# 2018 Housing Wealth in Retirement Symposium

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The times, they are a'changing.

When my parents, proud members of the Silent Generation, sat down and crunched numbers to determine when to finally retire, they went no further than their company pension plan disclosure sheet and their latest mortgage statement.

The Baby Boomers have a bit more of a challenge. Today, my book of business has less than 30% of households with a pension, and many of these pension incomes are less than the poverty level.

The American College and the Bipartisan Policy Center, a think tank headquartered in Washington DC, co-sponsored a symposium addressing the need to be proactive in what is anticipated to be one of the greatest challenges facing financial advisors of today; baby boomers are struggling to save for retirement, companies are stepping away from providing income through pensions, and the expense of longevity is a financial reality check for many. Additionally, we have advanced from the “sandwich” generation to the “club sandwich” generation, providing resources for parents, kids, and, at times, grandkids.

This symposium attracted an impressive list of motivated and socially responsible organizations. In attendance was Columbia Business school, Congressional Budget Office, HUD, AARP, Consumer Financial Protection Bureau, Ohio State, MIT, Kiplinger's, George Washington University, Fannie Mae, MassMutual, National Council on Aging, The Brookings Institute, US News and World Report, Barron's, and LifeMark Securities, just to name a few.

The discussion and studies reviewed were very eye-opening. Our biggest challenge: our clients' home equity can surpass our clients' savings by a ratio of 2:1. Financial Advisors were viewed as being more focused on what was referred to as AUM-phasis vs retirement security.

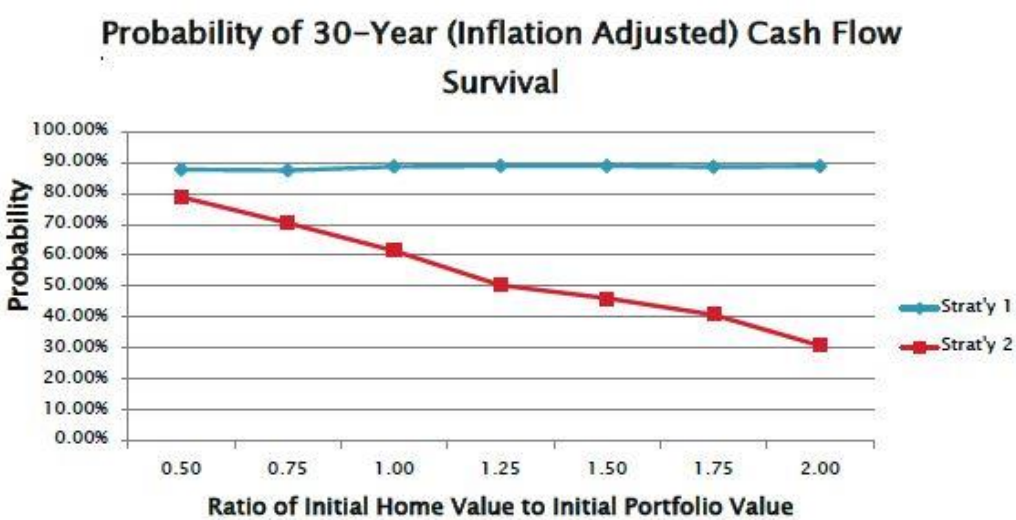
One of our tasks in retirement planning is to avoid portfolio failure or to mitigate the fear of running out of money prematurely. Several studies provided in-depth portfolio analysis on the utilization of home equity to reduce the drawdown, and subsequently reduce the risk of portfolio failure, by a significant amount. The Rule of 30 was defined as spending 1/30th of the value of all assets, including home equity, compared to the Rule of 4%, which is to set a withdrawal rate of 4% of the portfolio value.

# Comparisons Rule of 30 v. 4%

| Retiree | Home Value/ Portfolio/Total | Draw Using 4% Rule | Draw Using Rule of 30 |
|---|---|---|---|
| #1 | $400/800/1200k | $32,000 | $40,000 |
| #2 | $800*/400/1200k | $16,000 | $34,500 |
| #3 | $150/300/450k | $12,000 | $15,000 |
| #4 | $300/150/450k | $6,000 | $15,000 |

*Use $636,150 HECM

In the chart below, research provided by Barry Sacks of of MIT and published in the Journal of Financial Planning Feb 2012 indicates Strategy 1, withdrawal of home equity as well as portfolio, is superior to Strategy 2, 4% withdrawal rate from portfolio assets.  Subsequent research which factors in lower market returns projected by many economists in the coming decade makes the numbers even more convincing.



While a great deal of attention was drawn to accessing home equity, many other fascinating ideas were discussed regarding the future of retirement income. Below are the most notable takeaways:

- Creation of a new, streamlined Retirement Security Plans which would allow small employers to co-op retirement plans through a 3rd party expert, and enhance the myRA program: In prior generations, employees changed companies very infrequently, and often retired after decades with the same employer. Today, it is not unusual for our clients to have had 3 or 4 career focused jobs before they are forty.

- Creation of a replacement pension plan such as a Lifetime Income Plan, which blends the strengths of a defined benefit and defined contribution plan: Taking some of the cost and risk away from employers may encourage more workplace involvement in retirement savings.

- Increase early withdrawal penalties for workplace plans: With a reduction in savings rates for Baby Boomers, it is commonplace for retirement accounts to take a hit every time a financial difficulty arises. Tapping into 401k plans and incurring a 10% penalty in addition to taxation of assets withdrawn are diminishing retirement savings quickly.

- Allow plan sponsors to offer lifetime benefit income directly from the plan: This would allow annuity payouts directly from 401k plans, which may reduce pre-retirement withdrawals which can occur upon job separation.

- Facilitate the use of home equity for retirement consumption, through strengthened reverse mortgage programs: This would involve establishing a low-dollar reverse-mortgage option which would facilitate smaller loans while reduce fees for borrowers and risk for taxpayers.

- Improve financial capability through education among all Americans: Increasing exposure to financial knowledge earlier in life, through schools, communities, and employers may foster a culture of savings and prudent financial choices.

While we may not agree with, or support, all the ramifications of the direction the symposium is suggesting, we cannot ignore our role in the solution to this retirement income problem. In our lifetime, we can anticipate changes to retirement savings rules, social security reform, and significant healthcare restructuring. Less than 10% of the symposium attendees were financial advisors. Being proactive and having a voice in the changes which are coming, greatly affecting our clients, is the responsible choice. Staying educated ourselves may be the first step!

A copy of the complete report produced by the Bipartisan Policy Center titled "Report of the Commission of Retirement Security and Personal Savings" is available upon request.