

Easing Portfolio Volatility for Clients: How a HECM Can Help

HOME EQUITY CONVERSION MORTGAGE (HECM) | Sequence of Returns Risk Scenarios¹

SCENARIO 1: HECM as Last Resort Strategy

Age	Loan Year	Portfolio Value Start of Year	Portfolio Draws	HECM Line of Credit Draws	60/40 Stocks and Bonds	Portfolio Value End of Year
62	1	\$750,000.00	\$55,000.00	\$0.00	8.24%	\$752,254.10
63	2	\$752,254.10	\$56,925.00	\$0.00	11.67%	\$776,446.19
64	3	\$776,446.19	\$58,917.38	\$0.00	-2.42%	\$700,178.97
65	4	\$700,178.97	\$60,979.48	\$0.00	31.71%	\$841,902.43
66	5	\$841,902.43	\$63,113.77	\$0.00	14.18%	\$889,220.90
67	6	\$889,220.90	\$65,322.75	\$0.00	23.84%	\$1,020,282.51
68	7	\$1,020,282.51	\$67,609.04	\$0.00		
69	8	\$1,171,521.62	\$69,975.36	\$0.00		
70	9	\$1,203,263.04	\$72,424.50	\$0.00		
71	10	\$1,144,928.79	\$74,959.35	\$0.00		
72	11	\$1,017,733.53	\$77,582.93	\$0.00		
73	12	\$873,080.26	\$80,298.33	\$0.00		
74	13	\$928,886.72	\$83,108.78	\$0.00		
75	14	\$915,470.05	\$86,017.58	\$0.00		
76	15	\$863,012.11	\$89,028.20	\$0.00	10.15%	\$852,543.28
77	16	\$852,543.28	\$92,144.19	\$0.00	7.37%	\$816,455.71
78	17	\$816,455.71	\$95,369.23	\$0.00	-13.89%	\$620,927.57
79	18	\$620,927.57	\$98,707.16	\$0.00	11.12%	\$580,270.44
80	19	\$580,270.44	\$102,161.91	\$0.00	12.28%	\$536,801.13
81	20	\$536,801.13	\$105,737.57	\$0.00	7.68%	\$464,152.00
82	21	\$464,152.00	\$109,438.39	\$0.00	10.72%	\$392,746.01
83	22	\$392,746.01	\$113,268.73	\$0.00	15.65%	\$323,215.47
84	23	\$323,215.47	\$117,233.14	\$0.00	12.41%	\$231,548.86
85	24	\$231,548.86	\$121,336.30	\$0.00	1.34%	\$111,682.41
86	25	\$111,689.41	\$125,583.07	\$13,893.66	7.34%	\$0.00
87	26	\$0.00	\$129,978.47	\$129,978.47	14.09%	\$0.00
88	27	\$0.00	\$134,527.72	\$134,527.72	-2.55%	\$0.00
89	28	\$0.00	\$139,236.19	\$139,236.19	22.58%	\$0.00
90	29	\$0.00	\$144,109.46	\$144,109.46	15.34%	\$0.00
91	30	\$0.00	\$149,153.29	\$149,153.29	15.31%	\$0.00

