



Best Practices for Retirement Income Planning



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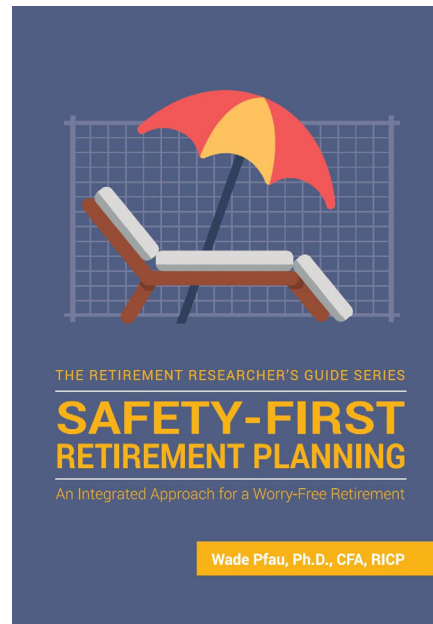
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Safety-First Retirement Planning: An Integrated Approach for a Worry-Free Retirement

Amazon – Paperback & Kindle

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(discounted bulk order purchases are available)



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Retirement Requires a Different Approach



Harry Markowitz

"Professor Mandell, editor of *Financial Services Review*, invited me to contribute an article related to financial research for the individual for the first issue of this journal. Since the subject is not my specialty, it was uncharacteristically risky of me to have accepted the invitation. But an evening of reflection convinced me that there were clear differences in the central features of investment for institutions and investment for individuals, that these differences suggest differences in desirable research methodology, and that a note on these differences may be of value."

Financial Services Review, 1991

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What's Different About Retirement?


- Reduced earnings capacity
- Visible spending constraint
- Heightened investment risk
- Unknown longevity
- Spending shocks
- Compounding inflation
- Declining cognitive abilities



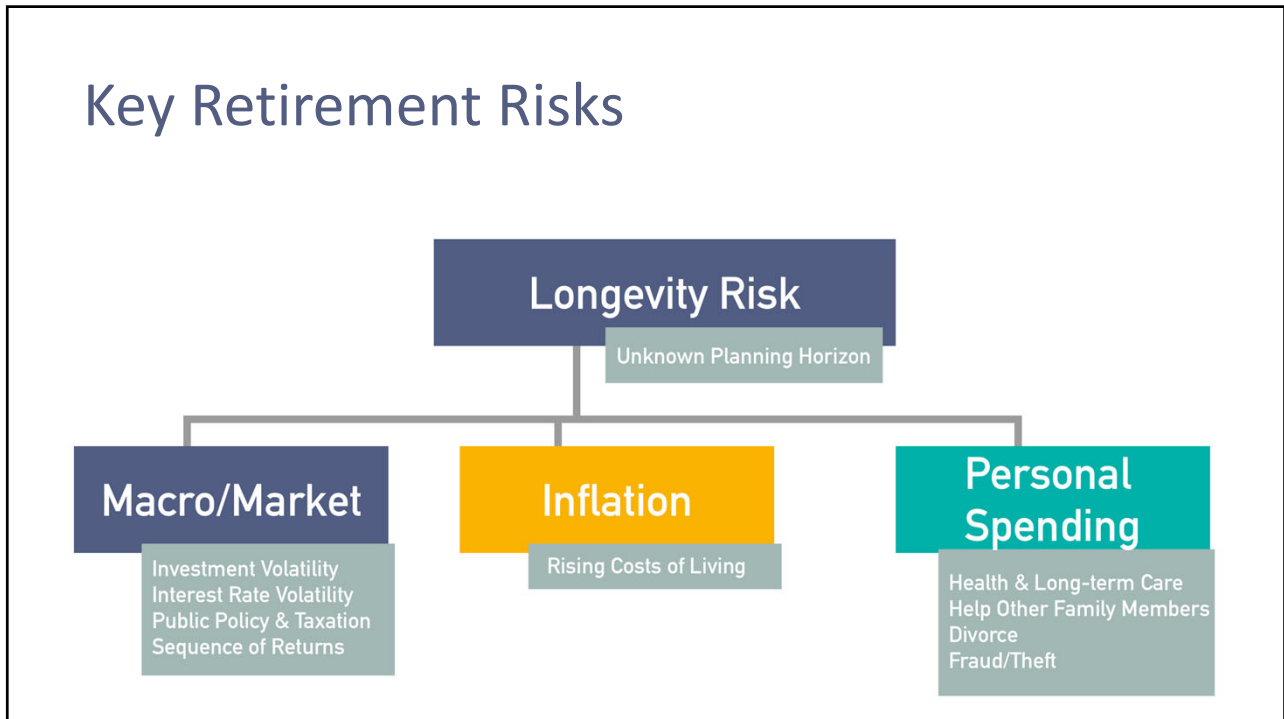
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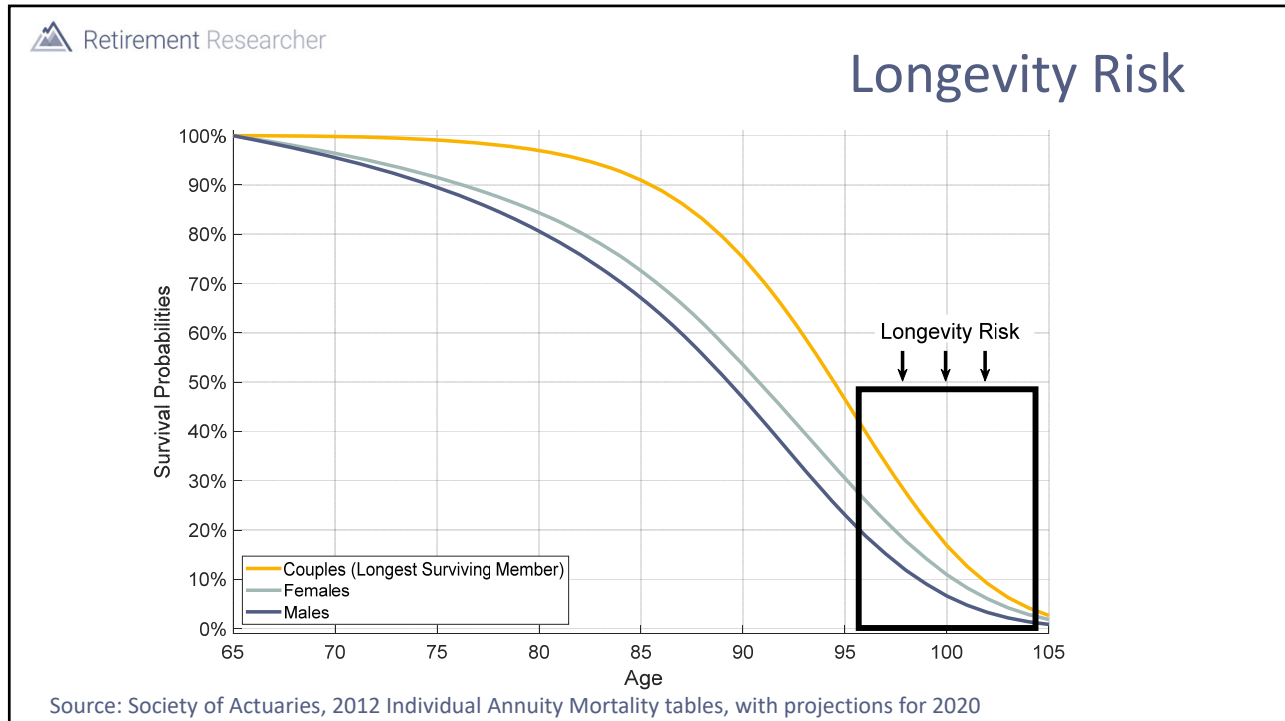
Pre-Retirement
vs.
Retirement



