INFLATION VARIES ACCORDING TO YOUR AGE & SPENDING

Your advisor will make sure to account for inflation in your retirement plans

What will inflation be in the coming years? The real answer is that it varies according to your age and spending patterns. Inflation wallops someone with kids in college, and might be hardly noticeable to stay-at-home types. And recent inflation will stun someone looking for a used car, but it won't impact someone shopping for a new car quite as much (although it's still very high).

As you know, inflation is a sustained increase in prices for general goods and services in the economy and is typically measured annually. Theoretically speaking, as inflation rises, every dollar you own buys a smaller amount of a good or service.

While the reported inflation rate (typically reported as the CPI or Consumer Price Index) is important for Social Security income calculations, which rise with the index, it may not accurately reflect your individual inflation rate.

The Spring of 2022 & Inflation

Unless you've been living under a rock, you already know that inflation – as measured by the Consumer Price Index for All Urban Consumers – jumped again last month (and the month before and the month before…) and now stands at a whopping 8.5% on a yearly basis.

For perspective, the annual inflation number was 2.6% in March of 2021 and a paltry 1.7% the month before. We are now witnessing the highest annual inflation in over 40 years.

Here are a few of the specific price increases we've felt over the last year:

ITEM	INCREASE
Fuel Oil	+70.1%
Gas (all types)	+48.3%
Used Cars and Trucks	+35.3%
Gas Utilities	+21.6%
Meats/Fish/Eggs	+13.7%
New Cars	+12.5%
Electricity	+11.1%
Food At Home	+10.0%
All Items	+8.5%

Inflation is Personal

While inflation impacts all of us, it also impacts all of us differently. Why? Well, because we get to choose some financial expenses and lifestyle choices, whereas others we must just accept.

People planning to retire commonly ask how to calculate the future rate of inflation because projecting what price increases lie ahead is central to anticipating annual income needs.

Sadly, there is no magic number. And often times the assumed number can be flawed and can vary significantly from one family to the next.

For example, if you enjoy travelling, you will likely incur many service expenses including hotels, dining and transportation, thus you should expect travel inflation will be higher than the reported CPI. Travel expenses tend to increase in the early years of retirement and slow later on as people take fewer trips.

On the other hand, if you are a homebody who does your own yardwork and property improvements, then you will likely encounter lower inflation levels relative to your traveling friends (although lumber prices have skyrocketed).

What is Your Personal Inflation Rate?

The key point is that your personal inflation rate is unique based on your age and your lifestyle. The headline CPI number is important only as a general gauge.

The more we consider prices as they relate to goods of the economy – and the lifestyle of the investor – the more accurate we can be in estimating an inflation number. For now, car dealerships are loving the higher prices for used cars and trucks. And medical services providers are jealous.

Talk to your financial advisor to make sure you accurately project for inflation as you think about your retirement plans.