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The silent retirement killer

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This weekend, I was driving on Piney Grove Road past I-26 with my kids in the car. My daughter Ava asked "Why are those old signs in front of that store?" As I looked over at the signs, I had to laugh. I saw a big new Sportsman's Warehouse sign up high. Below it were some old signs from a truck-stop that had been at the location years ago.

So what made me laugh? Further down on the sign posts you can still see the gas prices from when the truck stop went out of business: 89 cents per gallon! This gave me a great opportunity to explain inflation to my kids. At 12 and 11, they'd never imagined that something like gas could have doubled or even tripled in price during their lifetimes!

And what an important lesson it is! Inflation is indeed the silent retirement killer for two reasons. First, it's much more difficult to 'track' inflation than most things we review for our finances. Our savings and investment statements come on a monthly, quarterly, or annual basis; but what if you're retired and living on a fixed income? How do you know what inflation is? This is what makes it a silent retirement killer.

The second reason inflation is such a significant threat to our retirements is because we are living so much longer. The effect of inflation compounds over time. For a retirement of 10 years, it's usually not a big deal; but what if your retirement lasts 25 years? Or 35 years? Or longer?

Let's use an example: Say we have John and Carol, who are 60 years old and retiring at the end of the year. We determine they'll need about $4,000 a month of income. While we cannot predict the rate of inflation in the future, we can estimate it based on past figures as well as what's going on in our economy.

If we assume 4% inflation, the buying power of their money will drop in half over 18 years. This means that to have the same income when they are 78, John and Carol will need to have $8,000 a month coming in. Where inflation can get incredibly scary is if John and Carol have a really long retirement. If they live another 18 years into their mid-nineties, the same effect will happen again.That means John and Carol's income need during retirement could go from $4,000 a month to $16,000 a month!

Hopefully you can see why inflation is an important issue to address when planning for retirement. Next month, we'll discuss some of the ways retirees have dealt with inflation successfully.

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