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Factor Inflation Into Your Planning for Retirement

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A few years ago for Christmas, my wife was given a refrigerator magnet with a list of the commonly purchased items and the price of each in the year she was born. Items ranging from bread and milk to a house and car were all listed. Being a gentleman, I won't reveal how old my wife is, but it is amazing how much a gallon of gas has gone up since then.

The magnet serves as a constant reminder that, as time marches on, so will the cost of goods. If you apply a 3 percent inflation rate, prices will be up more than 50 percent in 15 years. Consider, too, that people are living 20, 30 and even 40 years in retirement these days. I find it amazing how many people who are entering retirement don't seem to consider the impact of rising costs over time. I can't count how many times I've met with prospective clients who tell me they just need a flat amount per year and they'll be great. It's as if they think they'll be able to shop at a special store where milk will always be the price it is today, that there is a special gas pump for the retired in which gas prices never go up.

These people know that isn't true, but they're afraid to risk their hard-earned money in the market once in retirement, because they might not have the time to make it back. This school of thought has existed for some time. The problem becomes that most people have not saved enough to keep up with inflation if they keep their assets on the sidelines in things such as CDs and money markets.

So now we find ourselves caught between a rock and a hard place. How do you structure your assets, so you can keep pace with inflation but not risk it all in the stock market? It doesn't have to be an all or nothing proposition.

In your working years, you might have been told to keep a cash reserve in place, the most common rule of thumb being three to six months' worth of expenses. This way, if you ever find yourself not receiving an income, such as being laid off or injured, you have time to find an alternative source of income, such as a new job. Once you enter your retirement years, you still need a cash reserve.

Only this reserve is not there in case you lose your job or get hurt; it is there to give your investments time to recover after an economic downturn. The size and structure of this reserve is different for every retiree, factors such as risk tolerance, percentage of income needed from your investments and age all play major factors in determining it.

Beyond that, there are many annuity products on the market today, which have what is known as living benefits riders. These riders could provide a stream of income to the client, with the ability to see an increase in the income if the underlying investments perform well. Please note: All riders carry costs and contractual terms and conditions.

This article is for informational purposes only. It should not be construed as an offer to sell or solicitation of an offer to buy products. Your financial adviser should be able to help you determine what is appropriate for you, in your situation. But it is very clear that prices are going to go up and planning on a fixed income and keeping your assets in cash only mean that your purchasing power is going to go down.

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