

The Only Weekly Newspaper Exclusively For The Coto de Caza Area

# The Coto de Caza News

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## The Cost of Living After 50

It will help you understand what kind of money you will need in the future - as you try to enjoy your golden years - if we get some perspective on what things cost a few years ago. With inflation and the falling dollar, your money has been eaten away. For the past 50 years, we have lived with an average inflation rate of about 3%. The good old U.S. greenback has been shrinking. Not only has it suffered the ravages of inflation; it also has lost buying power to foreign currencies in recent years. That matters to you if you plan on buying any foreign goods. Buying American is not only a good patriotic choice; it might be the smart choice if you want your money to go further in the future.

What has happened in the last 50 years to the cost of living? In an article entitled "Cost of Living: 1957 vs. 2007" by Mercyman53's Weblog, the average American income in 1957 was about \$5,000. Today it is \$48,000, according to the U.S. Commerce Department. That is roughly a 10-fold increase. The big difference today is that, in many cases, it takes two incomes to get by, whereas 50 years ago there was usually just one bread winner in the house. The cost of most things we buy, over that same period, increased about 10-fold as well. So, all things being equal - except that now both husband and wife have to work - we can maintain our standard of living and even exceed it substantially with the help of credit. You can argue that is bad or good, but for my purposes, I want to give everyone a base of understanding of where we have come from and where we might be going.

There are two notable exceptions to this 10-fold growth in earnings and cost of goods and services over the last 50 years: housing and medical costs. In 1957, your average house payment may have been \$100 or less. Today the average house payment is \$1,250. That is not out of line with our 10-fold rule, but back then people didn't move every five years and they didn't constantly buy bigger and better homes. The other exception is medical costs. In a recent CNNMoney.com article by Jeanne Sahadi, the cost of prescription drugs is expected to rise 6.7% per year for the foreseeable future, far outstripping inflation. In other words, a \$170 prescription today will cost about \$1,000 in 25 years. How many of us will still be living in 25 years? How many of us can afford drugs then?

AS SEEN IN THE NEWS:

### Financial Advice by Stephan Peasley InvestTalk Radio Host



A more important question is where will the money coming from? The Baby Boom generation will have little to worry about when it comes to Social Security benefits. In one way or another, they will receive those benefits in retirement. It may be that they will have to work longer to get them, but the money will be there. However, the trillions of dollars many of them expect to inherit will likely be a big disappointment. The parents of Baby Boomers are living longer and the cost of drugs and other medical-related expenses is quickly consuming much of that inheritance. And let us not forget that Baby Boomers are a rather large group, meaning they'll have to share that inheritance, if there is any left, with their siblings. This means the average inheritance they'll receive - if they get anything at all - is about \$47,909 according to the AARP (American Association of Retired Persons).

One final point, if you plan on living comfortably in retirement, it is going to take about 70% or more of the income you earned in your last year of work to maintain your standard of living.

So, your choices are to keep working, reduce your standard of living or save and invest as much money as you possible can. The good news is that you will live longer and healthier than your parents. Besides, being retired is not all that wonderful. Many Baby Boomers, a group to which I belong, will want to work in retirement - maybe just not as hard. By the way, society is going to need us, because there are not enough skilled and experienced workers in the generation behind us to fill our shoes.

Steve Peasley is President of KPP Financial, a Registered Investment Advisor based in Dana Point, Calif. Peasley hosts a live radio show called InvestTalk every day from the San Francisco Bay Area on KYCY 1550 AM, weekdays at 4:00 PM; San Jose on KNTS 1220 AM, weekdays at 7:00 PM; and Orange County and Los Angeles on KLAA AM 830, Tuesday - Friday at 6:00 PM. Contact him at [www.investtalk.com](http://www.investtalk.com) or (800) 557-5461