HOW TO KEEP PACE WITH INFLATION IN RETIREMENT

Using the Buckets of Wealth approach to develop an income strategy.

Retirement.
It is not what it was and, sometimes, not what we envision it to be. Not too long ago, it was common to work for a company for 40 years and retire at 65 with a gold watch, a pension, Social Security, and little to no debt, leaving retirees able to enjoy their "golden years."

Today, it is not that simple.

Most boomers will have no pension, questionable Social Security benefits, and a hefty mortgage, along with other debt, well into retirement. However, the one thing we do contribute to more than our parents did is the company retirement savings program: commonly, a 401(k), 403(b), or 457 plan.

As we contemplate retirement, we are faced with the most important decisions of our lives: How do we turn our retirement savings into a guaranteed lifetime income stream? How can I make sure I will never run out of money? And how can I have my income keep pace with inflation? In case you have not noticed, gas prices have surged 40% since the beginning of the year and food has also seen a surge. And the devastating damage caused by Hurricane Ida will most certainly add to the cost of living.

In the past, there was an easier answer: a pension, or defined benefit plan. It guaranteed a paycheck for life for you and your spouse, if married. And some even came with a COLA, or cost of living adjustment. It was the fiduciary responsibility of the **employer** to make sure there was enough money set aside to fund the pension.

Consequently, this benefit was extremely expensive for the company to maintain, which placed an enormous financial burden on the employer to have sufficient cash reserves for future payments.

Then, it all changed. And it set the retirement income world back on its heels. In the late 1970s, 401(k) plans were introduced to supplement retirement; but many corporations saw this as an opportunity to cut costs and obligations by eliminating pensions and replacing them with a 401(k) or other defined contribution plan. By doing so, the burden of providing lifetime income fell squarely on the **employee** and not the employer. To sweeten the deal, employers offered to match contributions, but they still saved millions of dollars in future guaranteed obligations.

Because of this shift in fiduciary responsibility, the baby boomer generation now faces a serious threat to their retirement security. As more boomers retire, they now must ask themselves:

"How do I replace a guaranteed paycheck with a non-guaranteed retirement account? Do I put it in a bank and risk losing to inflation? Or do I stay in the market and risk losing money in a crash?" The main reason we save money during our working years is to provide future **income**. The No. 1 concern of most retirees today is outliving their **income**.

Either way, the biggest fear we have today is not dying too soon but living too long and running out of money. So, how do you walk the line between safety versus return, risk versus reward, and guarantees versus opportunities?

How can we have our cake and eat it too?

What if there was a way to participate in some of the market upside and ignore the market downside? What if we could potentially make money when the market gained but hold steady when it inevitably retreated?

Hold that thought for a moment.

Think of your overall retirement plan as a three-legged stool with your pension, Social Security, and retirement savings as the legs. Social Security and your pension provide a source of guaranteed income — your plan's foundation. And your retirement accounts provide supplemental income needed to offset inflation. Perfect, right?

Unfortunately, as mentioned earlier, most of us no longer have pensions; the stool has become unstable, and we now must place a heavier burden on our retirement savings to replace our pension **and** provide an inflation hedge. It has now become our job not only to save money but to guarantee an income to replace our lost pensions.

So how can we accomplish such a daunting task? Try thinking of your retirement savings account in terms of Buckets of Wealth. Each bucket serves a different purpose: income, inflation, emergencies, and travel, or the FUN bucket as I like to call it.

When you break your savings down in these terms, developing a plan of action can be easier, since most of us are visual learners. And since the income bucket is No. 1 on the list and the ultimate reason we save during our working years, it's the first item you need to fund by replacing your earned income with a lifetime sustainable paycheck every month, that can also have the potential to keep pace with inflation.

Now, the big question is this: If we save for income, and outliving our income is the number one concern, what is the only savings vehicle that can guarantee an income we can never outlive?

Remember when I said hold that thought?

Well, the answer could be a fixed index annuity. Fixed meaning that your investment, plus any index gains, are **protected against market fluctuations** to never lose money. Index meaning that stock market indices, like the S&P 500, are used to calculate **index credits** only, based on a formula determined by the company issuing the annuity. And some versions can even guarantee you an income for life, so you could create your own "personal pension plan".

Over the last 20 years, I have found that fixed index annuities can offer most of what retirees are looking for in a more secure retirement: upside potential, no downside market risk, and optional income for life. It can be a solid addition to the income bucket and allow the inflation bucket to grow.

But, like any financial product, index annuities can be complicated, and they may not be for you. So, do your homework, establish your income goals, and speak to a financial professional who can help build your very own plan to gain greater financial confidence and added peace of mind in retirement. It is your retirement, so take control.

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