



## The Retirement Dilemma: Part 2

In retirement, most people aim for financial security—but rising costs can make that harder than expected. Let's talk about it.

Many seniors prefer to invest in "safe" options, but here's the reality: your expenses don't stay the same. Costs like hydro bills, property taxes, and healthcare typically climb year after year. So, what's the plan? Either spend less, dip deeper into your savings, or find a balance between the two.

The big challenge? Making sure you don't outlive your money!

**Tightening the Belt** - Cutting back can help, but only to a point. Downsizing your home, skipping vacations, buying fewer gifts for the grandkids, or switching to cheaper groceries might make a dent. But let's face it—there's only so much you can cut before your quality of life takes a hit.

**The Rule of 72 and the Retirement Twist** - You may have heard of the "Rule of 72" during your savings years. It's a simple formula that shows how long it takes for your money to double at a given return rate. For example, with a 7% return, your savings double in about 10 years; at 10%, it's 7 years.

But here's the twist: retirement is about managing costs, and that's where the "Rule of 114" comes into play. It estimates how long it will take for your expenses to triple.

At a 4% inflation rate (the historical average since WWII), your costs will triple in just under 30 years. At 6%, they triple in 19 years. And with retirements now lasting as long as working years—or even longer—this is a challenge you can't ignore.

**What About "Low" Inflation?** - Sure, inflation might seem tame at under 2% today\*. But the recent pandemic showed very clearly how an economic shock can result in higher inflation that permanently increases the costs of everyday expenses. Dramatic higher living costs can wreak havoc if a portfolio is heavily invested in fixed-income assets. Without a strategy for rising income, you could lose purchasing power and "go broke slowly."

And let's not forget: the official inflation rate doesn't always tell the full story. The Bank of Canada smooths out inflation numbers by excluding volatile but essential items like fruits, vegetables, and fuel. Yet these are things you need every day! Meanwhile, property taxes, hydro rates, healthcare costs, and even stamps are all climbing faster than 2%.

**So, What's the Solution?** - The question is: does your investment plan prepare you for rising costs? If it doesn't, now's the time to act. A strong strategy should include ways to grow your income, protect your purchasing power, and ensure you don't have to sacrifice the lifestyle you've worked so hard to enjoy.

**Looking for help in securing your retirement? Contact our office!**

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