REAL ESTATE AND RETIREMENT PLANNING: INTRODUCING THE RETIREMENT INCOME STABILIZER (RIS)
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 Deferment Periods of 5, 10, 15, 20 and 25 Years

- Used as a Guide in Selecting
  - Annuity deferment 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 HECM PRICES FROM MULTIPLE PROVIDERS

• Markets for Annuities and HECM 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