

# RETIREMENT & INFLATION



**WHAT TO KNOW AND HOW TO PREPARE**

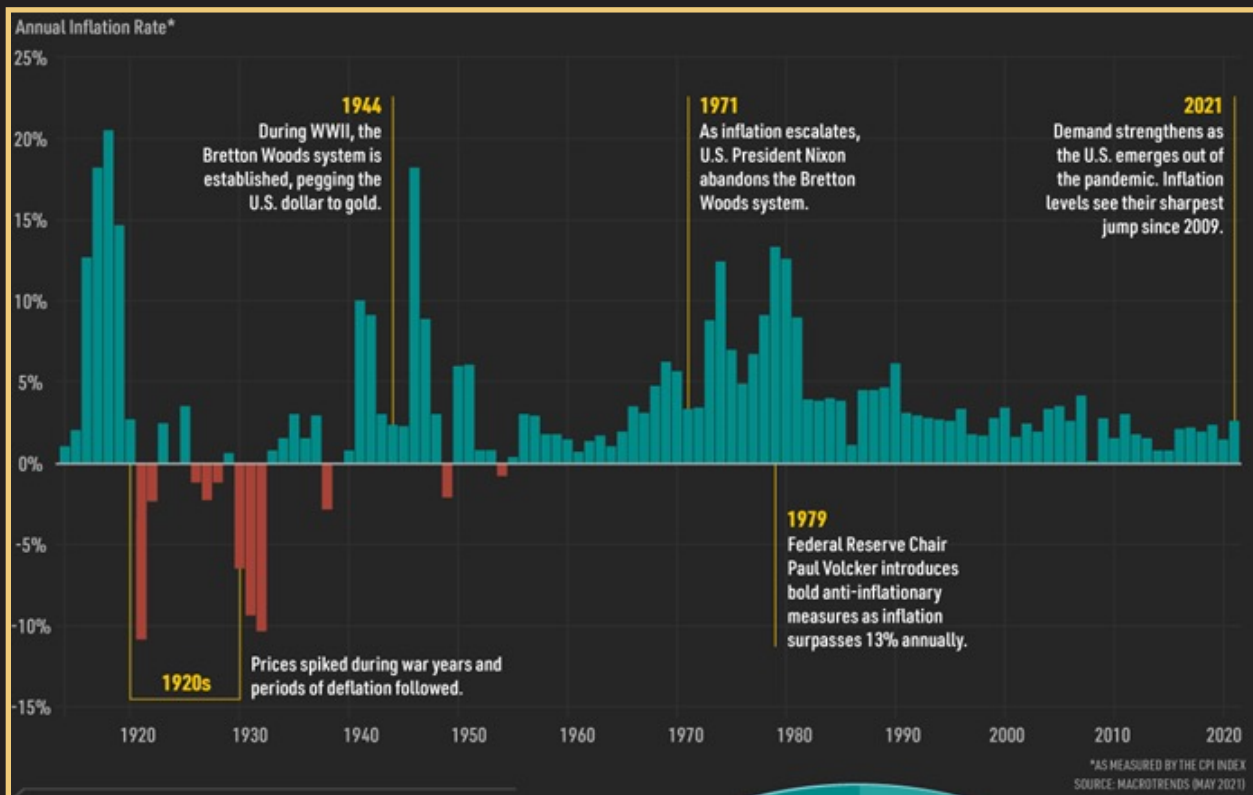


In 2022, we saw market downturns, hot labor markets, soaring inflation, and subsequent economic tightening from the Federal Reserve. You may have already realized higher prices on the items you buy every week and may be wondering if we'll continue to see high inflation. Given that if you're nearing or in retirement, you need to protect yourself from the eroding effects of inflation. In this guide we'll look at:

- **The Effects of Inflation in the Past**
- **What We're Seeing Now**
- **The Federal Reserve Policy**
- **And, Strategies to Help You Protect What You've Earned From Inflation**

# INFLATION IN THE PAST

Americans saw double-digit inflation in the 1970s, leading to noticeable price increases. Inflation has been relatively low for the past 13 years, but we could be seeing its return.



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Consider this: The Senior Citizens League estimates that the average Social Security benefit has lost a third of its buying power since 2000 because benefit increases have not kept up with the increasing cost of prescription drugs, food, and housing.<sup>2</sup> This is despite yearly Cost of Living Adjustments (COLAs) for Social Security benefits that are meant to make benefit amounts keep up with inflation.

This year's 8.7% cost-of-living (COLA) increase is meant to offset the increased inflation we've seen recently. But many years, the COLA is quite low. In 2021, the COLA was 1.3% and the COLA adjustment has been as low as 0.3% for 2016, and even 0% for 2015.<sup>3</sup> Just as you should consider the long-term effects of inflation on your Social Security benefit, you should consider its effects on your other sources of retirement income and savings.

