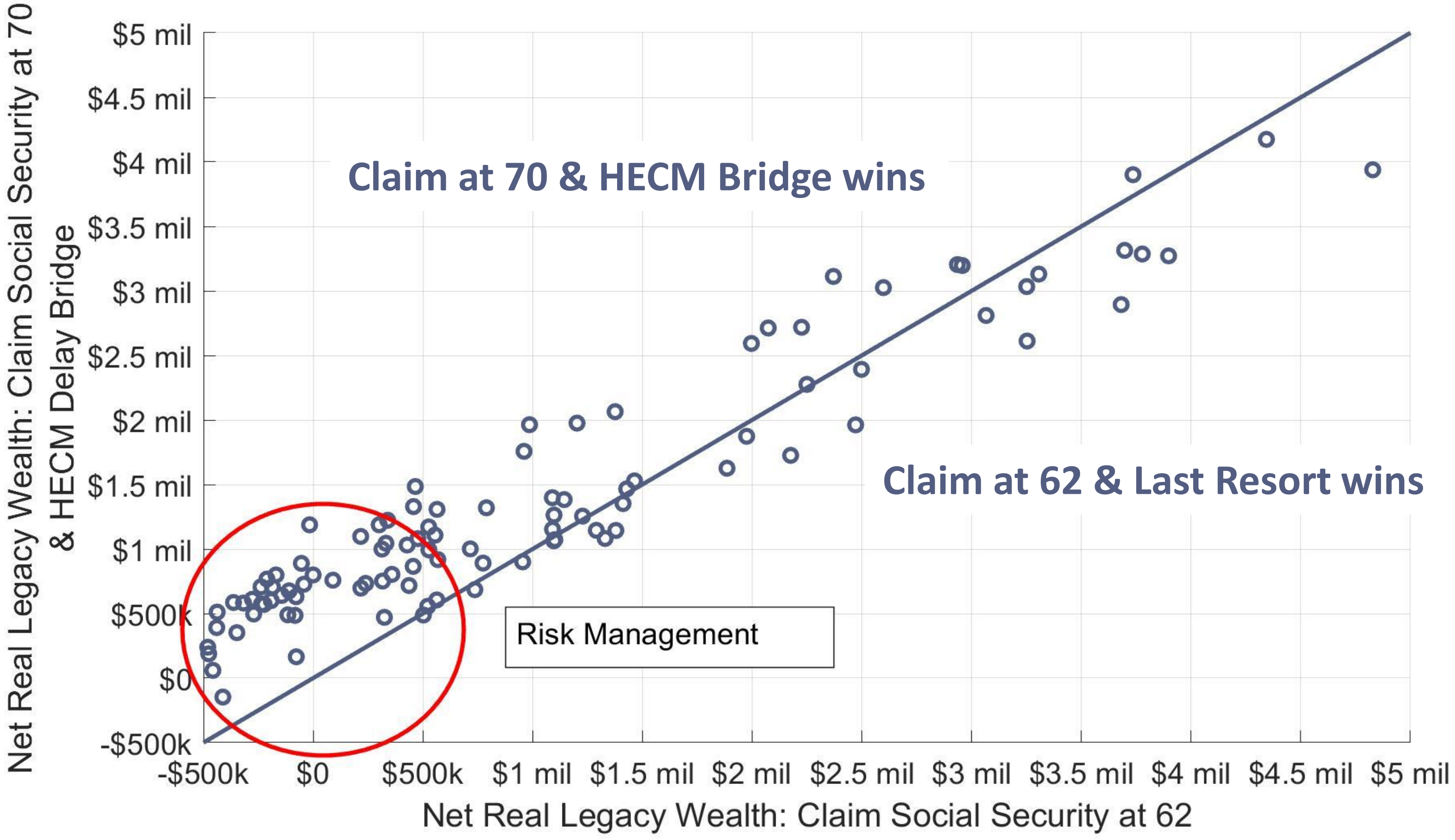

Source: Own calculations using Robert Shiller's dataset at http://www.econ.yale.edu/~shiller/data.htm

Key Takeaways

- Reverse mortgages cannot be viewed in isolation: their costs can be more than offset by gains elsewhere in the financial plan
- Conventional "last resort" wisdom hurts retirement sustainability
- Strategic HECM use: improved retirement sustainability, larger legacy
- WHY IT WORKS: Buffer to Mitigate Sequence Risk; Growing Line of Credit
- Responsible use of HECM can improve retirement outcomes
- 2022 is a perfect storm that the HECM is designed to help manage!

