Inflation and Your Retirement

Roger Green, MSFS, CFP©
Green Financial Resources

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.**

Since 2012, inflation had been trending downward from 3.14% in 2011, but it is now on the rise. Inflation was at 1.27% for 2016, rose to 2.13% for 2017, is projected to rise to 2.54 for 2018, and projections indicate this trend is likely to continue (Statista 2018).

According to Bureau of Labor Statistics, inflation in the thirty years from 1986 to 2016 averaged over 4% annually. According to their website calculator, it takes $2.26 in May 2018 to buy what $1.00 would buy in January 1987. If you look back further to the span between 1956 and 2018, inflation was much higher, making what you could buy for $10,000 back in 1956, cost you over $93,000 in May 2018. 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. You want to be able to afford the things you need and want in retirement, often years in the future; so 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 = 18. 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 to occur.

Applying the Rule of 72 and this 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; assuming 3% average annual inflation during that time.

Inflation continues through retirement as well, so if you retire at age 65, the income you will need will effectively double every 24 years (by age 89) if the 3% average annual inflation rate continues. With today's earlier retirements and long life spans, many people may see two or more doublings in cost during their retirement period, depending on the inflation rate.

Your retirement planning *must* take into consideration the impact of inflation. For most people, simply saving is not sufficient and they 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 learn more, we recommend you register for one of our classes offered through Gwinnett Technical College, including one beginning July 17th. For more class information, or to schedule a free consultation to review your retirement plan, please visit www.rogersgreen.com or call our office at 770.931.1414.

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