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How to RETIRE right ?

by

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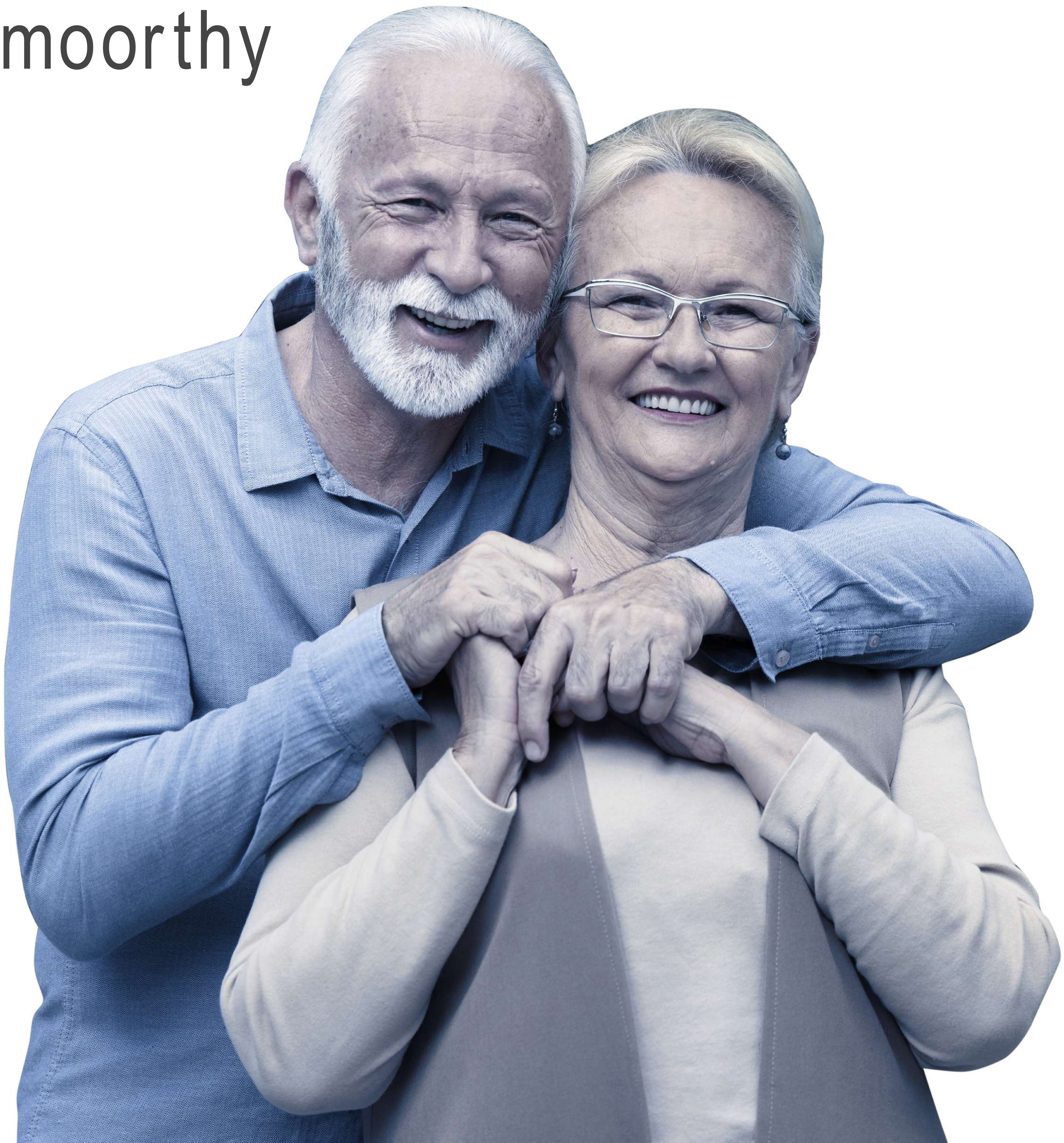

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The State of Retirement Planning in India

Retirement planning has been a fairly ignored aspect of financial management for Indians in the past. A recent survey conducted in 2020 by PGIM reveals the following highlights :

1. The conventional model of stable employment and retirement by 60 is increasingly outdated
2. People like to plan for happy outcomes and/or unknown eventualities and not for unhappy outcomes or known eventualities like retirement;
3. Elements like break up of joint families, presence or absence of alternate sources of income and fear of dependence on children in old age are playing important roles in people's attitude to retirement;
4. Indians living in a joint family system feel more financially secure and this is still perceived as an important support system in retirement;
5. Safety and security as associated with money are shifting to fulfilling dreams and having a better life;
6. Urban Indians are saving and investing less while allocating nearly 59% of their income to current expenses;

