Wealthy and Wise®

Inflation Adjustments for Retirement

It is critical to determine whether an inflation goal for retirement cash flow is calculated in today's dollars adjusted for inflation or beginning with retirement. If today's dollars adjusted for inflation are the benchmark for their 3.00% inflation adjustment, by the time Tom and Jodie retire in 30 years, their first year's, after-tax, retirement cash flow goal of $250,000 will have increased to $606,816 – growing after that by 3.00% a year.

While they will want to work toward this goal in future years, for the analysis in Blog #189, we based the beginning of the inflation assumption starting at age 65. Otherwise, they will need a massive commitment of personal income to their retirement plan. They already are allocating a significant amount: $36,000 a year for their two 401(k)s and $20,000 for either the new IUL or term plus equities package.

As you can see from these issues, advising clients about their retirement planning is not a one-and-done project. Their plans require an annual review, and if you don't do it another adviser will, and you will undoubtedly lose Tom and Jodie as clients. Yearly reviews also produce the justification for charging annual monitoring fees.

Note: While 3.00% is an artificial number for the future, whatever actual inflation occurs should be reflected in your annual reviews as their retirement plan is brought up to date.