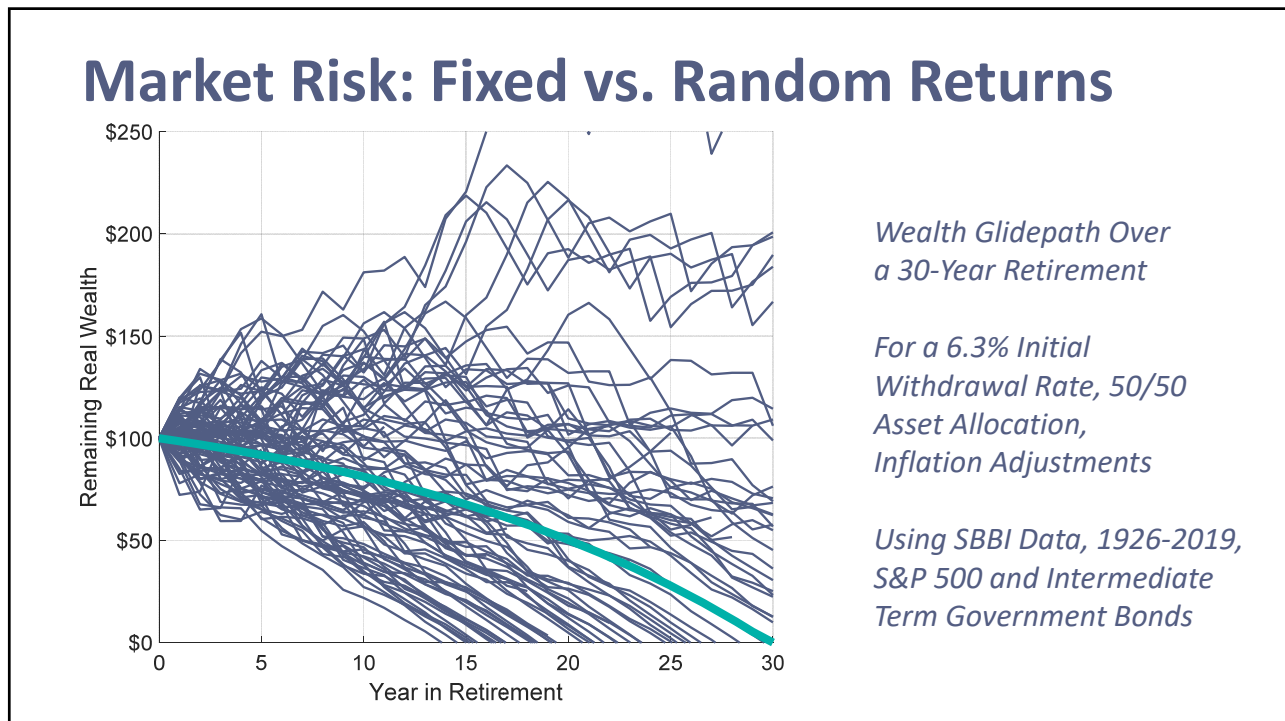
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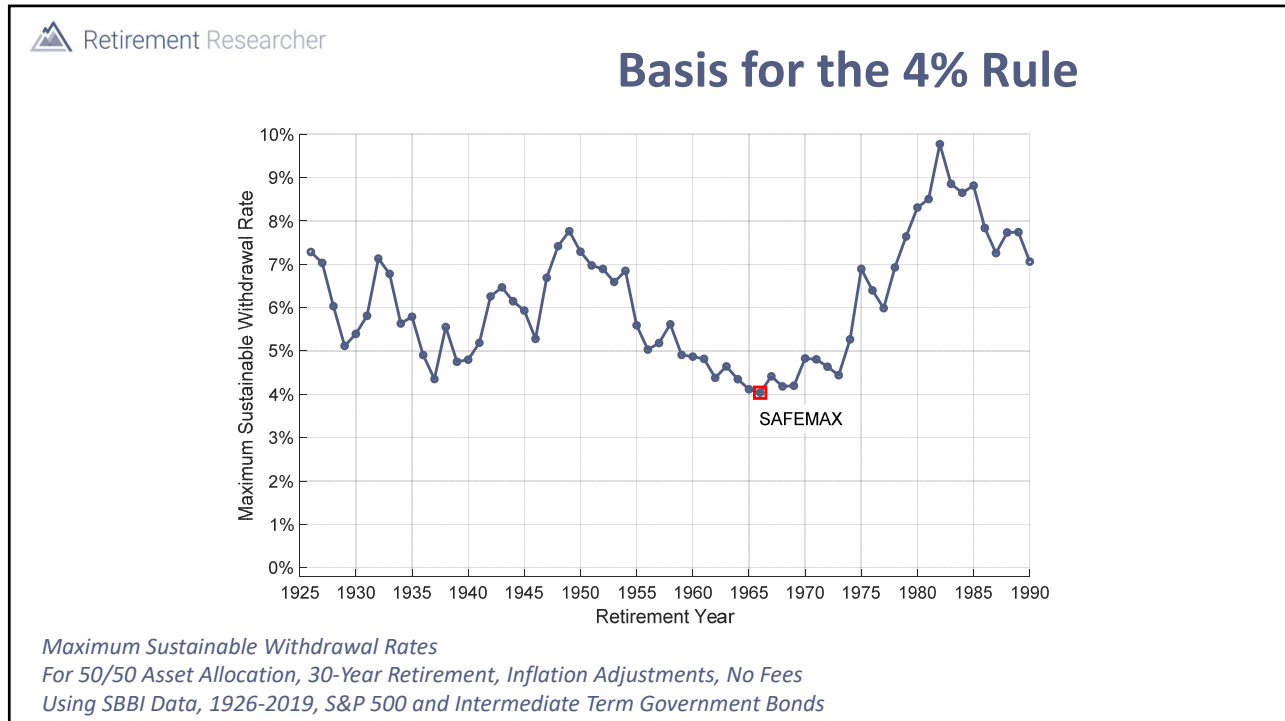
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Maximum Sustainable Withdrawal Rates for Retirees

