IT'S ASCENTIAL TO KNOW

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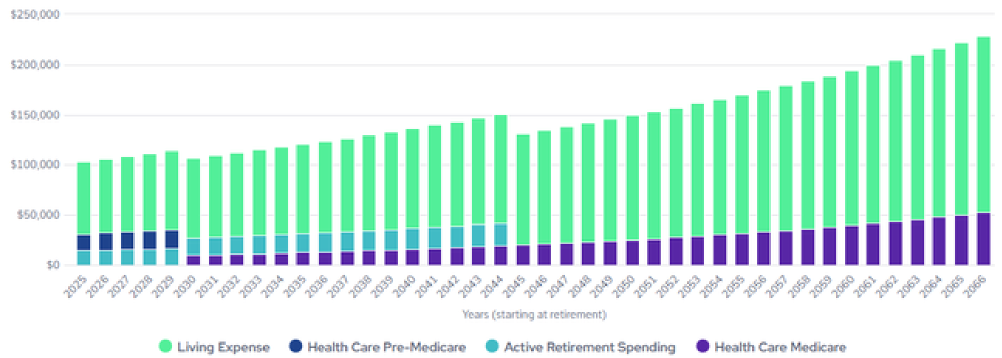
Is it time for a raise? Planning for Inflation in Retirement

For anyone who has purchased groceries or renewed insurance recently, the impact of inflation is noticeable. Above average price increases in the aftermath of the Covid-19 pandemic left many people feeling their income was insufficient. Inflation can cause anxiety, particularly for retirees that consider themselves on a budget or fixed income. However, inflation is a normal phenomenon that we account for in financial planning by assuming that spending will increase over time. Retirees may need to adjust their portfolio distributions over time to maintain their purchasing power if their increased spending due to inflation is not entirely offset by increases from other income sources.

When planning for a retiree's spending our analysis incorporates inflation by modeling spending continually increasing over time to maintain purchasing power. The amount of "income" a retiree is projected to need increases over time as each dollar buys less in the future, with the goal of maintaining a consistent lifestyle through retirement. As a result of inflation alone, a retiree may end up spending twice as much at the end of their plan to pay for the same lifestyle they started with when they retired. A financial plan takes this into consideration, along with accounting for changes to spending patterns over time.

Historically inflation has varied among categories of spending. We typically apply a general rate of inflation of just over 2% for most spending goals in a financial plan. This is meant to simulate the long-term historical average inflation rate in the United States, and correlates to the inflation target the Federal Reserve uses in guiding policy decisions. While inflation over the past few years has exceeded 2%, long-term inflation trends suggest it remains reasonable to maintain this general inflation assumption.

Impact of Inflation on Retirement Spending Over Time



Source: Raymond James, 2024, from GPM using sample data to show impact of inflation on retirement spending over time.. Hypothetical data used for illustration purposes only.

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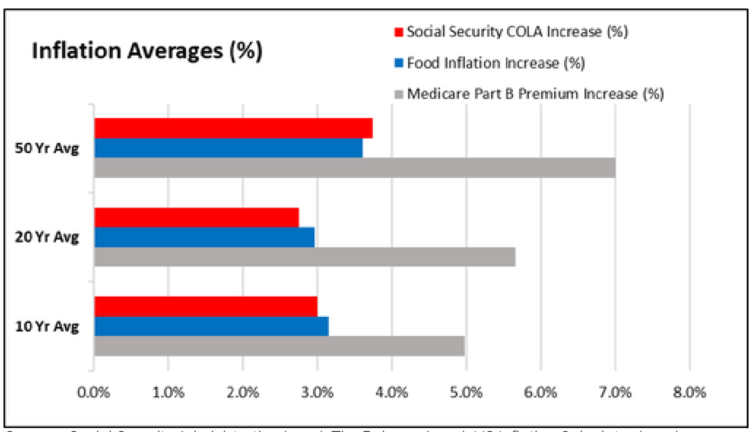
Planning for Inflation in Retirement (cont.)

Each person or household is impacted by inflation differently depending on their unique spending patterns, and we can adjust the inflation assumptions in a financial plan for certain categories of spending to better reflect personal inflation. Because inflation varies between categories, for certain spending goals we apply different inflation rates in the financial plan. For example, healthcare inflation has consistently outpaced the general rate of inflation, regularly enough that it appears reasonable to assume that trend could persist. As a result, we generally plan with an inflation rate for healthcare costs that is 2-3% higher than the base rate of inflation. On the other hand, a fixed rate mortgage is static for principal and interest payments, so we would assume no inflation on that goal.

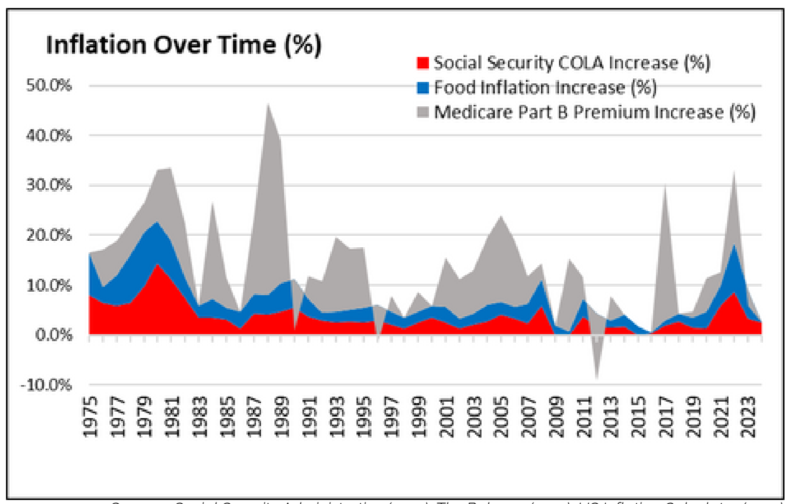
The higher spending needed to compensate for inflation typically is paid for through a combination of increases in retirement income sources and adjustments to portfolio withdrawals over time. An important cornerstone of most retirees' income is Social Security. Since 1975, Social Security has provided an annual "cost of living adjustment" (COLA) which increases benefits each year by an amount that based on the "Consumer Price Index for Urban Wage Earners and Clerical Workers" (CPI-W). These increases are meant to maintain the purchasing power of benefits, and annual adjustments have varied along with fluctuations in the CPI-W measure of inflation. While imperfect, these adjustments have certainly offered an inflation hedge. In financial planning we assume that Social Security benefits will rise throughout the plan at a rate similar to the general inflation rate we apply to a retiree's base spending.

