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March
2024



RRA NEWSLETTER

The Silent Thief of Your Golden Years

Inflation has a way of sneaking up on retirees. We all know it is there, but it is often forgotten about in retirement planning. And aside from Social Security benefits, what else do retirees have for income that is inflation-adjusted? In this month's newsletter we will wade into the waters of the impact inflation can have and potential strategies that could help your retirement last as long as you do and even after.



For many, retirement conjures up images of carefree days filled with travel, hobbies, and relaxation. But lurking beneath the surface of this idyllic vision is a silent threat: inflation. Inflation can significantly erode your purchasing power and leave your retirement dreams feeling deflated.

Understanding the Impact

Let's imagine you're planning to retire in ten years with a nest egg of \$1 million. Today, this amount might seem comfortable. But with an average inflation rate of 2-3%, that same \$1 million will buy considerably less a decade down the line. Here's why:

Reduced Buying Power: As prices rise, your \$1 million won't stretch as far. Everyday items like groceries, utilities, and healthcare will become more expensive, forcing you to cut back on expenses or dip into your savings more aggressively.

Fixed Income Vulnerability: Most retirees rely on a combination of fixed income sources like Social Security and pensions. These payments typically don't adjust automatically for inflation, meaning their real value diminishes over time.

Consider This Example

John retires at 65 with a fixed income of \$50,000 per year. He believes this will comfortably cover his living expenses. However, with a 3% annual inflation rate:

- In ten years (age 75), his \$50,000 income will only have the purchasing power of roughly \$38,000 due to inflation.
- By age 85, that same income will be worth approximately \$29,000 in today's dollars.
- This scenario highlights how inflation silently eats away at John's retirement security, forcing him to potentially lower his standard of living or deplete his savings faster than anticipated.

Strategies to Combat Inflation

Fortunately, there are steps you can take to mitigate the risks of inflation and safeguard your retirement:



Invest in Inflation-Hedging Assets: Stocks have historically outperformed inflation over the long term. While short-term fluctuations can occur, companies can often raise prices to offset inflation, maintaining the value of your investment. Consider a diversified portfolio with a mix of stocks, bonds, and real estate investment trusts (REITs) that have the potential to keep pace with inflation.



Favor Inflation-Indexed Investments: Treasury Inflation-Protected Securities (TIPS) are bonds issued by the U.S. government where the principal amount adjusts for inflation. This ensures your purchasing power remains constant. I Bonds are another inflation-protected option, offering competitive interest rates that adjust for inflation.



Delay Claiming Social Security: While tempting to receive Social Security benefits as soon as you're eligible at 62, delaying them until later (up to age 70) increases your monthly benefit amount. This higher payout can help offset the effects of inflation over time.



Plan for Rising Healthcare Costs: Healthcare expenses tend to outpace inflation, posing a significant financial burden for retirees. Consider factoring in potential healthcare costs during retirement planning and explore options like Medicare supplements or long-term care insurance.



Maintain a Flexible Budget: Building a budget with some wiggle room allows you to adjust spending habits as prices rise. Explore cost-saving strategies like downsizing your living space, negotiating bills, and seeking out cheaper alternatives for groceries and entertainment.

Strategies to Reduce Inflation Risk in Retirement

Inflation might be a constant companion, but it doesn't have to derail your retirement dreams. By understanding how inflation erodes your purchasing power and implementing smart strategies, you can build a resilient financial plan that thrives even in an inflationary environment. Here's a deep dive into strategies for reducing inflation risk exposure, including income streams that automatically adjust for rising prices.

Beyond the Nest Egg: Building Inflation Resistant Income Streams



Social Security with Strategic Delay: While you can claim Social Security as early as 62, delaying benefits until later (up to age 70) increases your monthly payout by 8% per year according to the Social Security Administration. This translates to a larger, inflation-adjusted income stream throughout your retirement.

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Annuities: Certain types of annuities, like inflation-indexed annuities, offer guaranteed income that increases with inflation, as explained by the Annuity Education Foundation. This provides a safety net against inflation's corrosive effects.

Part-Time Work: Staying engaged in part-time work during retirement can provide supplementary income that keeps pace with inflation. Plus, it offers social interaction and a sense of purpose.



Your investment portfolio also plays a crucial role in navigating inflation. Here's how to fortify it:

Diversification is Key: Spread your investments across different asset classes like stocks, bonds, and real estate. While stocks have historically outperformed inflation over the long term, diversification mitigates risk and helps your portfolio weather market fluctuations.

Real Estate: Real estate, particularly income-producing properties like rental houses or apartments, can be a hedge against inflation. As rents typically rise with inflation, you benefit from a potentially increasing income stream. However, real estate comes with its own set of management responsibilities.

Commodities: Certain commodities, such as gold and oil, have a historical tendency to perform well during inflationary periods. However, investing in commodities can be complex and requires careful research.

Remember

Rebalance Regularly: Periodically rebalance your portfolio to ensure your asset allocation remains aligned with your risk tolerance and inflation expectations.

Seek Professional Guidance: A Retirement Risk Advisor can help tailor a comprehensive inflation-mitigation strategy based on your individual circumstances and retirement risk profile.

Upcoming April Webinars

4/1 - Getting Safely Through Retirement - Master Class PT. 1

4/2 - Getting Safely Through Retirement - Master Class PT. 2

4/3 - The Top 15 Reasons Why People Run Out of Money in Retirement

4/4 - Evolving Retirement Law With Secure Act 2.0: The Challenges, The Changes & Your Choices

4/10 - The Top 15 Reasons Why People Run Out of Money in Retirement

4/11 - Don't Play the Lottery With Your Retirement: 5 Lessons Learned

4/17 - The Top 15 Reasons Why People Run Out of Money in Retirement

4/17 - Match Your Money with Your Profile for Optimal Retirement Success

4/18 - Finding Bigfoot - How to Remove the Mystery for Your Beneficiaries

4/20 - The Changing World of Retirement

4/24 - Demystifying the Financial Industry: A History and Roadmap

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