

“FOR BOOMERS ONLY”

4th Quarter 2005

INFLATION AND ITS IMPACT ON YOUR PARENTS

All of the myriad issues surrounding our aging parents are about to be impacted in a way that we would not have imagined as recently as the beginning of this year. The culprit is **INFLATION** and it is just beginning to affect both you and your parents.

Although analysts are not yet predicting a return to the runaway inflation of the 70's, it is clear that our economy has entered an irreversible, and potentially destructive, inflationary cycle. The ripple effect of higher energy costs, higher interest rates, and the overall cost of repairing recent storm damage will translate throughout our economy for the foreseeable future. Economists are now forecasting inflation ranging from 4% to well over 6% for at least the next two years, and most of these forecasts anticipate a significant reduction to the recent spikes in energy costs. Should energy costs remain above \$60 per barrel, the likely rate of inflation will be even higher.

The impact of inflation on seniors is particularly challenging. Those living at minimal standards will be profoundly affected even though they will generally be receiving nominally higher social security checks. Those who are more fortunate will also be impacted, but at a more subtle level. As the “Baby Boomer” children, it is our responsibility to help our parents better understand the phenomenon of inflation and how to best position themselves to mitigate its impact upon their lives.

What, then, are we to do in the face of this challenge? The answer is the same one that we have encouraged throughout this series – ***BE PROACTIVE***. You and your parent can actually work this inflationary cycle to your advantage. The following are a few ideas.

If your parent(s) currently own their home or condominium, you can be certain that there will not be a better time in their life to sell that home. Although rising consistently for the past two years, interest rates remain at generational lows and values have risen consistently for the past five years. Both of these factors are likely to reverse within the next 12 to 18 months. Even though the overall affordability factor for home buyers is falling as we speak and will continue to do so until there is a major market correction, it continues to be a seller's market for housing.

If they currently own their home, their cost of ownership is already beginning to rise at an alarming rate. Taxing authorities throughout the country are increasing appraised values to recognize recent price escalations and insurance companies are forcing higher replacement value coverage. Utilities alone are forecast to rise over 60% in the coming months.

In addition to the cost implications attributable to real estate, other costs of living are rising almost as rapidly. From fuel costs to grocery expenses, deliveries to repair services, the cost for

an elderly person to live in today’s world is significantly higher than when we started calendar year 2005.

“Where,” you might ask, “is the silver lining in this new economy?” First, it is in the fact that investment returns have been rising somewhat faster than the rate of inflation. CD rates have almost doubled in the past 12 months and are likely to continue to rise. Other conservative investments are now yielding from 6.5% to 7% from a 4%-5% threshold in the period from 2000-2004.

Second, there are lifestyle alternatives that are far more effective at managing costs than your parent could ever expect if left to their own efforts. Communities such as Parc at Piedmont and Parc at Duluth are skilled at controlling costs and will usually be able to ensure that annual rentals do not increase by more than 5%-6%. Through such devices as bulk purchases of raw food products, shared transportation, and energy efficient buildings, we are able to insulate our residents from the harsh effects of inflationary spikes. One such indicator of this fact is the dramatic increase in the recent utilization of our free transportation. Many residents who continue to drive have simply chosen to park their automobiles rather than pay the current high fuel costs.

The big picture is clear. There will never in their lifetime be a better time for your parent(s) to convert their real estate to a liquid asset, and there will never be a more affordable time for them to begin enjoying the benefits of a lifestyle that requires only that they pay a monthly rental. Properly managed, the return of inflation can become a convenient catalyst for you to proactively encourage your loved one to make the right decision for his/her future. By moving quickly, you may be able to lock in a base rental rate that is significantly lower than what will be available in the coming months. In an inflationary cycle, the lower base rental will save money for years to come.