

The Five Biggest Threats to a Secure Retirement

CALCULATING THE IMPACT OF INFLATION



Discover The Hidden Risk In Your Retirement Plan

Brought to you by
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Inflation: The Silent Retirement Killer

Inflation is often times called the silent killer of otherwise healthy retirement plans. It's like a slow-growing cancer that drains your financial strength and depletes your purchasing power. When you see prices go up, inflation is often the cause. Unfortunately, many retirees realize too late that future dollars have less value than current dollars. For example, today you can buy a tube of toothpaste for about four dollars. In five years, that same tube of toothpaste may cost you six dollars. And in ten years, it could cost eight dollars.

Greg McBride, senior financial analyst at Bankrate.com said, "If inflation averaged 5 percent, that would cut your buying power in half in just fourteen years." In that scenario, a retiree living on \$70,000/year today would actually need \$140,000/year fourteen years from now!

The bottom line: If you've planned your retirement income based on what today's dollars can buy, you will likely end up with significantly LESS money when you need it most – in your later retirement years.

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Greg McBride, *Senior Financial Analyst, Bankrate.com.*



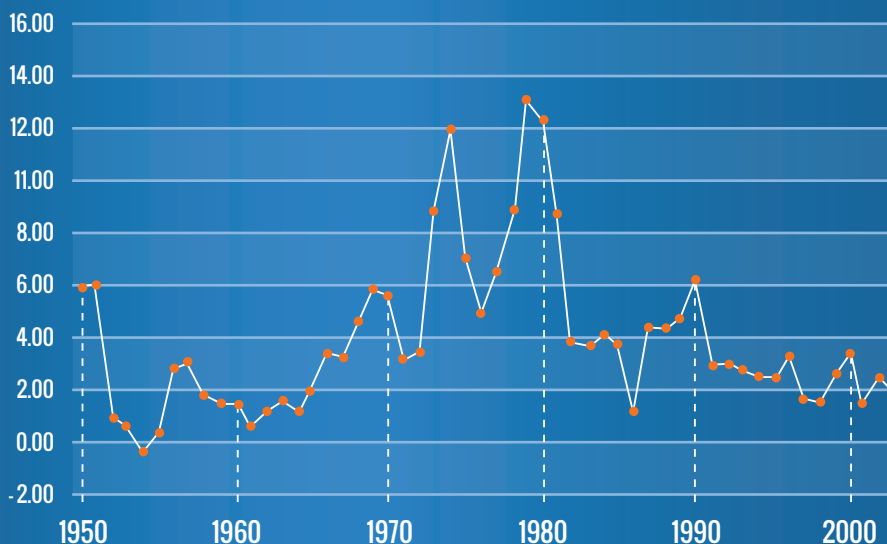
Measures of Inflation

One of the most logical ways to understand inflation is to measure the change in your ability to buy something common. The three most widely used measures of inflation in the U.S. are:

➤ **Consumer Price Index (CPI):** Measures inflation at the retail level. The CPI, which tracks the total cost of retail goods and services, is the one most often reported by the media. It is published monthly by the US Bureau of Labor Statistics.

➤ **Producers Price Index (PPI):** Measures inflation at the wholesale level, and therefore may also predict future retail prices. However, wholesalers may not always pass the full increase along to retailers during a sluggish economy or when they think the increase is temporary. Published monthly by the US Bureau of Labor Statistics.

➤ **Gross Domestic Product Deflator (GDP Deflator):** The broadest indicator. It measures prices for all finished goods produced domestically, including those for governmental purchase, capital investments, and net exports. The GDP Deflator is produced by the US Department of Commerce.