Global Returns Dataset, 1900-2017

Asset Allocation:
50% Stocks & 50% Bills

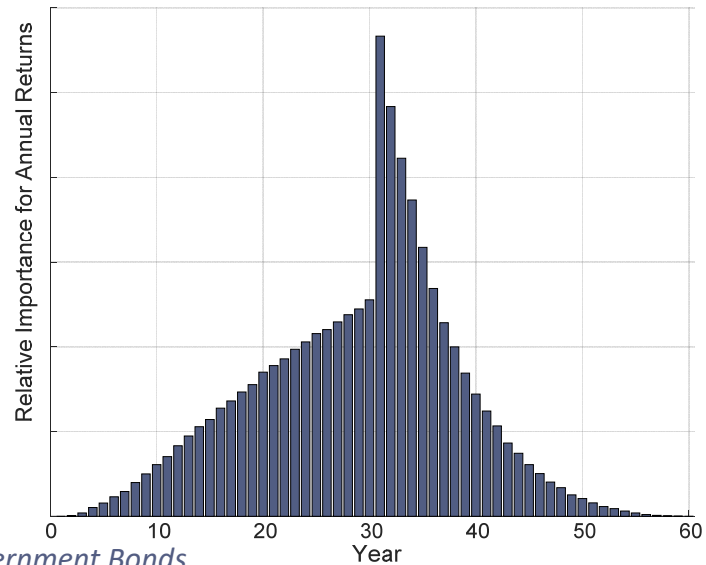
Note: Assumptions include a thirty-year retirement duration, no investment fees, constant inflation-adjusted withdrawal amounts, and annual rebalancing.

	SAFEMAX	Success Rate for 4% Rule	Success Rate for 90% Success
Canada	4.0%	99%	4.6%
United States	3.9%	98%	4.4%
New Zealand	3.8%	92%	4.1%
Denmark	3.7%	93%	4.2%
United Kingdom	3.4%	78%	3.8%
Australia	3.2%	78%	3.5%
Switzerland	3.1%	69%	3.4%
Sweden	3.1%	87%	3.8%
South Africa	3.0%	85%	3.9%
Norway	3.0%	56%	3.1%
Netherlands	2.8%	80%	3.8%
Ireland	2.8%	66%	3.2%
Spain	2.2%	51%	2.6%
Portugal	1.5%	55%	1.8%
Belgium	1.5%	53%	1.9%
Finland	1.3%	61%	1.8%
Germany	1.2%	56%	1.6%
France	0.9%	36%	1.3%
Italy	0.8%	26%	1.1%
Japan	0.3%	63%	0.3%
Austria	0.1%	39%	0.1%
Across Countries		68%	2.8%

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Lifetime Sequence of Returns Risk

*50/50 Asset Allocation,
Inflation-Adjusted Spending
100,000 Monte Carlo Simulations
Based on S&P 500 Data, 1926–2019,
S&P 500 and Intermediate-Term Government Bonds*



