



Making Assets Last a Lifetime.

Evaluate your options before determining your approach.

Though the greater Bay Area is a relatively wealthy area measured in income, net worth and home values many seniors, and often along with their adult children, still face very tough choices in maintaining their lifestyle through their retirement years. Making the best choice is not simple. Whether for yourself or for your parents, below are some issues to think through.

Let's review some statistics that shed some light on the overwhelming problem. Two-thirds of all 65 year olds will reach age 85. Traditional pension plans are disappearing. The average 401k account balance for individuals age 50-59 is \$88,000. This would generate about \$500 month, only to be exhausted by age 85. If you include a social security payment, then were roughly looking at an income of \$2,000 per month. We see this on a consistent basis, even here in the affluent Bay Area.

What is also common for seniors is to have a significant amount of equity in their home. Eighty-five percent of American homeowners within 10 years of retirement view the equity in their homes as a reliable source of income during their post-employment years (source: Prudential REA). Selling your home to finance your retirement may be a good financial solution, but obviously has a big impact on someone's lifestyle if they are down-sizing, renting or moving out of the area. There are also tax and estate planning issues to consider.



AARP says that 89% of seniors want to stay in their homes. If senior homeowners don't have their retirement financing handled and they want to remain in their home, then their choices are finite. They can:

- ⊙ Reduce their expenses and lifestyle
- ⊙ Continue working
- ⊙ Have their children subsidize their income
- ⊙ Add tenants
- ⊙ Access the equity in their home

This last point can be significant and may be the only real choice some people have. Fortunately there are some very good options that allow seniors to remain in their homes, but the best solution depends on the situation. Those choices are:

- ⊙ Home Equity Line of Credit – A line of credit can be a great low cost way to have bridge or emergency funds available. Drawing money is flexible and money paid back down on the credit line can be re-accessed. The disadvantages are that it usually requires income to qualify, a draw period of 10 years, monthly payments and a variable interest rate.
- ⊙ Cash-Out Refinance – Pulling cash out of your home either with a 1st or 2nd mortgage will have a lower interest rate than an equity line, but might have more initial costs to set up. One of the advantages is that by taking out a lump sum of cash the senior can put their capital in more liquid investments and produce a



better return than the after-tax cost of the interest paid on the new mortgage. The disadvantages are a required payment on the loan and the market risk of the newly invested assets.

- ⊙ Reverse Mortgage – Though these mortgages got a bad name a number of years ago, they have changed dramatically. Today seniors can utilize a reverse mortgage for a lump sum of money, a monthly check, a credit line, or any combination. The big advantages are there is no mortgage payment for life as long as the senior lives in the home and qualifying is based on the age of the borrower and value of the home (not the credit, assets or income of the senior). But often the reverse mortgage will not access as much equity as a traditional mortgage and initial origination fees are higher.

Though these options may seem fairly straightforward, each has a very different impact on a senior's situation and should not be treated lightly. Seniors and their adult children should seek out advice that will not just look at one option, but be able to help evaluate and strategize with the best overall solution to make someone's assets last a lifetime.

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