7. Only 46% of private-sector employees say their employers motivate them to plan for retirement;

8. One-third of people have some form of alternate income;

9. 51% of people who have planned their retirement also have some form of alternate income

10. Priorities such as children and spousal security and even fitness and lifestyle ranked higher than retirement ;

11. Most Indians do not have a 'retirement fund' - either because they haven't begun retirement planning yet, or they just have all-purpose funds and investments that may later be used for retirement, in case any of the other worst-case scenarios do not materialise ;

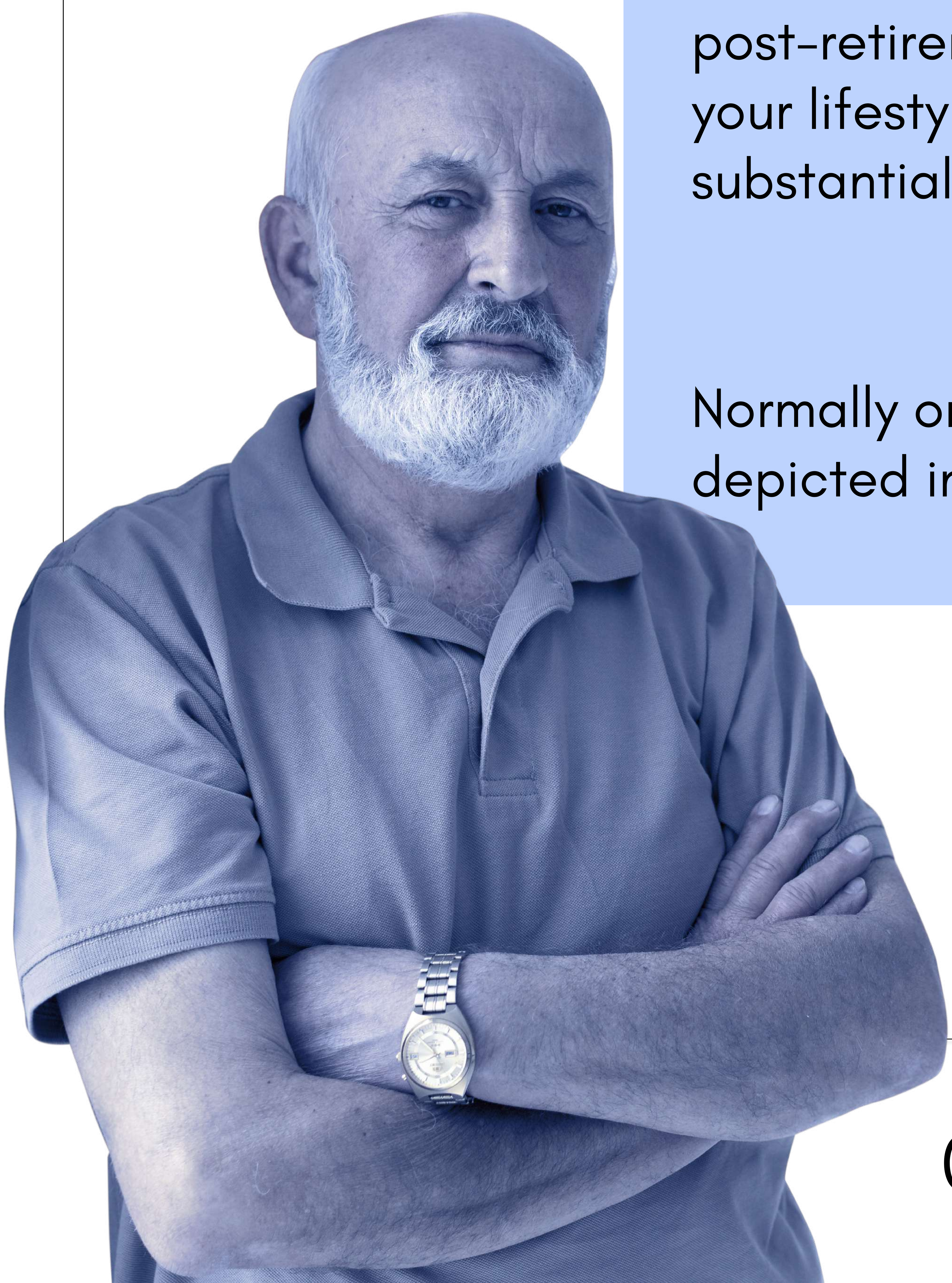
12. 65% of Indians say retirement planning advice from the employer would increase their loyalty to the organization

