

AHWATUKEE FOOTHILLS NEWS

If Inflation Continues To Accelerate For Years



December 1, 2021 by Dr. Harold Wong

The previous article, “Inflation’s History in U.S. is not a very pretty sight”, published 11/03/2021 in the Ahwatukee Foothills News, quoted recent news reports that inflation is a serious concern to most Americans. What if inflation continues to accelerate for years?

The effects of inflation fall hardest on those with: lower incomes; lower assets; and the retired on fixed incomes. It’s projected that the Social Security Administration will boost benefits 5.9% in 2022, which would be the biggest increase since 1982. For a single person who received a \$1,565 monthly check this year, it would raise \$92 to an average \$1,657 monthly check in 2022.

In 2019, the median US family household income was \$68,703 and \$67,521 in 2020. In 2019, about 30.7% of households earned over \$100,000 in 2020. Source: IbisWord, Statista.

If a family spends \$75,000/year (after paying all income taxes) and future inflation is 6% per year, the family will need \$150,915 in 12 years and \$303,670 in 25 years. It’s even worse for many Baby Boomers and Generation X, who have most of their savings in IRAs or 401ks.

Example: a couple is spending \$75,000 the first year they retire at 66. Their steady income from Social Security is \$50,000 and so they need to draw \$25,000 from their IRAs or 401ks. However, any withdrawal is taxed. Suppose it’s only a 20% combined tax rate between federal and state income tax They would have to withdraw \$31,250, pay \$6,250 in taxes, in order to net the other \$25,000 needed.

In 12 years when they are age 78, inflation requires \$150,915 to buy what \$75,000 buys today. If Social Security is now \$70,000 (with 12 years of cost-of-living increases), they need to pull \$107,887 from their IRAs and 401ks; pay a 25% rate of tax (\$26,972); and net the additional \$80,915 needed to be able to have \$150,915 of total income to equal total spending. Even if they have \$1 million saved, with most of it in IRAs and 401ks, it won’t last more than about 10 years before all their savings are gone.

How to Protect Yourself if High Inflation Continues for Years?

Gold: isn’t a perfect inflation hedge over the last 1-20 years. The current price of gold on 11/17/2021 is \$1,862.66 per troy ounce. The 10-year High was \$2,067.16 and the 10-Year Low was \$1,049.41. The total increase was only a \$120.16 increase over 10 years, which is 6.90% increase.

Real Estate: Over the last few years, Phoenix has either led the nation in year-over-year price appreciation or has been one of the highest markets, along with San Diego CA, Seattle WA, and Austin TX.

According to Zillow, among the nation’s largest markets, annual appreciation was the second-fastest in August 2021 in Phoenix (about 31.8%). Only Austin, Texas, with 44.8 percent, beats Phoenix. The annual rental growth in Phoenix was 24.8%. Typical property values in Phoenix-Mesa-Scottsdale Metro grew by over 31.9% from Aug 2020 to Aug 2021, compared to only 10.5% the previous year and 5.3% from Aug 2018 to Aug 2019.

In September, 2021, the typical Phoenix home was worth \$376,684 vs. \$109,000 in October, 2011. That’s a compound average growth rate of 13.2%. An additional benefit is “depreciating debt”, the fact that your mortgage payment is fixed but the same payment is worth less to the lender in the future due to inflation.

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. His website is www.drharoldwong.com.

Free Information on Retirement Planning, Solar Business Investments, and Tax Savings can be found at www.drharoldwong.com or www.solarbusinessinvestments.com.

To schedule your Free Consultation Contact Dr. Harold Wong at (480) 706-0177 or harold_wong@hotmail.com to RSVP.

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