INFLATION TAKING A BITE OUT OF YOUR RETIREMENT INCOME?

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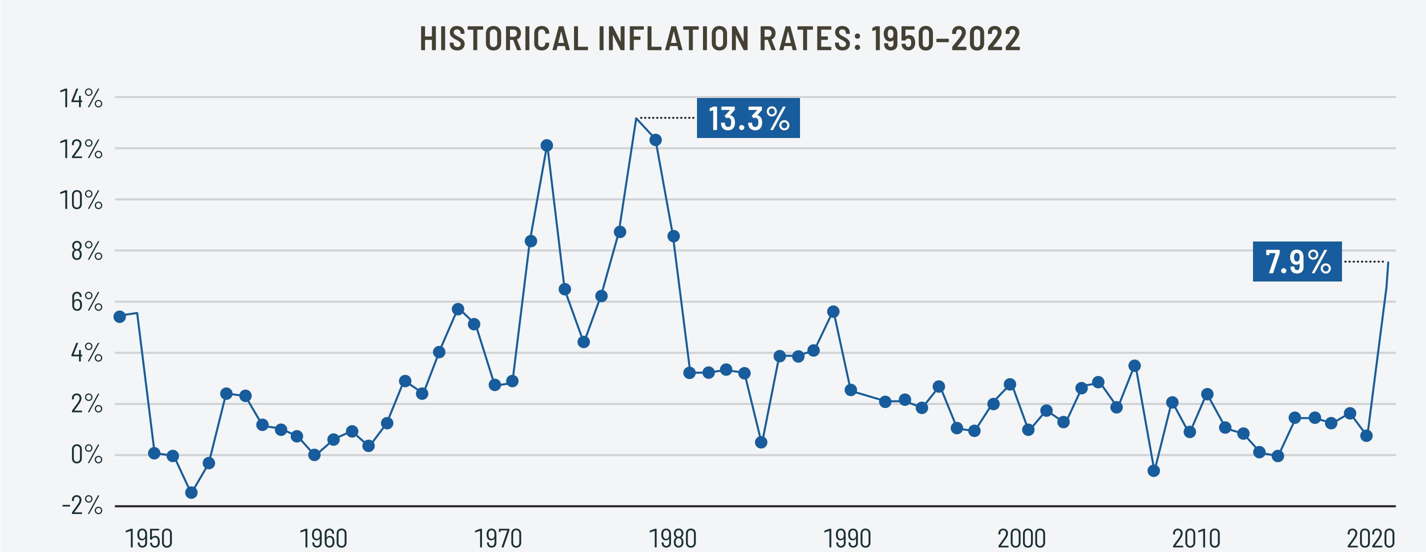
HOW AN ANNUITY CAN HELP — Inflation has been in the news recently and most of us have experienced it in some way. When costs surge, we feel it in our wallets. Worse, inflation can dictate how much our retirement dollars may be worth in the future. Let's take a closer look and discuss how retirees and investors alike can address the recent uptick.

AN INFLATIONARY TALE

Inflation is measured by the Consumer Price Index (CPI) and reached a 40-year high in the 12-month period ending February of 2022.



Source: U.S. Bureau of Labor Statistics, February 2022

YOUR LIFESTYLE AND INFLATION

For most people there's an inverse relationship between inflation and their lifestyle. Simply stated, rising inflation directly [and sometimes dramatically] causes you to lose spending power. Everyday activities cost more — driving, eating, heating your home, etc.

To combat rising costs there are a couple of options – you can try to earn more money, or you can make other choices about how and when you spend your hard-earned income. Some expenses are easier to manage – for example: spending $10 or more, several times a week on fast food vs. the cost of rent and utilities. Other essential expenses, like rent, can be impossible to eliminate or reduce. The bottom line? As far as inflation is concerned, you the consumer, are ultimately footing the bill.

THE INVERSE RELATIONSHIP BETWEEN INFLATION AND LIFESTYLE

According to The Wall Street Journal, inflation is costing the average U.S. household about $276 more per month. And although wages are increasing, the "raise" you're getting may not be enough to keep up with rising prices, resulting in a potential hit to your lifestyle. The inflation predicament leads us to the question, "What are you willing to give up?" Intuitively, we know we can postpone non-essential spending such as travel and hobbies. However, increases to our essential expenses must be addressed right away — but at what cost?

One of the most harmful and costly side effects of inflation may be your ability to save. Will you have enough left over to fund retirement, college or perhaps a rainy-day fund? Consider the impact on your existing savings as well. Inflation can make the dollar you've saved today worth less in the future. Ultimately, the more you need to spend, the quicker your assets may deplete.

The emotional impact of inflation may also be damaging since rising costs can be a clear threat to financial security. A shrinking nest egg can cause people to lose their peace of mind and as a result, retirees may search for safety, independence, and control.

WHAT CAN YOU DO?

How long will inflation last? How high will it go? These are important questions for the retiree or pre-retiree looking forward to their golden years. One thing is certain, no one is interested in running out of money.

INFLATION AND YOUR PORTFOLIO

Traditional wisdom suggests that investing in stocks can help keep up with or outpace inflation. However, as we get older, adding more money to stocks can add a higher degree of risk to a portfolio and be counterintuitive to our desire for stability and certainty. Bonds are another asset class that have been used by many retirees, but there is a potential downside. If the Federal Reserve raises interest rates to help curb inflation, the market value of bonds usually goes down. To further complicate matters, safe but low-return traditional savings products (think money markets and CDs), may not be equipped to address inflation head on.

CAN ANNUITIES HELP BRIDGE THE GAP?

Annuities are unique in that they offer varying combinations of growth, protection, and protected lifetime income – depending on the product you choose. Certain annuity products offer either direct or indirect exposure to the stock market; the potential for growth may help shield against inflation. There are also annuities that can protect against some of the losses associated with a stock market decline. As a result, investors may reach a comfort level that allows them to take a more aggressive approach with the balance of their retirement portfolio.

Think of an annuity as the workhorse that can help generate protected lifetime income. In fact, some annuity products offer the potential for rising income which can also help address the impact of escalating costs. Both features may be handy when you are no longer receiving a paycheck from an employer. Finally, annuities feature tax deferral. All the gains can be put to work — compounding and growing — untethered by taxes until the money is withdrawn.

IS INFLATION HERE TO STAY?

Some experts suggest costs may go higher still; others say inflation will be short lived. The uncertainty of today's retirement planning landscape warrants a portfolio checkup. An in-depth discussion with a trusted financial professional can help prepare you for what's ahead. You'll be taking smart and responsible action toward achieving the financial security you've earned.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company.

Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½.

Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.