



## HOW INFLATION IMPACTS RETIREMENT PLANNING

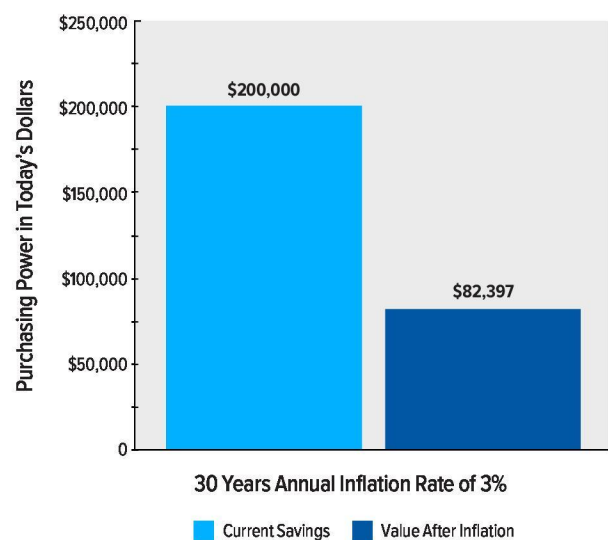
While it may not rival the double-digit rates of the early 1980s, inflation is now the highest it's been in 39 years. Because of its potential to erode wealth, every investor should take the time to understand what inflation is and how it might impact their ability to save for retirement.

### What is Inflation?

At its most basic, inflation is the steady increase in the prices of goods and services over time within an economy. Changes in the rate of inflation are measured by the Consumer Price Index (CPI), a monthly report released by the Bureau of Labor Statistics that tracks what people spend on purchases like food, recreation, housing, apparel, transportation, medical care, education and communication, and other goods and services.

As prices rise, consumer purchasing power decreases. In real terms, that means inflation erodes the value of your long-term savings. For example, over a 30-year period, an average annual inflation rate of 3% will cut the purchasing power of a \$200,000 savings account to just \$82,397 [Figure 1].

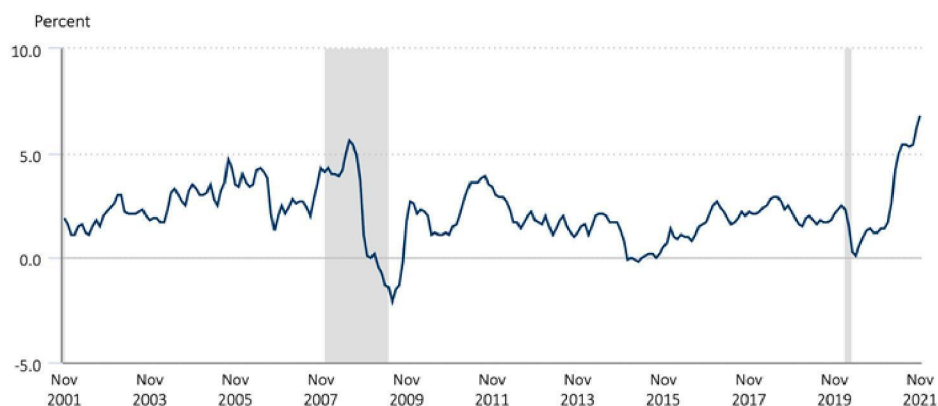
**Figure 1: Inflation erodes value over time**



With the inflation rate having reached a 39-year high of 6.8% in November 2021 [Figure 2], investors would do well to factor inflation into their retirement planning. A higher rate could mean you'll need even more income than planned to maintain your pre-retirement standard of living. Moreover, retirees tend to face increased medical or health care costs. And health care inflation has been outpacing even the Consumer Price Index in recent years.



**Figure 2: Inflation hits 39-year high of 6.8% in November 2021**



Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.  
Source: U.S. Bureau of Labor Statistics.

So, how can you prevent inflation from derailing your retirement goals?

### Allocate Assets Effectively

One of the most effective things you can do is to have a thoughtful asset allocation strategy.\* Asset allocation is the process of determining what percentage of your money to allocate to various asset classes, like domestic stocks, international stocks, real estate, commodities, bonds, cash, etc.

Riskier asset classes, like stocks, have historically beaten inflation and produced higher long-term returns than either bonds or cash alternative investments. In a low interest rate environment like what we've seen for the past decade, allocating too heavily to bonds or cash alternatives could put you at risk of not having what you need for retirement.

While past performance is no guarantee of future results, thoughtfully combining stocks and bonds in a diversified portfolio is more likely to help you generate the risk-adjusted returns you need to keep pace with inflation and stay on track to reach your retirement goals.



Compare the average annual total returns for different asset classes with inflation over the past 20 years [Figure 3].

**Figure 3: 20-Year Annualized Total Returns (CAGR)**

20-YEAR AVERAGE ANNUAL TOTAL RETURNS	
Stocks <sup>1</sup>	9.72%
Bonds <sup>2</sup>	4.33%
Cash <sup>3</sup>	1.23%
Inflation <sup>4</sup>	2.28%

Returns shown are for the period ended 12/31/2021.

<sup>1</sup> Measured by Russell 3000 TR USD

<sup>2</sup> Measured by Bloomberg US Agg Bond TR USD

<sup>3</sup> Measured by FTSE Treasury Bill 3 Mon USD

<sup>4</sup> Measured by IA SBBI US Inflation

Past performance does not guarantee future results. Your investment results will be different. This chart is for illustrative purposes only and does not represent the performance of any particular investment. Investments cannot be made in an index. Stocks have greater return potential but are more volatile than other investment types. Unlike stocks and corporate bonds, government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer fixed rates of return and stable principal.

Source: Morningstar and M Wealth

## Boost Your Savings Rate

You can also help protect your retirement savings by increasing your savings rate. Contributing more each year can help you keep pace with inflation.

For example, consider contributing some, or all, of any bonus you receive. Even a small increase in your savings rate can make a significant difference in your account value at retirement.

## Work With a Financial Professional

To be sure you are on track to a comfortable retirement, work with a financial professional who has your best interests at heart. They can help you establish the right mix of investments in your retirement account and then monitor your account on a regular basis to ensure your investments are generating returns equal to or greater than the rate of inflation.

Source/Disclaimer:

\*Asset allocation does not guarantee a profit or protect against losses. While past performance is no guarantee of future results, thoughtfully combining stocks and bonds in a diversified portfolio is more likely to help you generate the risk-adjusted returns you need to keep pace with inflation and stay on track to reach your retirement goals.

Greenberg, Wexler & Eig, LLC  
(301) 656-0660 | gwellc.com

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M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | mfin.com