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Inflation - Why Saving Isnt Always Enough

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Benjamin Franklin coined the famous saying "***A penny saved is a penny earned***," referring to the value of money that is saved over the value of the money that is spent. While those may be good words to live by, **56.3 percent** of Americans in a **recent survey** indicated having less than **$1,000** in their savings account.

The truth is, saving for the future and getting ahead are not easy tasks, particularly if you don't have enough income. And, even if you do, there is inflation to contend with. So, just what impact does inflation have on your savings? A lot.

Purchasing Power and Inflation

Simply put, the price you paid for something in the past will most likely be higher today. That means you'll need to have more money to pay for the exact same things that used to cost you less. Consequently, if your income isn't increasing enough to keep up with the cost of inflation, it can be difficult to come up with the extra income to put money away for the future.

When it comes to your savings, the concept is similar. For example, let's say you put $100 into a savings account earning 1 percent interest. After a year, your account will have grown by $1, giving you a balance of $101. But what if inflation that particular year increased by 2 percent? For you to keep up with inflation, your account balance would need to be $102 to make up for higher costs. Therefore, if the money in your savings account isn't growing enough to keep up with the cost of inflation, the impact on your purchasing power is actually a loss, not the gain you are trying to achieve.

The fact is, the value of money changes, and inflation can make efforts to hit your financial goals feel like you're aiming at a moving target. And while you don't have control over inflation, you do have options that may reduce risk and provide you with rates of credited interest that help hedge against future inflation. A few of these options include:

- **Fixed Annuities.** Annuities can be a good option to potentially help prevent the loss of your money's purchasing power due to inflation. Depending on the type of annuity you select and current rates, you may be able to offset or outpace the impact of inflation. You can learn more about annuities and how they work by calling a Sagicor representative at **888-724-4267** or by visiting **www.SagicorLifeUSA.com**.
- **Diversification.** Having your money in a savings account isn't a bad thing. Bank accounts and products are FDIC insured while life insurance and annuity products are backed by the claims-paying ability of the issuing company. However, putting all your money in one financial vehicle isn't recommended. The process of diversification simply means putting your money into several different investment categories (stocks, bonds, real estate, cash, etc.) so that you reduce risk. Plus, each investment can provide you with different benefits. If you're not sure how to go about diversification, consider speaking with a

licensed financial adviser.

- **Permanent Life Insurance.** In addition to the death benefit provided by a permanent life insurance policy such as whole life, a policy has the potential to grow in cash value over time. When you pay your premium, part of that money goes toward insurance costs, while the remainder goes toward increasing your cash value. This cash value earns interest that, like the death benefit, is guaranteed by the insurance company.

The bottom line: In the U.S., the rate of **inflation** averages between 3 and 4 percent per year.* This means that what you can buy with a dollar changes from year to year. By taking the time to learn how inflation and various financial products work, you can have more control over your ability to safeguard your financial well-being.

*McMahon, T. (2019, March 12) *Annual Inflation* retrieved from http://InflationData.com

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