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## **The Personal Impact of Inflation**

Inflation is difficult to measure and predict. Yet it is extremely important to the economy, asset valuations, public policy, and an individual's retirement income and personal wealth management plan.

Macroeconomic inflation is the general increase in prices that everyone must contend with. Personal inflation, however, is critically important because it is the real rate of inflation you must manage and live with and can actually vary from person to person. Personal inflation arises from the fact that all goods and services have their own unique inflation or deflation rate. And since every individual has their own unique spending habits and patterns, every individual has a unique personal inflation rate they must plan for.

What is important for retirees and future retirees is understanding their personal inflation exposure. Research shows there are four main components of personal inflation: age, family status (size of household), socioeconomic status (income), and housing status (location and tenure). Of these age and family status seem to have the greatest effect on personal inflation. This makes them of particular importance when developing wealth, retirement income and investment plans.

Age is strongly correlated to potentially decreasing health and increasing healthcare expenditures. Paying for healthcare, long term care or medication tends to coincide with retirement. Family status, particularly the number of college age children and the exposure to rising costs of education, can have a negative effect on personal inflation.

Where you live can have an impact on your cost of living. Macroeconomic forecasts of inflation can provide an estimation and framework for developing your own personal inflation rate.

We believe reviewing your total personal living expenses, their annual growth rate and conducting a personal inflation risk analysis should be completed as part of an annual investment review. With this discipline, you can more optimally structure your investments to more closely match your income needs.

As always, we hope this article has been beneficial and useful in your wealth management and investment planning. Please contact us if you have any questions or would like to review your personal inflation rate.

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