Video: Income 'Roundtable' at The American College

By Kerry Pechter *Thu, Jan 14, 2016*

Retirement income sources, including annuities, reverse mortgages, Social Security and LTCI, were topics of this two-hour seminar from the Retirement Income Certified Professional program at The American College. (Above: Curtis Cloke, Richard Weber and David Littell.)

When it comes to naming the essential elements of a retirement portfolio, there are as many opinions as there are financial advisors. Equities, insurance, annuities and reverse mortgages—each of these product categories has its advocates and adversaries.

Mastering just one of these categories can be a challenge, and many advisors focus on only one or two. But, given the endless variety of risks and resources that older clients bring to advisors, retirement specialists ideally need to be conversant in all four.

Last November 11, four people who teach in the **Retirement Income Certified Professional** (RICP) designation program at The American College for Financial Services in Bryn Mawr, Pa., gathered to talk about all these product types, plus Social Security claiming strategies, in a two-hour videotaped roundtable discussion.

The quartet of experts included David Littell, JD, professor of taxation at the College, Wade Pfau, Ph.D., director of the College's New York Life Center for Retirement Income, Jamie Hopkins, the Center's co-director, and Curtis Cloke, a Burlington, Iowa, based advisor who teaches an RICP online course. (**Richard M. Weber** moderated the roundtable, which The American College of Financial Services and the Society of Financial Service Professionals co-sponsored.)

You can link **here** to the video, which is part of the RICP curriculum. Highlights from the video are also described below.

Reverse mortgages: the Pfau perspective

People either love or ignore reverse mortgages as a retirement income tool, and both positions are defensible. Millions of middle-class Baby Boomers are under-saved. As a group, they hold trillions of dollars in home equity. Surveys show that most of them would like to "age in place." Many experts, including Nobelist Robert Merton, think reverse mortgages need to be part of almost any middle-class retirement strategy.

Many advisors assume that their high net worth clients, no matter how long they live, will never be desperate enough to *need* a reverse mortgage. But in the RICP roundtable, Pfau argued that even wealthy clients can benefit from using a reverse mortgage line of credit as a handy source of liquidity during market downturns.

"The conventional wisdom is that the HECM (Home Equity Conversion Mortgage) line of credit becomes a logical option only at the end of life," Pfau said. "But the new strategy is to get it early in retirement and only use it to avoid selling assets at a loss. It protects you against sequence of returns risk. You can use a cash buffer for the same purpose, but that can create a drag in performance."

If you open a HECM LOC at age 62, your loan capacity begins growing right away and keeps growing throughout retirement. (Why does loan capacity grow? When people take out a HECM *loan*, they make no payments toward it and the loan balance grows until they die or sell the house. To assure parity between HECM loans and HECM *lines of credit*, the program allows the line of credit's limit to grow at a rate similar to that of the loan balance.)

Annuities as part of an investment strategy: the Cloke technique

Like reverse mortgages, income annuities have long been regarded as appealing mainly to those who don't have enough savings to cover their retirement needs. In other words: for retirees who can't afford to live on an inflation-adjusted 4.0% or less for at least 30 years. But that's not necessarily so, claims Curtis Cloke, who teaches an RICP course in his proprietary "Thrive" retirement methodology.

Just as Pfau argued that reverse mortgage should appeal to a retiree's desire to stay largely invested during downturns, Cloke explained that high net worth retirees can maintain high equity positions without losing sleep if they buy enough guaranteed income to cover their basic or even their basic-plus-discretionary expenses.

In the November roundtable, Cloke describes an actual case (using pseudonyms) of a 64-year-old husband and 63-year-old wife with assets of $3.1 million, combined Social Security at full-retirement age of $56,000, and a pension (husband's life only) of $35,000 a year. They wanted an income of $11,000 per month for living expenses, adjusted upward by 3% per year, plus $500 per month for medical insurance, increasing at the rate of 5% per year, for a total real income of $138,000 per year.

Cloke recommended a combination of strategies and products, including the delay of Social Security until age 70, the purchase of inflation-adjusted, cash refund Qualified Longevity Annuity Contracts for income starting at age 85, conversion of traditional IRAs to Roth IRAs, and the use of deferred income annuities with cash refund features.

A lot of advisors might consider it simpler just to cover this client's income needs with Social Security, pension and a 3% systematic withdrawal from a diversified investment portfolio. But Cloke rejects what he calls an "assume and consume" approach to retirement income, and claims that his method creates enough gains through lower taxes, lower asset management fees, mortality credits and increased equity exposure to more than cover the cost of commissions and insurance product-related costs.

Social Security

Social Security laws changed in November, with the federal government removing the option—some called it a loophole—that allowed workers at full retirement age to file for Social Security benefits but not take them, purely for the sake of enabling their working spouses to begin collecting spousal benefits (not the benefits they earned by working) until age 70, when they would both switch on their own earned benefits.

It was a strategy that could bring a few couples a $50,000 windfall over four years. But the government has taken it away. As David Littell explained during the roundtable, the file-and-suspend strategy ends on May 1, 2016. Until then, only workers who have already reached age 66 and have never claimed benefits can use it until then. "But [the government is] not taking these strategies away from anybody who has already started them," he said.

Besides file-and-suspend for spousal benefits, one other Social Security option has also been eliminated. "If you were age 66 and filed and suspended, and then at 68 you found out you had cancer, you used to be able to change your mind and they would send you a check for the two years of benefits that you missed," Littell said. "That's also going away."

But there are still reasons to file and suspend, he added. "If a new 66-year-old client who took Social Security at age 62 comes to an advisor and they decide that the client would be better off deferring until age 70, the client can still suspend his payments until age 70 and get credit for the extra four years of deferral," Littell said.

Long-term care insurance

In another section of the roundtable, Jamie Hopkins, co-director of The New York Life Center for Retirement Income, discussed the fundamentals of long-term care, as well as other end-of-life issues that retirement advisors should be understand.