THE IMPACT OF INFLATION DURING RETIREMENT YEARS

1 Be Prepared for Prices to Double

One hundred dollars worth of goods purchased in 1999 would now, 20 years later, cost approximately $155.[1] This is a cumulative rate of inflation of 54.5%, and history shows that inflation increases over time. With the current average annual inflation rate at 3.22%, prices are on track to double every 20 years, which is vital information to keep in mind when planning for retirement.[2] The rise of inflation while working and generating income doesn't usually affect earnings since wages also increase to keep up with inflation. But when the paychecks stop coming in during retirement, and expenses are dependent upon your savings, inflation can be detrimental to your nest egg.

2 Inflation Erodes the Value of Savings

Because prices increase overtime, the value of your savings reduce as years pass. This instance is most noticeable with cash. For example, if you keep $50,000 in a safe in your home, chances are that money will not be able to purchase as much twenty years from the time you stowed it away. Even when money is kept in the bank, you may earn interest to try and balance out the effects of inflation, but your savings may not grow quickly enough to completely offset the inflation loss.[3] When entering the retirement stages, it's important to understand that if your money isn't growing at a rate that is at least equal to the rate of inflation, then you're losing your hard-earned money.[4]

3 Cost of Living Adjustments are Based on Inflation

The purpose of the cost-of-living adjustment (COLA) is to ensure that the purchasing power of Social Security and Supplemental Security Income (SSI) benefits are not eroded by inflation.[6] The cost of living is how much you pay for necessities such as housing, utilities, groceries and other lifestyle costs.[5] The COLA is an increase made to Social Security and SSI benefits in order to offset the effects of rising prices.[7] According to the Social Security Administration, COLAs are based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). This percentage is determined based on the CPI-W from the third quarter of the last year a COLA was determined, to the third quarter of the current year. There is no COLA increase if there is no CPI-W increase. For 2020, beneficiaries of Social Security and SSI will receive a 1.6 percent COLA, compared to last year's 2.8 percent.[8]

4 Purchasing Power Diminishes

Purchasing power is the dollar amount of goods or services that money can buy. Inflation reduces the value of the dollar's purchasing power, resulting in the increase of prices.[9] Purchasing power affects all aspects of economics including buying goods, stock prices, and economic prosperity. When inflation causes purchasing power to decrease, serious economic consequences could occur such as rising costs of goods, services, and costs of living. Understanding the decrease of purchasing power that occurs over time is significant when determining how much money you are going to need during your retirement years when you no longer have a constant stream of income.

5 Inflation Solutions

Once you realize how inflation is calculated and how damaging it can be when you're living on a fixed income, it's critical to search for resolutions to help preserve your assets in retirement. Let's discuss solutions to integrate within your retirement plan to protect your assets and achieve long term financial success throughout your retirement.

Sources:

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