Home as an Asset?

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Should you treat your home as an asset?

- Conventional wisdom says that your personal home is not to be handled as part of your total “Available assets”
- You should pay off your mortgage
- Do not include it in the often recommended maximum “4 %” drawdown after retirement
- In certain situations I do not agree with conventional wisdom

Our Situation-1

- We have a home which we bought 40 years ago in which we have substantial equity
- <u>All </u>of our other assets are in conventional individual IRA’s
- I am retired, over 70 years old and we live off of the IRA’s.
- Each year our expenses typically exceed the RMD for the IRA’s

My Situation-2

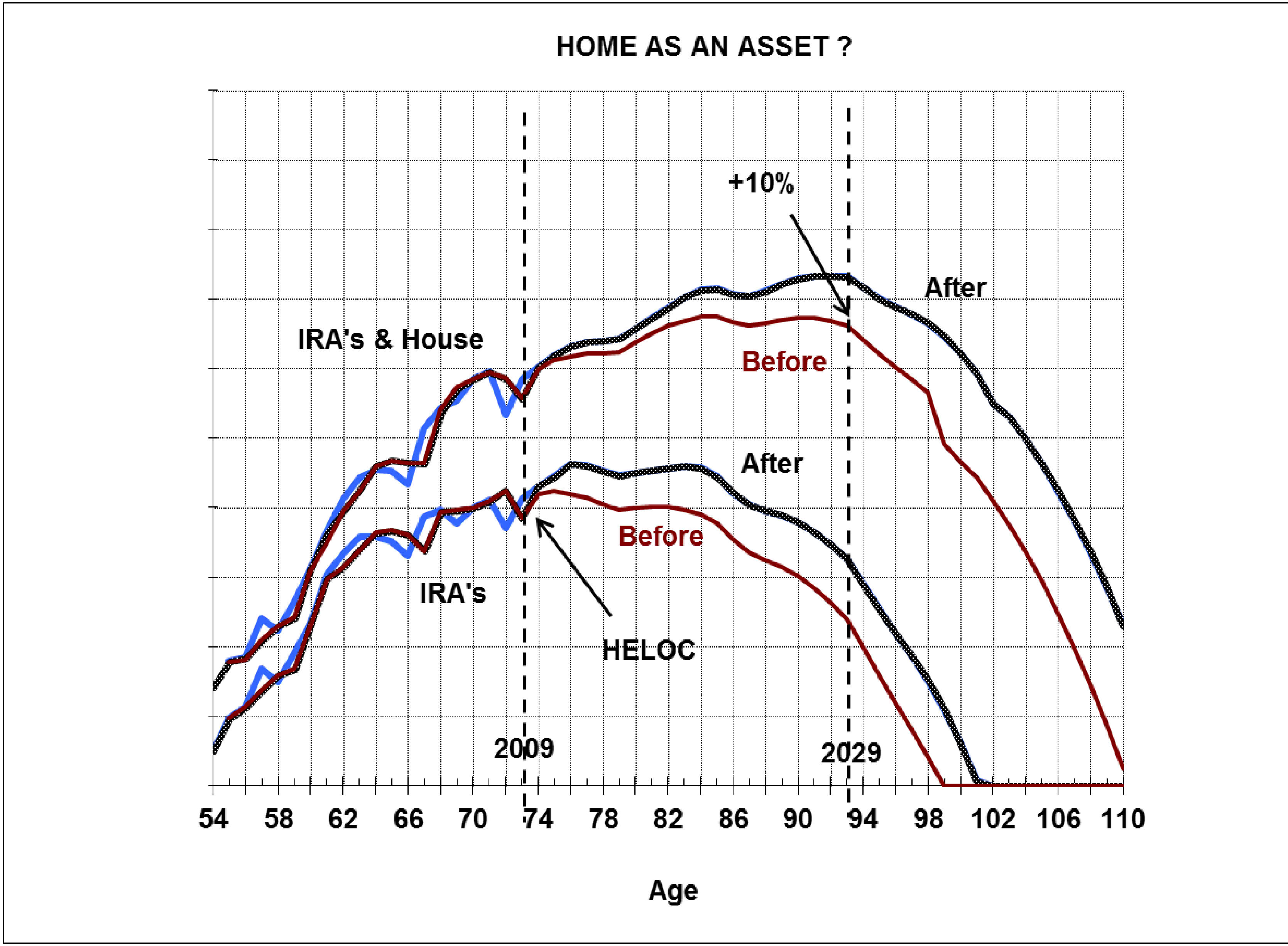
- Thus if we take all our expenses out of the IRA's, our expenses set our taxable income and therefore our Tax Bracket. (Recognize that we have to take additional money out of the IRA's to pay the Tax Bill)
- If we take money out of the House (Home Equity Line of Credit, Reverse Mortgage, Refinance) to pay expenses, that money is not taxed.
- Taking into account Finance Rates, Progressive Tax Rates, Rates of return of the monies in the IRA's and mortgage deductions, our net value is improved substantially by taking money out of our home equity to pay expenses in excess of our RMD.

