ACTION PLANNER SERIES

Help manage inflation in retirement

Exclusive whitewhitepaper for Corebridge Financial by

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Consider the potential impact of inflation over time

In the 12 months ending in December 2023, prices for consumer goods and services rose by 3.4%. This was a welcome reprieve after inflation rates of 7% in 2021 and 6.5% in 2022.[1]

The sharp increase in prices in 2021 and 2022 was a surprise to retirees who haven't seen inflation rise above 4.1% over the previous 30 years.

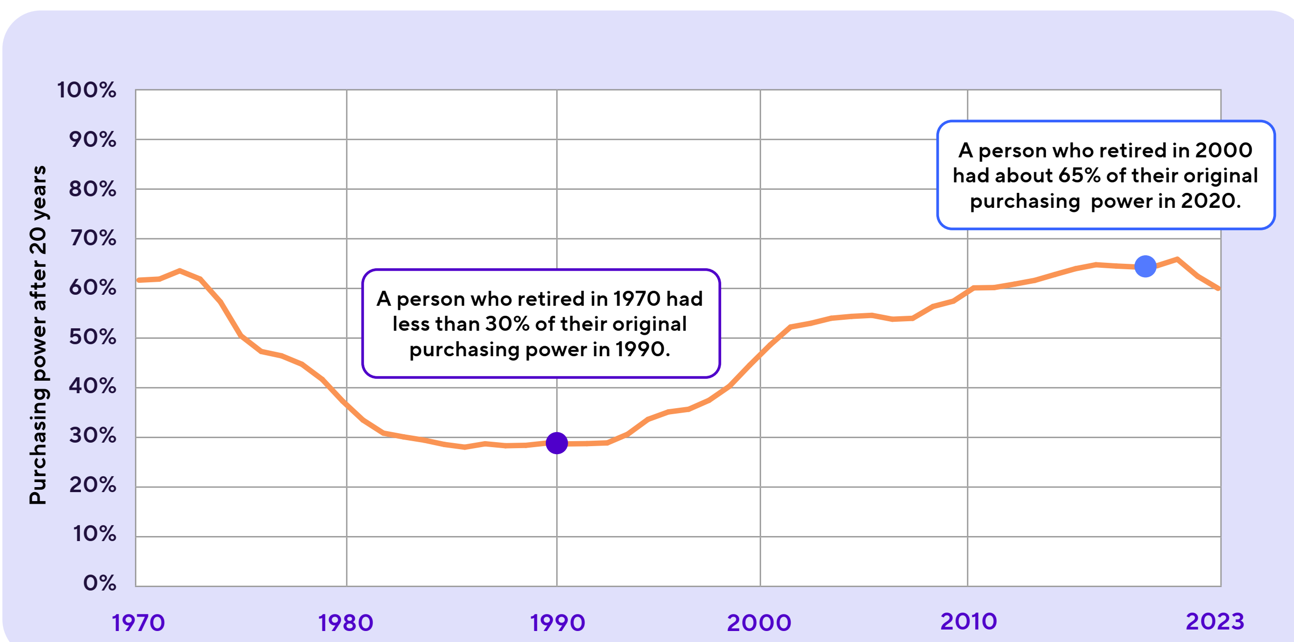
Inflation represents a loss of purchasing power. Here's a basic, hypothetical example: At the beginning of retirement, suppose that $2,000 of monthly income is enough to cover most of a retiree's essential expenses such as groceries, gasoline, utility payments and healthcare. After a few years of rising inflation, purchasing power declines. Over a period of 20 years, a retiree may find that their $2,000 of income can pay for only $1,000 worth of goods today.

The challenge when it comes to planning is that no retiree knows in advance how much inflation will affect the cost of maintaining their lifestyle.

Exhibit 1:

Purchasing power of retirement income after 20 years—a historical look back

- A person who retired in 1970 with an annual $20,000 pension had only about $6,000 of purchasing power 20 years later in 1990.
- A person who retired in 2000 with an annual $20,000 pension had about $13,000 of purchasing power in 2020. This gradual erosion is unusually low compared to previous rolling 20-year periods shown.



Source: Author calculations using *Morningstar Stocks, Bonds, Bills, and Inflation* dataset.

[1] Consumer price index, Bureau of Labor Statistics, February 2024.