You can download the entire survey at this link:
https://www.pgimindiamf.com/retirement-survey

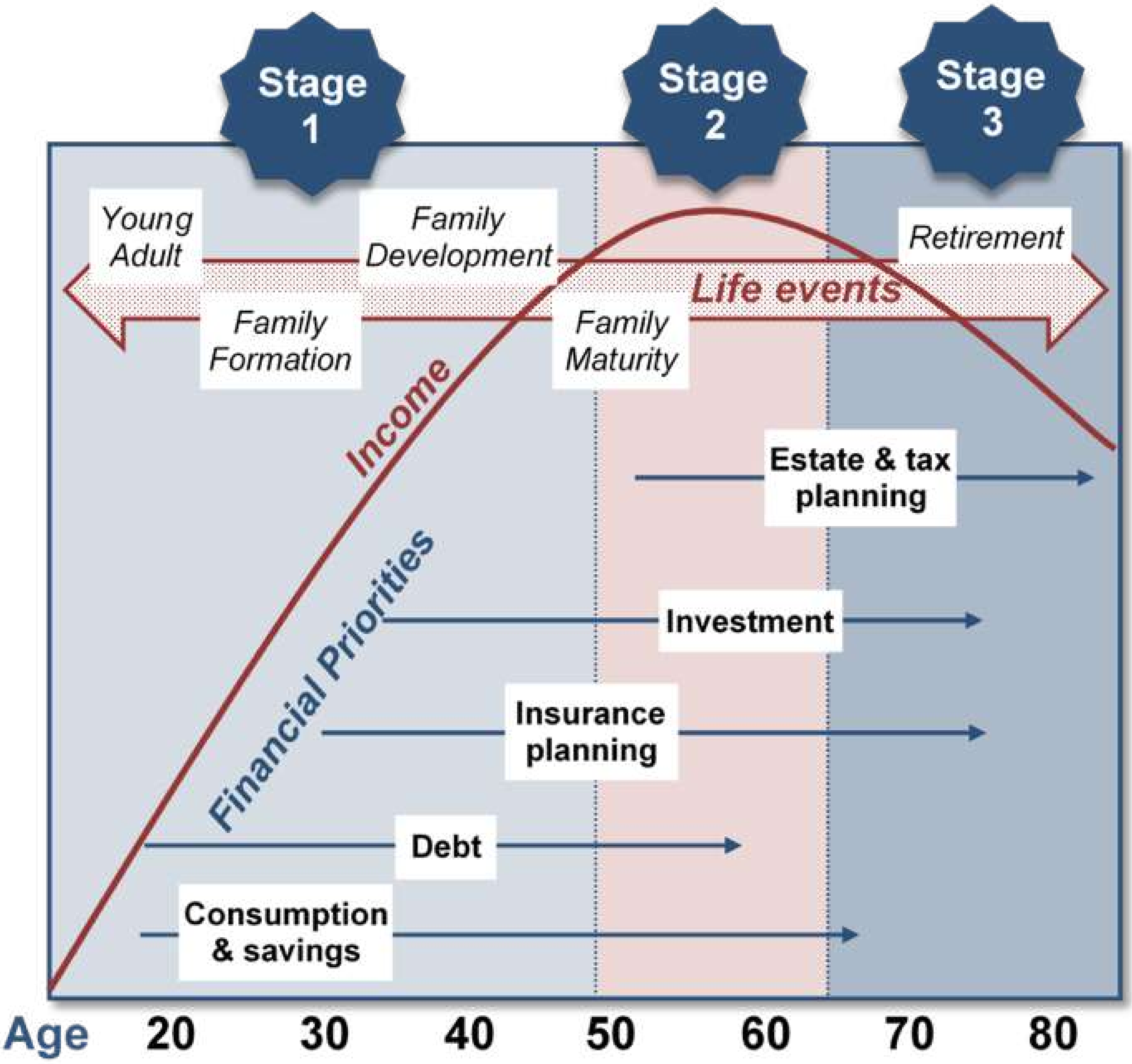
What is Retire Right?

