Treatment of Inflation in Retirement Planning

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The typical treatment of inflation in financial planning textbooks is too complex and is not reasonable. Economists typically put all amounts and interest rates in inflation-adjusted terms, which is simpler and a more rational approach to long-term planning. The typical financial planning approach requires an assumption about the future inflation rate, which is difficult to justify based on economic history in the United States and other countries. Most people have difficulty in comprehending the meaning of future amounts in nominal terms, so doing all projections in inflation-adjusted terms can help clients better understand projections.

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