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THE JOURNEY TOWARDS FINANCIAL FREEDOM

Retirement Planning Made Easy

Planning for retirement is like a marathon and not a sprint, and by investing appropriately you can maximise your retirement

Financial security in retirement doesn't just happen. It takes planning, commitment and regular saving to build a substantial retirement corpus. With increasing longevity, falling interest rate, rising cost of living, absence of social security and nuclear family setups becoming the norm, one is left to fend for oneself when it comes to retirement. While it is advisable to start as early as possible when it comes to planning for your retirement, the good news is that you can start as soon as possible by investing through mutual funds to reach the desired retirement corpus.

Retirement comprises of two phases – the accumulation phase, when you are gathering savings to build a corpus to see you through retirement and the retired phase, when you depend on this corpus for your day-to-day expenses. Suppose, an average working individual starts his career at age 25 years, and plans to retire at 60, that gives him/her a total of 35 years to accumulate a retirement corpus. Suppose, you start investing ₹3,000 every month assuming returns of 10% p.a., over the next 35 years, his cumulative investment of ₹12.6 lakh will be worth ₹1.13 crore.

However, during these 35 years, he/she is also expected to realise other financial goals in life such as buying a house, travelling, saving for children's education etc. It may seem a daunting task, and often achieving this goal may be overwhelming. The answer to building a sizeable retirement corpus lies in starting as early as possible with however small an investment amount and adding to the investment over time.

Accumulation phase with mutual funds

Mutual funds are a suitable solution for retirement planning. You have the choice to invest across different types of equity funds as per your comfort. You could invest regularly through SIPs (systematic investment plan) or in lump sum. You could also build a portfolio with a mix of funds to suit your asset allocation. You could also take advantage of tax savings in this phase by choosing tax saving mutual funds to build your retirement corpus.

However, with each passing year inflation pushes your monthly expenses higher which, when it comes to retirement planning, could lead to serious cash flow problems in the future. For instance, today, ₹1 lakh may seem a good sum to run a household each month. But, 10-years from now, assuming 5% inflation; the purchasing power of ₹1 lakh would be actually ₹61,391, or inflation has eroded ₹38,609 of your money in a decade. Another way to understand this impact is that to maintain your purchasing power of ₹1 lakh, you will need ₹1.62 lakh a decade later.

It is vital for the returns from investments to be able to beat inflation with positive real returns; that is your investment return should be inflation adjusted. This is necessary to maintain your standard of living in retirement and also ensure that the worth of your savings matches rising cost of living. Long-term mutual fund investments take advantage of power of compounding with higher equity exposure which can work favourably during the accumulation phase.

Varying investment approach

Mutual funds provide a suitable investment approach at every stage in an investor's life. For instance, in the early years one could go in for a higher equity allocation

Save more. Invest with confidence

Building a retirement savings corpus doesn't have to be complicated. All you need is a simple approach to amass a corpus that should see you through retirement

In your 20s

You are still decades away from retirement, and several other financial goals may take precedence over retirement. Yet, this is the perfect time to start making contributions, however small, towards your retirement savings with a higher equity exposure.

In your 30s

As your investment portfolio grows, consider reallocating some fixed resources towards retirement with equity exposure, as you still have many years to retirement. Consider dedicated retirement oriented mutual funds to stay focused on the long term and be on track.

In your 40s

Maximize your retirement contributions and lower your risks by evaluating how much you may actually need when you retire with a target figure. By the time you are 50; you should have made a significant contribution towards your retirement and may not need to play catch up.

In your 50s

With a decade or more ahead for retirement; think realistically and envision your retirement costs. Play catch up if need be as you are more likely to have pared your debts and other financial commitments to focus only towards retirement savings.

which could be adjusted as one approaches retirement. Although every investor may have a different need and risk profile; it would be suggested to use the services of a financial advisor to help plan for your retirement who could help with a plan for investments that are more suited to the various stages of your life (*See: Save more. Invest with confidence*).

Goal-based investment approach is an effective way to save towards retirement. You could set mini targets at different stages of your life to ensure you stay on track to face the challenges that retirement savings could pose. Challenges include changing market cycles, your perception to risk, prevailing tax laws, falling interest rates and rising inflation among others. Make it a rule to increase your allocation towards retirement with each passing year, instead of looking for higher contributions as you approach retirement.

Retirement checklist

The retirement checklist starts by arriving at the number of years left to retire and the expected number of years that you will live in retirement. While the first is pretty simple; the second can be based on general life expectancy of say 20-25 years post retirement, assuming you retire when you are 60 years old.

You will also need to estimate your savings ability towards retirement and the returns such savings could earn, which need to beat inflation. More importantly, you need to factor in returns that your retirement corpus could earn when you retire, however, conservative it may be. At a younger age, it is difficult to estimate your income needs in retirement, hence use the income replacement approach till say you are 10-15 years from retirement as a retirement savings approach. Use a dedicated retirement savings mutual fund to build your retirement corpus, for their suitability towards this goal.

However, as you approach the retirement date, you will be better positioned to factor the actual expenses you need the money for in retirement. Remember, all these numbers are estimates and depending on circumstances, the sum you need towards retirement may actually change. So, factor an additional 10-15% as unexpected expenses when building a retirement corpus. It is better to have more than you may need, instead of landing into a situation when your retirement corpus runs out in your retired years.

Your retirement plans need not be set in stone, because investment returns, your health, your employment prospects and tax rules could change between the time you start and when you are actually about to retire. With so much at stake, there are bound to be doubts, concerns and questions, which you could check with your advisor to know more about retirement planning and adopt a smart way to plan for it. ●