Nationwide®
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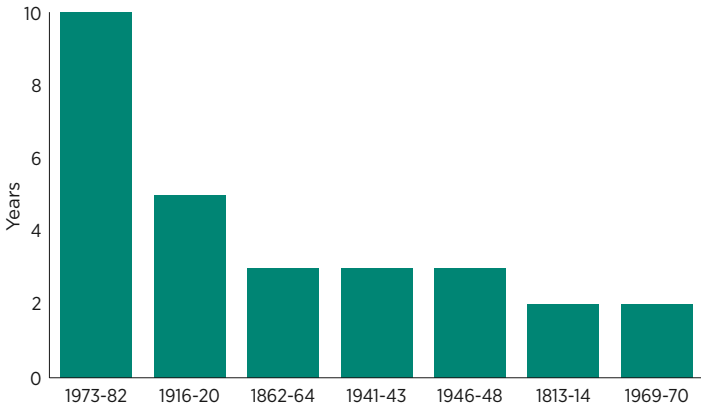
Keep inflation in mind to help protect retirement savings

Inflation is back, having surged over the past year to levels not seen in 40 years. After a decade-plus stretch of modest price increases, the Consumer Price Index remains stubbornly high, impacting pre-retirees and retirees alike. This trend may continue for a while.

Sustained periods of high inflation are rare.

Longest streaks of annual consumer price inflation in excess of 5.0%



Sustained periods of elevated inflation have been anomalous in U.S. history. According to data compiled by the Minneapolis Fed, in fact, consumer prices have risen by at least 5.0% across 2 or more consecutive years only 7 times since 1800, with most of these episodes coinciding with war or its immediate aftermath. Transitory inflation has been much more the norm than the exception.

Source: Federal Resource Bank of Minneapolis, data as of December 31, 2022.

While extended periods of inflation are infrequent, some economists believe inflation will settle at 3% to 4% and remain at that level for decades.[1]

While this new dynamic calls for adjustments to current household budgeting, it's important that retirement investors also understand how inflation can impact their plans for retirement income and that they develop a strategy to protect it.

A sudden spike in inflation can lead to periods of market volatility and negative returns. This often triggers an urge to pull out of the market. But an emotional response could work against the investor's long-term goals.

We invest to earn real returns.

Individuals who stay invested in the stock market over the long term are employing a strategy designed to outpace inflation — that is, to earn real returns that can build wealth.

"Real returns" refers to the returns on your investments after accounting for inflation.[2] For example, if the return for a bond mutual fund is 2% but inflation is 7%, the investor sustained a real return of -5%. **This is why portfolios over-weighted in cash and bonds may underperform during periods of high inflation.**

The good news is that, since the index's inception in 1957, the S&P 500 has had an average annual return of 10.15%,[3] while inflation in the United States has averaged 3.75% annually over that same period.[4] However, life rarely reflects averages, and past performance cannot predict future results. Thus, an investor cannot know when a down market might occur.

If someone is retiring during or before a market downturn, the combination of withdrawals and poor investment performance could quickly deplete the retiree's main source of income. This condition is called "sequence of returns" risk.

This risk may pose a significant threat because large market losses in the early years of retirement can shorten the longevity of a portfolio, even if better-than-average market returns occur in later years.

Add rising inflation to the mix, and the investor might not be able to maintain their standard of living through retirement — or worse, they might outlive their assets.

[1] "Will Inflation Stay High for Decades? One Influential Economist Says Yes," The Wall Street Journal (March 9, 2022).

[2] investor.gov.

[3] "S&P 500 Average Return," Investopedia.com (through December 31, 2022).

[4] "Inflation Calculator," Federal Reserve Bank of Minneapolis (accessed March 20, 2023).

Fixed indexed annuities help provide needed protection and growth potential

With higher inflation rates and the market uncertainty they often bring, investors need solutions that can help mitigate the impact to their portfolio and retirement income. Fixed indexed annuities are designed to help.

Protection from negative returns	The money invested in a fixed indexed annuity and any earnings credited will not be lost due to a negative market.
Opportunity for growth	An investment in a fixed indexed annuity has the potential to grow based on the performance of a market index or indexes; this provides more growth potential than a fixed annuity but less growth potential and risk than a variable annuity.
Guaranteed lifetime income	Some fixed indexed annuities feature optional living benefit riders that can ensure a lifetime stream of income that cannot be outlived.[5]
Tax advantages to help provide more	The value of a fixed indexed annuity grows tax deferred, so investors won't pay taxes on any growth until they take a withdrawal.
Mitigating the impact of inflation	Fixed indexed annuities offer the opportunity to outpace inflation because of their design: • Returns are tied to the performance of a market index, so they have the potential to beat the average rate of inflation • Investors can use multiple contracts and a laddering strategy to align their guaranteed income with increases in inflation

[5] Returns are based on the performance of an underlying index, such as the S&P 500® Composite Stock Price Index. While the benchmark index does follow the market, an investor's money is never directly exposed to the stock market.

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• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

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