INFLATION AND RETIREMENT: HOW RETIREES CAN HELP CONTROL PURCHASING POWER

Inflation has always been a concern for soon-to-be retirees. But now with inflation the highest its been in nearly 40 years, it is even more of a concern. How can retirees avert this purchasing-power nemesis?

Inflation has always been a concern for soon-to-be retirees. In fact, approximately 71% of those nearing retirement are worried inflation will impact their retirement savings.[1] A well-known indicator of inflation is the consumer price index (CPI), and it reports a 5.4% rise, which is the highest inflation in almost 13 years. How does this rise in inflation impact retirees or those nearing retirement?

It Comes Down to Purchasing Power

Most retirees' income sources are fixed, while the cost of goods continues to increase. Given that their income is fixed, when inflation hits, their purchasing power is reduced. Goods and services that were affordable a few years ago are now a concern. An enjoyable retirement may become an anxious one as retirees determine how to reassemble their income distribution strategies to keep pace with inflation. Here are a few considerations that may help clients control their purchasing power:

- **Diversification.** Review investment options that may be unlikely to keep up with inflation. Fixed assets such as certificates of deposit (CDs), fixed annuities, and savings accounts can lose purchasing power as the interest-rate environment continues to be at historic lows. Carving out a portion of a client's fixed portfolio to invest in growth investments such as stocks or mutual funds could help protect their retirement savings against inflation.

Guaranteed Income

- **Deferred Annuities with Guaranteed Lifetime Income**. Annuities are useful tools when it comes to lifetime income to cover essential expenses and free up dollars to invest as a hedge against inflation. Many annuity providers have guaranteed withdrawal benefits for an additional cost. Annuities may provide an additional boost to a retiree's distribution strategy if planned well.
- **Income Annuities.** Purchasing some single-premium annuities (SPIAs) and/or some deferred income annuities (DIAs) are strategies that can be used to mitigate inflation risk. Some features such as inflation protection may ease a retiree's anxiety about purchasing power. Inflation protection can increase the retiree's payment by a stated percentage through the term of the contract. To learn more, consult with the company offering the product.
- **Indexed Annuities.** Investing in an indexed annuity is another consideration during the saving phase of retirement. Indexed annuities follow indexes made available by insurance companies, which provide higher returns than that of a CD or savings account. Although the growth of the asset may have a ceiling, the downside of the market is limited or eliminated depending on the product. In addition, some companies offer guaranteed withdrawal benefits for an additional cost, which can allow other assets to be invested for growth as an inflation hedge.

[1] CNBC: 71% of retirement age investors worry rising inflation will negatively affect their savings, survey finds

It is important to account for inflation risk when planning for retirement in order to manage the anxiety that may come from depleting savings. The "golden years" for retirees should be just that. It should be a time to enjoy life, family, and friends as a result of their hard work and dedication during their working years.

Share these considerations with your clients to help them manage the loss of purchasing power that they are experiencing due to inflation.

Additional Resources and Links

What Is the Real Rate of Return on CDs?

A Protected Approach to Retirement Spending

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

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