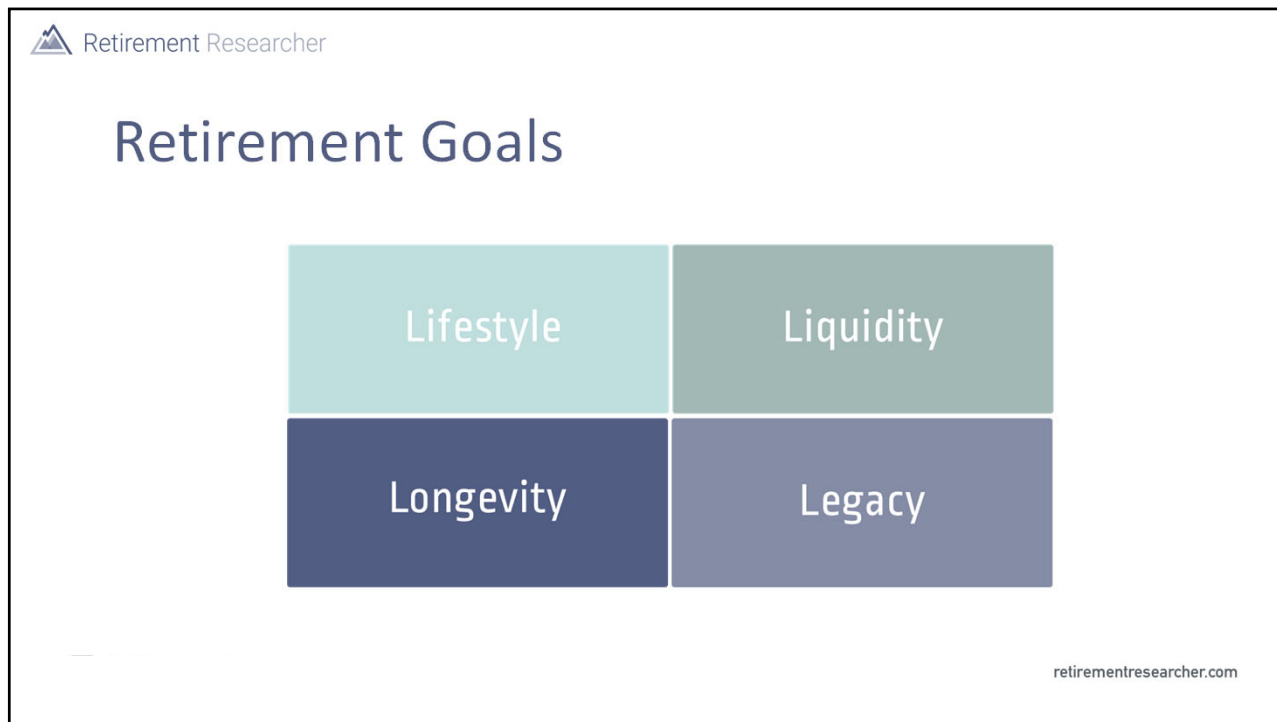
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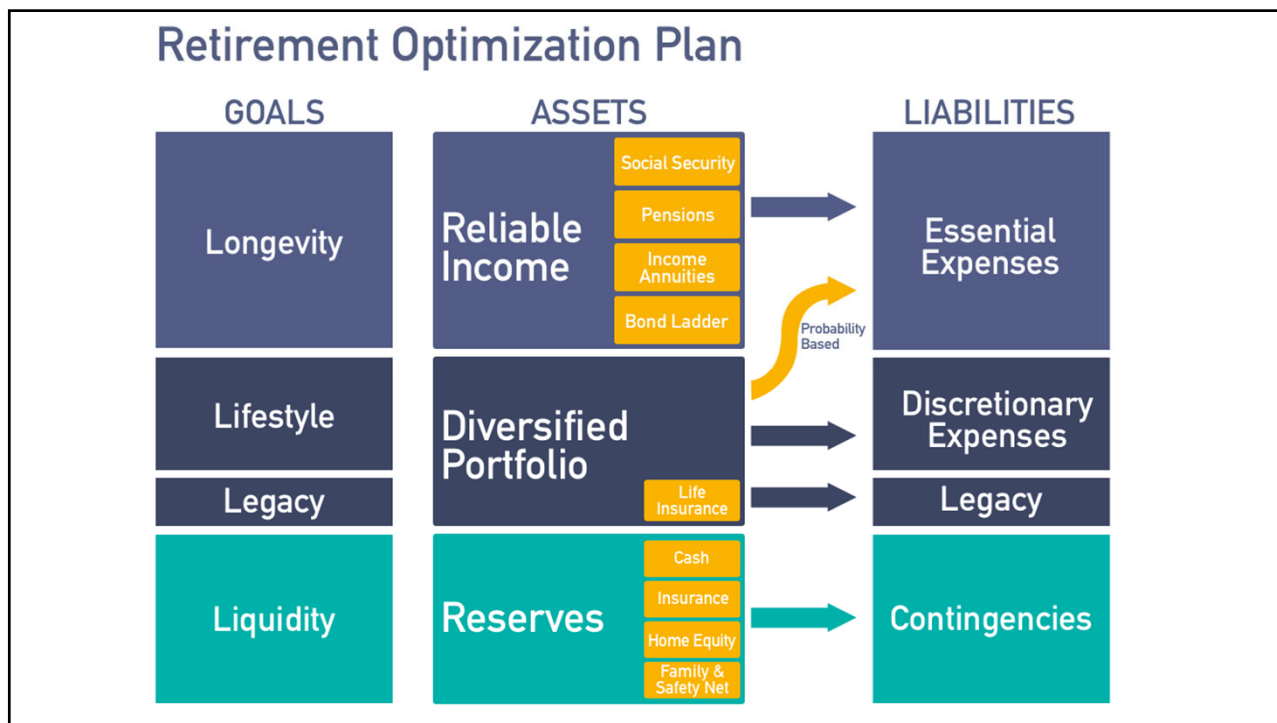
Managing Volatility in Retirement

- **Spend Conservatively**
- **Spending Flexibility**
- **Reduce Volatility**
- **Buffer Assets – Avoid Selling at Losses**

