

A close-up photograph of a person's hands holding a small red umbrella over several stacks of gold coins. The person is wearing a dark blue patterned shirt. The background is blurred, showing a light-colored wall. The text is overlaid on the umbrella.

*Protect Your Retirement from the  
Corrosive Dangers of Inflation*



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# Protect your retirement from the **corrosive dangers of inflation**

Underestimating the long-term effects of inflation is one of the most common mistakes people make when it comes to retirement planning. But it doesn't have to be that way. It is possible to protect your retirement from the corrosive dangers of inflation. In this report, we'll cover:

- How inflation can impact your retirement.
- The impacts of healthcare inflation.
- Steps you can take before retirement to combat the future effects of inflation.
- How a financial strategy geared toward income-first, growth-second can help make your retirement plan more inflation-proof.

## **Inflation 101**

The Bureau of Labor Statistics considers 2–3% a normal inflation rate.<sup>1</sup> When inflation rises for too long, the Fed may raise short-term interest rates to slow it down—sometimes risking a recession. This can trigger market volatility, including bond sell-offs that raise long-term rates and lower asset values. Inflation doesn't just reduce buying power; it can also create market conditions that hurt your savings.

## **Erosion Over Time**

Most people don't realize how truly corrosive inflation can be. That's less of a danger when you're working than it is when you're retired and need to be more budget-conscious. Consider how inflation at even a normal rate of 2–3% could affect your finances over the next 20 years:

If you needed \$60,000 in your first year of retirement, you'd need over \$108,000 in 20 years to keep the same buying power.

At a 3% annual inflation rate, that initial \$60,000 would be worth only a little over \$33,000 in 20 years.

With people living longer, many need to plan for 30 years of retirement income. Inflation hits retirees hardest because they rely more on investments for income — and price increases often affect the things older Americans need most.

## — Healthcare Inflation

Naturally, many of the products and services needed most by older Americans are healthcare-related. What's scary about that is that over time, healthcare costs invariably rise at a faster and steeper rate than consumer costs in general:

Since 2000, the price of medical care has increased by 121.3%. In contrast, prices for all consumer goods and services rose by 86.1% in the same period.<sup>2</sup>

And since 1948, the price of medical care has grown at an average annual rate of 4.94% compared to 3.44% for general inflation, close to 5%.<sup>3</sup>

As for prescription drugs, according to the Employee Benefit Research Institute:

A 65-year-old man would need about \$106,000 saved to have a 50% chance of covering premiums and drug costs in retirement.

A woman in that same situation would need to have saved \$128,000.<sup>4</sup>

As for prescription drugs, according to the Employee Benefit Research Institute:

According to the National Council on Aging, someone turning 65 today has almost a 70% chance of needing long-term care services in their remaining years.<sup>5</sup>

In 2022, the national average cost for a semi-private room in a nursing home was \$100,740 per year. If inflation continues at an average rate, that cost could increase to \$159,372 by 2042.<sup>6</sup>

Insurance coverage, including Medicare, is extremely limited for long-term care.

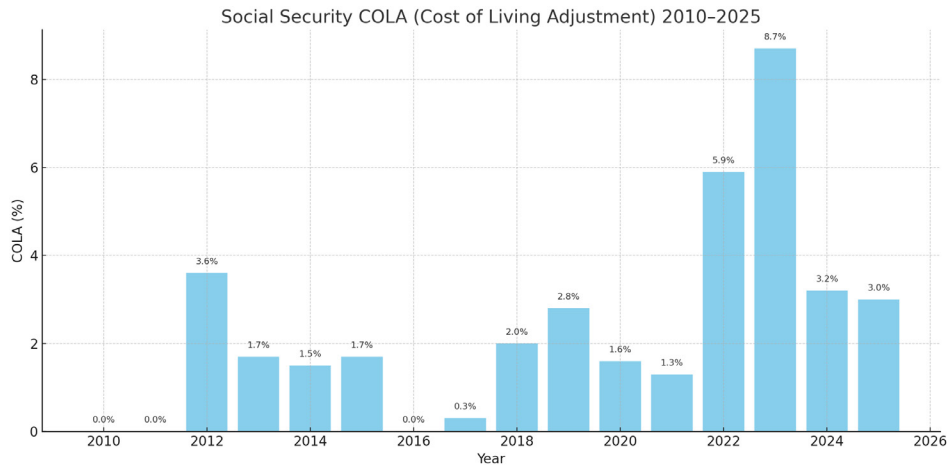
## — What about Social Security?

As most people know, the Social Security Administration approves a Cost-of-Living Adjustment (COLA) for Social Security beneficiaries every year. But the fact is, over the long run Social Security has not kept up with the average pace of inflation. According to the Senior Citizens League:

Inflation has caused Social Security payments to lose 20% of their buying power since 2010.<sup>7</sup>

That's partly because even a significant benefit increase is often undercut by increased premiums for Medicare Part B.<sup>8</sup>

## Social Security COLA



### Preventive Measures

While there's no way to escape inflation, you can take steps to minimize its impact on your retirement. Here are seven preventive measures you can take starting today:

1. Make the most of your employer-sponsored match to your 401(k) contributions.
2. Pay down your debts as much as possible before retirement.
3. Identify or modify your retirement goals.
4. Keep an eye on the Fed.
5. Start planning now to maximize your Social Security benefits.
6. Make sure your financial strategy can adapt to the effects of inflation.
7. Continuously review and adjust your strategy.

### Inflation and the Income Model

Finally, let's talk about how shifting your investment focus from growth to income-first, growth-second can better ensure that your retirement is well protected from the corrosive effects of inflation.

## — Income is More Strategic

**Growth investing** relies on withdrawing a set percentage each year, but this depends on market performance, which can be unpredictable.

**Income investing** focuses on protecting your principal and generating steady, reliable income in all market conditions.

## — It Gives You More Future Income Potential

With an actively managed income-first strategy, you have the potential to increase your future income through strategic reinvestment. That's because when the market drops, you're able to purchase more shares for the same price. Essentially, you are creating a strategic inflation hedge by dollar-cost-averaging your way to more potential income in the future when the market recovers!

## — Learn More

To learn more about how investing for income can help protect your retirement from the many negative impacts of inflation, contact our office today to schedule a free, no-obligation consultation.

### Sources:

1 <https://www.investopedia.com/inflation-rate-by-year-7253832>

2 <https://www.healthsystemtracker.org/brief/how-does-medical-inflation-compare-to-inflation-in-the-rest-of-the-economy/>

3 <https://www.officialdata.org/Medical-care/price-inflation/1948?amount=110>

4 <https://www.ebri.org/content/projected-savings-medicare-beneficiaries-need-for-health-expenses-increased-again-in-2023>

5 <https://seniorsleague.org/benefits-20-of-buying-power-since-2010/>

6 <https://www.itcfeds.gov/long-term-care/costs>

7 <https://seniorsleague.org/benefits-20-of-buying-power-since-2010/>

8 <https://www.thebalancemoney.com/current-and-historical-medicare-part-b-premiums-2388483>



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