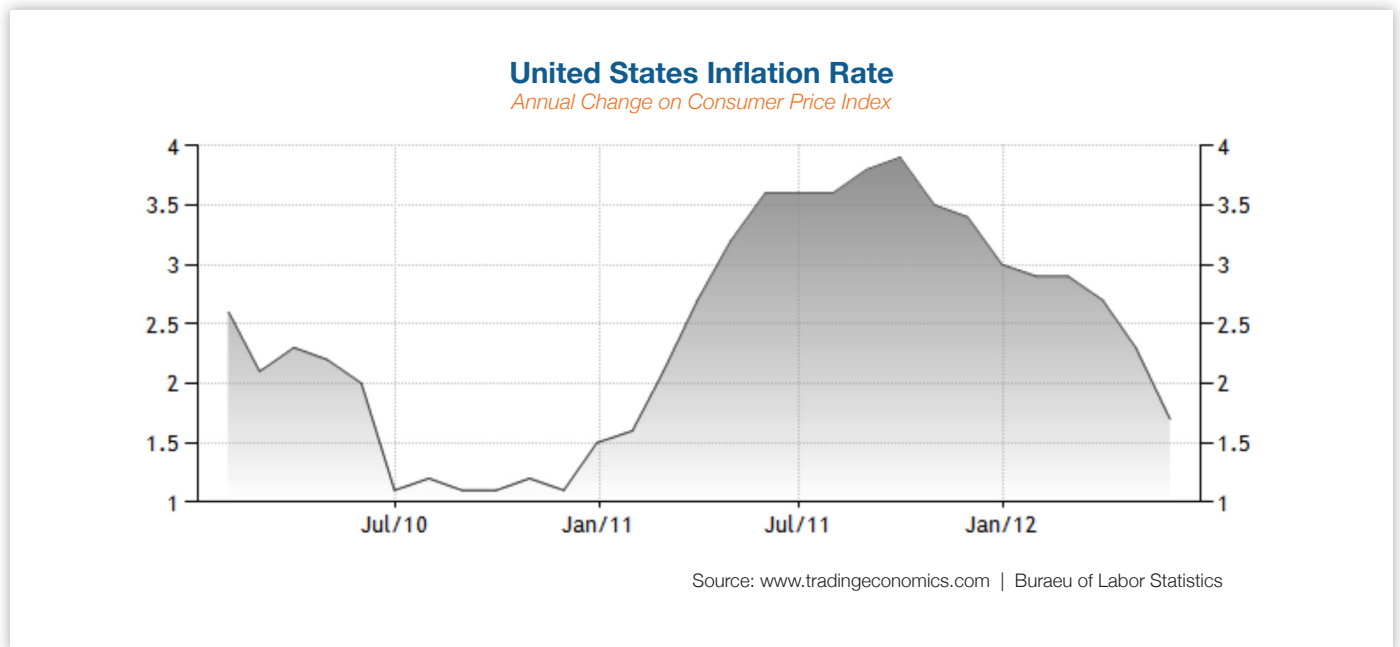
The Big Picture

This chart shows changes in inflation between 1950 and 2003, as measured by the Consumer Price Index (CPI). The CPI is a popular measure of inflation in the U.S. As you can see from the chart, inflation is somewhat volatile. Ignoring inflation is a huge mistake.

- ▷ Because of inflation, your current standard of living will cost more in the future than it does today.
- ▷ To avoid running out of money, retirees must anticipate some rate of inflation into their financial plans.
- ▷ Inflation depletes your purchasing power.



The short-term view of inflation below gives you a snapshot of your recent buying experience. This next chart shows the change in inflation every six months between July 2010 and January 2012.



This chart shows the change in inflation every six months between July 2010 and January 2012.

One of the most practical ways to understand inflation is to watch changes in the costs for specific items you purchase. The Consumer Price Index shows the rise in inflation from 2010 to 2011. The chart shows that inflation increased significantly in some categories. For example, the costs for meat, poultry, fish and eggs increased by 7.4 percent, while the cost for fuel and oil increased by 22.5 percent. And, the cost of gasoline increased by 27.4 percent. That's serious inflation! As a retiree, it's important to consider the products you will be purchasing most frequently to help estimate your individual inflation rate. For example, if you plan to travel quite a bit in retirement, gas prices could play a big part in your projected income needs. Unfortunately, for many retirees, some of their biggest line item budget expenses, (i.e. prescription drugs or travel) often experience a higher rate of inflation than the overall CPI indicates.

