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House Poor No More

Transforming Your House from a Liability into an Asset



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AGENDA

- What Are You Really Spending on Housing?
- The Gain from Downsizing
- Live Anywhere, Work Everywhere
- Move to a Low/No Tax State

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AGENDA

- Deciding to Rent or Own, the Tax Break to Owning
- The Value of Prepaying Your Mortgage
- Reverse Mortgages – Pros and Cons
- Releasing Trapped House Value Safely
- Mortgages Can Hedge Inflation and Longevity Risk

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Housing Is Our Biggest Expenditure

- Bureau of Labor Statistics: We Spend 1/3rd of Our Budgets on Housing.
- That's the BLS Average. You May Be Spending Far More or Far Less.
- How Much Are You Spending on Housing?
- If You Rent, It's Clear.
- If You Own, Use MaxiFi to Learn the Answer.

Case of Joe and Jane

- Couple is Age 55, They Live in Oregon, Grown Children.
- Four-Bed, \$700K House with a \$500K, 3.5 Percent, 30-Year Mortgage.
- Both Earn \$100K.
- Each Has a \$750K 401(k).
- \$3K Annual Personal and Employer 401(k) Contributions.
- Each Will Retire at 65.
- Couple Has \$50K in Checking Account.

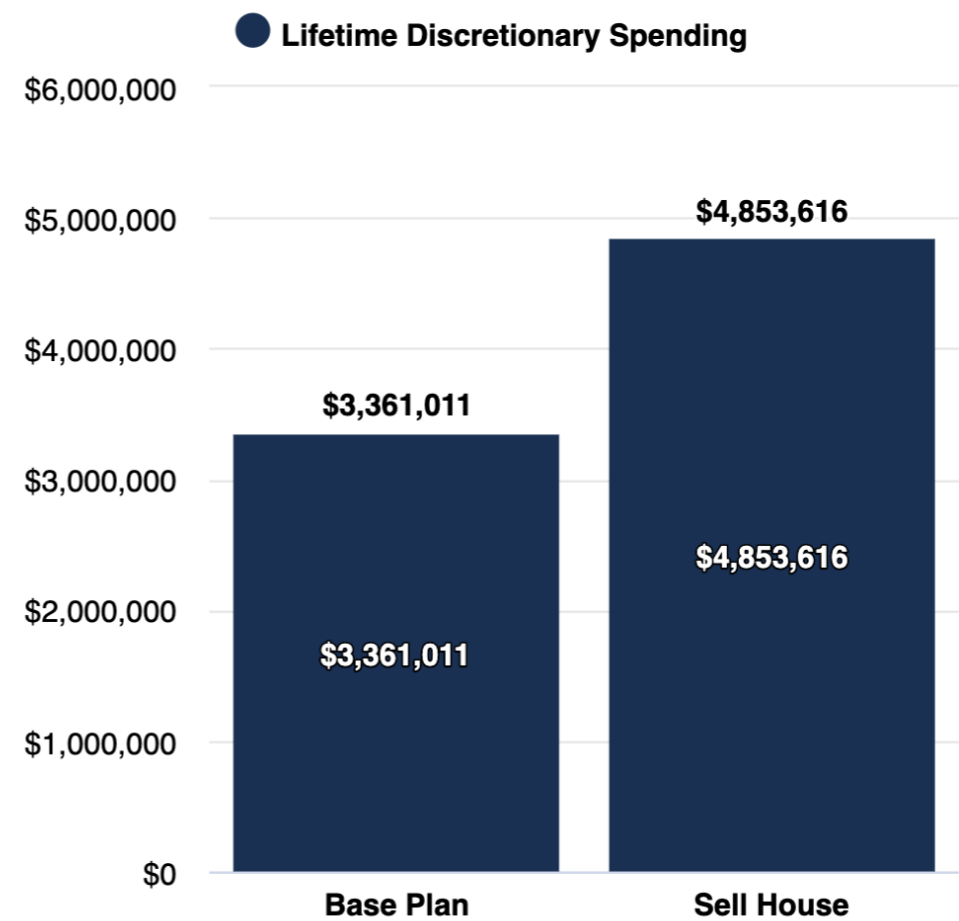
How Much Are Joe and Jane Spending On Housing?

