## Case Study

## **HECM Mitigates Portfolio Volatility and Preserves Assets Under Management Fees**

Barry Sacks, PhD, JD and Mary Jo Lafaye illustrate the effect of adverse sequence of returns with a portfolio that is negative in four of the first nine years. The conventional approach of taking portfolio draws without regard to market returns is compared to the strategy of substituting draws from a HECM in years following negative portfolio returns. Even with compounding HECM debt at 5% over 30 years of retirement, the estate enjoys substantial improvement in both cash flow and residual value. This comparison assumes a 5.5% initial portfolio draw with a 3.5% inflation factor.

Portfolio t Start Of Year 500,000 428,652 338,120 377,493 409,013 361,905 336,552 326,998 337,009 296,706	-9.28% -15.51% 22.30% 17.87% -4.12% 2.22% 8.01% 15.41%	Draw From Portfolio \$27,500 \$28,463 \$29,459 \$30,490 \$31,557 \$32,661 \$33,805	Draw From Rm Loc	Portfolio At End Of Year \$428,652 \$338,120 \$377,493 \$409,013	\$4,287 \$3,381 \$3,775	Year 1973 1974	Portfolio At Start Of Year \$500,000	Investment Performance	Draw From Portfolio 27,500	Draw From Rm Loc	Portfolio At End Of Year \$428,652	AUM Fee: \$4,287
428,652 338,120 377,493 409,013 361,905 336,552 326,998 337,009	-15.51% 22.30% 17.87% -4.12% 2.22% 8.01%	\$28,463 \$29,459 \$30,490 \$31,557 \$32,661		\$338,120 \$377,493	\$3,381			-9.28% <	27,500		\$428,652	\$4 287
338,120 377,493 409,013 361,905 336,552 326,998 337,009	22.30% 17.87% -4.12% 2.22% 8.01%	\$29,459 \$30,490 \$31,557 \$32,661		\$377,493		1974	# 400 (50					44,201
377,493 409,013 361,905 336,552 326,998 337,009	17.87% -4.12% 2.22% 8.01%	\$30,490 \$31,557 \$32,661			\$3,775		\$428,652	-15.51% <	×	28,463	\$362,168	\$3,622
409,013 361,905 336,552 326,998 337,009	-4.12% 2.22% 8.01%	\$31,557 \$32,661		\$409,013		1975	\$362,168	22.30%	A	29,459	\$442,932	\$4,429
361,905 336,552 326,998 337,009	2.22% 8.01%	\$32,661			\$4,090	1976	\$442,932	17.87%	30,490		\$486,145	\$4,861
336,552 326,998 337,009	8.01%			\$361,905	\$3,619	1977	\$486,145	-4.12% <	31,557		\$435,859	\$4,359
326,998 337,009		\$33,805		\$336,552	\$3,366	1978	\$435,859	2.22%	A	32,661	\$445,535	\$4,455
337,009	15.41%			\$326,998	\$3,270	1979	\$445,535	8.01%	33,805		\$444,710	\$4,447
		\$34,988		\$337,009	\$3,370	1980	\$444,710	15.41%	34,988		\$472,861	\$4,729
296,706	-1.36%	\$36,212		\$296,706	\$2,967	1981	\$472,861	-1.36% <	36,212		\$430,710	\$4,307
	25.24%	\$37,480		\$324,655	\$3,247	1982	\$430,710	25.24%	A	37,480	\$539,422	\$5,394
324,655	13.32%	\$38,791		\$323,941	\$3,239	1983	\$539,422	13.32%	38,791		\$567,314	\$5,673
323,941	8.86%	\$40,149		\$308,935	\$3,089	1984	\$567,314	8.86%	40,149		\$573,872	\$5,739
308,935	25.19%	\$41,554		\$334,734	\$3,347	1985	\$573,872	25.19%	41,554		\$666,408	\$6,664
334,734	15.20%	\$43,009		\$336,068	\$3,361	1986	\$666,408	15.20%	43,009		\$718,156	\$7,182
336,068	3.41%	\$44,514		\$301,496	\$3,015	1987	\$718,156	3.41%	44,514		\$696,613	\$6,966
301,496	10.33%	\$46,072		\$281,809	\$2,818	1988	\$696,613	10.33%	46,072		\$717,742	\$7,177
281,809	20.94%	\$47,685		\$283,150	\$2,831	1989	\$717,742	20.94%	47,685		\$810,367	\$8,104
283,150	.98%	\$49,354		\$236,087	\$2,361	1990	\$810,367	.98%	49,354		\$768,472	\$7,685
236,087	21.36%	\$51,081		\$224,524	\$2,245	1991	\$768,472	21.36%	51,081		\$870,625	\$8,706
224,524	5.60%	\$52,869		\$181,268	\$1,813	1992	\$870,625	5.60%	52,869		\$863,551	\$8,636
181,268	7.91%	\$54,719		\$136,559	\$1,366	1993	\$863,551	7.91%	54,719		\$872,810	\$8,728
136,559	-2.76%	\$56,634		\$77,718	\$777	1994	\$872,810	-2.76% <	56,634		\$793,650	\$7,936
\$77,718	25.68%	\$58,617		\$24,007	\$240	1995	\$793,650	25.68%	A	58,617	\$997,459	\$9,975
24,007	11.07%	\$24,007	\$51,586	\$0	\$0	1996	\$997,459	11.07%	60,668		\$1,040,493	\$10,405
\$0	19.25%	\$0	\$84,146	\$0	\$0	1997	\$1,040,493	19.25%	62,792		\$1,165,909	\$11,659
