

Understanding and Protecting Your Purchasing Power

Imagine walking into your local grocery store with a \$20 bill. Last year, that might have bought you a gallon of milk, a dozen eggs, and a loaf of bread with change to spare. Today, those same items could cost noticeably different amounts and \$20 may not cover as much. This everyday experience demonstrates the concept of purchasing power—how much your money can actually buy. Understanding this concept helps you make smarter financial decisions and grow the value of your funds over time.

What Shapes Your Money's Value?

Your purchasing power changes as the economy changes, influenced by various economic factors. Inflation and purchasing power are inversely related—when prices rise, the amount of goods and services you can purchase with the same amount of money decreases. And, conversely, when prices decrease, you can buy more.

Think about buying a car. The same \$30,000 that bought a well-equipped sedan five years ago might only buy a basic model today. Or consider housing—monthly rent that was \$1,500 a few years ago might now be \$2,000 for the same apartment.

Understanding purchasing power isn't just about watching prices go up and down, however. It's about learning how economic changes affect both your spending and saving strategies. This helps you make smarter decisions to protect your money's value in the years to come.

Making Your Savings Work for You

One way to counter inflation and preserve purchasing power is

through smart savings choices. Traditional savings accounts offer accessibility, but interest rates can vary widely. High-yield savings accounts, for example, often provide significantly better returns than standard accounts, while government securities, such as Treasury bills or savings bonds, offer other secure savings options.

For instance:

- If you had \$10,000 in a regular savings account earning just 0.1% annually, after five years, you'd earn around \$50 in interest.
- By contrast, in a high-yield savings account earning 4% annually, you'd earn about \$2,166 in total interest over the same period.

A financial advisor can help you explore savings options that best fit your goals, making it easier to protect your purchasing power over time.

Planning for a Comfortable Retirement

When planning for retirement, understanding purchasing power becomes especially important. A lifestyle that costs \$50,000 per year today will likely cost a different amount in the future. Similarly, what you can buy with a \$1 million retirement fund today will not equal what you can buy with the same amount 25 years from now.

Your spending patterns in retirement usually shift over time:

- **Early Retirement:** Often marked by discretionary spending on travel and hobbies.
- **Mid-Retirement:** A time when housing needs may shift, perhaps toward downsizing.
- **Late Retirement:** Typically, expenses for health care and support services increase.

Over a retirement that might last decades, changes in purchasing power could mean that what seems like ample savings now might cover far less in the future. A financial advisor can help you create a retirement strategy that aims to keep pace with rising costs, especially for essentials like health care.

Career Development and Income Potential

Career growth is another way to help protect your purchasing power. For instance, if you start with a \$50,000 annual salary, adding certifications or new skills could boost that to \$75,000 or more—helping your income keep up with rising costs. Continuing education, professional certifications, and skill development allow you to stay competitive and command higher earnings. Side income from consulting or freelance work can also diversify and strengthen your income.

Building Long-Term Financial Security

Protecting your purchasing power isn't about predicting economic trends; it's about staying prepared and adaptable. Understanding financial tools and regularly updating your strategy can make a significant difference.

Taking Action

Start with these steps to better manage your purchasing power:

- **Track Key Prices:** Choose your top 10 most-purchased items, track their prices for six months, and adjust your budget as needed.
- **Shop Around for Savings:** Check savings account interest rates every January to see if higher-yield options could help grow your savings.
- **Invest in Your Skills:** Identify certifications or training that could boost your earning power and set a timeline for

earning them.

- **Adjust Your Budget Regularly:** Review your monthly budget each quarter to reflect changes in prices and spending patterns.
- **Meet with a Financial Advisor:** Review your long-term financial strategy on a regular basis to ensure that it keeps pace with changing economic conditions.

Taking small, consistent steps can build up to significant results over time. While you can't control the economy, you *can* take control of your financial future by staying informed and proactive.

© 2025 Commonwealth Financial Network®

Understanding Maine's Private Insurance Plans for Paid Family and Medical Leave: What You Need to Know Now

The Maine Department of Labor (DOL) has released the requirements for private insurance plans designed to replace the state's Paid Family and Medical Leave program. Once these plans receive DOL approval, insurance companies will be able to present proposals to our customers.

At Allen, we are confident that insurance companies are actively initiating their filing processes. However, the state has yet to

provide a timeline for the approval of these plans. We will keep our customers informed as developments occur.

In the meantime, we encourage you to connect with us for any insights or questions about planning for the PFML for your company.

Uncommon Wealth Building Wisdom – The Benchmark

There is a common trait that shows up on the road to building your wealth. This trait shows up as you continue to add to your investment portfolio. You do have an investment portfolio don't you? And don't even start the blame game when this trait is revealed in just a moment.

Here is what this is all about: in a word, Benchmarks. In and of itself, a benchmark would seem to be an important part of evaluating the performance of your investment portfolio. And, truth be told, if there were actually one accepted benchmark that could be universally applied, that might actually work. But the reality is that investment performance is not so simple.

Get a better benchmark

Instead of always trying to play catchup with an industry benchmark, there is a better strategy. A strategy that will allow you to grow and expand your portfolio over time without freaking out every time you see your portfolio statement.

Lessons From The Diet World

You are barely into the entryway of the store before you notice the section with the largest selection of books. Yep, it's weight loss.

Here's an analogy that illustrates the point being made here. Head into any neighborhood Barnes & Noble or similar bookstore. You are barely into the entryway of the store before you notice the section with the largest selection of books. Yep, it's weight loss. The point for you to see here is that if there were one diet that worked for everyone and every circumstance there would not be such a wide selection of diet books on those shelves.

The exact same concept applies to the world of investing. You can prove this for yourself with a quick Google search. Search for investment benchmarks and you get something like 26 Million Search Engine result pages. Obviously there are not that many ways to measure the performance of your investments, but still, the point should be glaringly obvious.

What "They" Say

Now take a look at the world of investments. Suppose you have a diversified investment portfolio that you have been funding for a few years. What do "they" tell you to look at? Most often, investors are told to compare the performance of their portfolio to that of a major benchmark. You might even discover that your financial advisor is using this benchmark to demonstrate how well you are doing. Suppose your portfolio is being compared to the S&P 500.

Actually, the S&P 500 is a commonly used portfolio performance

comparison benchmark. How does this show up in the real world? Suppose you pay for the services of a personal financial advisor. Your advisor might send you a glowing report this quarter indicating that your investments outperformed the S&P 500. Wow! Your advisor is a genius. How about if you send in some more money?

Hold on a sec! What about the other side of this equation? Suppose, the next quarter you get a different letter. This time your advisor is lamenting the fact that for some inexplicable reason your portfolio lagged the S&P 500. Now what? Is your advisor an idiot? Or is there something else going on here?

Wrong Benchmarks

You see, the reality is that if the last scenario turned out to be true, you might not have reacted so well. In fact, you may have found your self dialing your advisor to find out what the_____ is going on here?

What's going on here is you are engaged in a comparison game that does not make sense over time. As you have probably noticed by now, the market goes up and the market goes down.

—

Post from [Your Finances Simplified](#)