Selling their House Permits \$1.5 Million More in Lifetime
Discretionary Spending -- a 44.4 Percent Increase!

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and Sell House.

 **\$1,492,605**
Increase in Lifetime Discretionary Spending Under the Sell
House



How Much Are Joe and Jane Spending On Housing?

Conventional Measure of Housing Spending:
Sum of Expenses Plus Foregone Interest

- House Poor Means You Are Spending Too Much on Housing
- Conventional Measure – 26.3% of Couple's Spending Is on Housing
- Correct Measure is 44.4%
- Conventional Measure Ignores Trapped House Value
- Implication: You May Be House Poor and Not Know It

What If Joe and Jane HalFSIZE?

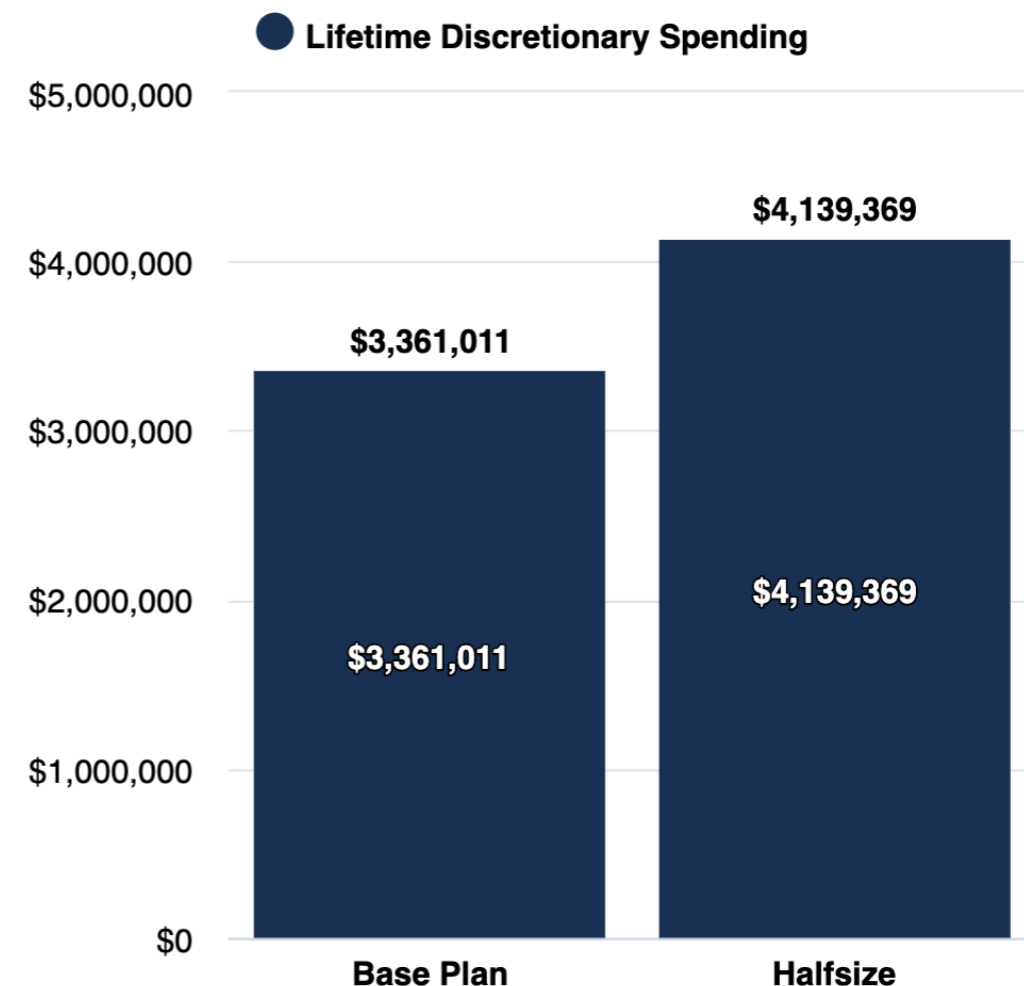
If Joe and Jane Downsize by Half, their Lifetime Discretionary Spending Rises by \$778K or 23.2 Percent.