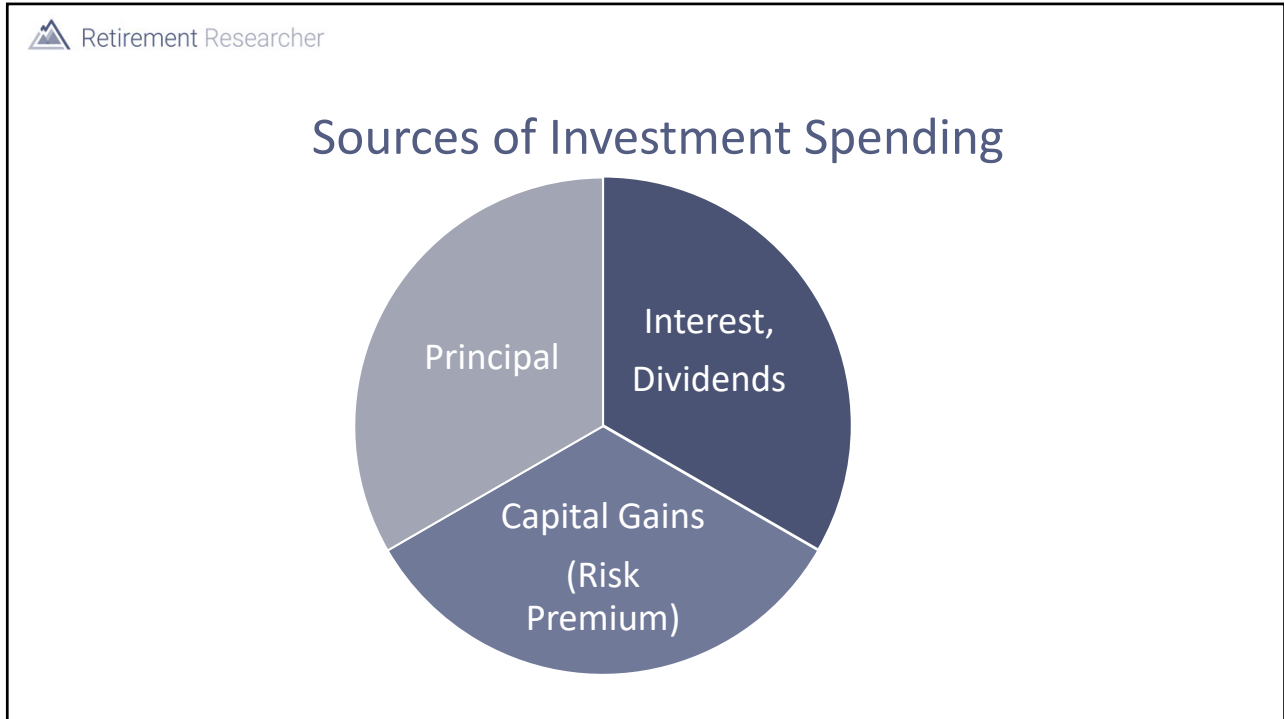
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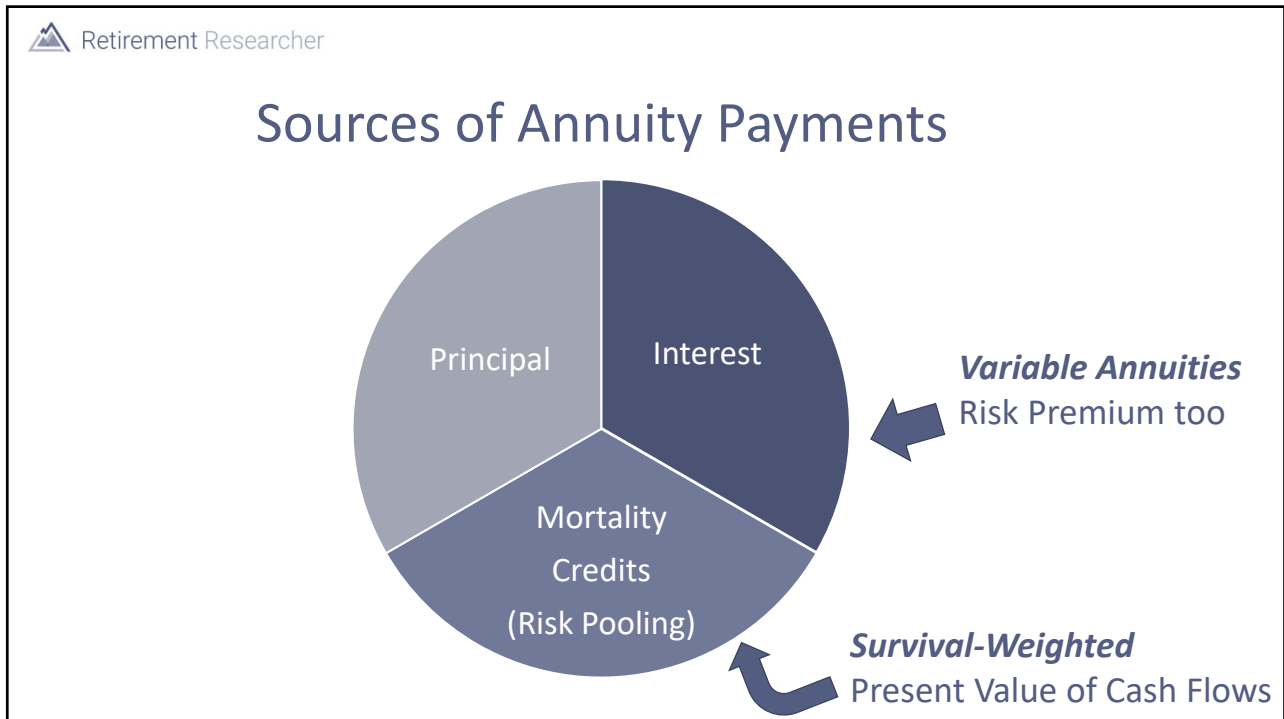
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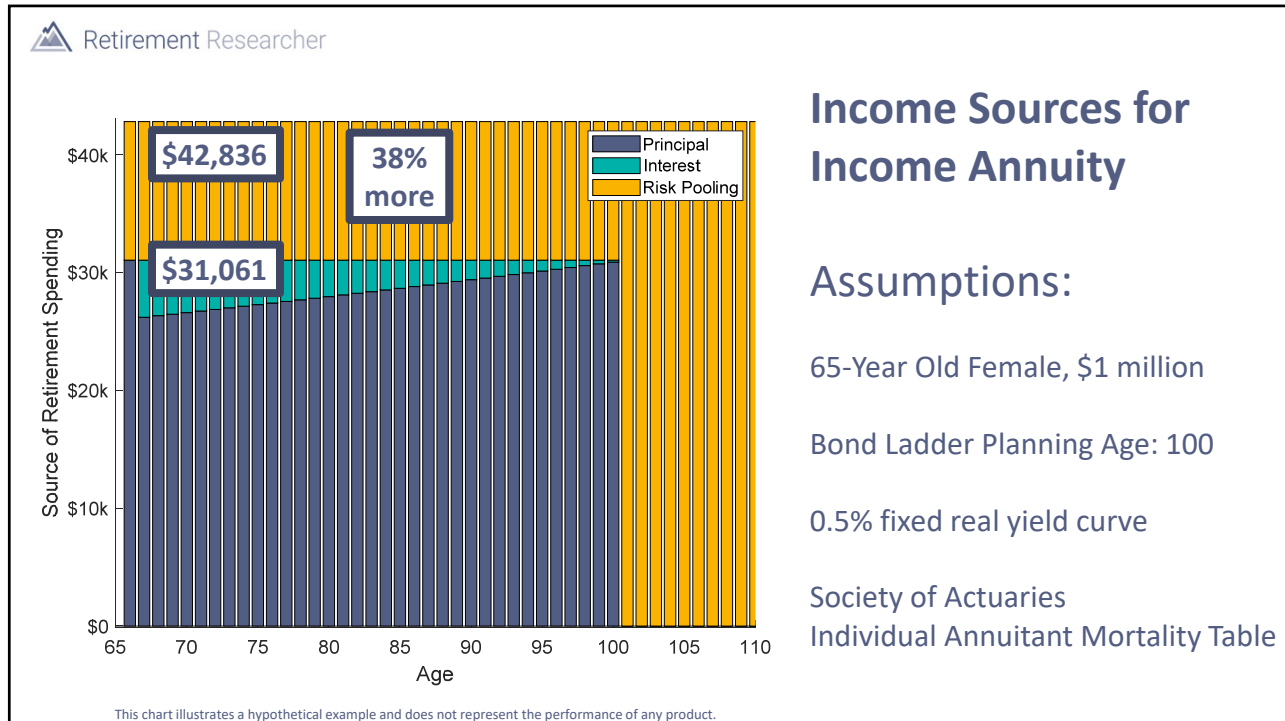
