

**PRESENTATION TO THE HOYT GROUP JAN 18, 2019**

**REAL ESTATE AND RETIREMENT PLANNING:**  
**INTRODUCING THE RETIREMENT INCOME**  
**STABILIZER (RIS)**



Mortgage **P**rofessor

# PHASES OF RETIREMENT PLANNING

- Asset Accumulation Phase
  - Objective is well defined but procrastination is widespread
    - 401K savings are not what they could and should be
    - Too many homeowners retire with mortgage balances.
    - I spent many years on this phase of the problem
      - I have 6 accelerated payoff calculators on my web site.
  - But awareness of this problem has been growing, which is one reason why I switched gears to focus on the retirement phase
- RIS and the Retirement Phase

# SOME OBJECTIVES OF RIS

- Avoid the Major Financial Hazards of Retirement
  - Running out of money
  - Leaving too large an estate
- Integrate Three Components of a Retirement Plan
  - Management of financial assets
  - Management of mortality risk
  - Management of home equity
- Adjust the Time Pattern of Spendable Funds Availability to Retiree Desires
  - These vary from U-shaped to inverse U-shaped and everything in-between
- Use HECM Reverse Mortgage to Enhance or Stabilize the Flow of Spendable Funds
- Enhance Spendable Funds by Providing Competitive Annuity and HECM Prices

# RIS FEATURES: INTEGRATES MANAGEMENT OF FINANCIAL ASSETS, MORTALITY & HOME EQUITY

- A Part of Financial Assets is Used to Purchase a Deferred Annuity
  - The assets remaining provide monthly draws for the deferment period until the annuity begins
  - Financial assets are depleted when the annuity begins
- The Amounts Drawn From Financial Assets During the Deferment Period Are Adjusted Every Year Based on the Rate of Return in the Preceding Year
  - The adjustment assures comparability between the last draw from assets and the first annuity payment
- Draws from a HECM Reverse Mortgage are Added as Needed
  - Draws against a HECM credit line or a term payment can be used to offset a decline in spendable funds during the deferment period due to lower than expected rates of return
  - A tenure payment can raise the level of spendable funds over the entire period the retiree lives in her home
  - A credit line that is not exhausted during the deferment period can be used later for any purpose, including purchase of a tenure payment.

# RIS FEATURES: TABLE OF ESTIMATED RATE-OF-RETURN PROBABILITIES

- Calculated for a Portfolio Corresponding to That of the Retiree
  - Correspondence is based on proportion of portfolio in common stock and in intermediate-term Government securities
- Calculated over Annuity Deferral Periods of 5, 10, 15, 20 and 25 Years
- Used as a Guide in Selecting
  - Annuity deferral period
  - Rate of return used to calculate initial draw amount
  - Rate of return used to calculate realized draw amount
- RIS Places Heavy Emphasis on “Worst Cases”
  - Retirees can’t start over

## **RIS FEATURES: REAL-TIME ACCESS TO ANNUITY AND HELM PRICES FROM MULTIPLE PROVIDERS**

- Markets for Annuities and HELM Reverse Mortgages Show Large Price Differences on Identical Transactions
- RIS Is Programmed to Select the Best Quote, But Can Be Over-Ruled by a User Who Prefers Another Provider
- RIS Shows the Prices of All Providers

# RIS FEATURES: SCENARIO ANALYSIS OF ALTERNATIVE RETIREMENT PLANS

- Scenarios Are Retirement Plan Options From Which a Retiree Can Choose
  - Retirees can adjust the inputs they control until they find the scenario with the outputs that they prefer
  - Scenarios are graphically displayed from plan inception to the retiree's longevity assumption
- Scenario Outputs:
  - Draws from financial assets
  - Annuity payments
  - Draws from home equity using a HECM reverse mortgage
  - Balance of financial assets
  - Unused HECM credit line
  - Income from sources outside the retirement plan

# SCENARIO INPUTS

- Rate of Return Used to Calculate Initial Draw Amount
- Realized Rate of Return
- Deferment Period on Annuity
- HECM Payment or Credit Line
- Retiree's Desired Spending Pattern
- Price Quotes On Deferred Annuities
- Price quotes on HECM Reverse Mortgages