Quarterly Retirement Review

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S.L. Reed & Company
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Protecting Your Retirement Savings from Inflation

Many pre-retirees may be wondering how they can ensure their retirement savings will cover their cost of living in the future as inflation rises.

For investors who have five to 10 years or more before they retire, the good news is they still have time to make any necessary adjustments.

How inflation affects retirement savings

The Federal Reserve generally considers an inflation rate of 2% as acceptable to maintain a healthy economy. To overcome the effects of inflation, your retirement savings would need to grow at a 2% annual rate to maintain your spending power into the future, provided inflation remains at 2%.

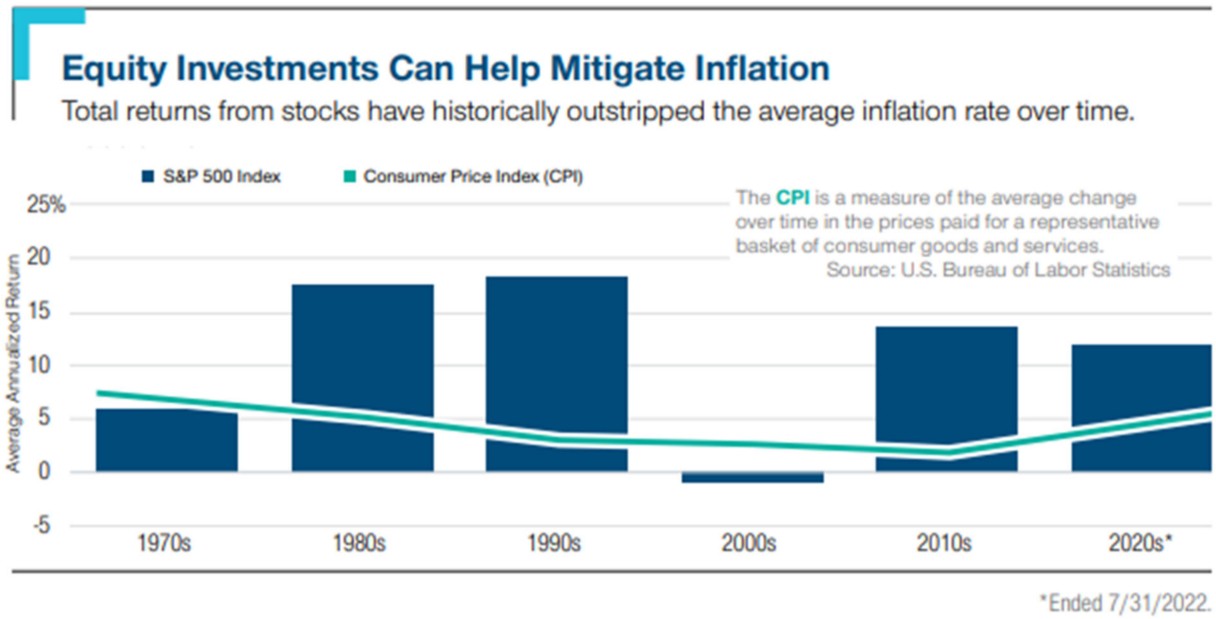
When inflation is higher, as it has been recently, the buying power of your savings declines more rapidly. Growth beyond inflation is necessary to ensure that you accumulate the savings you will need to support yourself in retirement.

These retirement planning strategies can help:

1. Keep your retirement savings on track:

Many advisors recommend that you have about seven times your income saved at age 55. By age 60, you should have about nine times your income. If you find yourself lagging, consider making catch-up contributions. In 2022, anyone age 50 or older can contribute an additional $6,500 to their 401(k) plan each year, as well as an extra $1,000 to Traditional and Roth IRAs, combined.

2. Account for inflation in your asset allocation:
In general, the longer your time horizon, the more of your portfolio you should hold in stocks. As investors get closer to and are in retirement, adding bonds can help dampen market volatility, and an appropriate mix of stocks, bonds, and cash will provide the growth potential needed to help maintain purchasing power. Stock returns have generally stayed well ahead of inflation over the long term. See Chart Below:



Source: T. Rowe Price

3. Decide when to claim Social Security:
Social Security benefits are a guaranteed source of income that is adjusted each year to account for changes in the cost of living. Cost-of-living increases make Social Security benefits one of the best inflation hedges and a valuable source of income in retirement. The longer you can wait to start receiving your benefits payments, the larger the proportion of your retirement income that is adjusted for inflation.

4. Consider delaying retirement:
Delaying retirement or taking on a part-time job to supplement your current income could create more flexibility in growing your retirement savings or reducing your initial withdrawals. The longer you avoid drawing down your retirement savings, the more time you'll have to take advantage of compound growth potential.

5. Adjust your expectations for spending:
You can help make sure your savings will support you through retirement by planning to adjust your retirement withdrawal based on how conditions unfold in the future. This approach can add flexibility to your retirement plan even in the face of rising inflation.

HAVE YOU SAVED ENOUGH FOR RETIREMENT?

Start with how much you have already saved:

The first step in figuring out how much you should be saving is to look at how much you've already put away. Compare that number with your current income and figure out, according to your age, how many multiples of your annual income you've managed to set aside. The closer you get to retirement, the higher that multiple should be.

Determine how much you need to save:

Most investors should be saving at least 15% of their income to stay on target at various ages. From time to time, however, you may find yourself lagging and may need to adjust the amount you are saving. To determine the percentage of income you should consider setting aside going forward see the chart below:

Percentage of Income You May Need to Save

To calculate your savings multiple, divide your total retirement savings by your annual income.

	Amount You Have Already Saved, as a Multiple of Income										
Current Age	0x	1x	2x	3x	4x	5x	6x	7x	8x	9x	10x
30	16%	13%	9%	6%							
35	18%	14%	11%	7%	4%						
40	21%	17%	13%	9%	6%				Under 3%		
45	26%	22%	17%	13%	9%	5%					
50	31%	27%	23%	19%	15%	10%	6%				
55	More than 33%		30%	26%	22%	17%	13%	9%	4%		
60					31%	26%	22%	17%	13%	8%	4%

Note: This table is based on a couple earning approximately $150,000 or a single person earning approximately $75,000. If your income is higher, the savings percentages will also be higher, especially as you get older.

Source: T. Rowe Price

You can calculate this amount at a household level too, especially if both partners are saving for retirement. Use your household's income and combined retirement savings, so far, to determine the percentage of income you may each need to save. (Remember that this percentage includes contributions you may be receiving from your employer.)

For example, a 50-year-old earning $100,000 who has saved about five years' worth of income would need to save 10% of his/her salary to be on target to meet the retirement goals, while if the worker had already saved six times the worker salary, the amount needed to save to stay on track would drop to 6%.

MAKE ADJUSTMENTS If NECESSARY

- Keep prioritizing your retirement savings, and check in annually to make sure you're still saving enough.
- Use the previous table as a guide to determine if you may need to increase your savings amount.
- Ideally, you can increase your savings rate right away to the amount listed in the table, but if that's not possible, work to increase it gradually over time until you get there.

- If you're approaching retirement age and are unable to hit your target savings rate, you still have options.
- Take time to think about the lifestyle you may want in retirement and if you have flexibility to make any adjustments.
- Regularly monitoring your progress makes it easier to identify when you may need to adjust course with your plan.

HAS ANYTHING CHANGED?

S.L. Reed & Company can help:

401(k) Rollover from Previous Employer
Rollover IRA out of a Retirement Plan
Traditional or ROTH IRA
Taxable Accounts
Annuities
Insurance

Additionally, we can work with you on:
Managed Accounts

For Assistance Call:
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