Managing Inflation Risk During Your Retirement

Longer retirements mean inflation can put a serious dent in the best-laid plans. Most people factor in inflation when planning how much they will need when they reach retirement. But inflation does not stop the day you retire. In fact, your budget on the day you retire could look very different five, 10, or 20 years into retirement.

BE REALISTIC

It's important to set realistic expectations for both how long you may be in retirement and how much income you'll need. Designing a realistic budget that considers essential, discretionary and unexpected costs is a smart first step.

With that as a start, you can review the ways high inflation and low interest rates may affect total rates of return on your investments and your annual income.

WITHDRAWAL PLANNING

Maybe you'll try to address inflation risk on your own by withdrawing no more than 4% of an asset and then increasing the withdrawal by the rate of inflation each year. But as those withdrawals grow, they could represent a large piece of your retirement account over time. This can seriously erode funds.

Some fixed index annuities and index variable annuities offer potential income increases every year to help address the effects of inflation. These annual increases are available by purchasing optional riders for an additional charge.

CHOOSE TO DELAY

If you can delay applying for Social Security benefits until you're 70, consider doing so. Each year you put off collecting Social Security increases your annual payments 8%. This is a cost-effective way to maximize your inflation-protected income.

As you think through your future expenses and how inflation may impact them, it's essential to manage expectations, be realistic and focus on what you can control. Working with your financial professional can help address longevity, inflation risk and rising health care costs in retirement.

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