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and HalFSIZE.

 **\$778,358**

Increase in Lifetime Discretionary Spending Under the HalFSIZE



Key Takeaway

MaxiFi Can Calculate Your True Spending on Housing,
the Gain from Downsizing, and the Cost of Upsizing.

Implications of Telecommuting for Housing

- 42 Percent of Us Now Work Remotely.
- We Can Live Anywhere and Work Everywhere.
- We Can Move to Where Housing Is Inexpensive.
- Housing Can Be Far Cheaper an Hour Away.

My Own Good Luck Story

- My Wife and I Moved in July from Boston to Providence.
- Per Sq Foot Housing Price in Providence Is $\frac{1}{3}$ rd the Price in Boston.
- Swapped Small Condo for House, 60% More Space at $\frac{1}{2}$ the Price
- Eliminated Our Mortgage and Got a Small Back Yard to Boot.
- No Idea the Price Differential Was So Large.
- Commute is 50 Minutes, But I Can Teach and Meet Remotely.

What If Joe and Jane Move Where Housing Costs Are Half?

If Joe and Jane Buy the Same House in a Different
Location at Half the Cost, their Discretionary
Spending Again Rises by \$778K -- 23.2 Percent,
But Now their Housing Consumption Doesn't Change.

House Prices Differ Enormously Across the Country

- Manhattan's price per Square Foot is 20 times Cleveland's price.
- San Francisco's Price Per Square Foot is 10 times Memphis' Price
- In Ten Most Expensive Big Cities, \$250,000 buys less than 600 sq ft.
- In Ten Least Expensive Big Cities, \$250,000 buys more than 2,500 sq ft.

Moving States Can Save Taxes

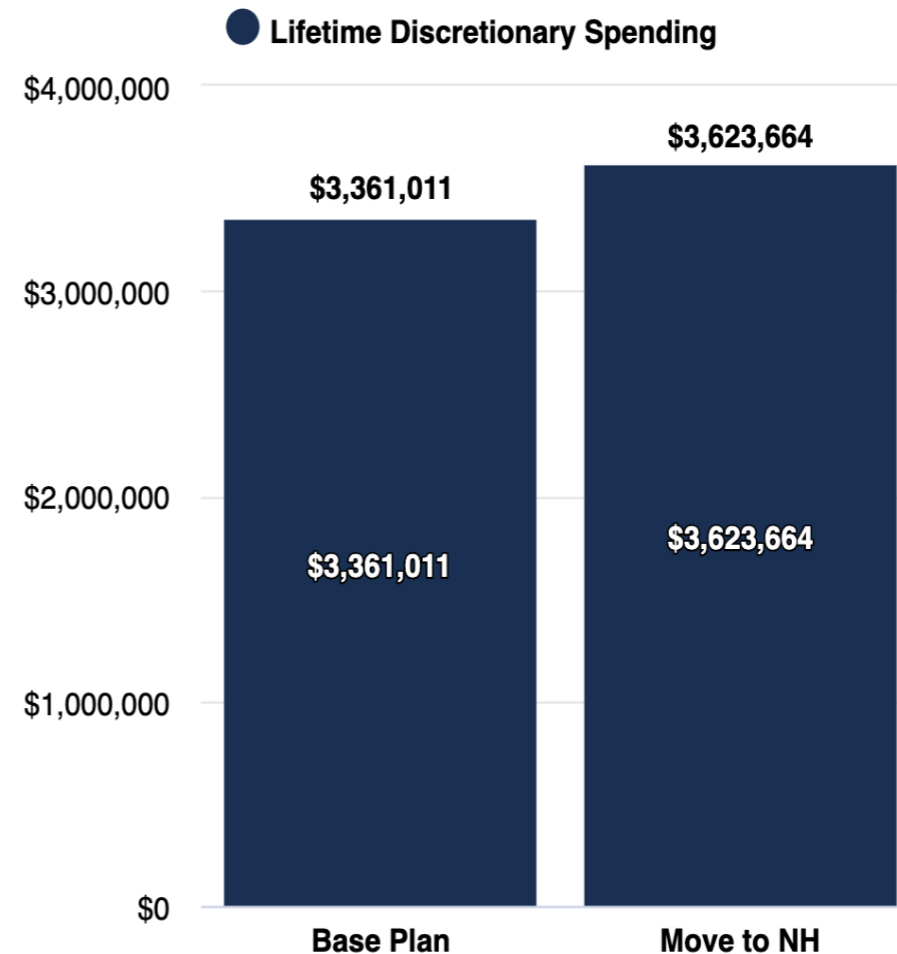
If Joe and Jane Buy the Same House for the Same Price in NH,
their Living Standard Rises by 7.8 Percent

