"Your Green" with Roger Green, MSFS, CFP®

Inflation and Your Retirement

It's back, and it's something frequently overlooked in retirement planning. Inflation can be defined as an overall upward price movement of goods and services in our economy as measured by the Consumer Price Index (CPI). When planning for how much money you will need for retirement, it is important to consider the impact of inflation on your assets and your goals. **Ongoing inflation takes away the buying power of your money, meaning you will need more money to live on in the future than you need currently.**

The Consumer Price Index (CPI) in the US reached 7.9% in February 2022, its highest since January of 1982. Increases in the index for gasoline, shelter, and food were the largest contributors. Excluding volatile energy and food categories, the CPI rose 6.4% which is the highest in 40 years *(US Bureau of Labor Statistics)*.

It takes $2.04 in January 2022 to buy what $1.00 would have bought in January 1992. If you look back further to the span between 1956 and 2020, inflation was pretty high, making what you could buy for $10K back in 1956, cost you nearly $105k in January 2022. To drive home this point, depending on your age, you may now be driving a car that cost more than your first home!

Why is this important to your retirement planning? Inflation turns your retirement goals into moving targets. If want to be able to afford the things you need and want in retirement, often years in the future; inflation must be accounted for in your planning.

What must you always do to hit a moving target? You must lead the target to hit the target. There is a useful financial tool, called the **"Rule of 72"** that can be used to help you calculate how many years it will take for prices to double, based on the current inflation rates. To apply this rule, you divide 72 by the inflation rate. For example, 72 divided by 3% average inflation equals = 24. This means it would take 24 years for prices to double based on an average 3% inflation rate. If the average was 4%, then it would only take 18 years for this doubling to occur.

Applying the Rule of 72 to a 3% average inflation example to your retirement planning, you could say that if you are 24 years from an age 65 retirement (age 41), you would need double the annual income you calculate in today's terms for each year of your retirement. If you anticipate needing $25,000 a year in retirement based on today's figures, then you would need to double that figure. You would need to plan on needing $50,000 per year in retirement at age 65.

It's important to remember that inflation continues throughout retirement. If you retire at age 65, your income needs will effectively double by age 89 if the 3% average annual inflation rate continues. With today's earlier retirements and longer life spans, some may actually see a 2nd "doubling" in cost during their retirement period.

And that isn't all - healthcare accounts for about 13% of expenditures by those 65 and older, but only 5% for other age groups *(2015 Center for Retirement Research at Boston College)*. A 65-year-old couple retiring in 2022 will spend an average $315,000 in healthcare expenses in their retirement *(Fidelity Investments May 2022)*. **That's 5% higher than in 2021.**

Your retirement planning must take into consideration the impact of inflation. For most people, simply saving is not sufficient. Most need growth, earnings, and the power of compounding on their money, *even throughout retirement*, to help their assets grow enough to keep pace with inflation.

To schedule a complimentary consultation to help you plan to try to overcome the impact of growing inflation on your retirement assets, please visit www.rogersgreen.com or call our office at 770.931.1414.