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THANK YOU!
ANY QUESTIONS?

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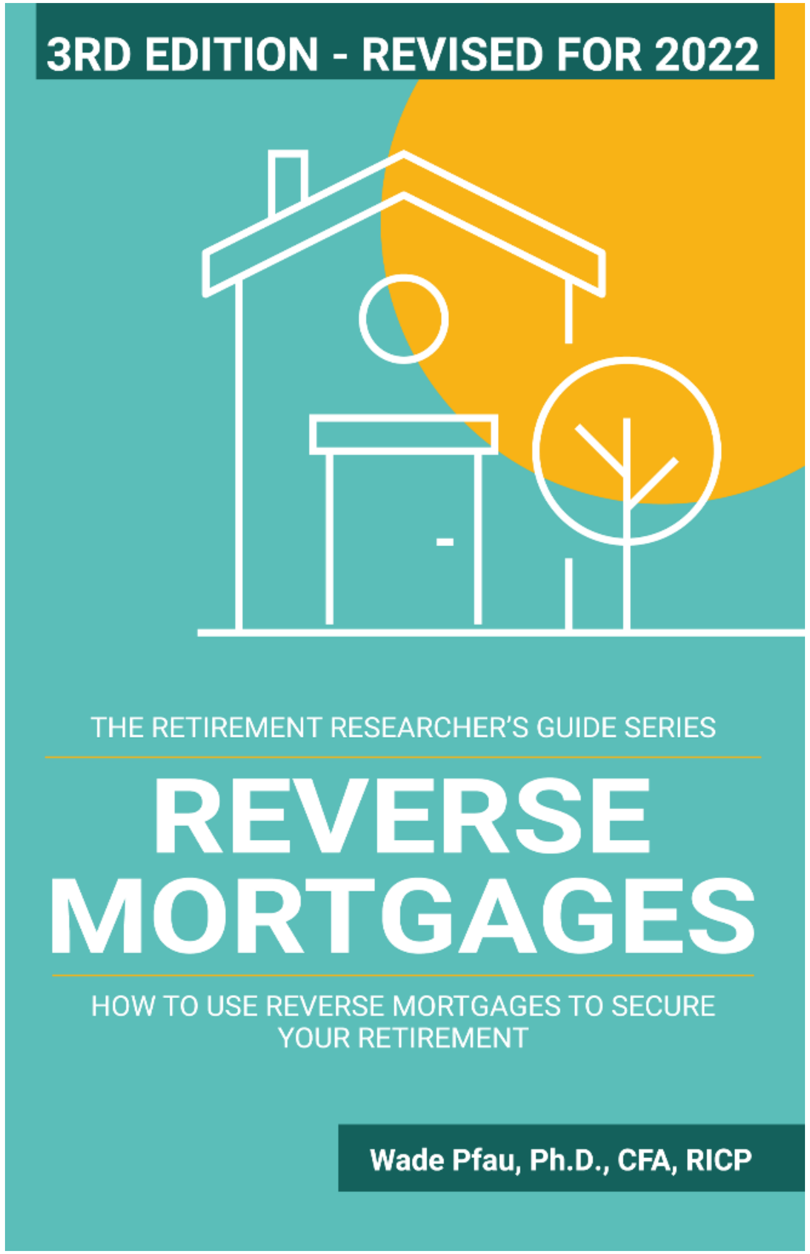

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