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and Move to NH.

 **\$262,653**

Increase in Lifetime Discretionary Spending Under the
Move to NH



State Taxes Matter

Nine States Have No Income Tax.

**Alaska, Florida, Nevada, New Hampshire, South
Dakota, Tennessee, Texas, Washington, and Wyoming**

Key Takeaways

- Your Housing Market May Be the Entire Country, Indeed the World.
- Stay in the Housing Market. Compare Market Prices on Ongoing Basis.
- Use MaxiFi to Price Alternative Housing/Location Options.
- Pricing Options Means Comparing their Discretionary Spending Impact.

When Does Renting Beat Owning?

Use MaxiFi to Find Breakeven Rent.

Breakeven Rent Provides Same Lifetime Discretionary Spending.

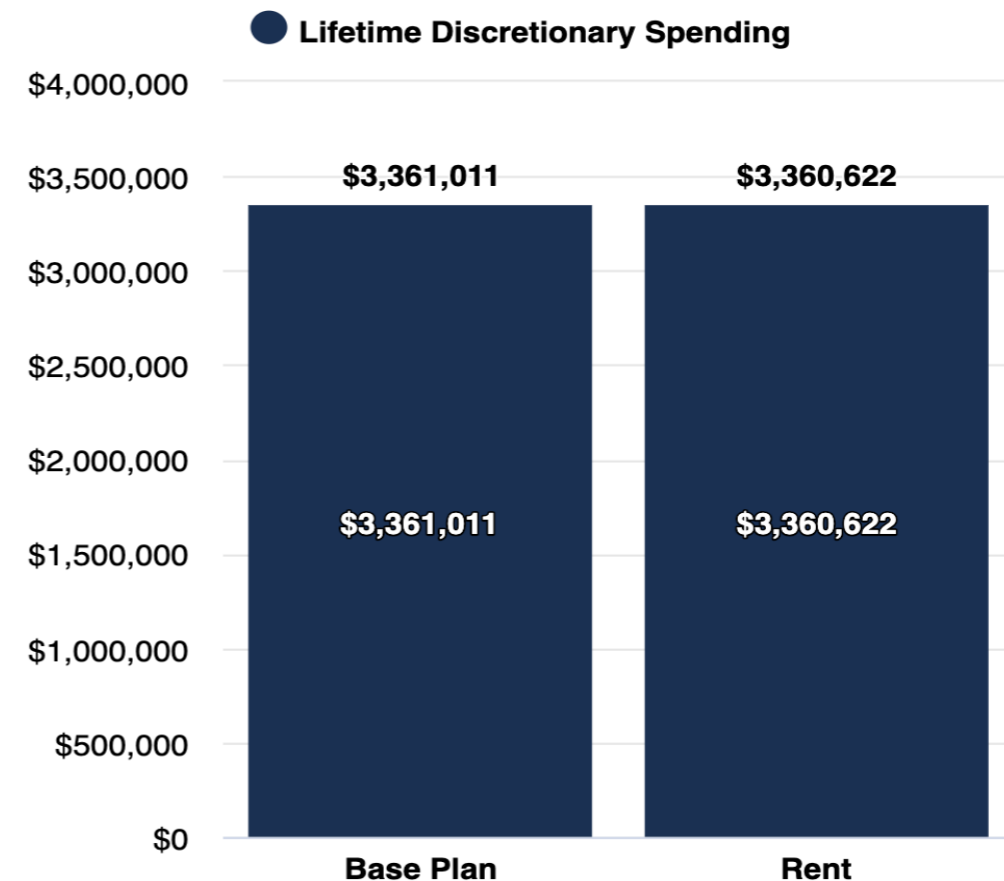
For Joe and Jane, Breakeven Rent Is \$2,271 Per Month.

