RETIREMENT RISK ADVISORS

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RRA NEWSLETTER

Navigating the Silent Killer of Retirement

Inflation rose to 7.9% within the last year—the highest it has been in 40 years. With prices on the rise, it is especially important now to account for inflation, so you do not run out of money in retirement.

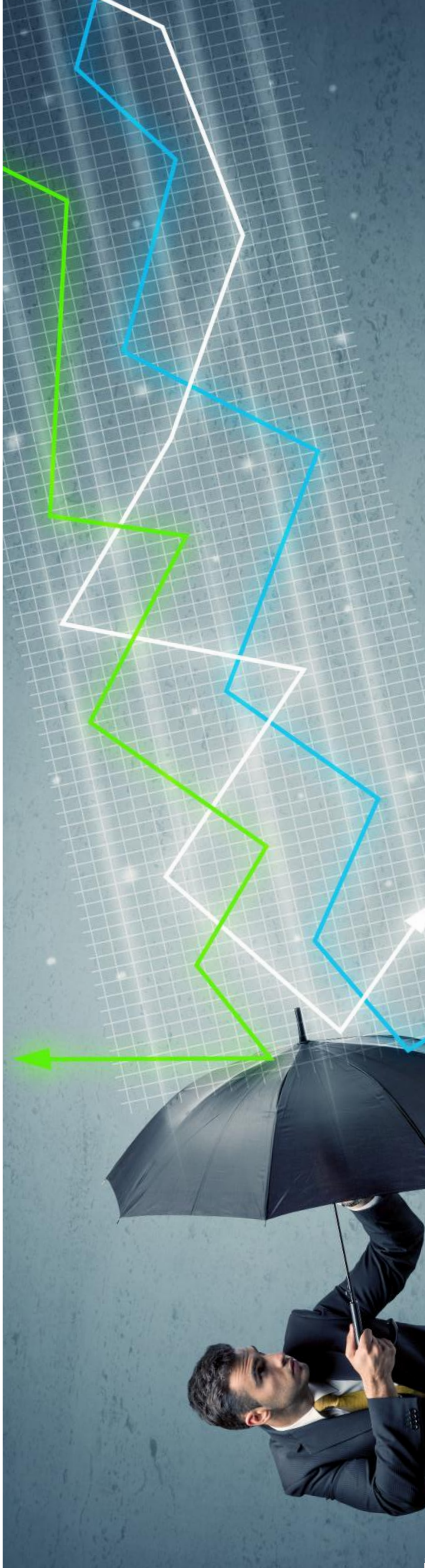
Putting Inflation into Perspective:

While you are working hard, saving over the years as a CPA for your retirement, if you are not taking inflation into account your spending power is taking an even harder hit. Now, with inflation so high, it is more important than ever to plan for inflation's impact on your retirement. As if you did not have enough to worry and plan for in retirement, right? From day one of retirement, inflation will reduce your spending power significantly. A decade or two into retirement, inflation will chip more away from your assets.

Consider the buying power from the 1990s. In the early 1990s $2500 would buy you just that, $2500 worth of things. Today, to get the exact same stuff you would need $4400. With that over 70% increase, this amount will only go up in the future.

Moreover, with retirement self-funded, it can be challenging. Today's common strategy is contributing into an employer-sponsored 401(k) plan. Retirement planning and funding takes time, effort, and patience. It is a sacrifice and a discipline. You defer money from your current income, save it, invest it, watch it grow, and then have it distributed back to you later in life.

When it comes to long-term planning, a healthy assumption for inflation annually is 2-3%. Not factoring in inflation is detrimental to your golden years. Oftentimes inflation is ignored due to mindset that "one million will be more than enough" but when it comes time to retire, that buying power of that same one million will be significantly reduced.



Some Harsh Realities of Inflation:

Inflation eventually will settle but remain at modest levels.

While inflation is expected to settle, many things drive the current increase that will propel retirement planning. Experts are predicting that by 2023 inflation will steadily descend to roughly 2%. However, structural shifts, such as pressure on wages and the Covid-19 pandemic, will keep inflation higher than the global financial crisis of 2007-09.

High inflation does not increase market returns.

A muddy relationship exists between the market and inflation. While a mild correlation has been observed, this correlation is never consistent and does not mean that riskier, higher-yielding investments will perform better. The best means to offset inflation with investments is diversification.

Small increases to inflation have BIG impacts.

To address the impacts increasing inflation will have on your portfolio, determining your expected inflation duration (EID) is key. Your EID indicates how future distributions are affected by inflation. Unfortunately, the higher the EID the lower the income payments distributed will likely be. With inflation, the earlier you begin planning for it, the better off you will be come the start of your golden years.

Retirement investments may require tough decisions. It is a discipline and a sacrifice.

- Invest as much as you can and keep your assets diverse. Balance your funds according to the Three Bucket System (taxable, tax-deferred, and tax-free).
- Where you can decrease your income need—pay off your debts as soon as you can, especially your house. Remember retirement planning is fluid and to keep watching your assets closely.

Strategies to Combat Inflation:

1. Have a diverse retirement portfolio to better your chances at offsetting inflation. This means annuities, low-yielding and high-yielding stocks, even bonds.

2. Keep forward-looking, especially for your plan. Set goals and know when to adjust them. Studying the historic trends of inflation and the market will also help keep your retirement plan moving forward, thinking long-term.

3. Find value in your home. Consider a reverse mortgage to help diversify your income streams for retirement.

4. Achieving and maintaining financial stability through retirement means relying on a good withdrawal rate. Depending on your needs and desires for retirement, consider a slightly below 'predicted' withdrawal rate to prolong the life of your assets. This will may allow some funds to keep growing, too.

5. Account for inflation in your emergency fund. It is recommended to keep 6 months of your monthly expenses set aside. As you save and inflation increases, remember to set more aside for your emergency fund.

6. Remember Social Security has Cost of Living Adjustments. This annuitized stream of income is just the base of your retirement funding, but with the inflation and cost-of-living accounted for, this will help! For 2022 the increase for COLA was 5.9%, compared to the 1.3% the year before.

7. Maximize your Social Security. If you can, consider delaying claiming benefits until your full retirement age or even after. If you claim your SS benefits later than your full retirement age, you receive a delayed-retirement credit that increases in your monthly payments.

8. Education, education, education. Tune in every Wednesday at 11 PM CT for our live show to have your retirement questions answered. Each Friday, listen to a new episode of our podcast, "The Retirement Risk Show," for the latest advice and expert interviews. Optimize your retirement risk education by meeting with a certified Retirement Risk Advisor to formulate a personalized plan for your retirement.

Upcoming April Webinars

4/5 – The Changing World of Retirement

4/6 – How to Retire in the 0% Tax Bracket

4/7 – The Volatility Shield: How to Make Your Retirement Income Last 15 Years Longer

4/7 – The Changing World of Retirement

4/18 – Choosing the Right Life Insurance for Your Retirement

4/19 – Don’t Worry, Retire Happy

4/20 – Tax-Free Income for Life: How to Eliminate Risk in Retirement

4/21 – The Truth About Reverse Mortgages: Everything You Need to Know

4/25 – How to Protect Your Assets Before the Next Crash

4/26 – The Changing World of Retirement

4/26 – Roth IRAs: A Great Option for Most Retirees

4/28 – The Changing World of Retirement

4/29 – The Foundation for a Secure Retirement

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