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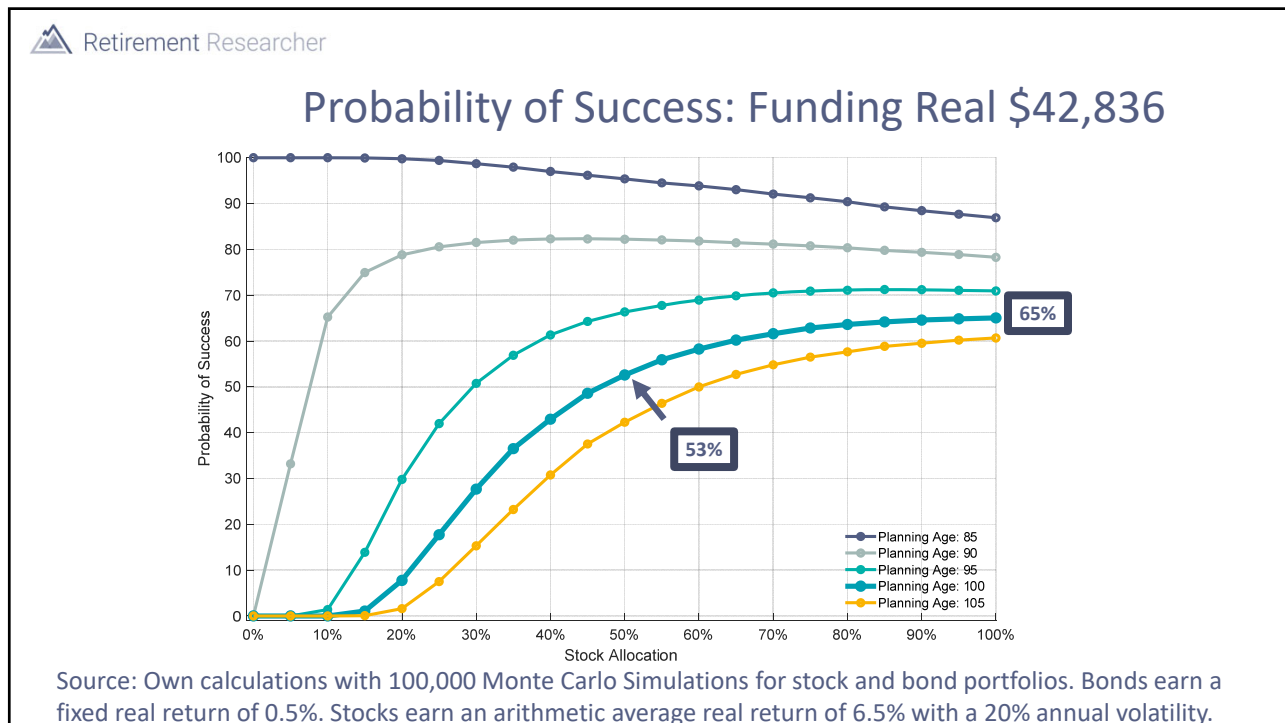
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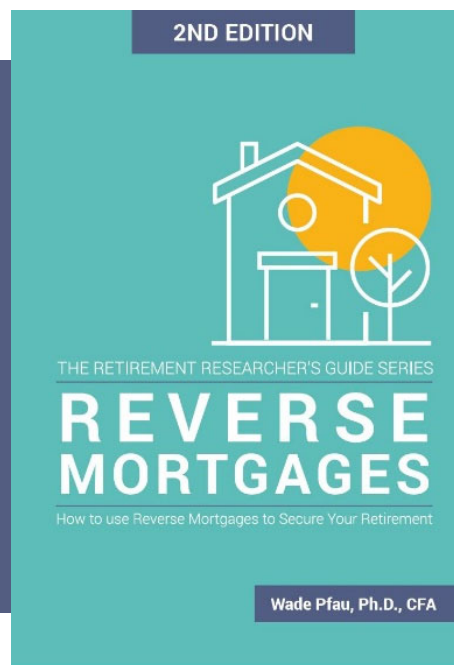
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Polling Question

