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Managing Inflation's Impact on Retirement Income:

Strategies for the Savvy Retiree

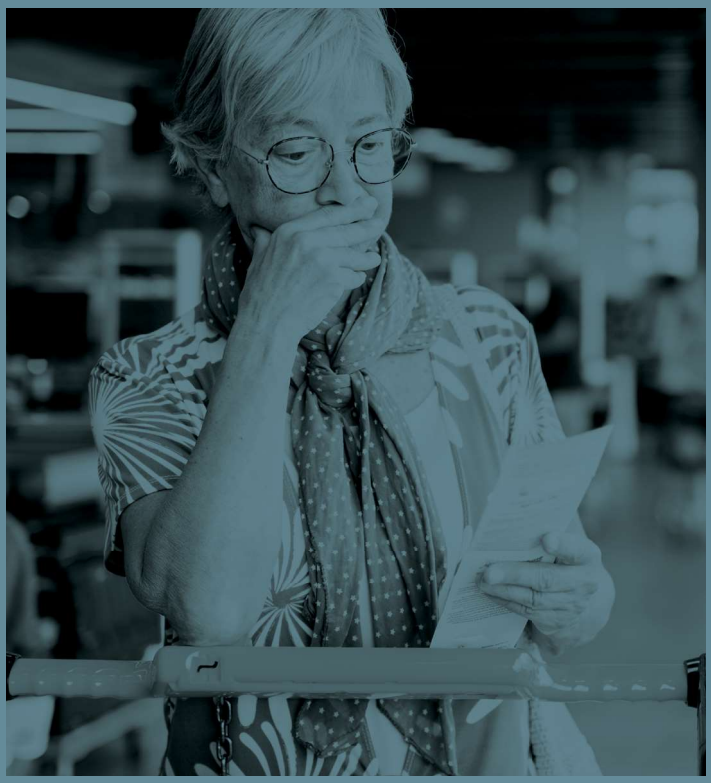
Introduction

The recent rise in inflation is reshaping how retirees plan for the future. From shifts in the stock market to changes in the job market, inflation is making everyday purchases more expensive. For those nearing or in retirement, understanding inflation's effects and proactively managing its impact on income is essential. This guide will cover:

- A History of Inflation's Effects
- The Federal Reserve's Role and Today's Inflation Landscape
- Practical Options for Managing Inflation's Impact

A History of Inflation's Effects

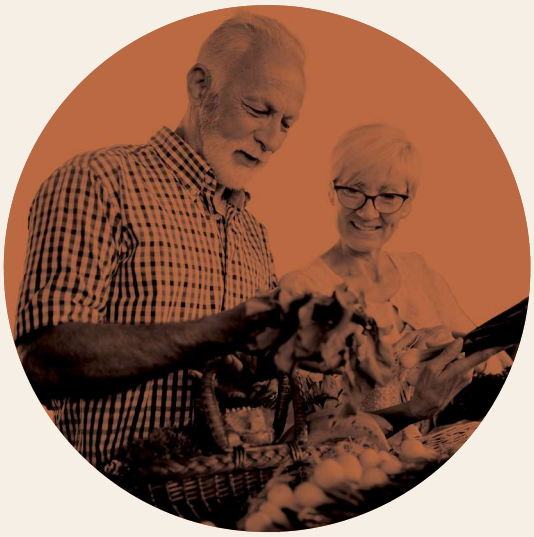
Inflation, the gradual increase in prices over time, has been a persistent force shaping American financial life. Notably, during the 1970s, inflation exceeded 10% annually, driving up the costs of essentials and making financial planning challenging. In recent years, inflation remained relatively low, but as of today, we are witnessing a resurgence, with inflation rates higher than they have been in decades.



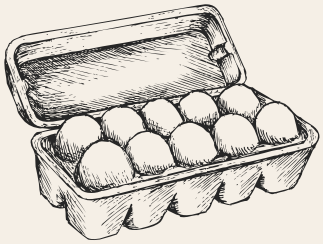
The Senior Citizens League estimates that inflation has reduced the purchasing power of Social Security by about one-third since 2000, as benefit adjustments struggle to keep pace with the rising costs of necessities like medicine, food, and housing[1].

