

A close-up, profile view of an older man with a grey beard and glasses, wearing a dark suit. He is holding a tablet in his left hand and resting his chin on his right hand, looking intently at the screen. The background is a blurred office interior with bookshelves.

RETIREMENT & INFLATION

NORTHCOAST
WEALTH MANAGEMENT

WHAT TO KNOW AND HOW TO PREPARE

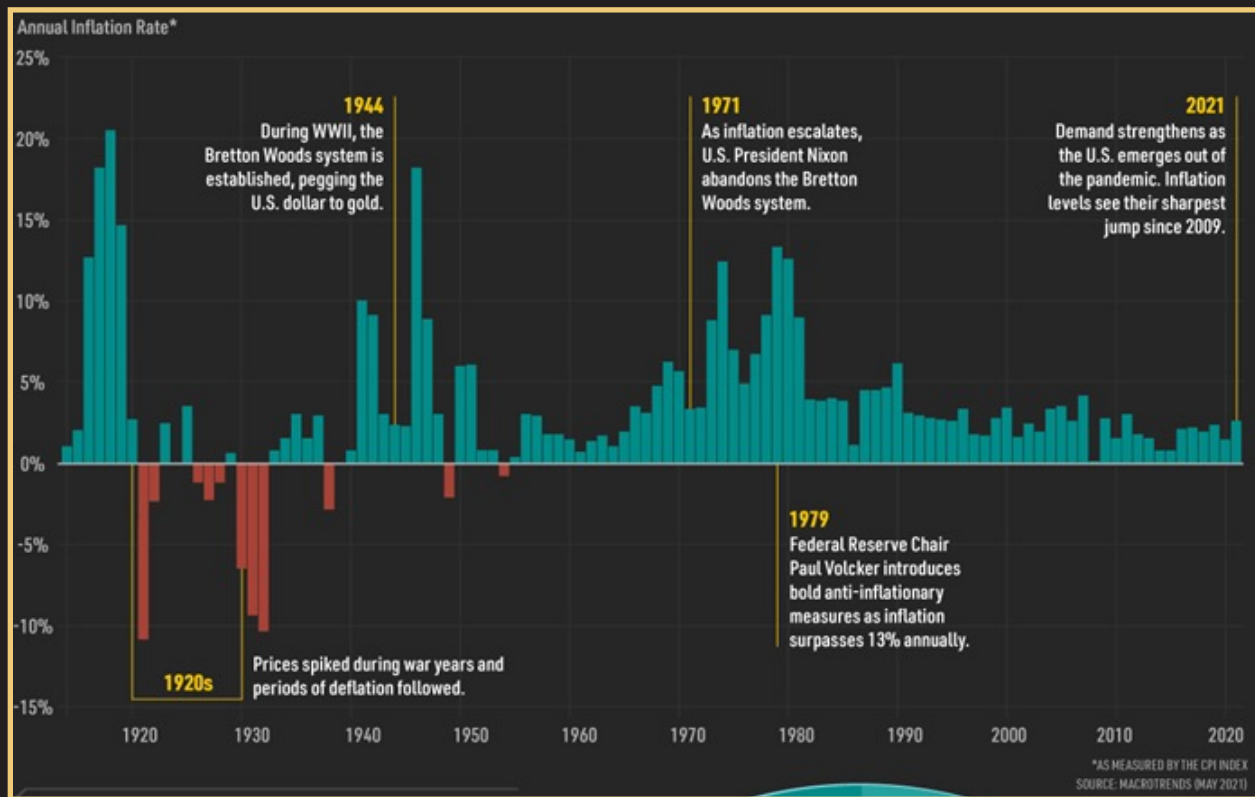


In 2022, we saw market downturns, hot labor markets, soaring inflation, and subsequent economic tightening from the Federal Reserve. You may have already realized higher prices on the items you buy every week and may be wondering if we'll continue to see high inflation. Given that if you're nearing or 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.



1

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.² 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 2015.³ 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 ⁴	84 cent	\$2.90
Gallon of Milk	31 cents ⁵	\$1.19	\$4.10
Median Home Price	\$19,256 ⁶	\$55,392	\$428,700
Buying Power of \$100	\$100 ⁷	\$40.08	\$11.09



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

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

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

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

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

⁷ <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.⁸

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.⁹ 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 \$672,971.¹⁰ Your retirement could last even longer than 20 years, so consider the cumulative effects on your nest egg.



THE POWER OF \$1,000,000

⁹ <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.>

¹⁰ <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 alternative investments such as Real Estate Investment Trusts (REITs) and annuities, and many other potential options.

What is an Inflation-Protected Annuity?

CDs are FDIC insured to specific limits and offer a fixed rate of return if held to maturity. Annuities are not FDIC insured. Annuities are long-term, tax-deferred investment vehicles designed for retirement purposes. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Withdrawals made prior to age 59 ½ are subject to 10% IRS penalty tax. Surrender charges apply. Guarantees are based on the claims paying ability of the issuing insurance company. An IPA is an annuity that offers a real rate of return at or above inflation.¹² 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 potentially 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.

Disclosure

Securities and Advisory Services offered through LPL Financial, a Registered Investment Advisor. Member FINRA/SIPC. Northcoast Wealth Management is not an affiliate company of LPL Financial.

All investing involves risk including loss of principal. No strategy assures success or protects against loss.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Investing in Real Estate Investment Trusts (REITs) involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Variable annuities are subject to market risk and may lose value. Riders are additional guarantee options that are available to an annuity or life insurance contract holder. While some riders are part of an existing contract, many others may carry additional fees, charges and restrictions, and the policy holder should review their contract carefully before purchasing.



31731 Northwestern Hwy
Suite 151W
Farmington Hills, MI 48334

(248) 626-2000

northcoastwm.com