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Have you paid more for a car than a house?

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Last month we looked at the silent retirement killer: inflation. If you're not convinced how much inflation can affect your lifestyle, here's a striking example: many of my clients have paid more for their most recently purchased car than they did for their first home!

Sounds crazy, right? Amazingly it makes sense. Someone who is 65 today might have purchased their first home in 1970 at 25 years old. The average sales price of a new home in 1970 was $23,600. (source: www.census.gov) And it's certainly not too difficult to pay that much for a car today!

Inflation has an effect on everyone; but retirees are usually hit the hardest. When you're earning a paycheck, it's often increasing with inflation. However, most retirees are living on a fixed income. If your income never changes while your cost of living goes up, it's like taking a pay cut every year!

So let's look at some of the methods commonly used to combat inflation. Most of that discussion has to do with how and where you decide to invest your retirement nest egg; but before we take that step, there are some important considerations to look at:

First, what rate of inflation should we assume? Common assumptions are 3 or 4% per year. However, with our national debt currently exploding, numerous experts are concerned that inflation could be significantly worse in the coming years.

Second, what is our best guess of how long your retirement will be? Estimating when your retirement will start is straight forward. Guessing how long you will live is a heck of a lot trickier! We should consider averages as well as your family history. For example, for a married couple who are 65 today, there's a 50% chance that at least one of them will be living at age 89…and we certainly want to make sure you have better than a 50% chance of avoiding running out of money! (source: "Retirement Income Reference Book")

Third, we have to acknowledge that combatting inflation is flat out much tougher today than at many times in the past because interest rates are at all-time lows. It would be a lot easier to protect yourself from inflation if you could save your nest egg in a 7% CD…but that's not going to happen any time soon!

So what are some of the savings and investment options we could consider? Here are a few that are often used:

- Investing in dividend paying stocks
- Using a scheduled income plan
- Taking income by using reverse dollar cost averaging

While other options exist, I chose to focus on these because they offer some significant advantages and disadvantages. Next month we'll look at them in detail.

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