Take a look at recent inflation

Many retirees fall victim to a behavioral phenomenon known as the "money illusion."

It's common to hear older Americans reminisce about 75 cent hamburgers or $6,000 new cars. A 75-cent hamburger in 1975 is, in fact, $4.43 in 2024 dollars. And a $6,000 car is $35,478 adjusted for inflation. As prices rise gradually, it simply takes more dollars to buy the same lifestyle.

Although retirees are at a disadvantage because they may not be able to work more to earn the extra income needed to pay for higher expenses, they do have the advantage of budget flexibility. If airfare prices spike, they can wait to take a vacation or perhaps hold off on replacing a car. Someone who is still working and doesn't work remotely has few options when public transportation and/or car insurance prices rise.

Each retiree faces their own personal inflation rate depending on their budget and their willingness to adjust spending when prices rise.

Inflation breakdown for 2023—some categories with the highest price increases[1]:

Car insurance	20% ↑
Juices and drinks	19% ↑
Sporting event tickets	15% ↑
Vending machine food	13% ↑
Steak	11% ↑
Veterinary services	11% ↑

[1] Consumer price index, Bureau of Labor Statistics, February 2024.

Explore a strategy to help combat inflation

Historically, investing in a diversified portfolio has provided an effective approach to helping manage inflation risk over longer holding periods.

This is illustrated in Exhibit 2, which shows the cumulative after-inflation growth for a portfolio with 60% stocks and 40% bonds over 20-year time periods in the historical data. (Of course, diversification does not guarantee investment success or protect against loss.)

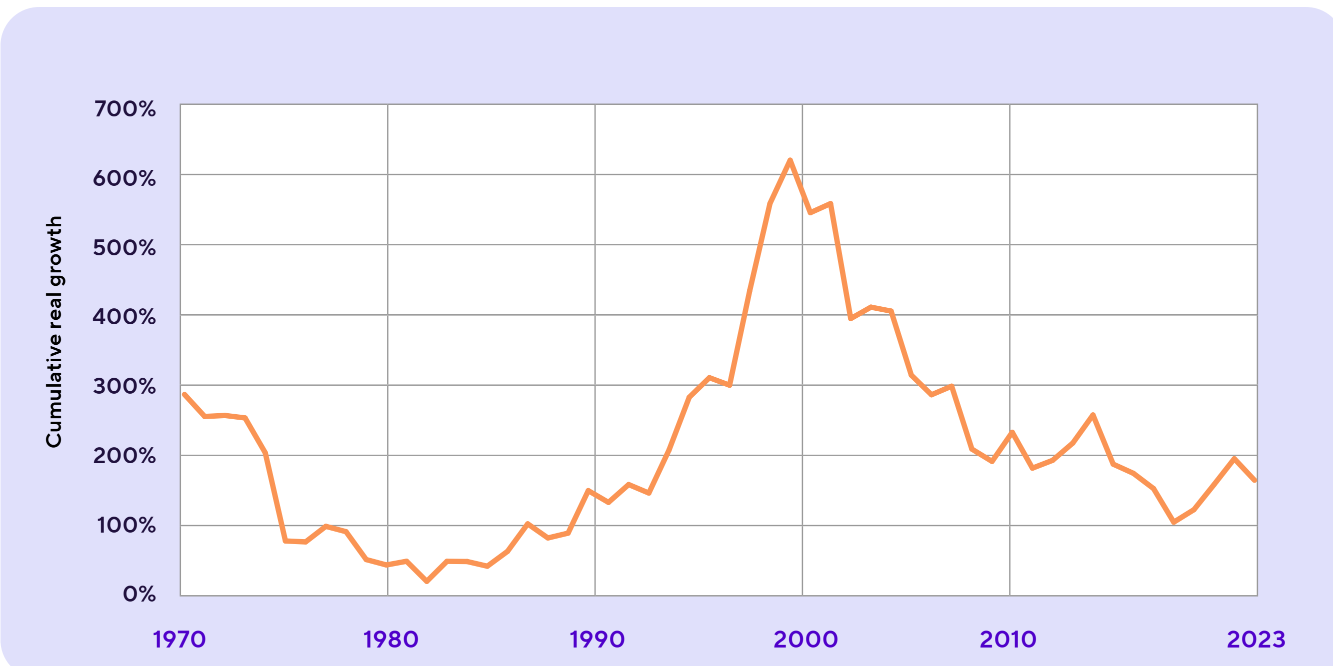
In no case during the period examined did a balanced portfolio fail to provide the growth needed to keep pace with inflation.