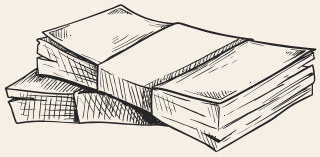
Why This Matters:

The effects of inflation on purchasing power are cumulative and long-term. For retirees, the gap between cost-of-living adjustments (COLAs) and true inflation levels means reduced spending power over time. As such, accounting for inflation's impact on Social Security and other retirement income sources is essential.



Historical Price Comparisons (1995–2024)[2,3,4,5]





	DOZEN EGGS	GALLON OF MILK	MEDIAN HOME PRICE	BUYING POWER OF $100
1995	$1.03	$2.49	$138,000	$100
2010	$1.67	$3.32	$224,300	$67.96
2024	$3.37	$4.04	$420,400	$47.41

Key Takeaway

Inflation is cyclical, but its impact on retirement income is cumulative. Being proactive can help safeguard your purchasing power over time.

Inflation and the Federal Reserve in Today's World

Today's inflation is driven by a mix of factors, including increased government spending post-COVID, cuts in oil production, and disruptions in the supply chain. In response, the Federal Reserve has raised interest rates, which aims to slow inflation by reducing consumer demand but also risks causing a recession. This approach creates economic uncertainty, particularly affecting retirees who rely on stable savings and investments[6].

Historical Insight

Inflation has long shaped economies. For example, in 1324, Mansa Musa, an African king, caused a prolonged inflationary event in Egypt by distributing gold freely during his pilgrimage. This caused a significant rise in prices and illustrates how single events can have lasting inflationary impacts[7].

How Will Inflation Affect You?

Did You Know?

Inflation isn't new—historical events show how it can reshape entire economies.

In simple terms, inflation reduces the value of each dollar over time. For example, if inflation remains at 7% per year for ten years, the purchasing power of $1 million would shrink to around $508,350. Even at a more modest 2% over 20 years, $1 million would only buy what $672,971 could buy today. These projections underscore the need for a long-term strategy that considers inflation's cumulative effect on retirement savings.[8]

Managing Inflation in Retirement

Key Takeaway

Balancing assets across different types can help cushion inflation's effects on your retirement.

Options for Inflation Management

For retirees, a mix of inflation-protected investments can be effective. While traditional savings accounts or Certificates of Deposit may offer a level of security, they may not always keep pace with inflation, potentially impacting the real value of your savings over time. By combining various investment types, retirees can create a more resilient income stream. Financial professionals can help tailor these options to align with personal goals, risk tolerance, and the inflation outlook.

Inflation-Protected Bonds

1. TREASURY INFLATION-PROTECTED SECURITIES (TIPS):

TIPS are bonds designed to adjust with the Consumer Price Index, which allows returns to rise in periods of high inflation. However, TIPS may lose value in deflationary periods. TIPS are available on the secondary market and can be traded through brokerage accounts[9].

2. SERIES I SAVINGS BONDS (I BONDS):

I Bonds offer a fixed rate plus an inflation-adjusted rate and are available directly through the Treasury at TreasuryDirect.gov, with annual purchase limits. Held for up to 30 years, they provide a blend of steady returns with inflation protection, though the annual purchase cap may be limiting for larger portfolios[10].

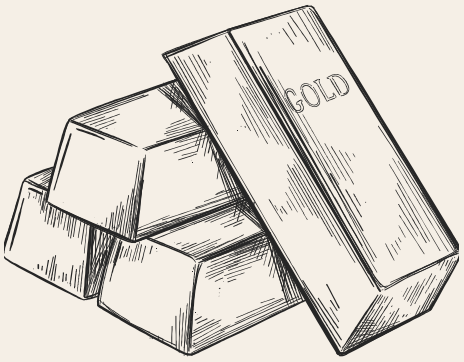
Major Differences Between TIPS and Series I Savings Bonds

	TIPS	I BONDS
1	More complex	Simpler
2	Much larger purchase amounts	Limited to $10,000 maximum annual purchase
3	Principal is adjusted for inflation	Interest rate is adjusted for inflation
4	Price can fluctuate	Price stays the same
5	Can sell without penalty	Interest penalty if sold in the first 5 years
6	Taxes due every year	Tax deferred until redeemed

