# Planning for the **"financial unknowns"**

Inflation and your cost of living

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

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# Life in retirement is full of unknowns.

How much Social Security income will you receive? How much will health care cost? Will your income taxes increase? What rate of return will your savings achieve? How long will you live? These are just a few of the unknowns you may be facing as you plan for retirement. Adding to this uncertainty is the challenge that some of these variables – such as the cost of health care – may increase faster than others over time. Many retirement strategies assume a general or average rate of increase to estimate your income and expenses in retirement. But over 20 or 30 years, even a small deviation from the estimates could potentially have a big effect on your standard of living in retirement.

## Here are a couple of hypothetical examples that illustrate the impact some small changes can make over time.

### Example 1: Steady rate of inflation

In this first example let's assume a 25-year retirement with expenses of $60,000 per year and Social Security income of $20,000 per year. If we apply a 3% general rate of inflation to this example (assuming both expenses and Social Security income increase at 3% per year) and if we assume a long-term return on our retirement savings of 5% per year, we will need $801,573 when we start retirement.

| Assumptions | |
|---|---|
| Length of retirement | 25 years |
| General inflation rate | 3% per year |
| First-year expenses | $60,000 |
| Initial Social Security income | $20,000 |
| Long-term rate of return on retirement savings | 5% per year |
| Personal savings need | $801,573 |

### Example 2: Variations in rates of inflation

In the second example we've changed two of the assumptions. We have assumed that $10,000 of our annual expenses are health care costs that will increase at 6% per year, instead of 3% per year. We're also assuming that our Social Security income will only increase at 2.5% per year instead of 3% per year. These two changes in our assumptions can make quite a difference: Now we need $902,617 in savings when we retire. **That's $101,044 more than in our first example.**

These hypothetical examples are for illustrative purposes only, and are not intended to be projections or predictions of financial products' results and do not reflect taxes which would reduce the figures shown.

<table>
<tr><th colspan="3">Assumptions</th></tr>
<tr><td colspan="2">Length of retirement</td><td>25 years</td></tr>
<tr><td rowspan="2">First-year expenses</td><td>Health care costs:<br>$10,000 per year<br>(increase at 6% per year)</td><td rowspan="2">$60,000</td></tr>
<tr><td>Other expenses:<br>$50,000<br>(increase at 3% per year)</td></tr>
<tr><td colspan="2">Initial Social Security income</td><td>$20,000<br>(increase at 2.5% per year)</td></tr>
<tr><td colspan="2">Long-term rate of return on retirement savings</td><td>5% per year</td></tr>
<tr><td colspan="2">Personal savings need</td><td>$902,617</td></tr>
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# Fortunately, you can help manage some of the unknowns.

Although no one can prepare for every possible situation, you can get a more accurate picture of your future income needs by considering the retirement variables individually – and by working with your financial professional to determine which variables may be of most concern to you later on.

Your financial professional can also help you determine whether your savings are on track for your projected income needs. If you're behind schedule in your retirement savings, below are five potential options you might consider:

1. Reduce your standard of living in retirement.
2. Spend less and save more now.
3. Work longer or work part-time into retirement.
4. Adjust assets to hopefully achieve improved returns (this step may increase risk).
5. Use a combination of the previous four options.

Regardless of which retirement unknowns you're concerned about, the checklist below can help you and your financial professional discover and manage some of the variables that could impact your standard of living down the road.

## Things to do with your financial professional:

1. Develop an income plan that can help you create action steps and monitor your progress.
2. Be realistic when estimating retirement expense assumptions.
3. Include additional retirement savings for emergencies and unplanned events.
4. Increase your estimate of annual expenses by 5%-10% in case things don't go as planned.
5. Make sure you have a long-term strategy that considers your risk tolerance as well as variations in return or interest growth.
6. Make sure you have planned for survivors and long term care expenses.

**Call your financial professional** to discuss how you can help prepare today for tomorrow's financial unknowns.

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Through a line of innovative products and a network of trusted financial professionals, and with over 3.5 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

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