Compare prices from 1960 to 1980, and today:

	1960	1980	2022
A Dozen Eggs	57 cents <sup>4</sup>	84 cent	\$2.90
Gallon of Milk	31 cents <sup>5</sup>	\$1.19	\$4.10
Median Home Price	\$19,256 <sup>6</sup>	\$55,392	\$428,700
Buying Power of \$100	\$100 <sup>7</sup>	\$40.08	\$11.09



<sup>2</sup> <https://seniorsleague.org/loss-of-buying-power-2/>

<sup>3</sup> <https://www.ssa.gov/oact/cola/colaseries.html>

<sup>4</sup> <https://www.thedailymeal.com/eat/egg-price-year-you-were-born-gallery>

<sup>5</sup> <https://dqydj.com/historical-home-prices/>

<sup>6</sup> <https://www.energy.gov/eere/vehicles/fact-915-march-7-2016-average-historical-annual-gasoline-pump-price-1929-2015>

<sup>7</sup> <https://westegg.com/inflation/infl.cgi?money=100&first=1960&final=2020>

# WHAT ARE WE SEEING NOW?

There are many reasons for inflation: There has been increased government spending due to COVID as well as international oil production cuts which has led to high gas prices, not only effecting transportation costs for you, but for every sector of the economy. Thus, prices of goods and services have increased. Compound these factors with supply chain disruptions and we've got a recipe for inflation. To counteract inflation, the Federal Reserve has raised interest rates, making it more expensive to borrow money, tightening the economy, and thus introducing deflationary pressure on the dollar. This fights inflation at the risk of inducing a recession. Additionally, worker shortages have led to higher wages and therefore business costs, which can get passed along to the consumer.<sup>8</sup>

Fears about high inflation also caused a volatile stock market. The triple threat of high inflation, increasing interest rates, and market volatility pose a particular threat to retirees who must work to protect their nest egg and make it last for the rest of their lives.



# HOW WILL INFLATION AFFECT YOU?

Simply put, inflation reduces the buying power of each dollar. We saw a 8.2% year-over-year inflation in September of 2022, which was the fastest pace in 40 years.<sup>9</sup> To use an example, after 10 years of 7% inflation, \$1 million would be worth about half - \$508,350. For example, after 20 years with a 2% inflation rate (the Fed's "target" interest rate), \$1,000,000 would have the buying power of only \$672,971.<sup>10</sup> Your retirement could last even longer than 20 years, so consider the cumulative effects on your nest egg.



**THE POWER OF \$1,000,000**

<sup>9</sup> <https://www.statista.com/statistics/273418/unadjusted-monthly-inflation-rate-in-the-us/#:~:text=In%20September%202022%2C%20prices%20had,services%20in%20the%20United%20States.>

<sup>10</sup> <https://www.buyupside.com/calculators/inflationjan08.htm>

# WHAT CAN YOU DO TO PROTECT YOURSELF AGAINST INFLATION?

The pandemic won't be the last retirement challenge you'll face, and the next could be inflation. Unfortunately, today's retirees cannot expect to earn much from keeping their money in a savings account or CD. At the same time, a volatile market may make many people nervous to invest their nest egg. Our goal is to help you find a balance and create an investment approach that fits your investment risk tolerance. This can include finding the right mix between stocks and bonds, exploring real estate investment opportunities in which you do not act as a landlord, inflation-protected annuities, and many other potential options.

## What is an Inflation-Protected Annuity?

Unlike Series I Savings Bonds, which can also help protect against inflation but carry a maximum purchase limit of \$10,000 per year<sup>12</sup>, there is no limit on how much you can invest in an inflation-protected annuity (IPA). An IPA is an annuity that offers a real rate of return at or above inflation.<sup>13</sup> In general, an annuity is an insurance-based financial product that accepts funds and then pays them back later in a stream of payments or a lump sum. An annuity can be thought of as the opposite of life insurance, which protects against the possibility of passing away too soon and leaving your loved ones to struggle financially. An annuity can help protect against outliving your money by providing guaranteed payments to you for life or a pre-determined amount of time. Deferred annuities include an accumulation phase in which principal can earn interest before payments begin. There are many types of annuities available, and our professionals could work with you to see how they can help protect and grow what you've earned.

## Work With a Professional

The right strategies depend on the individual, their market risk tolerance, and income needs. There's no single easy answer to how to beat inflation, but we can help you create a plan to help protect what you've earned and create reliable income in retirement. Schedule a complimentary Inflation Strategy Meeting with us to discuss your concerns and potential solutions.

<sup>12</sup> [https://www.treasurydirect.gov/indiv/research/indepth/ibonds/res\\_ibonds.htm](https://www.treasurydirect.gov/indiv/research/indepth/ibonds/res_ibonds.htm)

<sup>13</sup> <https://www.investopedia.com/terms/i/inflationprotectedannuity.asp>

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