At some point in life, everyone must choose to hang up their boots and not have to go to work to run their life. Whether we like it or not, every single day for every single activity we need cashflow of some sort, right from waking up to brush our teeth... to going to sleep after supper, every action needs Vitamin M(Money). So whether you are working or retired, the need for money is constant. If you are younger then the need for money is a little higher than post-retirement depending on how you change your lifestyle. But for most the change is not substantial.

Normally one has three phases in life as depicted in the diagram below



Stages


Stage 1
Stage 2
Stage 3
Young Adult
Family Development
Retirement
Life events
Family Formation
Family Maturity
Income
Financial Priorities
Estate & tax planning
Investment
Insurance planning
Debt
Consumption & savings
Age
20
30
40
50
60
70
80

Stage 1:

In life, as a young adult, our priorities are to get going in our chosen vocation, once one is comfortable and growing, one looks at starting a family, then buying a home, and having children.. so financially this period is characterized by expenses for consumption & living, Debt for buying vehicles or mortgages for home, Insurance planning etc.

Stage 2:

The age of 40 to 60 years is the second phase of life when one has almost two decades of experience in their chosen vocation. They are reasonably recognized in their vocation not only for their knowledge but also expertise.

Normally this stage is the peak performance stage for an individual. His peak earnings happen in this phase of life as also the important decisions relating to children's higher education needs as also one's own retirement needs are needed to be planned at this juncture.

Stage 3:

The age of 61- 90 years is the third phase of life when one pursues one's life passions after all the family's responsibilities have been fulfilled. This ought to be the happiest phase of one's life, it is akin to gardening sowing the seed, watering the plants and then finally watching the fully grown trees yield fruits.. this is akin to watching the full-grown trees.

These are times to watch children, grandchildren and younger members progress in life and achieve success. As an elder one needs to be able to have good health and reasonable wealth to live in comfort as expected by their children.

Retire Right

Retire Right is the ability to plan one's finances in a manner so that stage 3 of life ie Post-retirement life can be managed quite comfortably....

Retire Right seeks to answer the following questions that occur in most people's minds (say about 5-10 years before when they would like to retire) :

1. What kind of monthly expenses would I have and therefore? What is the monthly income I need post my retirement date?

The monthly expenses can be categorized as living expenses and lifestyle expenses. The living expenses pertain to the everyday living expenses which include the basics like food, Clothing & shelter needs like Groceries, home rentals, and basic monthly needs.

Lifestyle expenses relate to the "Wants" that one has it can be like entertainment, holidays, or other expenses that are nice to have.. while what is a need & a want greatly varies from person to person, am sure each of us can categorise our expenses as such to ensure that we can fulfil all our needs and some wants (if not all the wants).

Wants	*Needs*

2. How am I going to fund my monthly expenses and what is the source of this income?

By the time a person retirement, one must have already figured out the basis by which he or she is going to derive the cashflows every month so that.. broadly the cashflows post-retirement can be categorized as :

Pension: Usually Govt (both State & Central Govt) staff and employees are eligible for a monthly pension which is calculated based on their last drawn pay and the number of years of service. Most of these pensions cover the needs part of one's life. While people may need more for their wants, this portion fairly covers their needs. Some of the private sector employees also enjoy superannuation on their retirement, which gets them a monthly pension. Although in the case of the private sector, this is not a large number, it does add to what one needs regularly post-retirement.

Other Sources: For Non-Government employees and others like Doctors, Lawyers and architects who do not work in any company, need to create their corpus using a variety of investment solutions to ensure that they can live a comfortable life post-retirement. The common investments in which people plan for their retirement are PF/PPF, SIPs in Mutual Funds, Real Estate Plots, Fixed Deposits, Gold & Silver etc.. a few examples of savings tools that Indians use.

3. What can I do 15/10/5 years before my retirement date, so that I can be in a comfortable place?

"You do not plant the seed when you are hungry", this statement is apt esp for retirement planning. We know that we will need to retire one day. Even people who run their enterprises and don't plan to retire at all are looking forward to the day when they don't need to go to the office to earn their monthly salary. They may do it out of passion. So essentially RETIREMENT is a definite event in everyone's life. Yet most people turn a blind eye to it or put their heads in the proverbial sand so that it does not stare at them.

The ideal time to start one's retirement plans is immediately after one takes a job... the next best time is when you realise that you will need to plan for retirement. If you haven't already done anything about your retirement and you are reading this... I presume that day is today. So it is never too late to start as long as you have the mind to ensure that you are going to make the plan work. But ideally, a 10- 15 year head start will help one plan and execute optimally. So if you are planning on Retiring at the age of 60 years

If you had to create a retirement Corpus of Rs 2.00 Crore, the difference between 10 years and 15 years to make it happen is just about double. That is the amount needed in 10 years is almost double the amount needed in 15 years for the same corpus.

