

5 Things You Must Know About Inflation

1 Inflation Is a Historic Reality

\$100 in groceries purchased in 2004 cost approximately \$135.82 worth of the same groceries in 2019. That's a 26% reduction of a dollar's buying power in the past 15 years. Most CPI (Consumer Price Index) numbers you see are based on \$100 worth of purchases made in 1982-84. For instance, if you see a CPI-W number for June 2019 of 249.747, it means that it would take about \$249.75 in today's dollars to purchase what would have cost \$100 in 1982.

<https://www.ssa.gov/oact/STATS/cpiw.html>

<https://www.usinflationcalculator.com/frequently-asked-questions-faqs/>

2 Inflation Is Part of the Federal Reserve's Monetary Policy

Even though inflation was only 1.8% as of July 2019 compared to a year ago, back in July 1980 it was 13.1%! In July 2019, the Board of Governors of the Federal Reserve stated: "On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed."

The Federal Reserve is always preparing for future inflation, and targets 2% as a healthy mark. A good financial plan will take inflation into account.

<https://www.bls.gov/news.release/cpi.htm>

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20190731a.htm>

<https://www.usinflationcalculator.com/inflation/historical-inflation-rates/>

3 COLA (Cost Of Living Adjustments) Are Made to Social Security Payments Based On Inflation

Since 1975, Social Security has applied an annual cost of living adjustment upwards to help maintain retirees' buying power relative to inflation rates. (NOTE: Monthly Social Security and Supplemental Security Income benefits for more than 67 million Americans increased 2.8% in 2019. COLA announcements for the upcoming year are generally made in October.) Increases are based on the rounded Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Cost data is collected within eight overall categories—food and beverages, housing, apparel, transportation, medical care, recreation, education/communication, and other.

<https://www.ssa.gov/news/press/releases/2018/#10-2018-1>

4 The Consumer Price Index (CPI): CPI-W Versus CPI-U or C-CPI-U Measures of Inflation

Economists at the Bureau of Labor Statistics, part of the United States

Department of Labor, say their indexes may not accurately reflect how each person spends money. In other words, statistics are averages, and even though inflation might be up because of the higher cost of gasoline, people who don't drive may still experience reduced buying power. Some indexes created by the Bureau, like the Chained CPI, may better factor in changes in trends and changes in spending patterns—like consumers substituting a particular food staple if one CPI item category rises and another doesn't. The BLS uses pork and beef prices as an example.

The Bureau publishes CPIs for two population groups: (1) the CPI for Urban Wage Earners and Clerical Workers (CPI-W), which covers households of wage earners and clerical workers that comprise approximately 28 percent of the total population and (2) the CPI for All Urban Consumers (CPI-U) and the Chained CPI for All Urban Consumers (C-CPI-U), which covers approximately 88 percent of the total population and includes, in addition to wage earners and clerical worker households, groups such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The tax reform package passed in December 2017 does include a provision in which the Chained CPI is now used to determine when to adjust tax brackets and eligibility for deductions. Congress, however, would likely have to pass new legislation for the Chained CPI to be applied to Social Security and inflation adjustments.

<https://www.bls.gov/cpi/overview.htm#item1>

https://www.bls.gov/cpi/questions-and-answers-addendum.htm#5_1

<https://www.bls.gov/cpi/additional-resources/chained-cpi-questions-and-answers.htm>

<https://www.bls.gov/opub/btn/volume-3/why-does-bls-provide-both-the-cpi-w-and-cpi-u.htm>

5 Inflation Solutions

Once you realize how inflation is calculated, and how detrimental inflation can be when you're on a fixed income, you'll want to search for solutions that will help you in retirement. Let's discuss solutions, such as your investments, fixed indexed annuities with inflation riders and other options.

Our goal is to help your retirement income payments increase as inflation increases while striving to protect your purchasing power over your retirement lifetime.

Call us today to learn more.

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