

Inflation & Standard of Living

How it could impact your expenses/budget

There are a variety of ways to track inflation, but the Consumer Price Index (CPI) is the most common measure in the United States. The CPI measures fluctuations in the price of food, housing, education, and other consumer goods and services. Inflation causes the CPI to rise, and while moderate inflation is a normal phenomenon, rapidly rising prices are concerning.

Why Inflation Matters

Inflation directly affects your standard of living by reducing spending power. Inflation can be especially hard on retirees as they typically live on a fixed income. When prices increase, a retiree would be able to purchase fewer products and services (due to their fixed income) resulting in a lower standard of living. If wages remain stagnant, or inflation grows faster than income, wage earners' standard of living can be impacted as well.

Possible Consequences for You

When inflation occurs, you can either moderate your spending or borrow to keep up your standard of living. If you choose to take on additional debt, payments on such debt will increase your expenses and reduce your standard of living. Small increases in inflation can be addressed by reducing some discretionary expenses, but if inflation increases significantly, your spending power could

be impacted more dramatically by forcing you to reduce higher monthly expenses like housing and transportation.

Mitigating Inflation

Over the long term, one way to ward off the effects of inflation is to invest a portion of your portfolio in stocks. Stocks are considered a long-horizon investment, and over a long period of time have proven an effective way to achieve a positive real rate of return. A positive real rate of return allows you to maintain your current lifestyle even with increasing inflation.

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