The Money Advisor Group

Retirement Planning | Investments | Insurance

Advisor Views

A feature from **The Money Advisor Group.** *Advisor Views* offers timely investment news and market updates designed to keep you informed, while enhancing your overall investment experience.

No More Penny Candy

There really was a time when you could buy all sorts of wrapped candies for a penny apiece. Today, you'd be hard pressed to find *anything*, candy included, that costs just a penny. That's inflation for you.

Steady Erosion

Inflation* has been relatively modest in recent years. Compared to the double-digit inflation rates of the past (e.g., 13.3% in 1979 and 12.4% in 1980), the rates of the past several years (e.g., 1.5% in 2010 and 3.0% in 2011) seem downright tame. However, even a low rate of inflation will put a serious dent in your buying power over time.

Above Average Increases

Some costs have been rising even faster than the "official" inflation rate, most notably college costs and medical expenses. With more and more health care costs being passed on to retirees, health care inflation could have a particularly detrimental effect on your retirement finances.

Inflation-beating Strategies

Taming inflation can be particularly challenging for retirement investors. Fortunately, you can combat inflation's effect on the savings you're building. Here are two strategies to consider:

- Choose at least some investments that have the potential to provide inflation-beating returns, such as stock funds or portfolios.
- Increase the amount you're saving for retirement every chance you get.

Into the Future

Penny candy may be gone forever, but inflation is probably here to stay. Someday you might tell your grandchildren how much cheaper things were back in 2012. But as long as you plan and invest wisely, you should still be able to take them out for popcorn and a movie.

* As measured by the CPI, the Consumer Price Index

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Inflation Deflates Buying Power

No one knows how much inflation we will experience in the future. But here are some hypothetical scenarios that show the potential impact of inflation on your purchasing power.

Today you have	At an annual inflation rate of	In 10 years you'll need	In 20 years you'll need
$20,000	3%	$26,878	$36,122
$20,000	5%	$32,578	$53,066

This example is for illustrative purposes only. Your actual savings may be more or less than $20,000, and the actual inflation rate may be different.

Source: NPI