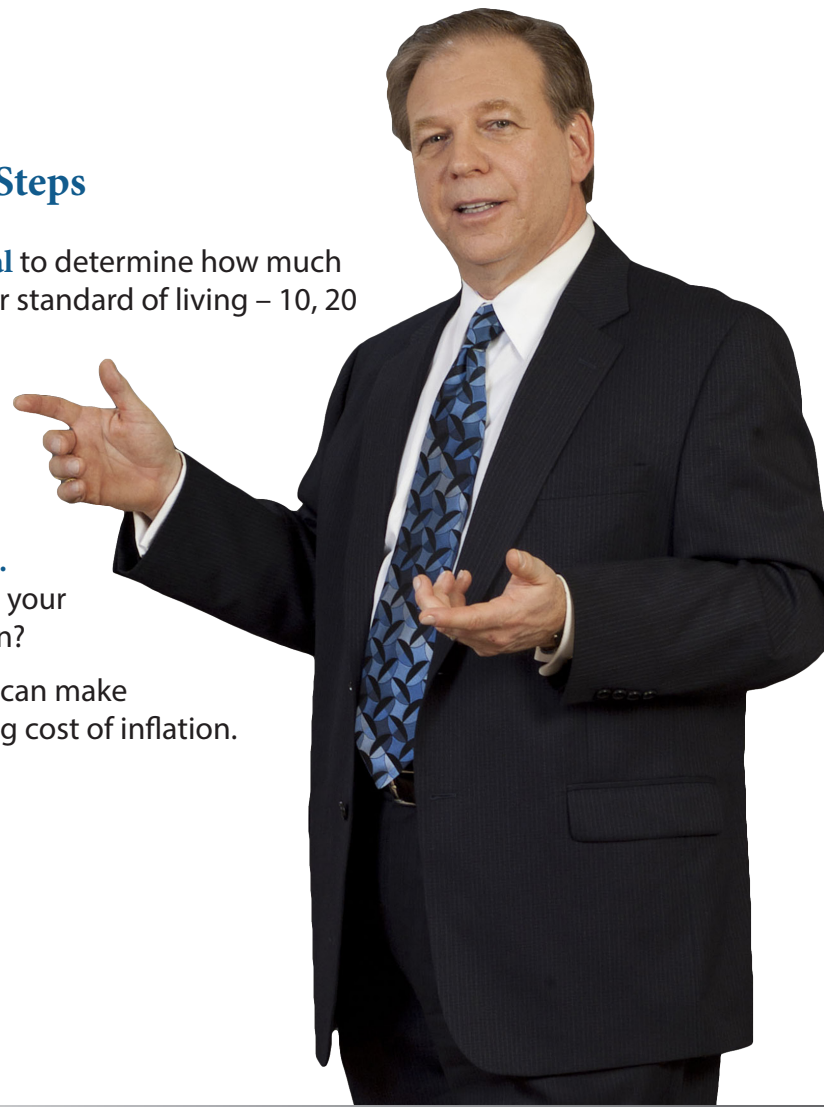
A woman with short, wavy grey hair is shown in profile, looking down with a slight smile. She is wearing a light grey cardigan over a white top. In the background, a man with dark hair is blurred, looking at a document. The setting appears to be a bright, indoor space, possibly a home or office.

What You Can Do

Just as certain as death and taxes, inflation is just a part of life. But that doesn't mean you need to become a passive victim. Even though you grow older each year, you preserve your health with nutrition, exercise and other wellness strategies. Likewise, you can preserve your financial health by acknowledging inflation and taking proactive steps to manage it and protect your purchasing power.

Action Steps

1. **Consult a financial professional** to determine how much income you'll need to sustain your standard of living – 10, 20 and 30 years into retirement.
2. **Evaluate your resources** – do you have enough to fund your projected income needs, or do you need to make adjustments?
3. **Evaluate your investment options.** Are there better options for investing your money to help hedge against inflation?
4. **Look for lifestyle adjustments** you can make to spend less and help offset the rising cost of inflation.



The Bottom Line

There is no such thing as a quick fix, but there are some tried and proven strategies to help plan for inflation. If you need assistance, we're here to help.



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