\$0	16.99%	\$0	\$82,944	\$0	\$0	1998	\$1,165,909	16.99%	64,989		\$1,287,967	\$12,880
\$0	7.79%	\$0	\$81,759	\$0	\$0	1999	\$1,287,967	7.79%	67,264		\$1,315,795	\$13,158
\$0	-0.92%	\$0	\$80,591	\$0	\$0	2000	\$1,315,795	-0.92% <	69,618		\$1,234,712	\$12,347
\$0	-3.68%	\$0	\$79,440	\$0	\$0	2001		13253 10, 1004 1	A	72,055		\$11,893
\$0	-8.60%	\$0	\$78,305	\$0	\$0	2002	\$1,189,275	-8.60%	×	74,577	\$1,086,997	\$10,870
End Balances: -\$538,773 \$0						End Balances: -\$692,007					\$1,086,997	
-\$538,773 Net											AND MARKET STATES STATES	
3 2 2 2 1 1 1 5	01,496 81,809 83,150 36,087 24,524 81,268 36,559 77,718 44,007 \$0 \$0 \$0 \$0 \$0	01,496 10.33% 81,809 20.94% 83,150 .98% 36,087 21.36% 24,524 5.60% 81,268 7.91% 36,559 -2.76% 77,718 25.68% 24,007 11.07% \$0 19.25% \$0 16.99% \$0 -0.92% \$0 -3.68% \$0 -8.60%	01,496       10.33%       \$46,072         81,809       20.94%       \$47,685         83,150       .98%       \$49,354         36,087       21.36%       \$51,081         24,524       5.60%       \$52,869         81,268       7.91%       \$54,719         36,559       -2.76%       \$56,634         77,718       25.68%       \$58,617         24,007       11.07%       \$24,007         \$0       19.25%       \$0         \$0       7.79%       \$0         \$0       -0.92%       \$0         \$0       -3.68%       \$0         \$0       -8.60%       \$0	01,496         10.33%         \$46,072           81,809         20.94%         \$47,685           83,150         .98%         \$49,354           36,087         21.36%         \$51,081           24,524         5.60%         \$52,869           81,268         7.91%         \$54,719           36,559         -2.76%         \$56,634           77,718         25.68%         \$58,617           24,007         11.07%         \$24,007         \$51,586           \$0         19.25%         \$0         \$84,146           \$0         16.99%         \$0         \$82,944           \$0         7.79%         \$0         \$81,759           \$0         -0.92%         \$0         \$80,591           \$0         -3.68%         \$0         \$79,440           \$0         -8.60%         \$0         \$78,305	01,496         10.33%         \$46,072         \$281,809           81,809         20.94%         \$47,685         \$283,150           83,150         .98%         \$49,354         \$236,087           36,087         21.36%         \$51,081         \$224,524           24,524         5.60%         \$52,869         \$181,268           81,268         7.91%         \$54,719         \$136,559           36,559         -2.76%         \$56,634         \$77,718           25,68%         \$58,617         \$24,007           44,007         11.07%         \$24,007         \$51,586         \$0           \$0         19.25%         \$0         \$84,146         \$0           \$0         7.79%         \$0         \$81,759         \$0           \$0         -0.92%         \$0         \$80,591         \$0           \$0         -3.68%         \$0         \$79,440         \$0           \$0         -8.60%         \$0         \$78,305         \$0	01,496         10.33%         \$46,072         \$281,809         \$2,818           81,809         20.94%         \$47,685         \$283,150         \$2,831           83,150         .98%         \$49,354         \$236,087         \$2,361           36,087         21.36%         \$51,081         \$224,524         \$2,245           24,524         5.60%         \$52,869         \$181,268         \$1,813           81,268         7.91%         \$54,719         \$136,559         \$1,366           36,559         -2.76%         \$56,634         \$77,718         \$777           77,718         25.68%         \$58,617         \$24,007         \$240           24,007         11.07%         \$24,007         \$51,586         \$0         \$0           \$0         19.25%         \$0         \$84,146         \$0         \$0           \$0         7.79%         \$0         \$81,759         \$0         \$0           \$0         -0.92%         \$0         \$80,591         \$0         \$0           \$0         -3.68%         \$0         \$79,440         \$0         \$0           \$0         -8.60%         \$0         \$78,305         \$0         \$0	01,496         10.33%         \$46,072         \$281,809         \$2,818         1988           81,809         20.94%         \$47,685         \$283,150         \$2,831         1989           83,150         .98%         \$49,354         \$236,087         \$2,361         1990           36,087         21.36%         \$51,081         \$224,524         \$2,245         1991           24,524         5.60%         \$52,869         \$181,268         \$1,813         1992           81,268         7.91%         \$54,719         \$136,559         \$1,366         1993           36,559         -2.76%         \$56,634         \$77,718         \$777         1994           77,718         25.68%         \$58,617         \$24,007         \$240         1995           40,007         11.07%         \$24,007         \$51,586         \$0         \$0         1996           \$0         19.25%         \$0         \$84,146         \$0         \$0         1997           \$0         16.99%         \$0         \$82,944         \$0         \$0         1998           \$0         7.79%         \$0         \$81,759         \$0         \$0         1999           \$0         -0.92%	01,496         10.33%         \$46,072         \$281,809         \$2,818         1988         \$696,613           81,809         20.94%         \$47,685         \$283,150         \$2,831         1989         \$717,742           83,150         .98%         \$49,354         \$236,087         \$2,361         1990         \$810,367           36,087         21.36%         \$51,081         \$224,524         \$2,245         1991         \$768,472           24,524         5.60%         \$52,869         \$181,268         \$1,813         1992         \$870,625           81,268         7.91%         \$54,719         \$136,559         \$1,366         1993         \$863,551           36,559         -2,76%         \$56,634         \$77,718         \$777         1994         \$872,810           77,718         25.68%         \$58,617         \$24,007         \$240         1995         \$793,650           24,007         11.07%         \$24,007         \$51,586         \$0         \$0         1996         \$997,459           \$0         19.25%         \$0         \$84,146         \$0         \$0         1997         \$1,040,493           \$0         7.79%         \$0         \$81,759         \$0         \$0	01,496       10.33%       \$46,072       \$281,809       \$2,818       1988       \$696,613       10.33%         81,809       20.94%       \$47,685       \$283,150       \$2,831       1989       \$717,742       20.94%         83,150       .98%       \$49,354       \$236,087       \$2,361       1990       \$810,367       .98%         36,087       21.36%       \$51,081       \$224,524       \$2,245       1991       \$768,472       21.36%         24,524       5.60%       \$52,869       \$181,268       \$1,813       1992       \$870,625       5.60%         81,268       7.91%       \$54,719       \$136,559       \$1,366       1993       \$863,551       7.91%         36,559       -2.76%       \$56,634       \$77,718       \$777       1994       \$872,810       -2.76%         77,718       25.68%       \$58,617       \$24,007       \$240       1995       \$793,650       25.68%         44,007       11.07%       \$24,007       \$51,586       \$0       \$0       1996       \$997,459       11.07%         \$0       19.25%       \$0       \$84,146       \$0       \$0       1997       \$1,040,493       19.25%         \$0       16.99%	01,496         