



# The Consumer Price Index and You

Inflation is a long-term, sustained rise in the general level of prices, as measured by the Consumer Price Index (CPI). Writer and humorist Sam Ewing once described inflation this way: “Inflation is when you pay \$15 for the \$10 haircut you used to get for \$5 when you had hair.”<sup>2</sup>

Calculated monthly by the Bureau of Labor Statistics, the CPI tracks

prices for a set basket of goods (such as food, clothing, shelter, and transportation) throughout the nation to measure inflation at the consumer level. Over the past 30 years, the CPI reveals that the prices paid by most urban consumers rose by about 4.2% per year.<sup>2</sup>

Although the CPI helps indicate inflation at the broad consumer level, it becomes less relevant as people grow older and change their spending patterns. For example, in 2007, health-care costs increased 7.5% from the previous year, and similar increases are expected for the foreseeable future.<sup>3</sup>

To calculate your personal inflation rate, based on your individual spending patterns, use the accompanying worksheet. Understanding your personal inflation rate may help you overcome some challenges during retirement.

## WHAT IS YOUR PERSONAL INFLATION RATE?

Estimate the percentage of your adjusted gross income that you spend in each of the categories (column 3), then multiply by the CPI inflation factor in column 2 and write the answer in column 4. Add the figures in the last column to arrive at your personal inflation rate.

	CPI Inflation rate	x	Percent of spending	=	Your Inflation rate
Food & beverages	0.039	x	_____	=	_____ %
Housing	0.044	x	_____	=	_____ %
Clothing	0.014	x	_____	=	_____ %
Transportation	0.040	x	_____	=	_____ %
Medical care	0.060	x	_____	=	_____ %
Entertainment	0.014	x	_____	=	_____ %
Other	0.059	x	_____	=	_____ %
<b>TOTAL</b>			<b>100%</b>	=	_____ %

Source: Bureau of Labor Statistics, 2007; Haver Analytics, 2007. Inflation rates are for the 30-year period ending in September 2007, except for Entertainment (for which inflation rates are for the 14-year period ending in September 2007).

1) BrainyQuote.com, 2007  
2) Thomson Financial, 2007 (CPI for the period 12/31/1976 to 12/31/2006)  
3) CNNMoney, March 27, 2007

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