How Retirees Can Cope With Inflation

Take steps to help your retirement portfolio keep up with rising costs.

By Rodney Brooks

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After years of low inflation, many retirees are now concerned about rising prices. Costs for cars, food and gasoline are up, mainly because demand spiked when the economy reopened after the worst of the pandemic. "Across the country it's a huge concern, especially with the Consumer Price Index at 5% to 5.5%, the highest that we've seen for 13 years," says Brian Robinson, a certified financial planner and partner at SharpePoint in Phoenix, Arizona.

Here's what inflation means for retirees:

- Be prepared. Modest inflation is here to stay.
- Your fixed income may not keep up with inflation.
- Social Security checks are automatically adjusted for inflation.
- A move to equities, stocks or real estate may be warranted to protect against inflation.
- Have your financial planner make adjustments for inflation in your financial plan.

Be Prepared for Modest inflation

Retirees should expect to experience inflation over several decades of retirement and take steps to keep up with rising costs. "We do think modest inflation is here for a prolonged period," says Brooke May, a certified financial planner and managing partner at Evans May Wealth in Carmel, Indiana. "The best hedge against that, in our belief, is going to be the stock market and real estate."

Your Fixed Income May Not Keep Up With Inflation

Many retirees receive a steady income from a pension, but payments may not increase as prices rise. "Even modest inflation can be somewhat of an issue if the majority of one's income is fixed," May says. It's important to keep at least some of your savings in investments that tend to keep up with inflation.

Equities or Stocks May Protect Against Inflation

You need a combination of growth and income in your portfolio. Robinson says the old rule of thumb that 100 minus your age is the percentage of your portfolio that should be in equities is outdated. "These retirees are going to need quite a bit more, even up to about 70% of their portfolio in equities," Robinson says. "They hear that, and they get a little spooked because they think high volatility. But with where we are right now, the bigger risk is having a lot of long-term bonds, because when you have inflation start to pick up those bonds get destroyed." One type of government bond, Treasury inflation-protected securities, is guaranteed to keep up with inflation.

Real Estate Values Often Increase Over Time

Real estate can also be a good way to keep pace with inflation. "We have clients that have either rental properties or they have buildings that they own, warehouse buildings, and those can provide a good stream of income, if they're OK with dealing with some of the issues that come with some real estate," Robinson says.

Social Security Payments are Adjusted for Inflation

Social Security payments are adjusted each year to keep pace with inflation. However, Social Security cost-of-living adjustments aren't always enough for individual retirees to cover rapidly increasing costs, such as health care. "They have got to make sure that along with their Social Security income they make sure that portfolios are really built to withstand inflation and then get that growth as well," Robinson says.

Make Inflation Adjustments to Your Financial Plan

When determining how to use your retirement savings to pay your bills, it's important to factor in the impact of inflation on essential services. Robinson says it's especially important to factor in projected price increases for necessities including food and health care. A detailed investment plan can help to make sure your portfolio keeps up with rising costs and lasts throughout retirement.