

INFLATION'S IMPACT
ON YOUR RETIREMENT



ADVISORY GROUP
OF THE ROCKIES

WHAT IS INFLATION?

Is your wallet a little lighter? Are you wondering why a grocery receipt seems oddly high. You can blame the popular buzzword right now, inflation.

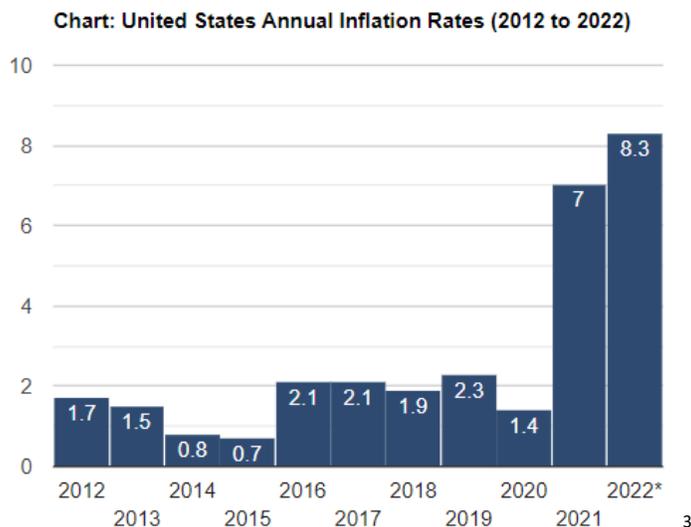
Everyone has felt the impact of inflation over the past year. Everything we have purchased has come with a higher price tag than what we've been accustomed to for more than a decade. It's not surprising how jolting inflation can be when we've experienced steady, low rates for such a long run.

So, what is inflation?

Inflation is rising prices and falling purchase power in an economy over time. However, that isn't the whole story. Inflation can be beneficial because without it, our wages may never increase. There is certainly a push and pull relationship and worth exploring for your financial goals and timelines. For 2022, inflation has hovered between 7-9% depending on the metrics you research. This is considerably higher than the targeted rate of 2%. The Federal Reserve hasn't established a formal inflation target, but policymakers generally believe an acceptable inflation rate is around 2% or a touch below¹.

Wait, is this the same as deflation?

No, deflation is on the other end of the spectrum. In simple terms, it is a reduction of pricing levels in an economy or can be the continuous rise in the dollar's value. While this may sound good because prices are lower, it can be an indicator that an economy is stagnant or even in a recession. The last time the U.S. experienced deflation in a year was 2009, when the annual rate averaged -0.4%². This was during the period known as The Great Recession, which lasted just over a year and a half from December 2007 to June 2009.



¹ Federal Reserve. "Current FAQs." <https://www.federalreserve.gov/faqs>. Accessed Sep 28, 2022.

² US Inflation Calculator. "Historical Inflation Rates: 1914-2021." <https://www.usinflationcalculator.com/inflation/historical-inflation-rates/>. Accessed Sep 28, 2022.

³ US Inflation Calculator. "Current US Inflation Rates: 2000-2022." <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>. Accessed Sep 28, 2022.

WHAT CAUSES INFLATION?

There are many triggers for inflation. Often, it's not just one event or cause, but the culmination of various levers reacting to on another. Let's look at some of the most common causes:



AGR Demand-Pull Inflation: An imbalance in supply and demand

- When demand for goods and services outweigh the supply of those goods and services, prices go up. Companies can't meet the demand, possibly for a number of reasons: scarcity of raw materials, labor shortages, production issues, etc. This is the most common cause of inflation.

AGR Cost-Push Inflation: All tides rise together

- Overall prices within an economy increase due to rising costs of wages and raw materials. You guessed it – the increased costs are passed on to consumers, so companies maintain acceptable profit margins and the ability to cover overhead. This in turn can decrease the supply of goods and services.

AGR Expansion of Our Money Supply

- When the Federal Reserve increases the money supply at a faster rate than the growth of the economy, inflation can occur. If money circulating in an economy is outpacing an increase in goods produced, it is common to see more money chasing less goods. This can lead to price increases because the demand is outweighing the supply at given price levels.

AGR Low Interest Rates

- It's beneficial for consumers to have low interest rates when purchasing goods and services. For example, we saw demand rise for homes when interest rates were minimal. When money is "cheap", consumers tend to be more comfortable purchasing goods and services. Thus, the demand for certain items increases, may put pressure on supply, and can lead to inflationary periods.

ARE YOU PREPARED FOR RISING COSTS?

Retirement planning must take inflation into account. Traditionally, your job is your primary income source and when you retire, you no longer get pay raises to combat pricing increases of goods and services. Instead, you may be living your retirement years on a fixed income or one that fluctuates minimally. It's true that Social Security income, rental income, and other passive income sources may provide increases, but they likely won't keep pace with inflation over the duration of your retirement.

Here is an example of common groceries and how inflation has changed pricing over the span of 20 years:

THE COST OF GROCERIES		
2002 vs 2022		
ITEM	PRICE IN 2002 ⁴	PRICE IN 2022 ⁵
Fresh Eggs (1 Dozen)	\$1.03	\$1.70
White Bread (1 Pound)	\$1.02	\$1.68
Sliced Bacon (1 Pound)	\$3.24	\$5.33
Round Steak (1 Pound)	\$3.50	\$5.76
Potatoes (1 Pound)	\$0.49	\$0.81
Milk (1 Gallon)	\$2.76	\$4.54
TOTAL SPENT	\$12.04	\$19.82



⁴ Ben Wittstein. Stacker.com Nov. 17, 2020. "The cost of goods the year you were born." <https://stacker.com/stories/1227/cost-goods-year-you-were-born>. Accessed Sep 28, 2022.

⁵ US Inflation Calculator. "Inflation Calculator" <https://www.usinflationcalculator.com/>. Accessed Sep 28, 2022.

COMBATING INFLATION DURING RETIREMENT

It's hard to completely get in front of inflation, but there are a handful of ways you can combat sustained high inflation rates:



Talk To Us!



- If you are close to retirement (5 years or less) or already in your retirement years, it's important to review your planning.
- We help you understand the viability of your retirement plan, help determine if your assets will outlive you, and assist with diversification and asset allocation.
- We uncover unforeseen challenges and ensure you are aware of how to protect yourself.



Guaranteed Income



- Let's cut to the chase. These are either annuities or life insurance strategies.
- The ability to transfer the risk of outliving your money from you to an insurance company.
- There are optional features that help your income payouts keep pace with inflation.
- Floor Protection: Some fixed and indexed products offer a floor of 0%, meaning if the markets are down, the worst your account performance will be 0% (product expenses can decrease your account balance outside of performance).



Avoid Long-Term Fixed-Income Investments



- Fixed income: A fancy term for bonds, money markets, etc.
- These pay you a specific interest rate for a specific time period (15, 20, or 30-year terms).
- These interest rates may not keep up with rising inflation over the given time period.



Consider Treasury Inflation Protected Securities (TIPS) for Your Portfolio



- Provide protection against inflation. Offered for terms of 5, 10, or 30 years.
- Backed by the "full faith and credit" of the U.S. government.
- The principal of TIPS rise with inflation and fall with deflation.
- When TIPS mature, you're paid the higher of the original or adjusted principal.

Securities offered through LPL Financial, Member [FINRA/SIPC](#). The LPL Financial representative(s) associated with this document may discuss and/or transact business with only residences with the states in which they are properly registered or licensed. No offers may be made or accepted from any resident from any other state.



ADVISORY GROUP
OF THE ROCKIES