- In the worst case, the portfolio would have grown to an amount that was 12% larger than the original purchasing power over the 20-year period ending in 1982.
- At the other extreme, growth after 20 years was almost 609% for the 20-year period ending in 2000.

A diversified investment portfolio has demonstrated an ability to protect against a decline in purchasing power over long-term time horizons. (Of course, past performance is not a guarantee of future results. And an investment in stocks and bonds is subject to potential loss.)

Exhibit 2:

Cumulative inflation-adjusted growth for a 60/40 portfolio of stocks and bonds after 20 years



Source: Author calculations using Morningstar *Stocks, Bonds, Bills, and Inflation* dataset. Stocks are represented by the large-capitalization U.S. stock index and bonds are represented by intermediate-term U.S. government Treasury bonds. Indices are unmanaged and not available for direct investment. This example does not represent an actual portfolio or result. Past performance does not indicate future results.

Positioning the overall portfolio for growth potential and lasting retirement income

How can individuals help address the risk of inflation in retirement?

Accepting investment risk has historically provided the higher returns needed to outpace inflation over the long run. However, risk does involve the possibility of loss, and past performance is not a guarantee of future results. Further, an investment loss early in retirement can be impactful and may require a cut in spending to help ensure that the money will last.

- A retiree can help feel more confident about investing for greater long-term growth potential by positioning part of their overall retirement portfolio in an annuity with lifetime income benefits that will protect a portion of their spending no matter how the markets perform. For example, to enhance retirement security, a retiree may choose to cover their essential retirement expenses (e.g., housing, utilities, groceries, etc.) with protected lifetime income from an annuity.
- An annuity can help transfer some of the longevity risk from the retiree's own investment portfolio to an insurance company that is better positioned to manage such risks across a large group of individuals. The "income insurance" that an annuity provides may allow the retiree to accept the investment risk that helps preserve long-term purchasing power of the balance of their investment portfolio, while also protecting future spending needs through a lifetime income benefit that delivers protected lifetime income.
- A retiree who has a portfolio that includes both unprotected investments (such as a diversified portfolio of stocks and bonds), along with an annuity with a lifetime income benefit, can choose to spend primarily from their annuity income. By doing so, the retiree can maintain a portfolio of investments held primarily to achieve long-term growth.

Note, it can also be important to look for an annuity with a lifetime income benefit that offers high withdrawal rates or is designed to deliver rising income. Adding lifetime income that has the potential to rise may help offset any increases in the cost of living during retirement. In addition, with a higher annuity withdrawal rate, less of the overall investment portfolio needs to be positioned to the annuity to generate the desired annual income amount. This allows more of the remaining assets in the overall investment portfolio to stay at work for long-term growth potential.

The investment portfolio can be used to fund discretionary retirement expenses or later life spending needs from investment assets that may be better positioned for growth and protection against the risk of a long-term decline in purchasing power. What's more, any untapped assets from the investment portfolio portion of the overall portfolio can be used for legacy purposes.

"A retiree can help feel more confident about investing for greater long-term growth potential by positioning part of their overall retirement portfolio in an annuity with lifetime income benefits that will protect a portion of their spending no matter how the markets perform."

Action Planner action steps

Take the time to consider how inflation may impact your expenses in retirement.

Explore how you can use an annuity to help cover your essential expenses and enhance your retirement income security.

Talk to your financial professional today to see if an annuity may make sense for you.

Action today can lead to great things tomorrow. **Action is everything.**

There is no guarantee that an annuity with an income protection feature will keep pace with inflation or rising costs.

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Early withdrawals may be subject to withdrawal charges and a Market Value Adjustment (MVA) may also apply to certain fixed annuities and index annuities. Partial withdrawals may reduce benefits available under the contract, as well as the amount available upon a full surrender. Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, an additional 10% federal tax may apply. Keep in mind, for retirement accounts (such as IRAs), an annuity provides no additional tax-deferred benefit beyond that provided by the retirement account itself. An investment in a variable annuity involves investment risk, including the possible loss of principal. The contract, when surrendered, may be worth more or less than the total amount invested.

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