Chart Source: https://moneyfortherestofus.com/tips-and-ibonds/

Alternative Assets

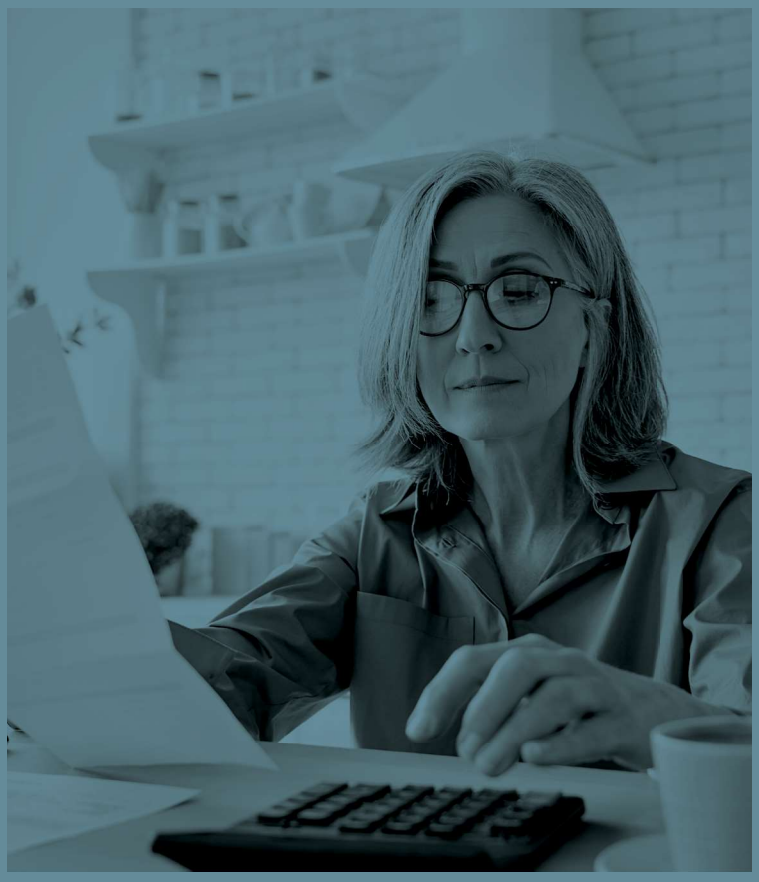
Gold and other precious metals are often considered during inflationary periods due to their perceived intrinsic value. While gold has historically provided some level of insulation against inflation, it can also be volatile. A financial professional can assist in balancing such alternative assets within a retirement portfolio to ensure they align with broader financial goals.



Inflation Protection with Annuities

Fixed Index Annuities (FIAs), Fixed Indexed Lifetime Annuities (FILAs), and Multi-Year Guaranteed Annuities (MYGAs) provide alternatives for managing inflation and securing predictable income in retirement. FIAs offer growth potential linked to market performance without direct market exposure, while FILAs combine the benefits of FIAs with lifetime income guarantees. MYGAs provide fixed interest rates for specific terms, offering stability for those seeking guaranteed returns over a defined period.

Each type of annuity comes with unique features and benefits, making it important to evaluate how they align with your retirement goals. Consulting with a financial professional can help you navigate these options and determine how annuities might complement your broader strategy for managing inflation and preserving income.



Key Takeaway

Annuities provide a potential source of income that may increase with inflation, which could be beneficial for retirees looking for a steady income stream.

A Financial Professional is Your Guide

Inflation management in retirement is complex, with various strategies available based on individual circumstances, market risk tolerance, and income needs. Working with a financial professional provides the clarity necessary to make informed decisions and build a plan that addresses inflation's effects over the long term.

Action Step

Reach out today to discuss inflation management strategies customized for your retirement.

Conclusion

Inflation may feel like an invisible force, gradually eroding purchasing power, but it doesn't have to disrupt your retirement plans. With careful planning and a clear understanding of inflation-protection options, retirees can build resilience against inflation. A financial professional can help you design a retirement income plan that supports your lifestyle today and into the future.

Disclosure

This whitepaper provides general information on managing inflation in retirement and is not specific financial advice. Please consult a financial professional for personalized guidance.

Sources

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