10.33%         \$46,072         \$281,809         \$2,818         1988         \$696,613         10.33%         46,072           81,809         20.94%         \$47,685         \$283,150         \$2,831         1989         \$717,742         20.94%         47,685           83,150         .98%         \$49,354         \$236,087         \$2,361         1990         \$810,367         .98%         49,354           36,087         21.36%         \$51,081         \$224,524         \$2,245         1991         \$768,472         21.36%         51,081           24,524         5.60%         \$52,869         \$181,268         \$1,813         1992         \$870,625         5.60%         52,869           81,268         7.91%         \$54,719         \$136,559         \$1,366         1993         \$863,551         7.91%         54,719           36,559         -2.76%         \$56,634         \$77,718         \$777         1994         \$872,810         -2.76%         56,634           77,718         25.68%         \$58,617         \$24,007         \$240         1995         \$793,650         25.68%           \$0         19.25%         \$0         \$84,146         \$0         \$0         1996         \$997,4	01,496         10.33%         \$46,072         \$281,809         \$2,818         1988         \$696,613         10.33%         46,072           81,809         20.94%         \$47,685         \$283,150         \$2,831         1989         \$717,742         20.94%         47,685           83,150         .98%         \$49,354         \$236,087         \$2,361         1990         \$810,367         .98%         49,354           36,087         21.36%         \$51,081         \$224,524         \$2,245         1991         \$768,472         21.36%         51,081           24,524         5.60%         \$52,869         \$181,268         \$1,813         1992         \$870,625         5.60%         52,869           81,268         7.91%         \$54,719         \$136,559         \$1,366         1993         \$863,551         7.91%         54,719           36,559         -2.76%         \$56,634         \$77,718         \$777         1994         \$872,810         -2.76%         56,634           77,718         25.68%         \$58,617         \$24,007         \$240         1995         \$793,650         25.68%           \$0         19.25%         \$0         \$84,146         \$0         \$0         1997         \$1,040	01,496         10.33%         \$46,072         \$281,809         \$2,818         1988         \$696,613         10.33%         46,072         \$717,742           81,809         20.94%         \$47,685         \$283,150         \$2,831         1989         \$717,742         20.94%         47,685         \$810,367           83,150         .98%         \$49,354         \$236,087         \$2,361         1990         \$810,367         .98%         49,354         \$768,472           36,087         21.36%         \$51,081         \$224,524         \$2,245         1991         \$768,472         21.36%         51,081         \$870,625           24,524         5.60%         \$52,869         \$181,268         \$1,813         1992         \$870,625         5.60%         52,869         \$863,551           81,268         7.91%         \$54,719         \$136,559         \$1,366         1993         \$863,551         7.91%         54,719         \$872,810           36,559         -2,76%         \$56,634         \$77,718         \$777         1994         \$872,810         -2,76%         56,634         \$793,650           77,718         25.68%         \$58,617         \$24,007         \$240         1995         \$793,650         25.68%

+\$933,764 Differential to Estate

Retirement Management Journal, "An Alternative Buffer Asset." Author Shelley Giordano, Volume 6, No. 1. 2016.

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