Your Money Is At Risk!

by Christine B. Cooper, MS, CLTC
Tampa Bay's Woman of the Year in Financial Services

"To help the women of Tampa Bay and all readers of this publication, I am setting aside every Thursday morning from 9 am to 10:30 am to be available for your call, no appointment needed. Call me!"

Your hard-earned money is at risk from an insidious enemy – the inflation pirate. Here's a riddle: when is a thousand dollars not a thousand dollars? The answer is, anytime in the future, as shown in the table below, at various assumed rates of inflation. For example, your thousand dollars today will have the purchasing power of $308, thirty years in the future, if inflation averages just 4% per year.

Years in Future	2 % Inflation	4 % Inflation	6% Inflation
1	$980	$962	$943
10	$820	$676	$558
20	$673	$456	$312
30	$552	$308	$174

Inflation has been defined as the persistent increase in the level of consumer prices causing a decline in the purchasing power of money. We all learned about this simple principle in our economics classes, even in high school. But as we go through life, living in the moment, we tend to forget about inflation because on a year to year basis it may not be that noticeable. Nevertheless, when viewed from the perspective of 10, 20, or 30 years into the future, inflation is one the biggest obstacles to our financial security. Even at moderate rates of inflation, our future standard of living can be greatly eroded.

Why do we find this so hard to believe, even though we have already experienced its effects? In 1980, thirty years ago, the average price of a new car was $5,413; today, in 2010, it is $24,170. A gallon of gas in 1980 was $1.03, on average, and today it is almost three times as much. The average new home in 1980 was $86,159; today, it is $173,100. Looking at it slightly differently, let's say you need $8000 per month and you take steps to provide yourself with that much income. Thirty years from now, at an inflation rate of 4%, that $8000 per month will have the purchasing power of about $2600.

Still not convinced? Are you thinking perhaps that the inflation rate could never be 4%? In the 70 year period from 1939 to 2008, the average compound rate of inflation was 4%. In the 50 year period from 1959 to 2008, the average compound rate of inflation was 4.1%. In the 40 year period from 1969 to 2008, the average compound rate of inflation was 4.6%. So, somewhere during the course of your working career and your retirement, there is a good chance of seeing a time period with inflation rates like 4%. Let's face it – your hard-earned dollars are at risk!

So, what can we do; are we going to be helpless victims of this pirate that comes to steal our treasure? The answer is, no. We don't have to be victims if we are prepared with the proper knowledge and financial tools, and apply these at the proper time in our lives. And, the way that we do that is to work with a financial planner throughout both our working life and our retirement life.

There is tendency to think about our finances only at certain times or life events. For example, we think about life insurance when someone we know passes on, or health insurance when someone we know is ill, or investments when the stock market is moving up and everyone is suddenly a financial genius. It is far better to work with a real financial planner who can see the big picture and discuss with you: how inflation will affect your current retirement plans and what you can do about it; your needs for health care and the risks posed by inflation; financial tools such as a reverse mortgage that can fill income gaps caused by inflation; or, how cash value life insurance policies that you no longer need can be used to fill income gaps caused by inflation. There are many ways to protect yourself from the inflation pirate, and the first step is to have a great financial planner on your side – Tampa Bay's Woman of the Year in Financial Services.

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