

# 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.

Conventional Thinking: Last Resort Draw from Portfolio until Depleted							New Wisdom: Coordinate with Investments Draw from LOC Following Down Market							
Year	Portfolio At Start Of Year	Investment Performance	Draw From Portfolio	Draw From Rm Loc	Portfolio At End Of Year	AUM Fees	Year	Portfolio At Start Of Year	Investment Performance	Draw From Portfolio	Draw From Rm Loc	Portfolio At End Of Year	AUM Fees	
1973	\$500,000	-9.28%	\$27,500		\$428,652	\$4,287	1973	\$500,000	-9.28%	27,500		\$428,652	\$4,287	
1974	\$428,652	-15.51%	\$28,463		\$338,120	\$3,381	1974	\$428,652	-15.51%		28,463	\$362,168	\$3,622	
1975	\$338,120	22.30%	\$29,459		\$377,493	\$3,775	1975	\$362,168	22.30%		29,459	\$442,932	\$4,429	
1976	\$377,493	17.87%	\$30,490		\$409,013	\$4,090	1976	\$442,932	17.87%	30,490		\$486,145	\$4,861	
1977	\$409,013	-4.12%	\$31,557		\$361,905	\$3,619	1977	\$486,145	-4.12%	31,557		\$435,859	\$4,359	
1978	\$361,905	2.22%	\$32,661		\$336,552	\$3,366	1978	\$435,859	2.22%		32,661	\$445,535	\$4,455	
1979	\$336,552	8.01%	\$33,805		\$326,998	\$3,270	1979	\$445,535	8.01%	33,805		\$444,710	\$4,447	
1980	\$326,998	15.41%	\$34,988		\$337,009	\$3,370	1980	\$444,710	15.41%	34,988		\$472,861	\$4,729	
1981	\$337,009	-1.36%	\$36,212		\$296,706	\$2,967	1981	\$472,861	-1.36%	36,212		\$430,710	\$4,307	
1982	\$296,706	25.24%	\$37,480		\$324,655	\$3,247	1982	\$430,710	25.24%		37,480	\$539,422	\$5,394	
1983	\$324,655	13.32%	\$38,791		\$323,941	\$3,239	1983	\$539,422	13.32%	38,791		\$567,314	\$5,673	
1984	\$323,941	8.86%	\$40,149		\$308,935	\$3,089	1984	\$567,314	8.86%	40,149		\$573,872	\$5,739	
1985	\$308,935	25.19%	\$41,554		\$334,734	\$3,347	1985	\$573,872	25.19%	41,554		\$666,408	\$6,664	
1986	\$334,734	15.20%	\$43,009		\$336,068	\$3,361	1986	\$666,408	15.20%	43,009		\$718,156	\$7,182	
1987	\$336,068	3.41%	\$44,514		\$301,496	\$3,015	1987	\$718,156	3.41%	44,514		\$696,613	\$6,966	
1988	\$301,496	10.33%	\$46,072		\$281,809	\$2,818	1988	\$696,613	10.33%	46,072		\$717,742	\$7,177	
1989	\$281,809	20.94%	\$47,685		\$283,150	\$2,831	1989	\$717,742	20.94%	47,685		\$810,367	\$8,104	
1990	\$283,150	.98%	\$49,354		\$236,087	\$2,361	1990	\$810,367	.98%	49,354		\$768,472	\$7,685	
1991	\$236,087	21.36%	\$51,081		\$224,524	\$2,245	1991	\$768,472	21.36%	51,081		\$870,625	\$8,706	
1992	\$224,524	5.60%	\$52,869		\$181,268	\$1,813	1992	\$870,625	5.60%	52,869		\$863,551	\$8,636	
1993	\$181,268	7.91%	\$54,719		\$136,559	\$1,366	1993	\$863,551	7.91%	54,719		\$872,810	\$8,728	
1994	\$136,559	-2.76%	\$56,634		\$77,718	\$777	1994	\$872,810	-2.76%	56,634		\$793,650	\$7,936	
1995	\$77,718	25.68%	\$58,617		\$24,007	\$240	1995	\$793,650	25.68%		58,617	\$997,459	\$9,975	
1996	\$24,007	11.07%	\$24,007	\$51,586	\$0	\$0	1996	\$997,459	11.07%	60,668		\$1,040,493	\$10,405	
1997	\$0	19.25%	\$0	\$84,146	\$0	\$0	1997	\$1,040,493	19.25%	62,792		\$1,165,909	\$11,659	
1998	\$0	16.99%	\$0	\$82,944	\$0	\$0	1998	\$1,165,909	16.99%	64,989		\$1,287,967	\$12,880	
1999	\$0	7.79%	\$0	\$81,759	\$0	\$0	1999	\$1,287,967	7.79%	67,264		\$1,315,795	\$13,158	
2000	\$0	-0.92%	\$0	\$80,591	\$0	\$0	2000	\$1,315,795	-0.92%	69,618		\$1,234,712	\$12,347	
2001	\$0	-3.68%	\$0	\$79,440	\$0	\$0	2001	\$1,234,712	-3.68%		72,055	\$1,189,275	\$11,893	
2002	\$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					
			<b>-\$538,773 Net</b>								<b>+\$394,991 Net</b>			
<b>+\$933,764 Differential to Estate</b>														

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

MOOMR.0421.190.TE



### Don Graves, RICP®, CLTC®, CSA

Business Development Manager  
Serving Advisors Nationwide  
NMLS#142267



p: 215.732.0814 | 800.762.6313  
dgraves@mutualmortgage.com | MutualReverse.com/Don-Graves

Equal Housing Lender

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. Mutual of Omaha Mortgage, Inc., NMLS ID 1025894. 3131 Camino Del Rio N 1100, San Diego, CA 92108. Subject to Credit Approval. These materials are not from HUD or FHA and the document was not approved by HUD, FHA or any Government Agency. For licensing information, go to: www.nmlsconsumeraccess.org Oregon Mortgage Lending License ML- 5208; Charges such as an origination fee, mortgage insurance premiums, closing costs and/or servicing fees may be assessed and will be added to the loan balance. As long as you comply with the terms of the loan, you retain title until you sell or transfer the property, and, therefore, you are responsible for paying property taxes, insurance and maintenance. Failing to pay these amounts may cause the loan to become immediately due and/or subject the property to a tax lien, other encumbrance or foreclosure. The loan balance grows over time, and interest is added to that balance. Interest on a reverse mortgage is not deductible from your income tax until you repay all or part of the interest on the loan. Although the loan is non-recourse, at the maturity of the loan, the lender will have a claim against your property and you or your heirs may need to sell the property in order to repay the loan, or use other assets to repay the loan in order to retain the property.