Table 3: Hedging Excess or Shortfall When Inflation Does Not Match Expectations

Inflation at:	Two percent		Four percent		Five percent	
	2% Planned, 3% Realized	3% Planned, 2% Realized	4% Planned, 3% Realized	3% Planned, 4% Realized	5% Planned, 3% Realized	3% Planned, 5% Realized
Amount Needed for the Ladder:	$42,345	$58,890	$73,072	$58,890	$85,300	$58,890
TIPS Balance at:						
94 (life expectancy)	$6,711	$67,176	$88,239	$28,397	$120,685	**($762)**
95	**($1,556)**	$64,706	$84,048	$17,313	$118,116	
96		$61,834	$79,090	$4,652	$114,861	
97		$58,539	$73,308	**($9,716)**	$110,868	
98		$54,796	$66,646		$106,084	
99		$50,582	$59,040		$100,450	
100		$45,871	$50,427		$93,907	
101		$40,637	$40,735		$86,389	
102		$34,852	$29,892		$77,829	
103		$28,488	$17,821		$68,155	
104		$21,514	$4,440		$57,290	
105		$13,898	**($10,339)**		$45,154	
106		$5,609			$31,661	
107		**($3,389)**			$16,720	
108					$237	

Note: Table 1 showed that if 3% inflation was planned, $58,890 would have to be placed in a TIPS ladder to hedge the SPIA to age 100. (The time course for the drawdown in the 3% planned, 3% realized case is shown in the third column of Table 2.) The paired columns in this table show the cost to plan for inflation that is lower or higher than 3%, along with the outcomes if inflation is lower (higher) than the 3% assumed in the base case. Not shown are the results if inflation comes in exactly as planned, whether 2%, 4%, or 5%, because in that case, the TIPS balance shown was calculated to be exhausted exactly at age 100. All scenarios assume a real yield on TIPS of 2.0%.