DIRECTNEWS
FALL 2021

Inflation and Your Retirement Security

What are the things that could threaten your retirement security? A job loss, ill health, or a serious accident could set you back financially and may force you to reduce the amount you contribute to your retirement plan, even if only temporarily. Contributing only a small amount to your retirement account or taking multiple loans from your account could also impact the type of retirement you'll likely experience. However, one of the biggest and least understood dangers to retirement security is inflation. Even a low annual rate of inflation can, over time, reduce the spending power of the money you have accumulated for retirement.

There are several steps you can take to minimize the impact of inflation on your retirement assets.

What Inflation Can Do

Inflation is generally defined as a rise in the price of goods and services. When prices go up, your money will not buy as much today as it did yesterday and thus, your spending power is reduced. While you are retired, inflation could continue to increase the amount of income you'll need each year just to maintain your standard of living. Retirees, like all people living on a fixed income, are especially vulnerable to inflation.

One other cause for concern: Some expenses, such as health care costs, may increase faster than the inflation rate. Since a growing number of employers do not provide retirees with health insurance coverage, this could be an issue when it comes to determining how much income you'll need during retirement.

Protection From Inflation

Having a good asset allocation strategy can help protect your retirement savings from inflation. By investing your savings in different asset classes, you'll be able to take advantage of some investments that have the potential to grow faster than the inflation rate, such as stocks. While past performance is not a guarantee of future results, historically, stocks have outpaced inflation and produced higher long-term returns than bonds and various other types of investments.

Specifically, over the past 10 years, stocks delivered higher rates of return than inflation. Stocks had an average annual total rate of return of 13.89% for the 10 years ending December 2020, while the average annual inflation rate was 1.06% for the same period. Bonds earned a 3.84% average annual return over that same 10-year period.[1]

Remember, though, that stocks are riskier than bonds and certain other investment types.

Boost Your Contribution Level

One other effective way to protect your savings from inflation is to increase your savings rate. Contributing more each year will help your retirement account keep pace with the inflation rate. Try setting aside a portion of any pay raise you receive and contribute that sum to your retirement plan. In time, that additional contribution has the potential to boost your account value at retirement.

Talk with a financial professional for ideas on how you can meet your retirement goals and still sleep well at night.

[1]Stocks are measured by the S&P 500 Index, an unmanaged index of stocks of 500 major corporations. Inflation is represented by the Consumer Price Index (CPI). Bonds are measured by Barclays Capital U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities. Past performance does not guarantee future results. Your investment results will be different. Investments cannot be made in an index. Source: DST Retirement Solutions, LLC, an SS&C company.

A Better Investment Strategy Than Rock-Paper-Scissors

Investors should consider various stock investing strategies and choose those that most closely match their goals.

When you were a kid, you and your friends might have decided which game to play using the rock-paper-scissors strategy. And that's fine for a kid's game. But if you're using the rock-paper-scissors approach to choose stock investments for your portfolio, you may be missing out on strategies that could help move you closer to your goals.

Investing for Growth

A *growth* strategy focuses on investing in companies that are poised for higher-than-average growth. The expectation is that as earnings and revenues increase, the company's stock price and valuation will also increase. Growth investing typically targets young companies in rapidly expanding industries, such as those involved with new technologies. Company earnings are generally reinvested rather than distributed as dividends to shareholders.

A growth strategy's potential for high returns comes with substantial risk.

Investing for Value

Value investors look for bargains. They buy stocks of high-quality companies whose shares are selling at lower prices than the company's financial position seems to warrant, hoping prices will rise as other investors perceive that the stock may have potential. Of course, a low stock price could be due to a failing company or industry.

Investing in value stocks involves a high degree of risk, and investors may lose money.

Investing for Income

Income investors seek older, well-established companies that are no longer growing rapidly but offer a steady income by consistently paying dividends to shareholders. Consider the company's past dividend policy to see if it's likely to continue. But understand that there's no guarantee or assurance that a company will declare dividends or that any future dividends will remain at current levels or increase over time.

Your financial professional can help you choose the investing strategies that fit your needs.