



DO RETIREES EXPERIENCE INFLATION?

INFLATION IS A HUGE FUNDAMENTAL RISK FOR RETIREES.

Inflation means risk in loss of buying power over the next 20, or even up to and over 30, years. So let's take a look at how a retiree actually experiences such risk.

"A 60 year old loses 50% of their purchasing power by age 85 at a 3% inflation rate."

Inflation & Your Retirement: Will You Have Enough?

How many years have you continued to work with a specific retirement date in mind? Your entire focus was: Will I have enough? Often the focus is on what you need for your initial fixed income or identifying what would be a safe withdrawal rate, entirely based on a predetermined amount of fixed expenses. The best way to approach your retirement planning is with a base inflation rate taken into account and applied to your estimates for income needs to cover expenses, medical/long-term care costs, etc.

So when it comes to the cost of goods (cost of living) what is your expected increase for the purchase of these goods? Expected purchasing costs need to be applied to everything from travel costs to your grocery bill. Inflation has to be considered in every aspect of your lifestyle- down to the wine you drink.

Many of us are unsure how to calculate future inflation and let alone know how we should be increasing our withdrawals at the first of each year. When creating your retirement portfolio you should be increasing the amount that you withdraw each year.

Healthcare & Inflation Risk

If you have begun receiving Social Security, maybe you have noticed your benefit payment increased. Fact: For 2025 the Social Security Department increased your benefit by 2.5%. This is measured by the CPI (Consumer Price Index) – COLA.

CPI measures the average cost of goods increased over time in eight major categories and is widely used as an economic indicator for government and business. However, healthcare costs are rising exponentially by comparison.

Upon retirement, how much do you expect you will spend on your healthcare? A 65 year old couple retiring this year should expect to spend \$300,000 on healthcare during their lifetime.

Where is that \$300,000 being spent? The largest cost is from Medicare co-payments, deductibles, Medicare Parts B & D premiums and out of pocket prescriptions.

This represents a new high. \$300,000 is a 30% increase from 10 years ago and up 1.7% from last year according to Fidelity Investments. Unfortunately these estimates do not include long-term care costs. Many retirees over the years are transitioning to senior housing communities. The benefits are great in that you have a community of activities and increased care service, but one must expect and plan for increased rents over their lifetime. According to Burnham-Mais the increase has been between 2% and 3% (over how long?).

Why You Need Inflation Protection

The rising cost of long-term care is now a huge part of your retirement funding plan. Let's imagine now you've lived a wonderful 20 years since your retirement date, navigating all of the life and world changes. What an amazing accomplishment. However, you or your loved one could be quickly faced with needing assisted care at home or in a facility.

Fact: Average cost for this type of care in 2025 is approximately \$120,000/year for an average length of 3.5 years of care in today's dollars is almost \$420,000 for total out-of-pocket expense.

Cost is expected to conservatively increase at 3 to 5%. This means a 60 year old today can expect to have long-term care at over \$800,000 25 years from now.

So why is it important to have inflation protection planned for and implemented into your retirement plan? Life By Design Investment Advisory Services can help you identify the best ways to approach these solutions and put them into action. Contact the team today to set up your next appointment and proactively prepare for your retirement.

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