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and Rent.



Congratulations! Base Plan dates provide the maximum Lifetime Discretionary Spending.



Compare Actual with Breakeven Rent

- To Decide Whether to Rent Home A or Buy Home B,
- Calculate Breakeven Rent for Home B
- Compare House A's Rent to Breakeven Rent for Home B
- If House A's Rent is Higher than Breakeven for B, Renting is Expensive
- If House A's Rent is Lower than Breakeven for B, Renting is Inexpensive

The Tax Break to Owning

- Has Nothing to Do with Mortgages.
- Mortgages are Tax Losers.
- Source of Tax Break: Imputed Rent is Not Taxed.
- Imputed Rent Is the Rent You Effectively Pay Yourself.
- Consider Two Financially Identical Clones With Identical Homes.
- If They Rent to Each Other, They Pay Taxes on the Rent.
- If They Live In their Homes, They Pay No Housing-Related Taxes.
- Tax Break Can Be Worth Roughly 3% of Discretionary Spending.

Key Takeaways

- Home Ownership Has a Built-In Tax Break.
- Tax Break for Home Ownership Not Connected to Mortgages.
- Use MaxiFi to Compare Renting vs Buying
- Calculate Breakeven Rent for House You Own or Buy.
- Compare Actual Rent with Breakeven Rent.

Mortgages Are Financial and Tax Losers

- Mortgage Borrowing Rate is Safe.
- Mortgage Borrowing Rate Exceeds Safe Investment Rate.
- Borrowing to Investment Is a Financial Loser
- Due to Standard Deduction, Most Mortgages Aren't Deductible.
- Interest Income Is Taxable.
- Borrowing to Invest Will Raise Your Taxes
- Pre-Paying Your Mortgage is a Great Tax and Financial Arbitrage.

Joe and Jane Prepay their Mortgage.

Joe and Jane Pay an Extra \$1,000 Per Month on their Mortgage.

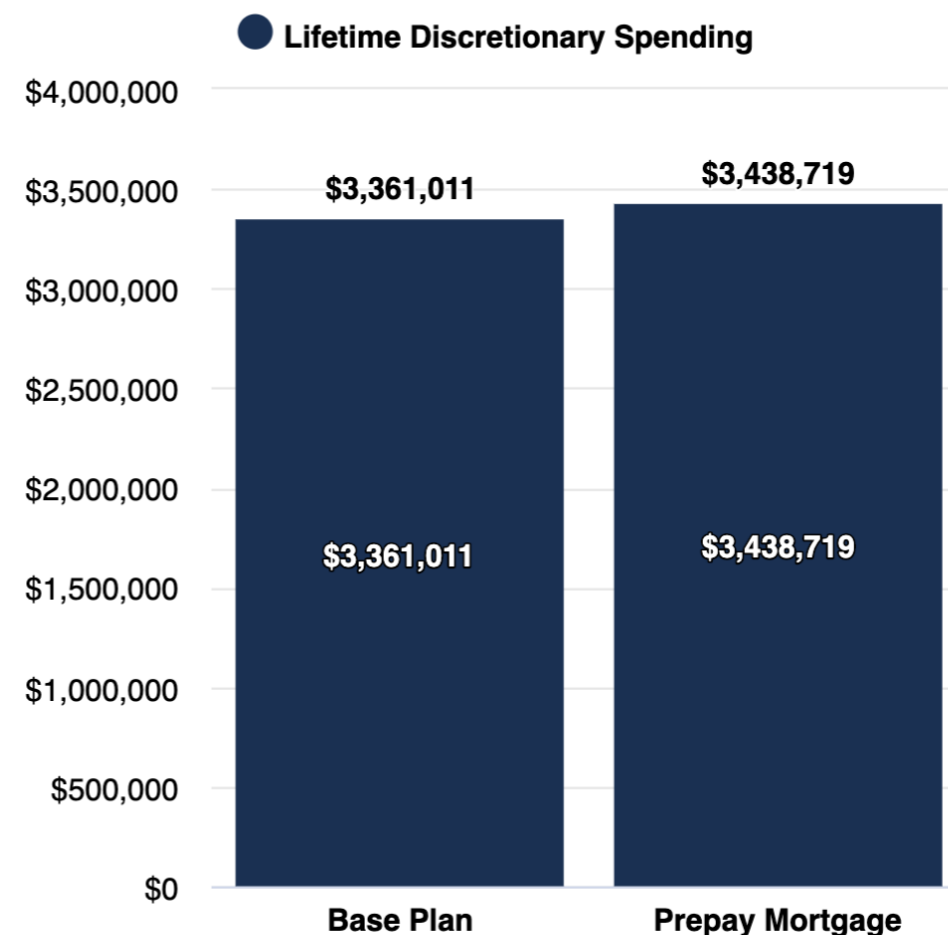
Their Lifetime Discretionary Spending Rises by 2.3 Percent.