At times Social Security benefit increases have been outpaced by increases in Medicare costs, basically using up the entire COLA increase to pay for higher healthcare costs. In 2025 Social Security is offering a COLA of 2.5% while Medicare Part B premiums are rising by approximately 6%. (Source: AARP) Medicare has a "hold harmless" clause, which states that for Social Security recipients who are having their Medicare premiums deducted from their monthly Social Security benefit, if the amount of the COLA offered by Social Security is not enough to cover the annual Part B premium increase the recipient may not have to pay the excess Medicare cost. In other words, the recipient will not see their Social Security benefit change in these scenarios and won't owe Medicare for the additional premium.

Social Security COLA Increase vs. Medicare & Food Costs



Sources: Social Security Administration,(2024), The Balance (2022), US Inflation Calculator (2024)



Sources: Social Security Administration,(2024), The Balance (2022), US Inflation Calculator (2024)

Other private pensions may or may not offer cost of living adjustments or increase over time. Many are a static figure that deflates in terms of purchasing power year over year. For pensions that offer inflation adjustments, we can build increases into a financial plan based on the terms of the pension plan. In addition to income increases, retirees with savings in retirement accounts and investments typically will also have to increase their withdrawals from those accounts to help their spending keep pace with inflation.

While cost of living increases to Social Security and some pensions are automatic, distributions from portfolio savings generally require manual adjustments. For retirees that have not recently given themselves a "raise" by increasing distributions over time, we recommend a review of current distributions against their financial plan and compared to their current needs. Inflation is one of the many important factors that influence long-term financial planning, and knowing it is accounted for in the financial planning process is meant to offer peace of mind for retirees.

2024 & 2025 Contribution Limits

SECURE ACT 2.0 SUPER CATCH-UP

The Secure Act 2.0 utilizes "Super Catch-up" contributions to increase the maximum allowed contributions to both 401k and SIMPLE IRA accounts in 2025 for certain age groups. The table below compares 2024 and 2025 limits and includes these increases.

401(k) Contribution Limits		
	2024	2025
Standard	$23,000	$23,500
Over 50 Catch-up	$7,500 (total $30,500)	$7,500 (total $31,000)
Super Catch-up (ages 60,61,62,63)	$0	$11,250 (total $34,750)

SIMPLE IRA Contribution Limits		
	2024	2025
Standard	$16,000	$16,500
Over 50 Catch-up	$3,500 (total $19,500)	$3,500 (total $20,000)
Super Catch-up (ages 60,61,62,63)	$0	$5,250 (total $21,750)

** Higher SIMPLE IRA deferral limits may be allowed for certain plan types.*

Traditional IRA Contribution Limits		
	2024	2025
Standard	$7,000	$7,000
Over 50 Catch-up	$1,000	$1,000

Health Savings Plan Contributions		
	2024	2025
Individual	$4,150	$4,300
Family	$8,300	$8,550
Over 55 Catch-up	$1,000	$1,000
Min. Annual Deductible		
Individual	$1,600	$1,650
Family	$3,200	$3,300
Max Out-of-Pocket		
Individual	$8,050	$8,300
Family	$16,100	$16,600

Community Involvement Spotlight:

2024 Duluth Women's 10-MILE Race

Ascential Wealth Advisors was proud to serve as the title sponsor of the Duluth Women's 10-Mile race for the fourth year in a row in 2024! Our team and their families always look forward to participating in the event as runners and volunteers, and this year's abundant sunshine and warm temperatures made for an especially enjoyable day.

This year's race attracted runners from across the Midwest and Canada and raised over $7,500 for the Bridging the Gap Fund, bringing our total funds raised since the race's inception in 2021 to over $35,000! This fund, a program of the Entrepreneur Fund, enables women to access programs and support through the Women's Business Alliance (WBA). In 2024, women entrepreneurs in our area utilized this support to start new businesses, add new products and services, grow their revenue, and further develop their leadership skills.

We are excited to continue our partnership with this event, Duluth Running Company, and the Entrepreneur Fund in 2025, and we would love for you to join us in growing the race and supporting this important cause! Please save the date for next year's race on September 27, 2025, and stay tuned for more details from us this spring.

Ascential Wealth staff and family at the finish line handing out cookies and enjoying the beautiful weather!

Entrepreneur Fund Women's Business Alliance

Duluth Running Co.

Community Involvement (cont.)

In 2024, Ascential Wealth Advisors was also proud to support the following organizations:

- Duluth Playhouse
- Damiano Center
- Minnesota Adult & Teen Challenge
- First Witness Child Advocacy Center
- Downtown Duluth Outreach Program
- Cloquet Educational Foundation
- UMD Legacy Challenge
- Safe Haven Shelter & Resource Center
- Grandma's Marathon
- DSHA Dance Competition
- Duluth Area Rotary Clubs
- Duluth Chamber of Commerce

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