SCENARIO 2: HECM Portfolio Longevity Strategy

Age	Loan Year	Portfolio Value Start of Year	Portfolio Draws	HECM Line of Credit Draws	Portfolio Performance	Portfolio Value End of Year
62	1	\$750,000.00	\$55,000.00	\$0.00	8.24%	\$752,254.10
63	2	\$752,254.10	\$56,925.00	\$0.00	11.67%	\$776,446.19
64	3	\$776,446.19	\$58,917.38	\$0.00	-2.42%	\$700,178.97
65	4	\$700,178.97	\$60,979.48	\$0.00	31.71%	\$922,219.73
66	5	\$922,219.73	\$63,113.77	\$0.00	14.18%	\$980,927.19
67	6	\$980,927.19	\$65,322.75	\$0.00	23.84%	\$1,133,847.91
68	7			\$0.00	22.97%	\$1,311,175.26
69	8			\$0.00	9.23%	\$1,355,812.30
70	9			\$0.00	1.25%	\$1,299,378.82
71	10			\$0.00	-4.88%	\$1,164,643.31
72	11			\$77,582.93	-7.13%	\$1,081,557.65
73	12			\$80,298.33	17.17%	\$1,267,239.47
74	13			\$0.00	8.24%	\$1,281,703.06
75	14			\$0.00	4.05%	\$1,244,062.92
76	15	\$1,244,062.92	\$89,028.20	\$0.00	10.15%	\$1,272,270.74
77	16	\$1,272,270.74	\$92,144.19	\$0.00	7.37%	\$1,267,125.48
78	17	\$1,267,125.48	\$95,369.23	\$0.00	-13.89%	\$1,008,999.31
79	18	\$1,008,999.31	\$98,707.16	\$0.00	11.12%	\$1,121,159.67
80	19	\$1,121,159.67	\$102,161.91	\$0.00	12.28%	\$1,144,089.93
81	20	\$1,144,089.93	\$105,737.57	\$0.00	7.68%	\$1,118,056.29
82	21	\$1,118,056.29	\$109,438.39	\$0.00	10.72%	\$1,116,761.91
83	22	\$1,116,761.91	\$113,268.73	\$0.00	15.65%	\$1,160,539.86
84	23	\$1,160,539.86	\$117,233.14	\$0.00	12.41%	\$1,172,801.96
85	24	\$1,172,801.96	\$121,336.30	\$0.00	1.34%	\$1,065,555.30
86	25	\$1,065,555.30	\$125,583.07	\$0.00	7.34%	\$1,008,947.39
87	26	\$1,008,947.39	\$129,978.47	\$0.00	14.09%	\$1,002,780.48
88	27	\$1,002,780.48	\$134,527.72	\$0.00	-2.55%	\$846,147.05
89	28	\$846,147.05	\$139,236.19	\$139,236.19	22.58%	\$1,037,223.97
90	29	\$1,037,223.97	\$144,109.46	\$0.00	15.34%	\$1,030,154.01
91	30	\$1,030,154.01	\$149,153.29	\$0.00	15.31%	\$1,015,917.17

DISCOVER THE DIFFERENCE

\$0.00 vs. \$1,015,917.17

SCENARIO

This scenario assumes a retired couple with \$22,000 in Social Security income trying to maintain a lifestyle that costs \$77,000 the first year of retirement.

Starting with an initial value of \$750,000:

- Withdrawal rate 6.5%
- Inflation factor 3.5%
- Hypothetical market performance based on portfolio mix of 60% stocks/40% bonds

Using 30-year **HECM as Last Resort** strategy*: live off investment portfolio until funds are exhausted before using HECM for income.

RESULTS

Portfolio exhausted at age 86 – nearly 5 years short of life expectancy

Portfolio balance = **\$0.00**

Total draws on HECM Line of Credit = **\$820,074.32**
(includes accumulated interest)

SCENARIO

Same situation as other scenario, **except using a HECM Portfolio Longevity Strategy**.² Rather than waiting for the portfolio to run out before engaging the HECM:

- Alternate annual withdrawals between the portfolio and HECM based on portfolio performance
- Following a down year, switch to HECM as income source for one year

RESULTS

Portfolio success: portfolio and income outlast life expectancy

Portfolio value = **\$1,015,917.17**

Total draws on HECM Line of Credit = **\$1,322,269.57**
(includes accumulated interest)



Why a HECM is a smart, strategic part of a comprehensive retirement plan.

For most retirees, most of their net worth is tied up in their homes. Independent research by Professor Wade Pfau shows that tapping home equity can help create a more stable, successful retirement plan.³

The proceeds are income-tax free⁴, so it can help clients defer or eliminate the capital gains taxes from selling appreciated assets in taxable accounts – and allow them to leave assets in tax-deferred accounts like 401(k)s or IRAs to grow.

Contrary to popular belief, reverse mortgages often increase clients' legacy wealth by slowing withdrawals from retirement portfolios and allowing assets to remain invested.

Contact me today to learn more.

Dave Kaufman

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¹ The information and scenarios being shown are hypothetical and intended for illustrative purposes only.

² Source: Sacks and Sacks 2012—Journal of Financial Planning.

³ Incorporating Home Equity into a Retirement Income Strategy, by Wade D. Pfau, Ph.D., CFA. Journal of Financial Planning, 2016, vol. 29, no. 4, pp. 41–49.

⁴ Consumers should consult a tax professional.

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