

5 Things You Must Know About Inflation

1 Inflation Is a Historic Reality

According to the CPI-W (Consumer Price Index for Urban Wage Earners And Clerical Workers), back in July 2000, the CPI was 169.400. By July 2021, it was 267.789. That's an inflation rate of 58%, representing a steep reduction in the dollar's buying power over the last 21 years. As an example, \$100 worth of groceries purchased in July 2000 might have cost \$158 in July 2021 according to the CPI-W.

<https://www.ssa.gov/oact/STATS/cpiw.html>

https://www.bls.gov/data/inflation_calculator.htm

2 Inflation Is Part of the Federal Reserve's Monetary Policy

There is always a lot of discussion about inflation increases in the U.S. The inflation rate was 1.8% in July 2019 compared to July 2021, when it was 5.4%. (For context, back in July 1980 it was 13.1%.) The Federal Reserve is always preparing for future inflation, and targets 2% as a healthy mark. In July 2021, the Board of Governors of the Federal Reserve stated: "With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent." A good financial plan will take inflation into account.

<https://www.usinflationcalculator.com/inflation/historical-inflation-rates/>

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20210728a.htm>

3 COLA (Cost Of Living Adjustments) Are Made to Social Security Payments Based On Inflation

Legislation enacted in 1973 provides for cost-of-living adjustments or COLAs to help Social Security and Supplemental Security Income (SSI) benefits keep pace with inflation. Final COLA announcements for the upcoming year are generally made in October. Currently, increases are based on the rounded Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Cost data is collected within eight overall categories--food and beverages, housing, apparel, transportation, medical care, recreation, education/communication, and other.

<https://www.ssa.gov/oact/cola/latestCOLA.html>

4 Consumer Price Indexes: CPI-W Versus CPI-E

Economists at the Bureau of Labor Statistics (BLS), part of the United States Department of Labor, say their indexes may not accurately reflect how each person spends money. In other words, statistics are averages. The Bureau publishes different indexes for different groups, including the CPI for Urban Wage Earners and Clerical Workers (CPI-W), the CPI for All Urban Consumers (CPI-U), the Chained CPI for All Urban Consumers (C-CPI-U) and many others.

Because the CPI-W is only for urban wage earners, some groups criticize its use in determining the Social Security COLA for retirees. New legislation has been introduced for the Consumer Price Index for the Elderly (CPI-E)—for Americans 62 years of age and older—to be used in calculating annual Social Security COLAs.

<https://www.bls.gov/cpi/overview.htm#item1>

<https://www.forbes.com/sites/davidrae/2021/07/21/will-congress-change-social-security-cost-of-living-adjustment-is-calculated/?sh=5e395e89373c>

<https://www.bls.gov/cpi/research-series/r-cpi-e-home.htm>

5 Inflation Solutions

Once you realize how inflation is calculated, and how detrimental inflation can be when you're on a fixed income, you'll want to search for solutions that will help you in retirement.

Our goal is to help your retirement income cover inflation increases and protect your purchasing power over your retirement lifetime.

Call us today to learn more.

sdp **Personalized Planning**

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