



## 6 Ways to Inflation-Proof Your Retirement Plan

### Strategies to help make sure you have the retirement you deserve, even if inflation is here to stay

Over the past year, inflation has been a near-constant part of the news cycle. Supply chain issues, government stimulus and increased consumer demand have contributed to higher prices for goods and services. The consumer price index reached an annualized rate of 7.5% in January—its highest in four decades.

Over the long-term, the corrosive effect of inflation decreases the spending power of every dollar you've saved—and can throw a wrench into even the most carefully designed retirement plans. Fortunately, there are steps investors can take to inflation-proof their retirement savings. Here are six strategies that can help.

#### 1) RE-EVALUATE YOUR PORTFOLIO

This is an opportune time to revisit your portfolio and asset allocation with your Baird Financial Advisor to see if they still meet your desired rate of return and risk tolerance. A couple things to keep in mind related to stocks and bonds in a higher inflationary environment:

Stocks offer higher potential returns, which can help your portfolio outpace the rate of inflation, but stocks also tend to be more volatile than conservative investments like bonds. If your risk tolerance allows it, consider holding a greater portion of your portfolio in stocks to take advantage of higher potential returns. ▶

## 6 Ways to Inflation-Proof Your Retirement Plan *continued*

Bond prices maintain an inverse relationship with interest rates. One of the Federal Reserve's tools to combat rising inflation is raising interest rates, and when interest rates rise, bond prices typically decrease. As a result, you may want to avoid overexposure to bonds, which may tumble in value during a rising-rate environment. Investors who are inclined to maintain a specific portion of their portfolio in fixed income may consider a bond ladder as an alternative investment strategy.

### 2) EXPLORE REAL ESTATE

Real estate investments tend to do well during inflationary environments because, as inflation rises, landlords are able to pass those higher costs on to their tenants.

If you're not interested in becoming someone's landlord, there are also indirect ways to invest in real estate. For example, you can buy shares of real estate investment trusts, or REITS. These are companies that own and manage real estate, such as apartments, office buildings, hospitals or retail spaces. They generate income by collecting rent and pass the profits on to shareholders.

### 3) CONSIDER COMMODITIES

While stocks and bonds tend to perform better when inflation is low, commodity prices tend to rise with inflation. For that reason, investing in commodities can be an appealing hedge against inflation. Don't worry about having to buy individual barrels of oil: You can get exposure to commodities through specialized mutual funds and exchange-traded funds.

### 4) LOOK INTO TIPS

Treasury inflation-protected securities, or TIPS, are bonds issued by the U.S. government as well as various mutual fund companies. TIPS are designed so that their principal value is indexed to the rate of inflation. When inflation rises, the value of the principal is adjusted up and the interest rate, or coupon, also rises. When inflation falls, principal value is adjusted down and coupon payments will decline as well.

### 5) REVISIT YOUR BUDGET

A home equity loan or home equity line of credit lets you tap into the equity you've already put into your house. A home equity loan is much like a personal loan, where a lending institution lends you a lump sum amount based on how much equity you've built up in your house, and you would repay the loan in monthly installments. A home equity line of credit works the same way, but instead of a lump-sum loan, you receive a line of credit (like your credit card) that you can borrow against, up to a certain limit.

### 6) INVEST IN YOURSELF

Increasing your income is obviously the best way to keep pace with inflation. Given the tight labor market, this would be a great time to renegotiate your compensation with your employer, such as asking for a raise or stock options. Inflation also means that interest rates are likely to rise, so it might be time to consider a debt-financed investment such as a second home. Or, if you or a loved one are early in your careers, consider locking in a low rate now for a graduate degree before interest rates rise. Student loan interest may also be deductible and potential tax credits could apply, making a new degree more affordable.

Remember that investing for retirement, even if you're already retired, is a long-term commitment. Avoid making any rash decisions based on short-term changes in the economy. Consult your plan and your Baird Financial Advisor to help ensure that the inflation-proofing steps you take will also keep you on track to meet your retirement goals.

Please reach out if you or anyone you know would benefit from discussing this topic further.