The Impact of Inflation on Retirement Income

One of the biggest threats to your retirement assets is inflation.

We Can Help You Plan for Inflation

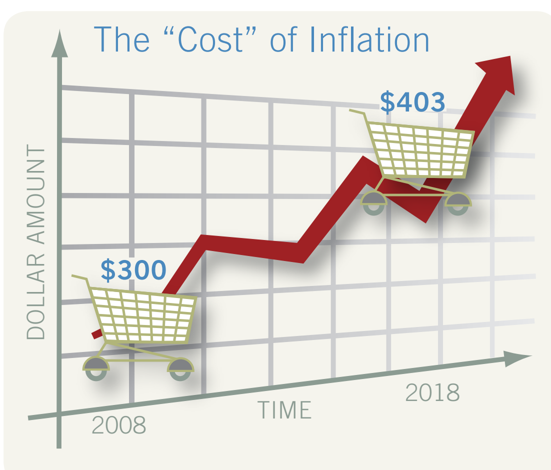
As Retirement Specialists, we have the knowledge and experience to help you determine your retirement income needs and develop the appropriate spending goals. From there, we can offer retirement income solutions that provide flexible cash flow that adjusts to inflation. We'll help you monitor your spending by providing goal progress reporting and meet with you regularly to evaluate if your spending and investments are on track to achieve your goals. No matter how far off retirement may seem, it's never too early to start planning for the future.

You may be surprised to learn that one of the biggest threats to your retirement assets is actually inflation. To help ensure that your retirement assets last you a lifetime, it is important to understand how inflation can erode the value of your hard-earned retirement assets and what you can do to lessen its impact.

The Hidden "Cost" of Inflation

As you're well aware, a dollar today surely doesn't buy what it used to. As a result of inflation—the rising cost of goods and services over time—you can expect that future dollars won't be able to purchase the same amount of products and services they do today. Assuming you'll be in retirement 10-25 years from now, your living expenses could more than double, based on the rate of inflation of the past 25 years. That means your investments will have to work harder in order for you to maintain a comparable standard of living in retirement.

Even if you're looking ahead just 10 years with an inflation rate of only 3%, the hidden cost of inflation means a monthly food bill of $300 today will cost $403 a decade from now—that's a whopping 34% increase!



Not only does the spending power of your savings decrease over time but when you factor in longevity and the rapidly rising cost of health care—a need that generally increases as retirees grow older—it's clear that living longer in retirement means you are all the more vulnerable to inflation's power to lower your standard of living.

If you're looking forward to enjoying a comfortable retirement—and even want to ensure that you can pass wealth onto your heirs— you'll need to set your portfolio up to withstand inflation's attack…but how?

Protecting Your Portfolio

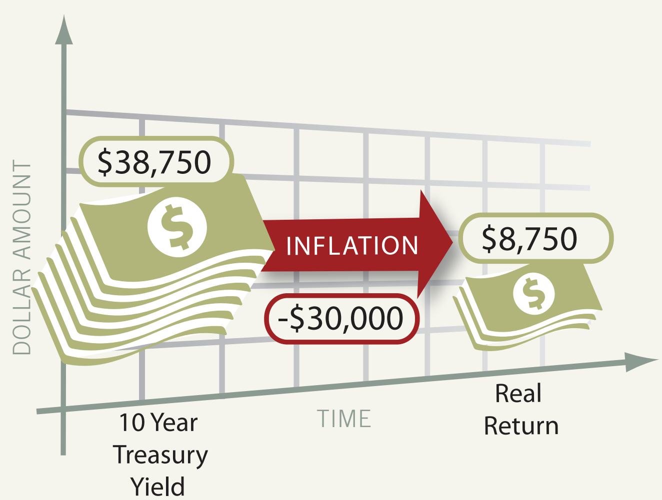
Adjust for Inflation

One way to battle inflation is to make sure that once you begin spending retirement assets, your regularly occurring distribution amounts have an inflation-adjusted component that recalculates your payouts automatically based on the current rate of inflation. It's also important to look for a flexible investment option that will allow you to increase or decrease your cash flow as your needs and expenses change.

Balance Risk with Growth

You'll also want to make sure your assets are managed in a way that can help generate enough growth to at least keep pace with the inflation rate. For example, if you are invested too conservatively, your assets may seem safe from market risk, but they will actually lose their power to keep up with inflation over time. Stocks generally have the growth potential to offset inflation, but you also need to manage risk so you don't end up with a big loss when you need your money the most. Moreover, you will need to fine-tune your asset allocation at least annually to make sure it remains in line with your risk tolerance and objectives.

Inflation and Risk



This hypothetical example shows that investing $1,000,000 in the safety of a 10-Year Treasury Bond would yield $38,750 (3.88%) annually. With the inflation rate at 3%, the real rate of return (adjusted for inflation) is only $8,750 (.88%) annually.

Monitor Your Cash Flow Carefully

It's also important to monitor your retirement spending closely. It's critical to adjust your payout so you continue to have the same spending power for the duration of your retirement years, yet you need to maintain a careful balancing act to make sure you don't draw down assets so quickly that you run out of money prematurely. One way to help keep track of spending is through your quarterly statements. This may be difficult, particularly if your assets are spread out among several companies. Ideally, one consolidated statement would show how much you have withdrawn, how your investments have performed, and if you are currently on track to reach your long-term goals.

No matter how far off retirement may seem, it's never too early to start planning for the future.

Call us for a Retirement Income consultation today!

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