HECM Mitigates Portfolio Volatility

Sequence of Returns Risk Scenarios

1 ILLUSTRATION ONE

HECM AS A LAST RESORT STRATEGY

Age	Year	Portfolio Draws	HECM Line of Credit Draws	Portfolio Value Start of Year	Portfolio Performance 60/40 Mix	Portfolio Value End of Year
62	1973	$26,000		$374,000	-11.08%	$332,560.80
63	1974	$26,910		$302,325	-15.40%	$255,767.11
64	1975	$27,852		$225,358	31.89%	$297,224.13
65	1976	$28,827		$265,425	22.50%	$325,145.90
66	1977	$29,836		$292,059	2.98%	$300,762.19
67	1978	$30,880		$266,875	9.67%	$292,681.51
68	1979	$31,961		$257,794	16.10%	$299,298.90
69	1980	$33,079		[illegible]	[illegible]	[illegible]
70	1981	$34,237		[illegible]	[illegible]	[illegible]
71	1982	$35,435		[illegible]	[illegible]	[illegible]
72	1983	$36,676		[illegible]	[illegible]	[illegible]
73	1984	$37,959		[illegible]	[illegible]	[illegible]
74	1985	$39,288		[illegible]	[illegible]	[illegible]
75	1986	$40,663		[illegible]	[illegible]	[illegible]
76	1987	$42,086		[illegible]	[illegible]	[illegible]
77	1988	$43,559		[illegible]	[illegible]	[illegible]
78	1989	$45,084		$274,177	20.95[illegible]	$331,616.59
79	1990	$46,662		$281,639	-3.55%	$271,640.68
80	1991	$48,295		$330,630	24.26%	$274,154.28
81	1992	$49,985		$221,428	6.71%	$236,285.51
82	1993	$51,735		$182,188	13.56%	$206,892.85
83	1994	$53,545		$151,279	0.78%	$152,458.68
84	1995	$55,419		$95,515	25.54%	[illegible]9,909.27
85	1996	$57,359		$61,351	14.60%	[illegible]70,308.47
86	1997	$59,367		$10,239	21.75%	$12,465.80
87	1998	$12,341	$49,103	$0	15.61%	$0.00
88	1999		$63,595	$0	11.28%	$0.00
89	2000		$65,821	$0	1.65%	$0.00
90	2001		$68,124	$0	-1.17%	$0.00
91	2002		$70,509	$0	-8.77%	$0.00

RESULT:

- **Portfolio exhausted** at year 25.2, 5 years short of life expectancy
- Portfolio balance = **$0.00**
- Total draws on HECM Line of Credit = $471,182 (Includes the accumulated interest)

ILLUSTRATION TWO 2

HECM PORTFOLIO LONGEVITY STRATEGY

Age	Year	Portfolio Draws	HECM Line of Credit Draws	Invested Start of Year	Portfolio Performance 60/40 Mix	Portfolio Value End of Year
62	1973	$26,000		$374,000	-11.08%	$332,560.80
63	1974		$26,910	$329,235	-15.40%	$278,532.97
64	1975		$27,852	$275,748	31.89%	$363,683.57
65	1976	$28,827		$331,220	22.50%	$405,744.17
66	1977	$29,836		$371,851	2.98%	$382,931.94
67	1978	$30,880		$348,222	9.67%	$381,895.52
68	1979	$31,961		$346,116	16.10%	$401,840.16
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]42	21.75%	$444,073.52
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]95	2.00%	$413,503.26
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]32	23.33%	$461,170.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]33	19.34%	$501,088.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]8	8.49%	$497,012.33
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]54	29.08%	$584,414.82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]07	20.74%	$649,469.33
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]88	4.61%	$628,589.03
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]44	16.88%	$676,435.48
78	1989	$45[illegible]4		$624,587	20.95%	$755,437.93
79	1990	$46,66[illegible]		$701,221	-3.55%	$676,328.08
80	1991		[illegible]48,295	$669,565	24.26%	$832,001.22
81	1992	$49,985		$773,696	6.71%	$825,611.22
82	1993	$51,734		$765,621	13.56%	$869,438.79
83	1994	$53,545		$807,199	0.78%	$813,495.38
84	1995	$55,419		[illegible]9,941	25.54%	$941,476.13
85	1996	$57,359		$87[illegible]2	14.60%	$1,002,408.99
86	1997	$59,366		$933,01[illegible]	21.75%	$1,135,949.90
87	1998	$61,444		$1,063,146	[illegible]61%	$1,229,103.18
88	1999	$63,595		$1,153,217	11.[illegible]	$1,283,300.18
89	2000	$65,821		$1,204,646	1.65%	$1,224,523.14
90	2001	$68,124		$1,144,153	-1.17%	$1,130,766.89
91	2002		$70,509	$1,119,459	-8.77%	**$1,021,282.65**

RESULT:

- **Portfolio success** — Portfolio and income outlast life expectancy
- Portfolio value = **$1,021,282.65**
- Total draws on HECM Line of Credit = $563,526 (Includes the accumulated interest)

Compare Outcomes

$0.00 vs $1,021,282

In ILLUSTRATION 1, we have a 30-year retirement plan using a strategy known as **HECM as a Last Resort.*** This means the retiree lives off of their investment portfolio until all funds are exhausted before relying on the Home Equity Conversion Mortgage for income. Starting with an initial value of $400,000 the withdrawal rate is 6.5%, an inflation factor of 3.5%, and actual market performance based on a portfolio mix of 60% stocks and 40% bonds. This Scenario assumes a retired couple with $27,000 in social security income trying to maintain a lifestyle that cost $53,000 the first year of retirement.

In ILLUSTRATION 2, known as the **HECM Portfolio Longevity Strategy** or Coordinated Strategy,* we have the exact same plan except, instead of waiting for the portfolio to run out before engaging the HECM, we alternate annual withdrawals between the portfolio and the HECM based on portfolio performance. Following any down year, this strategy switches to the HECM as the income source for one year.

*Sacks and Sacks 2012—Journal of Financial Planning

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Financial Planning Solutions Utilizing Home Equity

Home equity could be a strategic component of a comprehensive retirement plan.

Retirement funds may come from investments, insurance and fixed income. But now, the HECM may help complete the longevity planning puzzle.

HECMs are becoming increasingly recognized by homeowners and financial advisors as a smart and safe way to access an important retirement asset: **home equity.** The HECM (Home Equity Conversion Mortgage) is insured by the Federal Housing Administration (FHA) to protect lenders and borrowers alike.

To learn more about the benefits of a HECM, and how it may help your clients secure long-term financial independence, please contact me:

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