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and Prepay Mortgage.

 **\$77,708**

Increase in Lifetime Discretionary Spending Under the
Prepay Mortgage



Key Takeaways

- Paying Off High Interest-Rate Debts Is the Best Investment Going.
- Consider Pre-paying Mortgage.
- Consider Cashing Out 401(k) to Pre-Pay Your Mortgage.
- See <https://bit.ly/3jfiwB3>

The Problem of Trapped House Value

- Never Sell Your Home? You'll Die Without Spending Its Value.
- Home Value Is an Expensive Security Blanket.
- Trapped Equity Is Not the Problem Per Se.
- Joe and Jane Can Pay Off their Mortgage via 401(k) Withdrawals.
- Their Trapped Equity Will Rise from \$200K to \$700K.
- What's Trapped is Not their Equity, but their \$700 House Value.
- \$700K is 20.8 Percent of Couple's Lifetime Discretionary Spending!

Is a Reverse Mortgage the Answer?

- Need to Be 62 or Over.
- Can Borrow Based on Available Equity.
- Various Fees and Mortgage Accumulates at a High Interest Rate
- If You Don't Move, You Don't Have to Repay.
- When You Die, Your Estate Repays Up to Value of House.
- If You Do Move, You Do Have to Repay.
- Don't Move, Die Late, You Win, but Bank Likely Gets Your House.
- Have to Move? Likely Major Repayment -> Less \$ for Next Home.

Other Ways to Tap Trapped House Value

1. Downsize
2. Sell and Rent
3. Rent Out Part of Your Home
4. Have Your Kids Move In
5. Formal Sale Leaseback to Children
6. Informal Annuity Deal – Annual Gifts from Kids & Kids Inherit House
7. Sell Your House and Buy Into a Retirement Community

Key Takeaways

Trapped Home Value Is a Major Asset Worth Untrapping.

Reverse Mortgages Are Expensive and Risky Untrappers.

There are 7 Other Options to Consider.

Roll Your Own Inflation-Protected Annuity

- Annuities Are Income Streams that Continue Until You Die
- They Can Be Graded, i.e., Rise Annually
- But No One Sells Annuities that Adjust for Actual Annual Inflation
- Use a Mortgage to Roll Your Own Inflation-Adjusted Annuity
- Your Mortgage Payments are Fixed in Nominal Terms
- Take Out a Mortgage to Buy a Nominal Annuity
- If Prices Rise, the Decline in Real Mortgage Payment Offsets the Decline in Real Annuity Income
- See <https://bit.ly/3onIGXo>

Key Takeaways

- Mortgages Are Financial and Tax Losers, But they Are Excellent Inflation Hedges and Can Help Protect the Real Value of a Nominal Annuity.
- Comparing Alternative MaxiFi Profiles with Different Inflation, Mortgage, and Nominal Annuity Assumptions Can Show You the Inflation-Projecting Value of Mortgages.

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