How Inflation Threatens Retirees

Its effect is subtle, yet significant.

Even mild inflation eventually reduces the value of a dollar. If consumer prices rise just 2% a year for the next 25 years, $50,000 will buy the equivalent of $30,477 by the end of 2041. Or to put it another way, a car that costs $50,000 today will cost $82,030 by then. If inflation approaches levels seen before the Great Recession, there will be more to worry about: after 10 years of 5% inflation, it would take $163 to buy the groceries $100 could today.[1,2]

Extremely conservative investments may not yield enough to keep pace with inflation. If you favor such investments, you may effectively end up "living on less" as your buying power dwindles. In recent years, some costs have risen much faster than the inflation rate, such as prescription drug prices and the expense of a college education.

This is why growth investing matters in retirement. While investors commonly want less risk in their portfolios as they age, accepting some risk (and staying invested in equities) may be necessary. In a good year, equities may post greater returns than fixed-income investments. Social Security income merely increases in proportion to inflation; it keeps pace with it, but never outruns it. (COLA's are not guaranteed.)

Stock investing involves risk including loss of principal. 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

[1] fidelity.com/viewpoints/retirement/retirement-income-strategies [4/6/16]
[2] ing.com/Newsroom/All-news/Features/Feature/What-is...-inflation.htm [9/26/16]

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