- Have recent market declines left you more open to exploring the idea of reverse mortgages as an option for clients?

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Reverse Mortgages



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Managing Volatility in Retirement

- **Spend Conservatively**

(tenure payment, refinance mortgage, Social Security delay bridge)

- **Spending Flexibility**

- **Reduce Volatility**

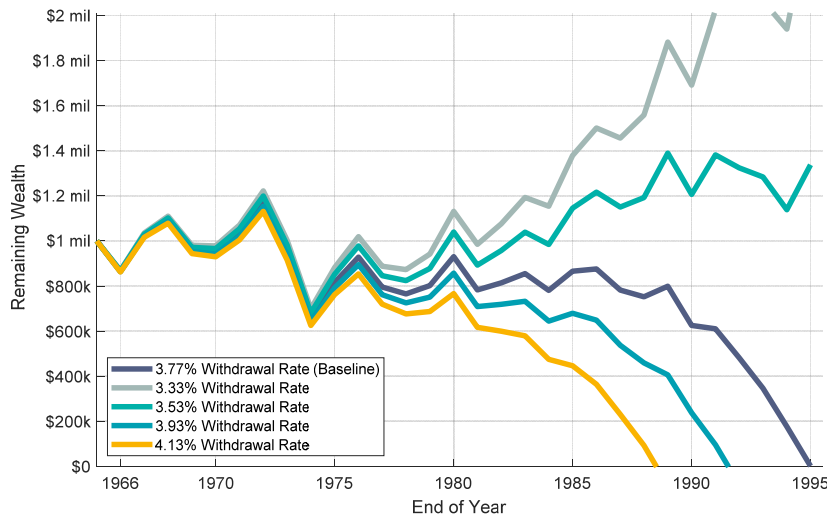
- **Buffer Assets – Avoid Selling at Losses**

(coordinated spending strategies)

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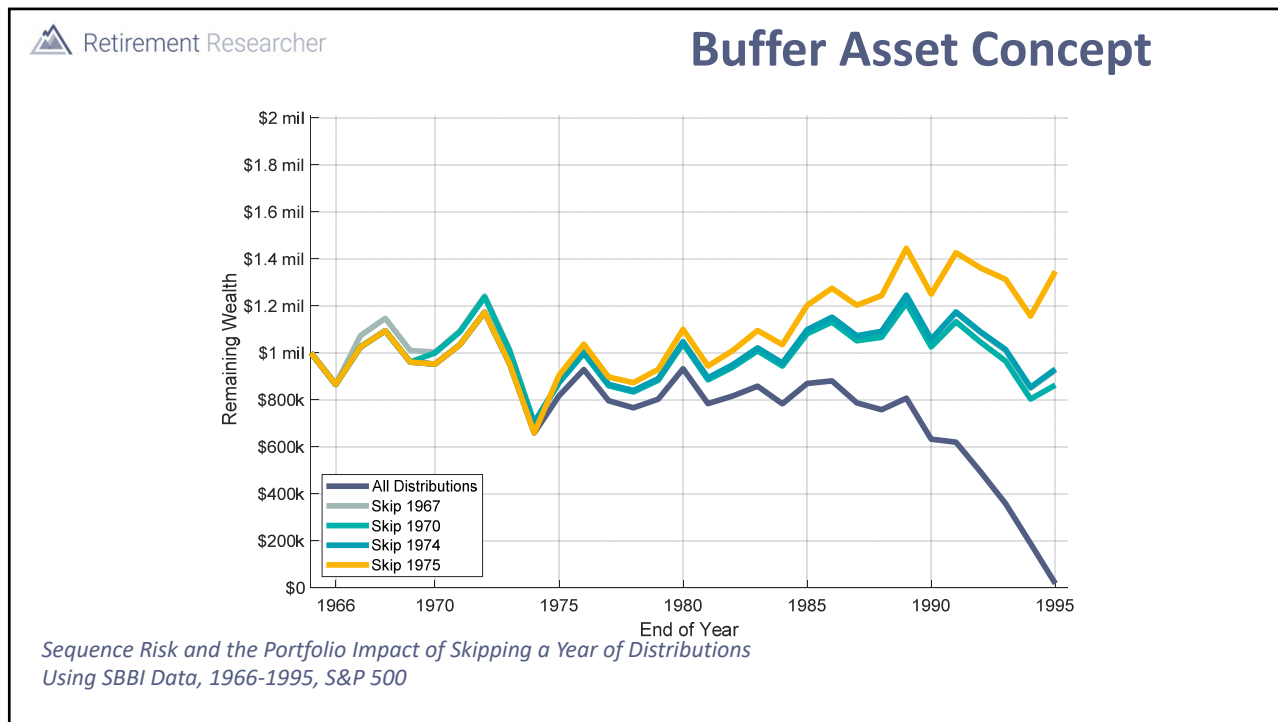


