6 REASONS TO PLAN FOR INFLATION IN RETIREMENT

One of the biggest fears seniors have is outliving their retirement funds. When someone begins planning for their retirement, they must consider numerous issues that could affect their savings. Inflation is one of these factors, and it might be one of the biggest financial influences to look out for in the future. Below are six reasons why you should plan for inflation in retirement:

1. Your Advisor Didn't Set Your Savings to Keep Up With Inflation

Will your retirement funds that generate an income keep up with inflation? In most cases, the answer is no. The reason is that most advisors don’t usually set up your income to do so. During your working years, your income from the workforce likely went up with inflation, and there are a couple of reasons why it was never done while getting ready for retirement. One reason is that there are limited options and products for setting up income for inflation. Secondly, you must also have a specific license to offer such products. Is it fair your advisor did not plan for inflation or have the correct license to help set your retirement up correctly? Of course not! Many of my clients have followed a really interesting method before meeting me. It’s called “out of sight, out of mind,“ and this method never works. You must understand how inflation can erode your retirement funds and lower your purchasing power 20 years from now.

2. Inflation Will Erode Your Income

Do you remember what milk used to cost? I paid $2.30 for milk while I was in college. Now, I pay $3.40 per gallon. If inflation continues to grow, milk will cost $6.00 per gallon in 20 years. One of my clients, a 70-year-old widow, can only purchase $100 in groceries today, where 20 years ago she could afford $200 worth. For 20 years, she’s been collecting $10,000 of income annually from her retirement account. Based on the CPI-U, her purchasing power has gone down over the last 12 years, meaning inflation has eroded her income and now it’s only worth $6,000. That’s a 40% loss. Where will you plan on getting the difference every year to continue your way of life?

3. Hyperinflation Happens

Hyperinflation is extremely rapid or out of control inflation. Between the ages of 50 and 70, people must
plan accordingly or they could run out of money. When inflation skyrockets and your $10,000 turns to $6,000, you will have to take more money from other accounts to cover the difference, which could quickly drain your retirement savings. Hyperinflation does happen, and this is when a wheelbarrow of bills won't buy a gallon of milk.

4. Government Spending

Everyone should be worried about massive government borrowing, which raises inflation from the dead and eats your savings away. Finding an inflation-fighting investment will help keep your income up to par. Inflation may not have gone up too much on paper recently, but we've all felt it. When inflation is being figured out annually, they are not looking at the gas prices, food or prescriptions that have gone up tremendously. We might not be experiencing a major problem today with inflation, but look at the long-term effects. Government debt is a good reason to fear inflation in the long term. The National Debt is currently at $17.3 trillion, up from $5.7 trillion at the beginning of 2001. These figures speak for inflation itself, and hyperinflation is no doubt in our future.

5. Making More Money Doesn't Always Solve the Problem

There is a saying that describes the root cause of inflation; too much money chasing, too few goods and services. Instead of our government paying off the debt, they will just print more money, which is inflationary. As the deficit rises, inflation could be an enormous problem. To fight this, people might want to look for a commodity-linked index that will protect them from downside loss and keep them up to par from inflation at minimum. These products are out there; you just have to find the right person who will offer them.

6. Inflation: The Next Big Bust?

We've had a .com and bank bust, so an inflation bust could be possible. Our debt has grown tremendously in the last 10 years. Someone is going to have to pay the piper; will it be you? The FEDS control our money supply and when inflation gets too high, the Federal Reserve steps in and shuts down business in a matter of speaking. Now, deflation is upon us. In deflation, the market goes down, which could lower your retirement accounts. At this point, people are wondering how to protect themselves from inflation and deflation. If you haven't set up some of your accounts for income-inflation protection and principal-deflation protection, you might want to start.

If you are one of those people that have practiced the “out of site, out of mind” method, it's time to take a different approach before it's too late.

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