

PEAK 65: THE NEW PARADIGM

Advisors 2024

Accumulation to Distribution

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PEAK 65 – THE NEW PARADIGM

- The wave is cresting
- The big flip flop
- Problems and possibilities
- Common questions & concerns



AGING AMERICA

Older – Faster

- **65+**
 - 1900 (3 million)
 - 2022 (58 million)
- **85+**
 - 1900 (122,000)
 - 2022 (6.7 million)
- **2040 – A Tsunami**

LONGEVITY, THE EPIC DISRUPTION

- Income for living
- Care for aging
- Housing for ever

What Obstacles?





THE TRANSFORMATION DECADE

- Youthful to useful – 71%
- Life-span must match health-span
- A living legacy and lifestyle
- New Age of aging – 80 vs 60

RIDING THE AGE WAVE

- Massive numbers transition to life after work
- Accumulation to distribution
- From a savings crisis to an income crisis
- \$80 trillion – wealth transfer

HOUSING WEALTH, THE MOST IGNORED ASSET

Home Equity Conversion Mortgage (HECM)

- Age 62+ primary residence only
- \$13 trillion and the surviving spouse
- Creating multiple income strategies
- Health related concerns and elder care
- Burden relief for adult children through family emergencies



10 HOME EQUITY CONVERSION MORTGAGE SOLUTIONS

1. Pay off current mortgage, eliminate required monthly mortgage payment*
2. Growing Line of Credit, cash access tax-free**
3. Help pay for long-term health care needs
4. Emergency fund for payment shocks
5. Secure surviving spouse, gap income

*Borrower must occupy home as primary residence and remain current on property taxes, homeowner's insurance, the costs of home maintenance, and any HOA fees.

**Please consult a tax advisor.



10 HOME EQUITY CONVERSION MORTGAGE SOLUTIONS

6. Convert living space for aging in place, and caregiving
7. Cover tax expenses in Roth Conversions
8. Social security delay, income bridge strategy
9. Buffer account, mitigate sequence of returns risk
10. Housing costs, deferred maintenance or a final move