Spend Conservatively

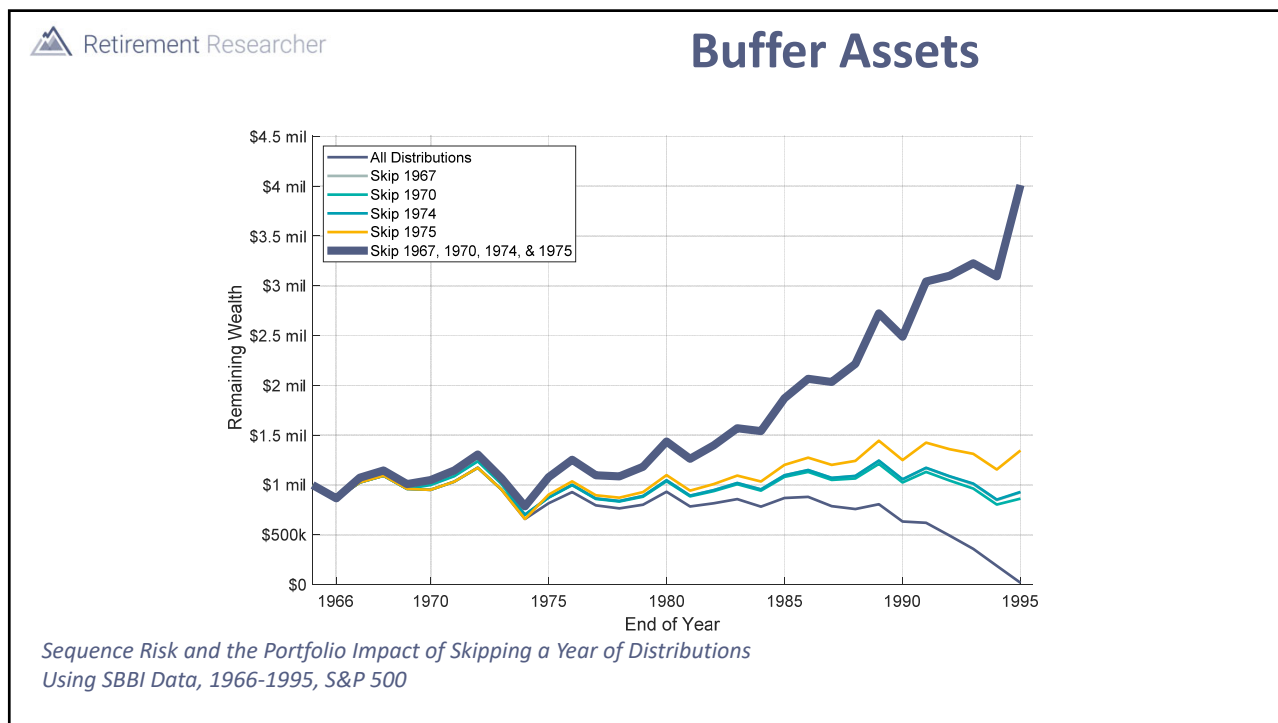


Sequence Risk and the Portfolio Impact of Spending Levels
Inflation-Adjusted Spending Defined as a Percentage of Retirement Date Assets, No Fees
Using SBBi Data, 1966-1995, S&P 500


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The Spectrum of Potential Reverse Mortgage Uses

	Portfolio/Debt Coordination for Housing	Refinance an Existing Mortgage Transition from Traditional Mortgage to Reverse Mortgage Fund Home Renovations to Allow for Aging in Place HECM for Purchase for New Home
	Portfolio Coordination for Retirement Spending	Spend Home Equity First to Leverage Portfolio Upside Potential Coordinate HECM Spending to Mitigate Sequence Risk Use Tenure Payments to Reduce Portfolio Withdrawals
	Funding Source for Retirement Efficiency Improvements	Tenure Payments as Annuity Alternative Social Security Delay Bridge Tax Bracket Management & Taxes for Roth Conversions Premiums for Existing Long-Term Care Insurance Policies
	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)

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Reverse Mortgage Conclusions

- Conventional wisdom hurts retirement sustainability: HECM shouldn't be last resort
- Strategic HECM use: improved retirement sustainability, larger legacy
- WHY IT WORKS: Buffer to Mitigate Sequence Risk; Growing Line of Credit
- Low interest rates favor HECM (unlike everything else)
- HECM helps middle class: more benefits when home value is large relative to portfolio size (and when home value is under \$765,600)
- Responsible use of HECM can improve retirement income efficiency

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Key Takeaways

- Retirement income planning means managing a combination of longevity risk and amplified investment volatility
- Investments alone do not best manage these risks
- Tools such as annuities and reverse mortgages can help to preserve investments in the face of these risks

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Questions



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Dr. Pfau's Four Nevers

NEVER give up title to the home.
The bank does not get the house.

NEVER owe more than home's value.
Neither the homeowner nor his estate are subject to a deficiency judgment. Any remaining equity beyond the loan balance belongs to the borrower or his heirs.

NEVER be forced to move.
Should the available credit be exhausted the homeowner has the right to remain in the home.

NEVER monthly payment required on principal or interest.
No payment is ever expected until the last borrower leaves the home permanently.

** Until the last borrower dies, moves or sells. Like all mortgages, the borrower must stay current on property obligations such as taxes and insurance and maintain the home in reasonable repair. © 2000 Giordano*



Bibliography

Shelley Giordano, *Enterprise Integration*
Mutual of Omaha Mortgage

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The screenshot shows the website for the Academy for Home Equity in Financial Planning. At the top, there is a navigation menu with links for Home, About, Events, News, Research, and Resources. Below the navigation is a large banner image of a group of people standing together. Underneath the banner, there is a section for 'RECENT POSTS' featuring an article titled 'Exploring the Retirement Consumption Puzzle' by David Blanchett, CFP®, CFA. The article text discusses the challenges of retirement spending and the role of home equity. A sidebar on the left contains a search bar and a list of categories including Calculators, Loans, Mortgages, and more.

Dr. Craig Lemoine
<https://ahe.illinois.edu/>

Would you like a copy? Send an email to Shelley Giordano

sgjordano@mutualmortgage.com



The Advisor's Guide to

REVERSE MORTGAGE

Why the Home Asset Powers a More Secure Retirement




\$6

TRILLION
Optimize the \$6 trillion + Senior Housing Treasure

MONETIZING AMERICA'S
Most Valuable Asset In Retirement

DIVERSIFY
An Illiquid, Indivisible Non-Market Correlated Resource




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Save the date!

The Platinum Retirement Challenge: Grey Divorce

Lili Vasileff, CFP®, CDFP®, MAFF® with specialty in Matrimonial Litigation, President of Wealth Management Protection



Wednesday, May 20, 2020
2-3 pm ET/1-2 pm CT, 11 am – 12 pm PT



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