

Manage

How Inflation Affects Your Retirement Savings

It's hard to believe, but some new cars today cost as much as a typical home did just a few generations ago. These real estate prices have gone the way of penny candy and the one-cent stamp because of inflation.

Inflation is an increase in the cost of goods and services. It affects everyone because the cost of just about everything goes up. Take a look at the chart to see how an annual inflation rate of 3% could affect prices over time.

Inflation's Effect on Prices

	Today	In 5 Years	In 10 Years	In 15 Years
Gallon of Milk	\$3.90	\$4.52	\$5.24	\$6.08
Movie Ticket	\$9.00	\$10.43	\$12.10	\$14.02
Dinner for Two	\$45.00	\$52.17	\$60.48	\$70.11
Pair of Sneakers	\$75.00	\$86.95	\$100.79	\$116.85
Riding Mower	\$1,750.00	\$2,028.73	\$2,351.85	\$2,726.44

The prices shown in the Today column are hypothetical and are for illustrative purposes only. Prices in your area may be different. A 3% annual inflation rate is assumed. The actual rate may be higher or lower. Source: NPI

“Investing in assets that have the potential to grow faster than the inflation rate . . . can help take some of the sting out of inflation.”

Inflation often has more of an impact on people living on fixed incomes since a healthy amount of savings today may be worth significantly less over time in terms of buying power. Take a look at what a modest 3% annual inflation rate can do to the purchasing power of \$1,000 of retirement savings over time.



How Inflation Erodes Buying Power

Amount:	\$1,000
Buying Power After 5 years:	\$863
10 years:	\$744
15 years:	\$642
20 years:	\$554
25 years:	\$478
30 years:	\$412

This chart is for illustrative purposes only. It assumes a 3% annual inflation rate. Actual inflation will vary. Source: NPI

Unfortunately, some expenses have tended to increase even faster than the general inflation rate. For example, health care costs and college expenses have been increasing at record rates.

Planning for a Long Retirement

Something else has been happening over the years. The average life span of Americans has been increasing. So the

idea of enjoying a retirement that lasts for 20 years or longer will be a reality for many.

A longer retirement could put additional pressure on the money retirees have saved. However, creating a realistic retirement budget and keeping an eye on spending are two ways to help make a retirement nest egg last longer. A retirement budget should include expenses that will no longer be covered by an employer, such as health insurance, as well as extra expenses related to future retirement activities, such as travel or hobbies. The budget should also factor in inflation.

Reducing the Impact of Inflation

An effective way to offset the effects of inflation is to increase savings. Investing in assets that have the potential to grow faster than the inflation rate, such as stocks, can also help take some of the sting out of inflation. When money grows at the same rate as — or faster than — inflation, buying power is preserved.

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