A Father's Day Look at Your Financial Future

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This may be a little scary, but can you imagine yourself at your father's age?

When you get past the possibility of a receding hairline or a wider waistline, you might see the upside too: By the time you are your father's age, your career should be more established and you may have already done much of the heavy lifting toward saving for retirement.

One thing you may not have considered, though, is how much more common necessities are likely to cost in the future thanks to inflation.

Inflation and saving for retirement

Inflation rarely takes a break, and its impact compounds over the years until routine expenses become almost inconceivably high. When you look at some of the costs you may have to get used to in the future, it reinforces why it's so important to start saving aggressively for retirement now.

To illustrate the point, a 25-year-old man with a 60-year-old father would reach his father's current age in the year 2054. What are the prices of some common purchases likely to be by then?

Over the past 35 years, inflation has averaged a fairly moderate 2.64 percent a year. That sounds relatively harmless; but even at that pace, costs have risen by nearly 150 percent in that amount of time. If the next 35 years see the same rate of inflation, these are some of the prices that our 25-year-old could face when he is 60:

- A loaf of bread costing $2.35 today would run $5.86
- A typical mid-sized car costing $25,000 today would be priced above $62,000
- The average homeowner's insurance policy costing $1,228 a year now would be up over $3,060 in 35 years

- Speaking of home ownership, a typical house costing $250,000 today would cost more than $623,000 in 35 years

You get the idea. The future looks pretty expensive.

For every dollar you want to have available to spend in terms of today's prices, you'll need $2.49 to have the same purchasing power in 35 years.

Thinking about what your finances will look like by the time you are your father's age has some strong implications for your retirement-saving approach.

How to prepare retirement savings for inflation

Given the prospect of sharply rising costs between now and when you reach your dad's age, here are some steps you should take with respect to retirement savings.

1. The sooner you start, the better

Retirement saving is not just a big job; it's also something of a moving target because prices are almost always rising. The only way to make that job any easier is to spread it out over more years, and you can do that by getting an earlier start toward saving for retirement.

2. Consider extending your career

Another way to spread the job of retirement saving over a greater number of years is to plan on a longer career. After all, with people living longer and longer, it may be a good idea to rethink what you consider normal retirement age to be. If you extend your career, it will give you more time to save for retirement and fewer years of retirement that you will have to fund. However, if you plan to work longer, be sure to keep your job skills current and choose a line of work whose physical demands won't present problems for you as you get older.

3. Adjust your retirement plan annually to adapt to inflation trends

Inflation can be very volatile, so you must be prepared to adjust your assumptions to reality over time to reflect actual price trends. You can do this by updating your retirement-savings calculations on a yearly basis at a minimum.

>> Calculate your retirement savings needs: Use our retirement savings calculator

4. Use matching contributions to turbocharge retirement savings

People complain that it's hard to find money in their budgets to save for retirement; but if money is tight, don't throw it away by failing to qualify for the maximum matching contributions available from your employer. If your employer's 401(k) or similar plan offers matching contributions, be sure you know what the policies and limits are so you can get as much of this extra money as possible.

5. Growth investments are important to retirement savings

The reality of inflation is why long-term retirement portfolios generally include a significant element of growth investments like stocks. Returns on stocks are unpredictable and there is a risk you could lose money; but historically, stocks have done a better job of staying ahead of inflation over the long run than more conservative investments.

You don't have to relish the idea of growing into a pair of dad jeans or repeatedly telling the same corny jokes, but someday you will be your dad's age. While you can't control everything about your future, you can influence whether you look back on the financial decisions you made as a young person with regret or with the satisfaction of a job well done.