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Inflation and Retirement

By Rodney A. Brooks Monday, March 14, 2022

In January inflation rose 7.5 percent, which was a 40-year high – fueled by strong consumer demand combined with pandemic induced supply shortages. Prices rose in several key categories, including food, cars, electricity and housing.

Inflation at any level is bad news for seniors and retirees, many of whom are living on fixed income. Social Security increased 5.9 percent for 2022, but that does not keep pace with inflation.

Inflation Concerns Rising

"We're not necessarily getting frantic calls, but it definitely is an area of concern," says Robert Gilliland, managing director and senior wealth advisor at Concenture Wealth Management in Houston, Texas. "The headlines don't really help. Every time they (clients) are filling a car up with gas or go to the grocery store, or pretty much anything, they see costs have gone up."

Housing and Inflation

Gilliland says a recently retired client wanted to build a house in Galveston. Eighteen months ago, the price was $300 a square foot, which is high for Texas, he says. When he went back recently to the same builder and the same home, the price had skyrocketed to ***$600*** a square foot.

Dealing with Inflation

If you are a retiree, here are four tips to help you deal with inflation.

1. **Review your financial plan and budget**

When you did your monthly budget with income and expenses, you likely did not factor in near double-digit inflation. You need to go back and re-do those numbers.

Gilliland says you really should ***evaluate your retirement cash and income.*** If you receive Social Security and don't have a pension, you need to make sure you have enough cash. "Because the headline risk with inflation is that it is going to create volatility in the market and that will probably make it more difficult just to live off interest," he says. "You will need create cash to supplement that that income."

He continues, "We tell them that we want to make sure that they are prepared. Make sure you have plenty of cash to meet the increase in cost-of-living. But it all has to start with looking at their plan to make sure that they can afford higher costs."

Brian Robinson, partner and financial advisor at SharpePoint in Phoenix, Arizona, says it's a good time to talk to financial advisors and update your plan. "Say, 'Hey, I know we did this plan, five years ago or two years ago. Things are different now. Can we redo?'

"So, you know, for the past 50 years inflation was running around 2.5 percent. And the last 25 yeas it was 1.85 percent. So now we're near ***five times*** that. Revisit the plan and write in inflation at a higher number. Talk with your advisor to figure what is a comfortable number."

1. **Evaluate your debt.**

Gilliland says if you have anything with an adjustable rate, such as a credit card, consider paying it of or see if you **can change it to a fixed rate**. "In the case of a mortgage, it might make sense to get them paid down a little or refinance. Accelerate your payments so that they get paid down and paid off."

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1. **Review your investments and holdings**

Robinson says you should thoroughly **review your holdings** if you are living on a fixed income or need your income to be more predictable.

"We need to be in areas that are taking advantage of, or are sensitive to, rates moving up and inflation, because we got both," he says. "The Fed has gone from zero rate hikes to a couple to maybe seven this year, so it's going pretty fast."

He has been moving clients to energy, financials and higher dividend investments, he says. "Natural gas prices were up 100%, basically, since the lows last year at this time. We have gas, the same thing. In some places prices are up 100%. You're not going to keep up with it with the old style of just having bonds and a lot of cash. "

1. **Don't overreact**

"We're also holding hands and making sure that we're **not making rash decisions**," Gilliland says. "It's probably unlikely that we're going to go through 18, or 24 or 36 months of inflation and in double digits."