Z Plan (an Excel Spreadsheet)

- To plan for retirement I started developing a spreadsheet 25 years ago
- It has evolved into a complex spreadsheet which combines Expenses, Income, Savings, IRA’s, Tax schedules. Everything that applies to our particular situation.
- Using this spreadsheet I am able to project the impact of multiple parameters on our retirement

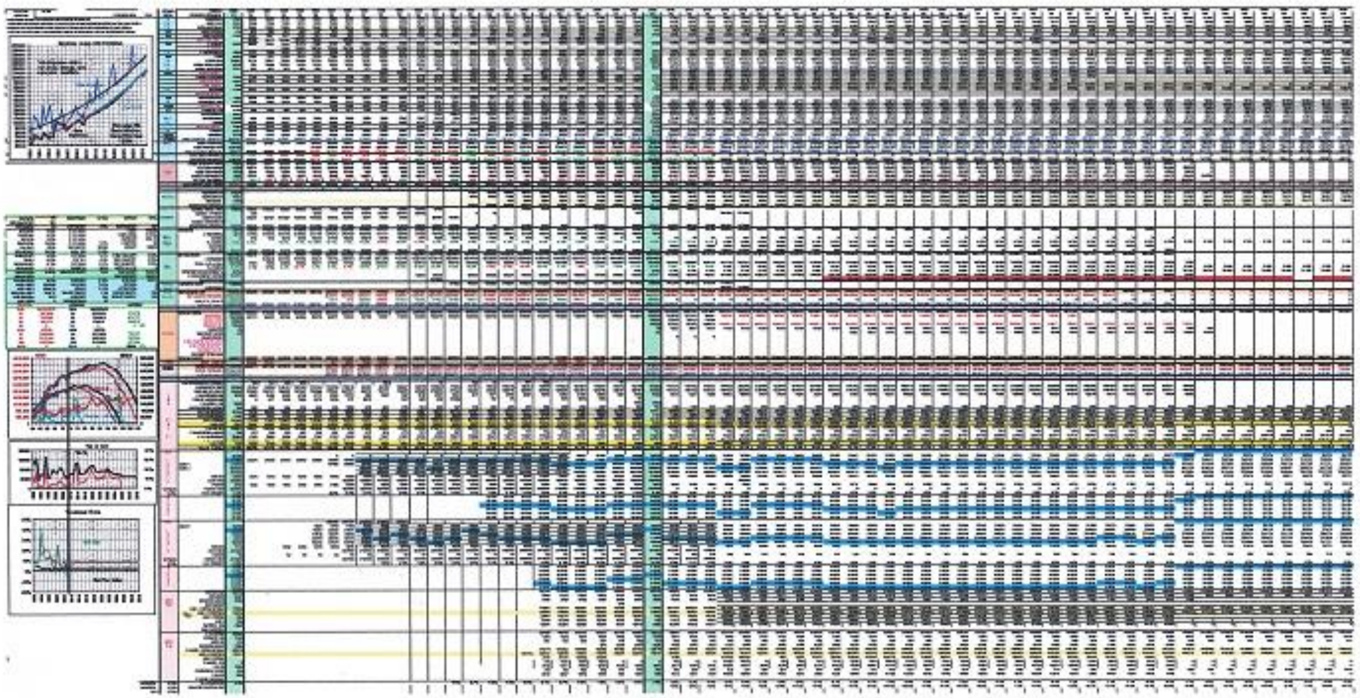
Bottom Line (For Us)

- Using the Excel spread sheet and a lot of assumptions, the improvement in our net worth by taking equity (not taxed) from our home and leaving more money in our IRA's is significant
- "Z plan" projects a net worth increase of roughly 10%, 20 years after we began using a Home Equity Line of Credit(HELOC). (adds a couple more years before we run out of money)
- BECAUSE OF THE TAX SAVINGS!
- We now meet the 4 % drawdown criteria (House value is included in the denominator)


HOME AS AN ASSET ?
+10%
After
IRA's & House
Before
After
Before
IRA's
HELOC
2009
2029
54
58
62
66
70
74
78
82
86
90
94
98
102
106
110
Age

Z Plan-2009

Actuals Projected



*Expenses

*Taxes

*Social Sec
*Income
*Savings
*IRA's
*House/Loans
*Total Assets

*Tax Calculation

*AMT
Calculation

1992 Ret | 1999 SocSec | 2007 RMD | 2009 Heloc | 2014 Now

Key Analysis Parameters

- IRA Rate of Return = 8%
- Mortgage Rate = 5%
- Home Equity Finance Rate = 4%
- House appreciation = 4%
- Interest Tax Deduction (Set by applicable Tax Rules)
- Inflation Rate = 3%
- Tax Rates and Brackets: Current & Indexed

Caveats

- No consideration for Estate Planning
- i.e. House versus IRA’s for Beneficiaries
- HELOC is a variable rate loan. Large rate increase would modify projections
- Repeat: The comments herein apply to our particular situation

Miscellaneous Comments

- Discuss concern about liens on your home
- Discuss spreadsheet interactions
- Discuss smoothing of expenses
- Questions?