# THE REAL COST OF LIVING™

**When you hear 'cost of living', what immediately pops into your mind? Most people would say ... inflation. However, this is only part of the picture.**

**"Inflation", as measured by changes in the Consumer Price Index is frequently identified as the only factor that affects your total cost of living. While inflation certainly impacts your cost of living today and into the future, there are actually six factors that must be considered when determining your increase in the total cost of living.**

## *1. Underestimating inflation*

It is true that inflation does cause prices to rise over time. Even at low levels, over long periods of time, inflation can have a devastating impact on even the best laid financial plans. Think about this… a 3% annual increase to inflation can steal approximately 50% of the value of an asset or cash flow over 25 years. How would it feel if your retirement account, 401(k), mutual fund or life insurance policy was cut in half today?

## *2. Taxes*

The cost of living is affected by all types of taxes – not just federal income taxes. Other taxes to consider include state income tax, local income tax, property tax, Social Security tax, and Medicare tax. Additionally, there are many overlooked taxes that you have to factor in such as sales tax, driver's license fees, inheritance taxes and even dog license fees!

All of these taxes add up and you also have to take into consideration changes to tax rates and the creation of *new* taxes that don't yet exist.

## *3. New technology*

Think of all the things in your life today that didn't exist a few years ago…. cars that park themselves, waterproof smartphones, curved televisions. Technology is advancing at a rapid pace and as a result the things you currently own are being made obsolete. These are all of the things you didn't even know you needed but now can't live without.

The cost of buying and then replacing and upgrading technology is not limited to what the price tag of an item says. It's the price you paid PLUS what you could have earned by investing the money had the technology costs not been incurred. The long-term loss of wealth surrounding this simple fact is staggering.

When you take money off of your balance sheet to buy the new and improved, that money is no longer available for things like college expenses, retirement or other financial opportunities.

## 4. Product wear and tear

Every new item you purchase has a lifetime and has been built to someday have to be replaced. Daily wear and tear affects things like cars, tires, appliances, shingles, carpets and nearly everything else you purchase. When these items need to be replaced, it is likely they will be replaced at higher prices due to inflation.

Where in your financial plan or retirement plan have you set aside money for replacing worn out items? Where will the money come from?

Product wear and tear isn't something you only face in the future. It impacts you each and every year and can impact your ability to save for the future.

## 5. Improved lifestyle

Another factor is human nature. It's natural to want things like new cars, nicer trips or a bigger home – an overall better life. However, as an improved lifestyle is realized and needs are met, new needs take their place.

The cycle never ends as newer cars are created, clothing styles change, or as friends and family have a bigger home or a nicer vacation. As lifestyle improves, it becomes a new part of the total cost of living.

Living a great lifestyle is desirable, but is it sustainable? At some point, you will leave the workforce and stop receiving a paycheck. Will the retirement plans you put in place provide the cash flow to provide the lifestyle you have been accustomed to, or will you have be forced to go backwards in the way you live?

## 6. Unexpected life events

Life is not a straight line and is often full of surprises that you can't predict. There is always the possibility of an unexpected life event such as parent care costs, an unexpected job loss, natural disasters or a child's education that costs more or lasts longer than expected.

Unexpected life events cannot be predicted and there isn't a limit to how many surprises can happen over a lifetime. Every time the unexpected happens, without careful planning, the impact can be catastrophic to your overall financial well-being. One or two unexpected life events can wipe out a lifetime of good financial decisions.

All of these six economic forces together, create substantial obstacles in wealth building and enjoyment as it makes up your Real Cost of Living™.

## So, what can you do to get ahead of rising costs?

To gain real control of your financial future, the best thing to do is develop a healthy world-class savings habit by committing to live your life on 80-85% of what you make. By saving at least 15 to 20% of your annual gross income, you can better avoid risk and be more prepared to absorb the Real Cost of Living – now and in the future.

In the absence of good savings habits, the only way to deal with these six economic factors is to chase high rates of return, which typically entails high risk. By becoming a world-class saver, the pressure of high returns can be avoided and allow you to lower your risk while still enjoying high rewards.

No matter how prepared you think you are, you just never know what the future holds. The first step in preparing for a solid financial future is to begin with protecting today and building a strong foundation for whatever tomorrow may bring.



Pub8158 2018-71329 Exp. 12/20