Rodger on Retirement

Some Retirement Planners May Have Forgotten About Inflation—Make Sure You Don't!

While inflation has moderated in recent years, I foresee that it will be an issue with which you will have to deal with during your retirement. Why? The Federal Reserve is forecasting rising inflation and has begun to raise short-term interest rates. Also consider the tightening labor market and the high level of asset prices, along with increasing levels of GDP and consumer confidence. Further, history tells us that the average annual rate of inflation for the past 30 years has exceeded 3%.

Growing old in retirement is not cheap. You will need a pile of dollars set aside, and that pile is bigger than you think. It will take years to accumulate the needed funds. Now, let me compound the problem. Whatever amounts of money you will need to live on, the problem is magnified when you consider the effects that inflation will have on your personal finances in retirement.

Stop and answer this question honestly: are you and your significant other prepared for the possibility of three-decade retirements with the prices of goods and services increasing, on average, between 2% and 4% each year? Your costs increase the longer you live. You are aware that everything you buy today costs more than it did five or 10 years ago. That's inflation!

The term *inflation* refers to a general increase in the level of prices that you pay for goods and services over time. A 3% annual inflation rate does not seem unreasonably high until you compound it year after year. Consider this: if you need $50,000 of retirement income today, you will need $65,200 in 10 years. In 20 years, you would need $87,700 to match your purchasing power of today. Now I would like you to pause here for a moment, and reflect on this question: What is your strategy to deal with this? If a blank sheet of paper comes to mind, keep reading.

Many of us are not prepared for life without a paycheck and fear that it is too late to begin saving for a future of ever-increasing expenses. The fact is that it is never too late to begin to save. Changes in your lifestyle, e.g., two fewer outings for expensive coffee or meals at pricey restaurants, are a good beginning. You would be amazed at how much money you might save by preparing meals at home and saving dinners out for special occasions only.

Healthcare costs, including health insurance, are a major expense during retirement, and inflation is likely to materially affect these costs. You may have read headlines about the cost of some health care premiums increasing over 100%. Not to understand the importance of healthcare costs in retirement is like sticking your head in the sand and hoping you won't get sick.

An article entitled " Health Care Costs for Couples in Retirement Rise to an Estimated $260,000, Fidelity Analysis shows," appeared August 16th, 2016 on the Fidelity Investments website. The article went on to say that... "A 65-year-old couple retiring in 2016 will need an estimated $260,000 to cover health care costs in retirement, according to Fidelity's Retiree Health Care Cost Estimate. This is a six percent increase over last year's estimate of $245,000 and the highest estimate since calculations began in 2002."

I assure you that, if you neglect to include the effects of inflation in your retirement planning, you will be making a huge mistake!

*Opinions expressed are those of Rodger Alan Friedman. All opinions are as of this date and are subject to change without notice. This information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete.