Inflation-Fighting Strategies For Retirees

At different times, inflation may be high or low, but, except in those rare periods of deflation, it's always with us. During your working years, when you may receive boosts in your salary, you at least have the potential to keep up with inflation — but what happens when you retire? As a retiree, what can you do to cope with the rising cost of living?

Here are a few suggestions:

• *Keep some growth potential in your investment portfolio*. During your retirement years, you may want to move your portfolio toward a somewhat more conservative approach by owning investments that offer significant protection of principal. However, these same investments offer little in the way of growth, which means they are susceptible to inflation. Consequently, you'll also need to own a reasonable amount in growth-oriented investments, such as stocks and stock-based securities. Of course, these investments will fluctuate in value as the financial markets move up and down, but by owning some more conservative investments, you can reduce the overall impact of market volatility on your portfolio.

• *Consider inflation-adjusted bonds*. You might want to consider Treasury Inflation-Protected Securities (TIPS), which are indexed to the Consumer Price Index, so the principal increases with inflation (and decreases with deflation). Another inflation-adjusted Treasury security is the I bond, which differs from TIPS in that the principal doesn't change but the interest rate does, every six months, based on a combination of a fixed interest rate and the inflation rate. Like all investments, though, TIPS and I bonds have various features and risks of which you should be aware before investing.

• *Delay taking Social Security*. You can start collecting Social Security benefits at 62, but your monthly checks will be much bigger if you wait until your full retirement age, likely between 66 and 67. You would receive the maximum amount if you waited until 70 before collecting. Of course, if you need the money to help support your retirement, you may not be able to afford to wait, but if you can, your bigger checks can be a big help against inflation.

• *Don't hold too much cash*. During your working years, it's a good idea to have an emergency fund containing several months' worth of living expenses in liquid, low-risk accounts. And when you're retired, you might want to have up to year's worth of expenses in such a fund. But be careful about holding too much cash, as it will lose purchasing power each year due to inflation. Instead, when keeping cash, seek the "Goldilocks" solution — not too little, not too much, but just the right amount.

• *Think about extending your employment*. If you like what you do, you might want to consider working a few years longer than you had originally intended. Not only will you be bringing in more income, but you could also continue to contribute to retirement accounts, including your IRA and 401(k). Even if you don't want to continue working full time, you could do some part-time work or consulting. Any earned income you bring in can help in your fight against inflation.

You can't control the cost of living, but by making some of the moves described above, you can help yourself mount a defense against the effects of inflation during your retirement years.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

Edward Jones. Member SIPC.

11 – Dec. 9, 2024
546 words