

Episode #213: Are You Protecting Yourself Against the Ultimate Stealth Tax?

Video Transcription

Hello, and welcome to another episode of "Money Script Monday," I'm Luke Geller. Today, we're going to be asking ourselves, "Are you protecting yourself against the ultimate stealth tax?"

Now, this topic brings me back to my childhood. You might be thinking, "Luke, why would something about the stealth tax bring you back to your childhood?" Let's go back to 2002, simpler times, right? I was 10 years old and I was a big sports fan, a big baseball fan. In 2002, my favorite baseball team, the Angels, won the World Series. They were the Anaheim Angels back then, but they won the World Series.

I grew up in LA. I had family in Anaheim, and I was a diehard Angels fan. My favorite player was Tim Salmon. After they won the World Series, I went up to my mom and I said, "Mom, I need to get a Tim Salmon baseball card."

She goes, "Tim Salmon, I didn't know they put fish on baseball cards," right? She had no idea what I was talking about. I said, "No, Tim Salmon is my favorite baseball player. He hits home runs and he's a great baseball player. I need to get a baseball card." And she goes, "Okay. All right, Luke, let's go to the store. I have \$10 that you can use to try and get a Tim Salmon baseball card."

So, I go to the store, and I get as many packs as I can for that \$10. I was able to get 5 packs of baseball cards for 10 bucks. I'm super excited. I get home. The first two packs, nada. I get to that third pack, pull out that Tim Salmon baseball card, and I was super excited, right? Super excited.

Fast forward to this year, and I'm sure in the past year and a half with COVID, a lot of you have gotten into different hobbies or different things that you might not have been in before, right?

I thought to myself, "Hey, I like baseball cards. I'm still a diehard Angel fan. And now my favorite player is Shohei Ohtani. He's a two-way Japanese sensation baseball player, awesome Angel player. And I said, "I want to get a Shohei Ohtani card." So instead of going to the store, I go to Amazon. I look at Amazon, and I am looking at baseball card packs. Now, that same \$10 can only give me one baseball card pack.

Now think about that. Twenty years ago, that \$10 got me 5 baseball card packs. Now this year, it only got me one. Why is that? That's because of inflation, right? Because the buying power of that \$10 has dropped 5 times. I was able to get five baseball card packs, now I can only get one. That's what we're going to talk about today. That's what that stealth tax is: it is inflation.

The reason I want to talk about it is because most people think about how taxes are going to affect them in retirement, what the interest rates are going to do, what the rate of return's going to be in retirement. What they don't think about is inflation, and that's that stealth tax that you have to consider.

If you think about a standard inflation rate, when we're designing cases, it is around 2.5%, maybe 3%. Some people might say 2%, let's say it's 2.5%. Over the last year, the consumer price index has risen over 5.4%, 5.4%. It's over twice as much as we usually show for inflation.

Now, I'm not going to say inflation's going to increase 5.4% year over year. Hopefully, not, right? But it is the highest increase in the last 13 years. That is big, right? That is huge. So, it needs to be on your mind and how can it affect you in retirement.

Let's take a look. If you are about to retire, you're 65 years old and you've saved up all your entire savings; you know that you can take out \$50,000 a year for the rest of your life. As long as you're only taking out \$50,000, you're going to be good. That \$50,000 in 2030 is only going to be worth \$38,320. That \$50,000 that you had, now, it's only worth \$38,320.

What happens if we fast forward another 10 years to 2040? If we fast forward another 10 years, now your \$50,000 is almost cut in half. Your buying power with that \$50,000 is now, in today's dollars, worth \$28,514. That is extremely, extremely important for you to remember; you need to protect yourself from this happening to your retirement.

What are ways to do that? Before I jump into the ways to do that, another thing you need to think about is longevity. I have it on there; longevity is a risk multiplier. We talked about it here, if your retirement saving dollars of \$50,000 in 19 years is only worth \$28,514. What happens if you live past life expectancy? That's going to drop even more, right?

That means that longevity, the longer you live, the more at risk you are for inflation, for that stealth tax. How can we protect ourselves? Make sure that your retirement income is tied to an index or to the market, so that way that \$50,000 that you're taking out, you're able to increase it year over year. A way to do that is with increasing protected income streams.

One of the best products to use that we usually recommend depending on the situation is a fixed indexed annuity with an increasing income. What that means is your money can never go down; but on positive years, on years that the market increases, your income increases. Now that \$50,000 that you started at year 1 can grow to \$51,000, \$52,000, etc., etc., year after year. We even have pieces, and feel free to reach out to us, that show these increasing incomes outpacing inflation with real-life products dating back to the last 12 years.

Not only can you protect yourself from inflation, but you could even outpace inflation with the income that you're taking in retirement. I opened this presentation with a story about my childhood and baseball. But I want you to protect your retirement because it is something that you work your entire life for; you don't want something that comes out of nowhere that you didn't think about, that stealth tax, to be the reason

that you can't do the things that you wanted to in retirement, that you can't afford the things that you wanted to in retirement.

So, make sure that you're talking to your advisor. Make sure that you're reaching out to us if you have any questions on some of the things that I talked about today, so that way we can go over how to protect your portfolio from that stealth tax, from that inflation.

Thank you for attending today. My name is Luke Geller, and we hope to see you next time.