Creating a Corpus of Rs 2 Crores @10% pa return		
Term of Plan	10 yrs	15 yrs
Investment/month	97635	48254

So it is really about how soon can you start your journey to make this happen.

What is the right age to plan your retirement?

One of the most common questions that people have is what is the ideal age to plan for retirement? As mentioned the first day of drawing your first salary is the best day to start, in all other cases, it depends on the day one planning to retire.

Today every individual has a different time for him/herself to retire... while a highly stressed IT professional would consider age 50 as an ideal age....

As more traditional doctors may even consider working upto 65 years as generally, doctors start their careers a lot later. But the general view is it is ideal to give oneself a clear 15-year time to settle into a good retirement plan and implement the same without too much of a hassle.

What is the right amount of money to retire?

Let’s say you are an IT Professional, and with a monthly cashflow need at the age of 40 years to be Rs 1.00 Lakhs and would like to retire at age 55, you would need to use the following template to determine the corpus you would need :

Retirement	
Current Annual Cashflow	12,00,000
Year to Retirement (in years)	15
Current Age	40
Retirement Age	55
Inflation	5%
Projected Annual Cashflow	24,94,714
Post Retirement Returns	7%
Real Rate (Post Inflation)	2%
Life expectancy	85
Post Retirement	30
Corpus needed for retirement	5,66,11,397
Corpus needed	5,66,11,397

In the above work we have assumed, that there is an annual inflation of 5 % per annum, due to which by the time the individual finally actually retires his cashflow needs have become Rs 24.94 Lakhs (Rs 12 Lakhs at age 40).

For the Corpus computation, we have assumed that his life expectancy is 85 years of age and his post-retirement earnings would be a mere increment of 2 % over inflation, this is done to be a little conservative so that as a senior citizen one is not forced to take undue risks post-retirement to generate a higher return to sustain. Therefore based on this the corpus needed by the individual is Rs 5.66 Crores when the person retires at the age of 55.

The next question that one needs to answer for themselves is how to reach the corpus of Rs 5.66 Crores by the age of 55 as in this case,

Corpus needed for retirement	**5,66,11,397**
Rate of Return assumed per annum	10%
Tenure to retirement (in years)	15.00
Lumpsum	1,35,52,318
Per month	1,36,587

If the person is a balanced investor who will park 60% of his investments in Equity Mutual Funds and the balance in Debt funds, the weighted average returns he will hope to enjoy will be 10% per annum.

At 10% returns to achieve the corpus of Rs 5.66 Crores, assuming he has no prior investments towards retirement, he can either choose to park Rs 1.35 Crores as a lump sum or do a SIP per month of Rs 1.36 Lakhs, or he can do a bit of both example if he has a lumpsum of Rs 60 Lakhs, then his SIP needs would be down to Rs 72,000 per month.. so in this manner, one can mix n match between the current savings and the future needs appropriately.

What is the right Attitude to have towards Money?

If these are the sort of money one needs to set aside, what are the mindsets that one needs to possess to make this plan a reality?

There are three broad points to convert any plan into a reality and this is no different when it comes to investing for one's retirement as well.

The three points are elucidated below :

1. Internalise the plan so that it becomes a focus of your money management strategy. The focus must be on achieving the goal through a clear-cut and achievable plan of action. So in this case, if the target of Rs 5.66 Cr is to be hit, then the plan must be to find Rs 1.36 Lakhs every month to put aside into investments to take one closer to the goal.
2. If you can't measure it you can't achieve it, so goes the saying, so one needs to take stock of where one is at least once every fortnight and proceed to make sure that the action is constantly measured against the goal and the plan implementation is reviewed ever so often.
3. Since the investment plan is based on an external economic condition that is constantly changing and evolving, one needs to be constantly looking out for opportunities and threats to the stated return of 10% and look for ways to enhance the rate of return in any manner possible.

