

# AHWATUKEE FOOTHILLS NEWS

## Inflation Requires Better Retirement Planning



*January 5, 2022 by Dr. Harold Wong*

Inflation is accelerating in America. Recent data shows that the producer price index (a wholesale prices measure) in November, 2021 increased by 9.6% over the previous 12 months, the largest gain on record.

**Case Study:** Joe and Susan Boomer are 60 and are not sure when they will retire. Many of their retired friends who are 10-20 years older than them are now very frightened by the current high inflation. This is forcing Joe and Susan to rethink their retirement plans and investment strategies. Assume that inflation will average 6% over the next 10 years.

**Facts:** Joe and Susan, currently, have total wages of \$150,000 and \$10,000 of investment income. They pay a total of \$11,475 of Social Security and Medicare payroll taxes and \$22,000 total income taxes. They save \$30,000 per year and invest it. They have saved \$1 million of financial assets and have no debts at all. They hope to be able to spend \$120,000 per year in retirement and expect to live until 92. They have no pensions and their combined Social Security if taken at age 62 would be \$35,000 annually vs. \$70,000 if taken at age 70.

**Future Retirement Income in 10 years if do normal planning:** According to [www.moneychimp.com](http://www.moneychimp.com), the compound annual growth rate in the S&P 500 Index has been 4.57% in the 21-year period starting 1/1/2000. When one adds dividends of 2.02% the gross is 6.59%. If one subtracts a future 6% inflation rate, the net return would be 0.59% before annual Wall Street fees. Even if they invest only in super low-fee Vanguard

index funds, their projected net return would be ZERO. Note that if you loan to Uncle Sam by buying a 30-year US Treasury Bond, the current interest yield is 1.91%.

Future income will be: \$35,000 from Social Security (SS) taken at age 62 (most take it at 62) plus an assumed average 3% cost-of-living increases for 8 years = \$44,337 annual SS income at age 70. One would add their \$1 million times 2% return = \$20,000 annually. One would add their \$30,000 of annual savings for 10 years = \$300,000 more saved times 2% return, which gives them an extra \$6,000 of income. Now total retirement income is \$70,337, which is only 59% of their desired \$120,000 retirement income. However, with 6% annual inflation for the next 10 years, they would need \$214,902 annual income in 10 years to buy what \$120,000 will buy today. Their \$70,337 retirement income will be only 33% of what is needed and retirement looks grim. Inflation means they need 3 times their projected income to retire as planned!

**Better Retirement Income with Different Plan:** They take SS at age 70 and it's \$80,000/year counting cost-of-living increases. They deposit \$700,000 in a private pension plan at age 60 and it generates \$70,000/year at age 70. They invest \$70,000 annually in solar equipment that saves them \$20,000/year in taxes and has a 10% return. Using a financial calculator: PMT = \$70,000; I = 10% return; N = 10 years; and FV (Future Value) = \$1,227,181. At age 70, 7% (\$1,227,181) = \$85,903. Now total retirement income is \$235,903 and allows them to spend more than what they planned on,

even with high inflation for the next 10 years. They will still have some extra financial assets left over for emergencies.

**Conclusion:** Continued high inflation requires innovative retirement planning!

**Free Live Seminar and Lunch:** Saturday 1/29/2022 at Hyatt Place, 3535 W. Chandler Blvd. Chandler, AZ 85226, with seminar starting at 10 am and Free Lunch at 12:15 pm catered by La Madeleine French Café. Topic is "Double Your Social Security & Other Retirement Income and Pay Less Tax!"

To RSVP for the seminar or schedule a free consultation, please contact Dr. Harold Wong at (480) 706-0177 or [harold\\_wong@hotmail.com](mailto:harold_wong@hotmail.com). His website is [www.drharoldwong.com](http://www.drharoldwong.com).

Free Information on Retirement Planning, Solar Business Investments, and Tax Savings can be found at [www.drharoldwong.com](http://www.drharoldwong.com) or [www.solarbusinessinvestments.com](http://www.solarbusinessinvestments.com).

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Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/Radio programs.