No Rest for the Retiree

By The Mogambo Guru

02/14/05 Remember the good old days, when people looked forward to retirement, thinking that their IRA or 401(k) would take care of them long into their golden years? Now inflation forces retirees to take on another job, when their days of working should be over. The Mighty Mogambo explores…

Jim McTeague of Barron’s newspaper says in his D.C. Currents column, "Polls gauging the public’s perceptions about Social Security and retirement income prove conclusively what stock and bond salesmen always have known: Americans are soft in the head, especially when it comes to money."

A case in point is provided by one of my readers named Bud, who is retired in Stuart, Florida, and is 75 years old. He is grumpy because he had to go back to work, at his age, delivering pizzas. His desperate situation is caused by, as if you had to be told, inflation: In short, he needs money because prices have risen and his income has not. He writes that he has personal experience with inflation, as he remembers that the price of a new Ford was $900 in 1946. In 2005, a new Ford costs $25,000.

Inflation and Retirement: How Much Inflation?

Being cold sober (was the light in here always this damn bright?), it is easy to see that the price of a new car has increased a lot. And even if I was drunk I would be able to recognize that the price of a new car has gone up a lot. And even if I was so sloshed that I was merely moments from passing out, dying from alcohol poisoning, I would be able to EASILY mentally calculate that the difference between $900 and $25,000 is a lot of money, involving a lot of zeros, which is a Mogambo vital clue (MVC) to determining if something is large and/or expensive, and when combined under field conditions involving alcoholic beverage consumption, it also involves a lot of staggering about, slurred swear words, and probably getting into a fight with somebody who is a lot smaller than me, and a lot older than me, or a lot younger than me, but definitely smaller and weaker. So the body of anecdotal evidence is pretty conclusive that the rise from $900 to $25,000 constitutes a lot of inflation.

I see that the pretty girl in the front row is holding up her hand. I look at her and smile and say, "Yes, my little strudel, what would you like to know?" She says, "Exactly HOW much?" I smile with my best Hollywood face, my voice like buttery velvet, and I lean forward and leer at her like the little pervert that I am, and I say, "For you, I am free! Free, my darling! Take me away with you, and I shall ravish you and drive you to heights of passion hitherto unknown, and maybe order out for pizza, too!" Well, I expected her to blush and giggle, both reveling in the attention and being embarrassed by it, and then sweetly clarify that she was actually asking about how much inflation it was, and then I’d apologize profusely, and then we’d share a laugh, and then we’d go out for coffee, and then out for a drink, where I would try and get her really drunk. But instead she starts gagging and saying, "Ewww. Icky! Ewwww!" which is Earthling female talk for, "Just the thought of you touching me makes my skin crawl, and the smell of your foul breath makes me want to puke!"

You can tell by the way that my breath has become fast and shallow, my face has become ashen with fear and my heart is beating like, oh, about a zillion beats per minute, that I am going to attempt one of the rare Mogambo Mathematical Moments (MMM). And sure enough, I deftly key into a calculator the appropriate data, and after a few abortive tries I stand up and ask the class if there is anybody here who can figure out this damned %##@ math problem, and then one of the smart little punks hands me a piece of paper with the answer written on it, and then I announce that a measly 5.8% inflation causes the price of a new Ford to increase from $900 to $25,000 in 59 years! 5.8%!

Hahahaha! You think that you are going to get real, inflation-adjusted returns from the stock market to equal that rate of inflation? Hahahahaha! What a chump! Hell, your $900 investment is already down in terms of purchasing power, and you haven't made a dime of real, inflation-adjusted gains yet! Hahahaha! Brilliant investing there, dork!

Inflation and Retirement: Ten Percent a Year to Break Even

And even if you did make enough in capital gains and dividend income to offset the inflation (which is actually deflation in your buying power), you still haven't paid the damn taxes on the gain! So now it is time for you to get out YOUR calculators, and you tell ME how much you have made on your $900 investment to turn it into $25,000 in fifty-nine years, net of inflation, net of taxes, net of fees, costs and charges, net of commissions, net of "inactivity fees," net net net.

I figure that if you make a profit of about ten percent a year, ought to be enough to just break even! And if you think that you are such a hotshot investment genius that you can do that consistently over 59 freaking years in a row, then hahahahaha!

Thus is it with all of your investments; your gains will be eaten up by inflation, caused by the horrid Federal Reserve, which has created all this money which caused all this inflation by destroying the purchasing power of your money. Just ask Bud. If he put $900 into his retirement savings in 1946 so that he could have a new car when he got to be 75, he might actually get a new car. But his investment would not do so well that he could also afford to afford the insurance, much less the gas to put in it!

And to extend this to your other retirement plans, such as your 401(k) or your IRA or your company plan, you will get, at most, a week's worth of income when you retire only if you save a week's worth of income now. It's one-for-one. There will no compounding of your investment through some magical multiplying effect (MME), and you will not end up with some huge pile of money with which to retire in comfort and style. Life is not that way, and the stock market is not that way, either.

Regards,

The Mogambo Guru
for The Daily Reckoning