

Inflation: The silent thief

A penny saved is a penny earned, right? Not necessarily. Thanks to a little thing called inflation, that penny could be worth less over time than when it was first dropped into the piggy bank. That's why if you are saving for a long-term goal, such as retirement – you can't afford to ignore the effect rising rates can have on the purchasing power of your future assets.

A closer look at inflation

Inflation has taken a starring role in the news about the economy recently, but what is it really? It's basically the increase in the price of any product or service. Inflation plays a consistent role in the economy and will impact how much you can buy with your money. An inflation rate of 4% might not seem to be worth a second thought — until you consider the impact it can have on the purchasing power of your money over the long-term. For example, in just 20 years, 4% inflation annually would drive the value of a dollar down to \$0.46.^{1,5}

What it means to your wallet

You can also look at it another way. By 2045, the price you would pay for your concert ticket, new cell phone or house would be significantly more. The accompanying table illustrates what these projected costs could look like with a 4% rate of inflation eating away at your savings' purchasing power.

Inflation has already impacted the cost of popular items



Concert Ticket²



Cell Phone³

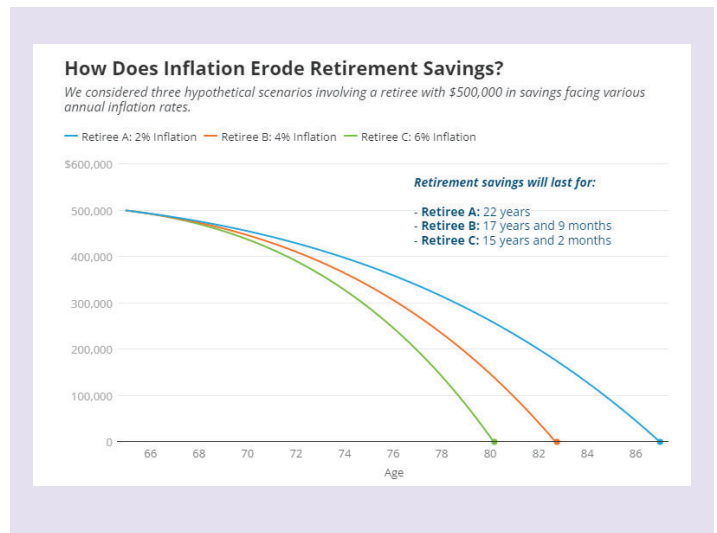


House⁴

	Concert Ticket ²	Cell Phone ³	House ⁴
2000	\$50	\$600	\$119,600
Today	\$90+	\$999	\$293,349
2045	\$222	\$2,462	\$723,022

Impact on retirement savings

Increasing costs can eat into your retirement savings, resulting in a shortage of retirement income. The accompanying chart shows how long \$500,000 in savings will last for a retiree facing various inflation rates. The higher the inflation rate, the faster the retiree will run out of money.



Synder, Suzanne. (2022, September 8) This Chart Shows How Inflation Can Erode Your Retirement Savings – 2022 Study. Smart Asset. <https://smartasset.com/data-studies/inflation-retirement-savings>

When faced with inflation, consider the following to keep your retirement savings on track:

- 1. Control your spending with a budget.** Track your expenses for a month. You might be amazed at how much you are spending on items. By knowing what you are spending, you can look for ways to cut your expenses. By cutting back in other areas, you can keep contributing to your retirement savings.
- 2. Keep saving through periods of inflation.** It's important to keep contributing to your retirement savings so that you receive your employer's full match, if offered. If you find extra funds, consider increasing your contribution rate so more of your money is going into your savings.

3. Review your investments. When reviewing the investments in your retirement account, you will want to consider the rate of return and the real rate of return, which is determined by factoring in the effects of inflation. For example, if your investment produced a 6% return during a period when the rate of inflation was 3%, then your real rate of return would have been 3%.

When looking to achieve long-term financial goals, such as accumulating enough money for a comfortable retirement, you'll need to create a portfolio of investments with the potential to provide sufficient returns once you take inflation into account.



- 1 Projection is for illustrative purposes only and based on a 4% rate of inflation. Actual rate of inflation may vary which would impact the cost of the goods and services displayed.
2. Concert ticket data obtained from aarp.com.
- 3 Cell phone data obtained from ooma.com and apple.com.
- 4 New home data obtained from CNBC.com and fool.com.
- 5 https://www.in2013dollars.com/us/inflation/2023?endYear=2043&amount=1&future_pct=0.04

ADP, Inc. owns and operates the ADP participant websites and the ADP Mobile Solutions App. ADP, Inc. is a retirement plan record keeper and is not associated with your employer. By delivering this material, ADP, Inc. its affiliates and their employees ("ADP") are merely providing a service to clients of ADP Retirement Services. ADP, Inc. and its affiliates do not provide investment, tax or legal advice to individuals. Questions about your plan's provisions or services available that may apply to you should be directed to your plan administrator or legal, tax or financial advisor.

ADP RETIREMENT SERVICES 71 Hanover Road, Florham Park, NJ 07932

ADP, the ADP logo and Always Designing for People are trademarks of ADP, Inc. All other trademarks and service marks are the property of their respective owners. 99-6820-P-FE-08-0524 M-547585-2024-05-16 © 2024 ADP, Inc. All Rights Reserved.

