

Protect Your Purchasing Power in Retirement

Inflation is a persistent, substantial rise in the general price level. It is a long-term consideration that cannot be ignored because, even at today's relatively low rate, inflation can relentlessly wear down your money's purchasing power over time. This will impact your future retirement plans unless you take action.

Before retirement, consider how much money you will need and adjust for inflation. Let's say that you will want \$2,000 a month in supplemental retirement income (in today's dollars) and that inflation averages 6% a year. If you will retire in 10 years, you will actually need \$3,582 per month to receive the same purchasing power with your money. Retire in 20 years, and you will need \$6,414; and in 30 years, \$11,487 per month. Of course, this example is hypothetical and actual results may vary, but you get the idea.

After retirement, inflation will continue to affect your money's purchasing power. You may need to adjust your strategy for a retirement that could last 30 years. Using the Rule of 72, the purchasing power of a dollar could drop to .50 in 18 years at 4% inflation (72 divided by 4% = 18 years for prices to double). If your investments are earning 4% and inflation is 5%, the real dollar value of your assets is actually declining!

Recommendation: Fight Back! To maintain your standard of living over time, your investments must outpace inflation, earning a competitive rate of return while meeting your financial objectives. Include growth investments in your portfolio.

It may be beneficial to diversify, potentially allowing you to take advantage of upswings among many types of investments, minimizing the effect of down turns in others.

Finally, reinvestment of dividends will allow you to take advantage of compounding and tax-deferral opportunities.

So, don't let inflation nibble away at your retirement fund's purchasing power. Fight inflation with growth investments, diversification and dividend reinvestment.

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