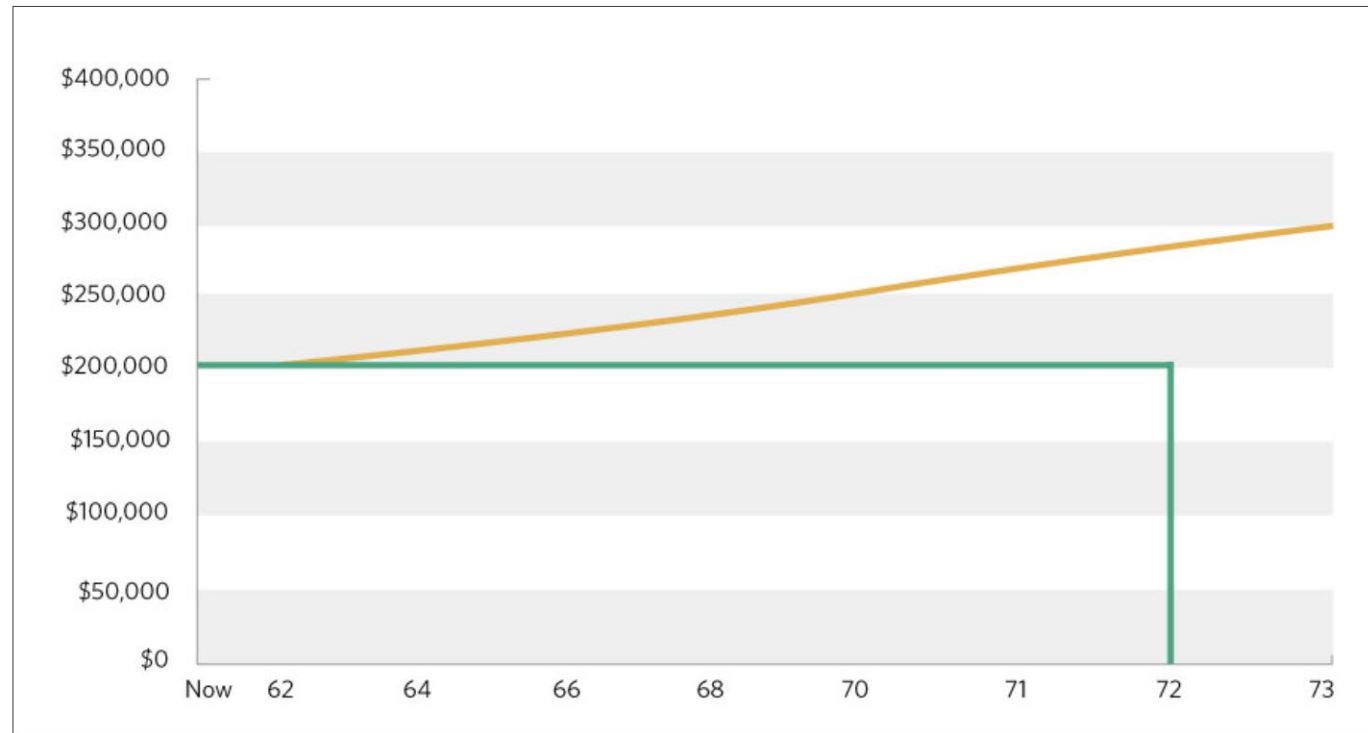


BUFFER ASSET FOR SEQUENCE AND VOLATILITY RISK

Conventional Thinking: Last Resort Draw from Portfolio until Depleted						New Wisdom : Coordinate with Investments Draw from LOC Following Down Market					
Year	Portfolio At	Investment	Draw From	Draw From	Portfolio At	Year	Portfolio At Start Of Year	Investment Performance	Draw From Portfolio	Draw From Rm Loc	Portfolio At End Of Year
1973	\$500,000	-9.3%	27,500		428,652	1973	500,000	-9.3%	27,500		428,652
1974	\$428,652	-15.5%	28,463		338,120	1974	428,652	-15.5%		28,463	362,166
1975	338,120	22.3%	29,459		377,493	1975	362,166	22.3%		29,459	442,932
1976	377,493	17.9%	30,490		409,013	1976	442,932	17.9%	30,490		486,145
1977	409,013	-4.1%	31,557		361,905	1977	486,145	-4.1%	31,557		435,859
1978	361,905	2.2%	32,661		338,552	1978	435,859	2.2%		32,661	445,515
1979	336,552	8.0%	33,805		326,998	1979	445,535	8.0%	33,805		444,710
1980	326,998	15.4%	34,988		337,009	1980	444,710	15.4%	34,988		472,861
1981	337,009	-1.4%	36,212		296,706	1981	472,861	-1.4%	36,212		430,710
1982	296,706	25.2%	37,480		324,655	1982	430,710	25.2%		37,480	539,422
1983	324,655	13.3%	38,791		323,941	1983	539,422	13.3%	38,791		567,314
1984	323,941	8.9%	40,149		308,935	1984	567,314	8.9%	40,149		573,872
1985	308,935	25.2%	41,554		334,734	1985	573,872	25.2%	41,554		666,408
1986	334,734	15.2%	43,009		336,068	1986	666,408	15.2%	43,009		718,156
1987	336,068	3.4%	44,514		301,496	1987	718,156	3.4%	44,514		696,613
1988	301,496	10.3%	46,072		281,809	1988	696,613	10.3%	46,072		717,742
1989	281,809	20.9%	47,685		283,150	1989	717,742	20.9%	47,685		810,367
1990	283,150	1.0%	49,354		236,087	1990	810,367	1.0%	49,354		768,472
1991	236,087	21.4%	51,081		224,524	1991	768,472	21.4%	51,081		870,625
1992	224,524	5.6%	52,869		181,268	1992	870,625	5.6%	52,869		863,551
1993	181,268	7.9%	54,719		136,559	1993	863,551	7.9%	54,719		872,810
1994	136,559	-2.8%	56,634		77,718	1994	872,810	-2.8%	56,634		793,650
1995	77,718	25.7%	58,617		24,007	1995	793,650	25.7%		58,617	997,459
1996	24,007	11.1%	24,007	36,661	0	1996	997,459	11.1%	60,668		1,040,493
1997	0	19.3%	0	62,791	0	1997	1,040,493	19.3%	62,792		1,165,909
1998	0	17.0%	0	64,989	0	1998	1,165,909	17.0%	64,989		1,287,967
1999	0	7.8%	0	67,264	0	1999	1,287,967	7.8%	67,264		1,315,795
2000	0	-0-9%	0	69,618	0	2000	1,315,795	-0.9%	69,618		1,234,712
2001	0	-3.7%	0	72,005	0	2001	1,234,712	-3.7%		72,055	1,189,275
2002	0	-8.6%	0	74,576	0	2002	1,189,275	-8.6%		74,577	1,086,997
End Balances:			-538,773	\$0		End Balances:			-692,007	\$1,086,997	
			-\$538,773 Net						+\$394,991 Net		
+\$933,764 Differential to Estate											

Sacks, Barry, and Mary Jo Lafaye. 2016. "Case Study." In Giordano, Shelley. 2016 "An Alternative Asset to Buffer Sequence-of-Return Risk in Retirement." The Retirement Management Journal, 6(1): 17-26.

AN IMPORTANT DIFFERENCE BETWEEN A HECM LINE OF CREDIT VS. HELOC (HOME EQUITY LINE OF CREDIT)

