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Should I Still Worry About Inflation's Impact on My Retirement Plan?

Renee Porter-Medley, CFP®, Regional Director for Financial Planning

From 2010 to 2020, investors experienced the best-case scenario of low inflation and strong investment returns from stocks and bonds. Retirement portfolios held steady or even grew in value, enabling retirees to sustain a withdrawal rate that met their spending needs. For many, worrying about inflation seemed to be a thing of the past.

That perspective changed in 2021. Rising inflation headlined the news and the potential for further pressure on price levels came from several sources, including:

- Massive monetary stimulus.
- Reopening of the economy following the COVID-19 pandemic.
- A surge in consumer spending because of rising net worth.
- Inventory rebuilding by businesses.

As the prospects for higher inflation mounted, many retirees and those planning for retirement worried that their investment portfolios would fall short of expectations.

These concerns were alleviated by the end of 2024 as inflation declined and most 60/40 stock-bond portfolios delivered positive returns.

Portfolio Allocation	2020	2021	2022	2023	2024
60% stock/40% bonds	14.0%	16.6%	–16.1%	18.0%	15.5%
Inflation — CPI	1.4%	7.0%	6.5%	3.4%	2.9%

Is inflation still a concern? What history tells us

Inflation declined from its high of 7% in 2021, but it is still projected to remain above the Federal Reserve's 2% target.

The 1970s illustrate how an environment of high inflation and low returns can affect investors. In 1973, the inflation rate increased to 6%, and the S&P 500 dropped 15%. The inflation rate was 11% in 1974, and stocks lost 26% of their value. Interest rates were high from a historical perspective, resulting in fixed-rate investments generating more interest income for retirees. However, inflation consumed the increase in income. This experience from over 50 years ago may fuel concerns that investments won't keep pace with future inflation.

Period	Average Annualized CPI	Average 10-Year Treasury Yield (%)	Average Annualized S&P Return (%)
1950–1959	2.07%	4.84	12.66
1960–1969	2.35%	5.16	5.19
1970–1979	7.09%	7.50	1.77
1980–1989	5.54%	10.23	11.18
1990–1999	3.00%	6.39	17.98
2000–2009	2.57%	4.16	–1.85
2010–2019	1.77%	2.38	11.08
1950–2020	3.48%	5.91	7.71

Swings in inflation rates such as those we have witnessed over the past several decades can have a significant impact on retirement security. As prices rise, you may have to withdraw more from your portfolio to maintain your standard of living. Differences in the inflation rate of a few percentage points can add up over time, as the following table shows.

Annual Basic Living Expense	25 Years Later @ 2%	25 Years Later @ 4%	25 Years Later @ 6%
$60,000	$98,436	$159,950	$257,512
$100,000	$164,061	$266,583	$429,187
$120,000	$196,873	$319,900	$515,024
$240,000	$393,745	$639,801	$1,030,049

How can you prepare for a secure retirement in the coming environment?

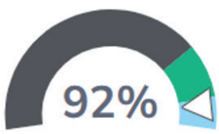
Develop and keep updating your personal financial plan. During the planning process, your advisor can help you build confidence by incorporating various inflation scenarios into your plan. They can also help you prioritize lifestyle spending in terms of needs, wants, and wishes.

For example, healthcare costs are assumed to increase at a higher inflation rate than most other spending. However, additional discretionary travel for many clients can be kept steady or even decreased. You can also examine each expense category in your comprehensive financial plan and then you can decide whether to be more conservative.

These recommended scenario diagrams indicate how individuals can sustain their current level of spending, even if the assumption for the average annual base inflation rate is increased from 2.4% to 3.4% or even 4.4%.

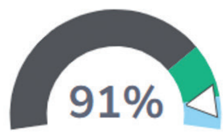
Diagram 1: Assumed average annual base inflation: 2.4%

Needs Only



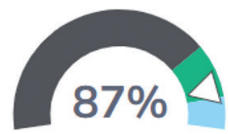
Probability of Success
Above Confidence Zone

Needs and Wants Only



Probability of Success
Above Confidence Zone

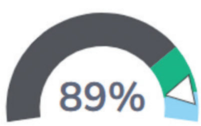
Needs, Wants, and Wishes



Probability of Success
In Confidence Zone

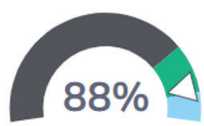
Diagram 2: Assumed average annual base inflation: 3.4%

Needs Only



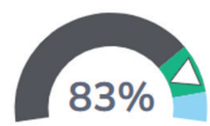
Probability of Success
In Confidence Zone

Needs and Wants Only



Probability of Success
In Confidence Zone

Needs, Wants, and Wishes



Probability of Success
In Confidence Zone

Base inflation will go up to:

Diagram 3: Assumed average annual base inflation: 4.4%

The planning process can also help you explore the impact of other financial decisions such as when to claim your Social Security benefit. You may collect benefits at age 62, but waiting until age 70 results in a larger, inflation-adjusted benefit. The Social Security Administration's (SSA) maximum monthly benefit at full retirement age in 2025 is $4,018; at age 70, it is $5,108. However, at age 62, it is only $2,831. (Source: SSA Frequently Asked Questions.)

Social Security's cost-of-living adjustment (COLA) keeps the purchasing power of Social Security benefits and SSI payments from being eroded by inflation. (Source: Social Security Administration, Cost-of-Living Adjustments). The 2025 COLA increase for Social Security is 2.5%. Your plan takes an assumed average annual adjustment into consideration.

Inflation affects more than your cost of living. For example, each year the IRS announces annual inflation adjustments to more than 60 tax provisions that will affect taxpayers when they file their 2026 tax returns. Learn more about these adjustments from our article Comprehensive Key Numbers | Key Private Bank. Your advisor can help you update your financial plan to reflect these changes.

Key takeaways

- Inflation may persist above the Fed's 2% target, but long-term planning can mitigate its impact.
- Retirement plans that model multiple inflation scenarios offer confidence and flexibility.
- Social Security's COLA and IRS inflation adjustments are built-in buffers — but must be integrated into a broader plan.
- A sound financial plan helps clients stay the course during uncertain economic periods.

The bottom line: Individuals with a well-designed financial plan account for inflation and are better equipped to stay on track, even when markets or headlines create uncertainty.

For more information, please contact your advisor.

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About the Author

Renee is a highly experienced professional who works closely with the relationship team to understand a client's personal situation and goals and develop an integrated, customized set of strategies to help them reach their objectives. She earned a Bachelor of Arts in International Studies with a major in Finance from the University of Michigan, and a Master of Professional Studies in Organization Development from Penn State University. Renee an active member of Kingdom Advisors, the Planned Giving Council, and the Purposeful Planning Institute. Her professional development for the past 10 years has been focused on helping families flourish by leveraging financial capital to develop their human, social, intellectual, and spiritual capital.

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