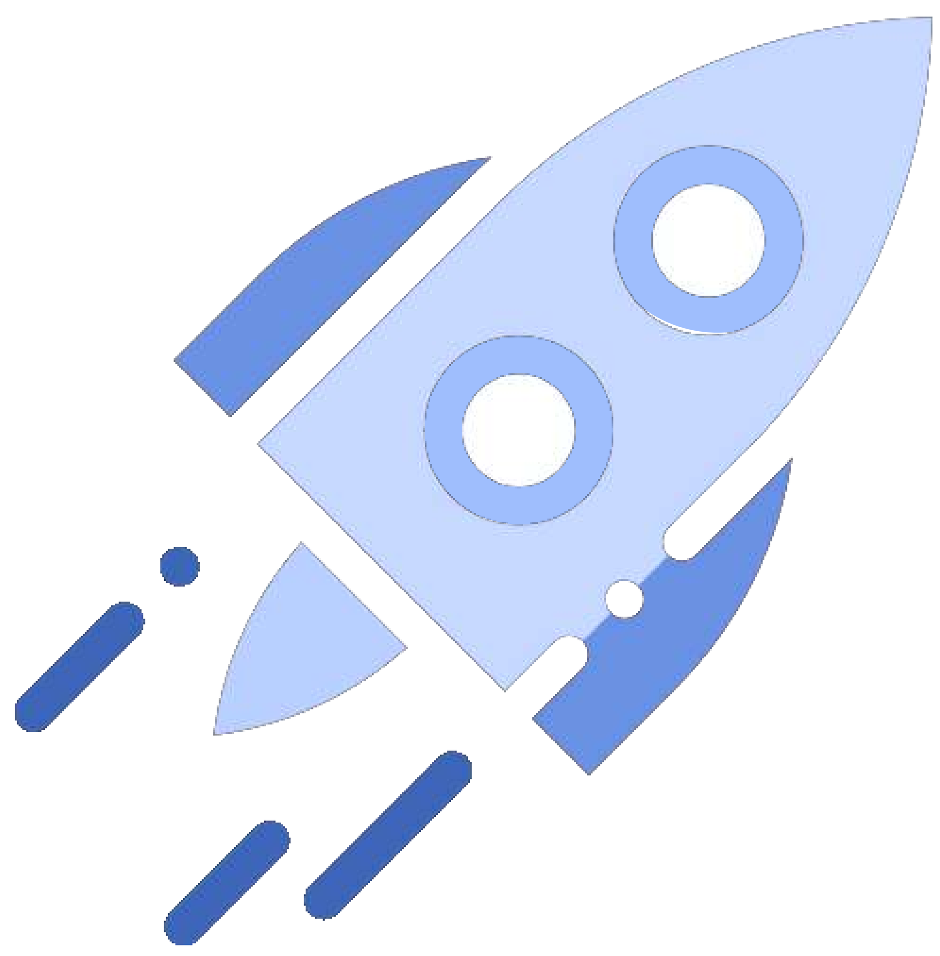
10 points to be kept in mind while planning one's retirement

1. Understand your Needs and create a Financial plan towards your long-term financial needs ;
2. Inflation is a reality of life, so please consider a nominal inflation rate in your calculations for long-term retirement;
3. Consider a good term plan to cover your life risk between now to your retirement, as this is a crucial period and needs to be provided ;
4. Take good health insurance away from your employment such that you can continue to post your retirement ;
5. Commit all your investment details on a piece of paper or your PC with details of the account details and passwords if any and share it with your spouse or any near or dear one so that apart from you someone else is also aware of your financial affairs;
6. Ensure you close all unwanted and superfluous bank accounts, Demat accounts and others so that you keep it simple;
7. Ensure that all your investments have a second applicant or nominations in place and the KYCs are done to reflect your current date;
8. Focus on ensuring that every month you follow up and implement the monthly investments towards the plan ;
9. At least once every year or at the happening of a key economic event review your financial investments and ensure they are all in order ;
10. If you have done all the 9 steps above, you don't have any more stress, sit back and relax..let your investments do the needful.

Take Action

If you are already 40 years of age and have not yet started your retirement plans, It's time to START NOW!

We will be happy to work with you and help you with your retirement planning and investments.



About the Author

Babu Krishnamoorthy is the founder & Chief Sherpa at Finsherpa Investments Pvt Ltd., a boutique personal investment management firm based in Chennai catering to financial needs of individuals in their middle age.

A fellow of the Institute of Chartered Accountants of India, Babu has over 25 years of expertise in areas related to finance and money management.

A passionate thought leader in the personal finance space, Babu has authored the bestselling book “Unlock Secrets to a Wealthy Life” which helps young adults to start their investing journey in a methodical manner. An evangelist of financial literacy, Babu loves to engage corporate employees, women , entrepreneurs and individuals in their middle ages in workshops or lectures on the Personal Financial Success. Babu is reachable at babu.k@finsherpa.com

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