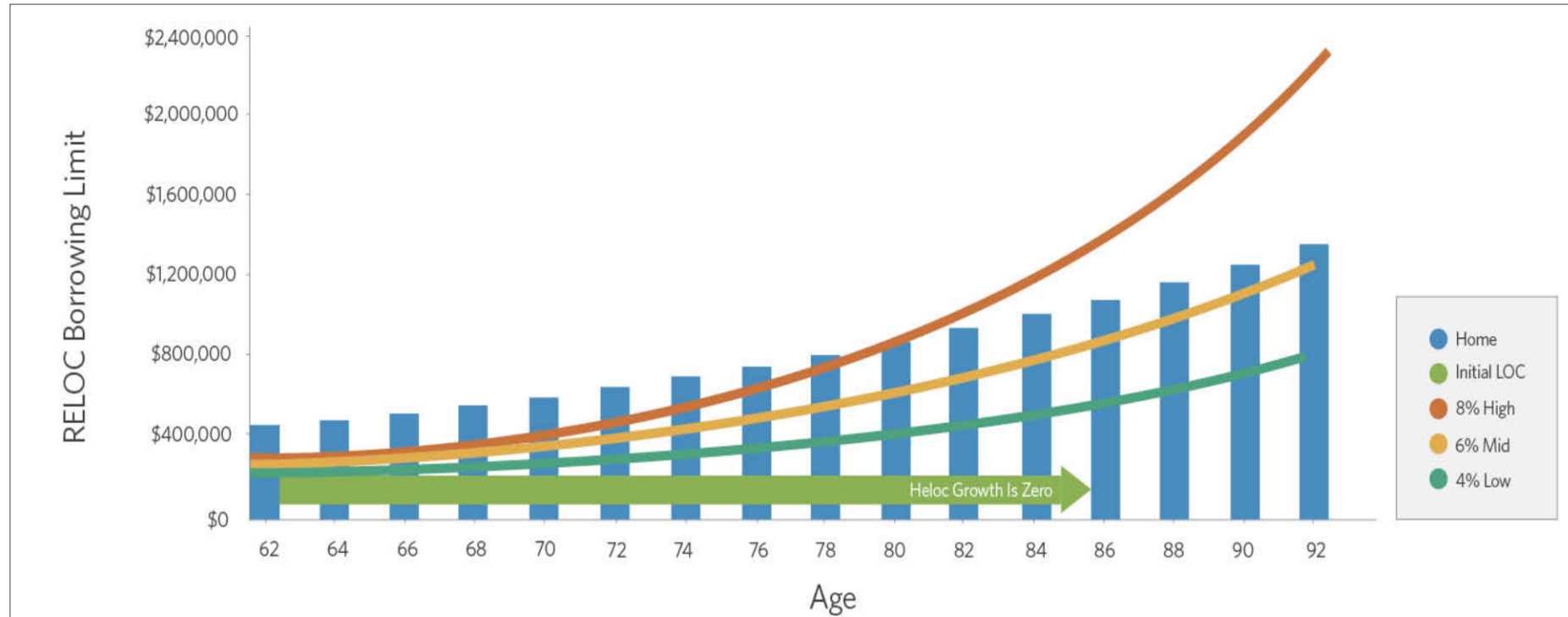


Wade Pfau, PhD, CFA

“The message is that opening a HECM Line of Credit earlier allows for greater availability of future credit relative to waiting until later in retirement.”



HECM LINE OF CREDIT VS. HELOC GROWTH



- Compounds monthly at contractually established rate
- Cannot be cancelled, frozen or reduced
- Grows even if housing value does not

\$400,000 home at age 62 | 4% home appreciation

This chart by Thomas C. B. Davison illustrates the growth in borrowing power for the HECM Line of Credit compared to lack of growth in traditional HELOC. \$400,000 initial home value with Line of Credit growth rate of 4%.



WILSHIRE HOME EQUITY CONVERSION

- Joe, age 72, and Connie, age 70, live in their forever dream home
- Joe is taking \$2,500 in RMDs and SSI of \$2,600 = \$5,100/month
- Connie SSI of \$2,400 + Pension \$1,800 = \$4,200/month
- Home Value: \$1,250,000
- No Current Mortgage
- Nest Egg: \$550,000
- Concerns: Inflation, No LTC, \$150k life insurance, running out of money, surviving spouse

SOLUTION: HECM EQUITY BUFFER ACCOUNT

Set-up Growing LOC To Protect The Portfolio

- **\$376,000 LOC**, growth to approximately **\$825,000** in 10 years
- Buffer account for portfolio protection
- Secures home for surviving spouse, provides gap income
- Improves liquidity, inflation hedge and payment shocks



SCOTT RETIREMENT REFINANCE

- Bill, age 74, and Kay, age 65, live in their forever home. Kay wants to retire next year.
- Bill has a pension income of \$3,500 and SSI of \$2,600 = \$6,100/month
- Kay's SSI income = \$1,700/month
- Portfolio balance = \$395,000
- Home value: \$760,000
- Mortgage: \$115,000 with P&I = \$1,585
- 8 years remain
- Concerns: Bill has heart problems, only half his pension survives him, no LTC

SOLUTION: HECM REFINANCE COMBINATION

Eliminate mortgage payment, set-up growing LOC

- **\$102,000 LOC** that will grow to approximately **\$333,000** in 15 years
- Saves 8 years of required mortgage payments = **\$152,000**
- Secures home for surviving spouse, provides gap income
- Improves liquidity, helps preserve portfolio



- **Questions/discussion**
- **Run a case study**
- **An idea whose time has come**
- **Single most compelling idea**

Borrower must occupy home as primary residence and remain current on property taxes, homeowner's insurance, the costs of home maintenance, and any HOA fees. If your heirs want to keep the home after your death, they will have to repay either the full loan balance or 95% of the home's appraised value, whichever is less.

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