SBI MUTUAL FUND
A PARTNER FOR LIFE

RETIREMENT ESSAYS

From the MD's desk

The time that everyone calls "Retirement" is not an end of something, but it's about the long-pending list of dreams, goals and aspirations that one always dreams to achieve at some point in their lives.

This book is all about the golden years that one can look forward to experience in their lives by putting a proper plan to it today in order to achieve them in the future.

We thank our authors for their contributions and immense support by sharing their personal experiences and knowledge through this book by making it a wonderful read for all those who want to make their retirement years truly "Happily Ever After".

Vinay M. Tonse
Managing Director & CEO

From the CBO's desk

Over the years, the word "Retirement" has changed from being an uncertain eventuality into a confident choice. The younger generation is now wanting to hang up their boots on their own terms, eager to pursue their passions and find a meaningful purpose in their life. In my years of experience, I have seen that those who look forward to their retirement with renewed energy and enthusiasm are financially ready for it. By having a solutions-oriented approach to investing, each one of us can retire well and become financially secure and confident to follow their dreams and aspirations.

I would like to thank all our contributors to this book for sharing their perspectives on retirement and giving the readers a wealth of insights to live ''Happily Ever After''.

D P Singh
Chief Business Officer

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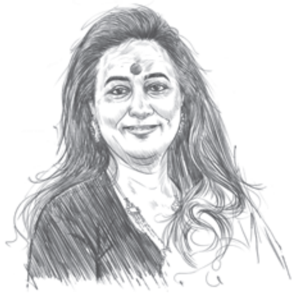

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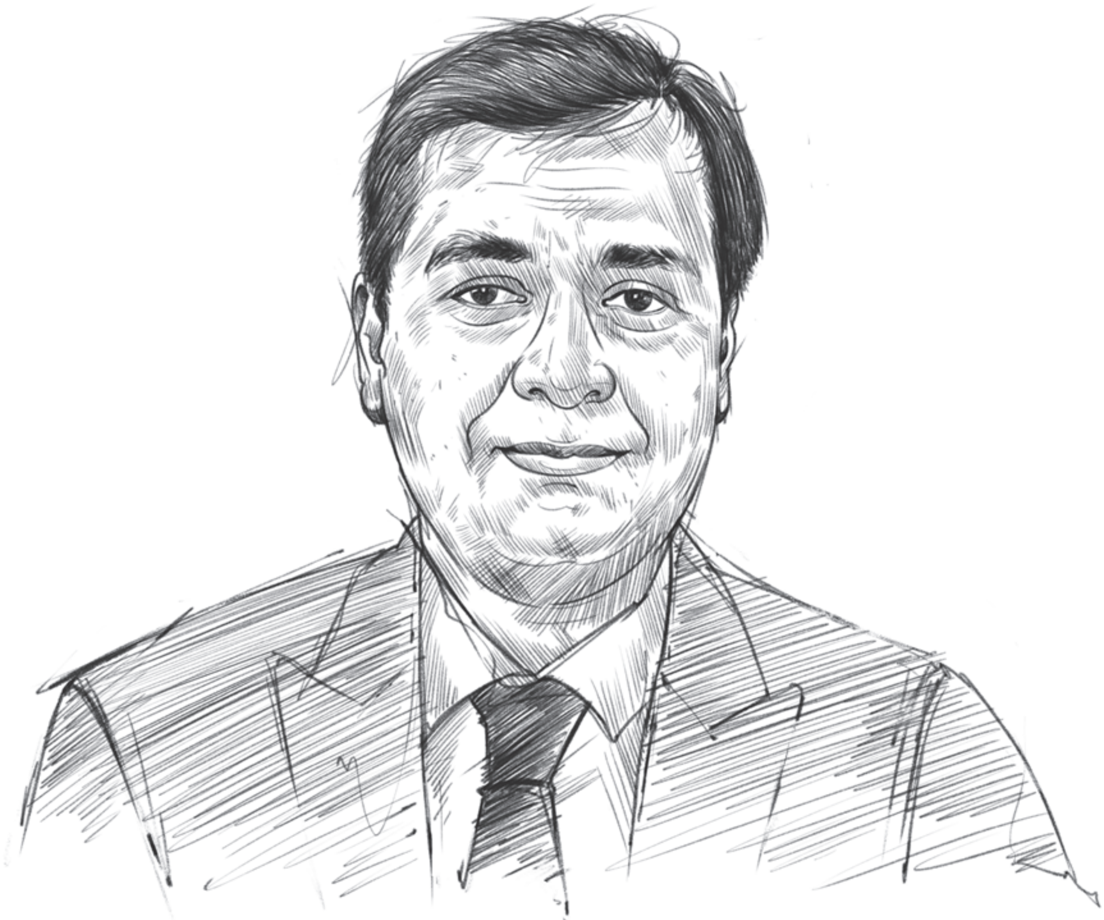

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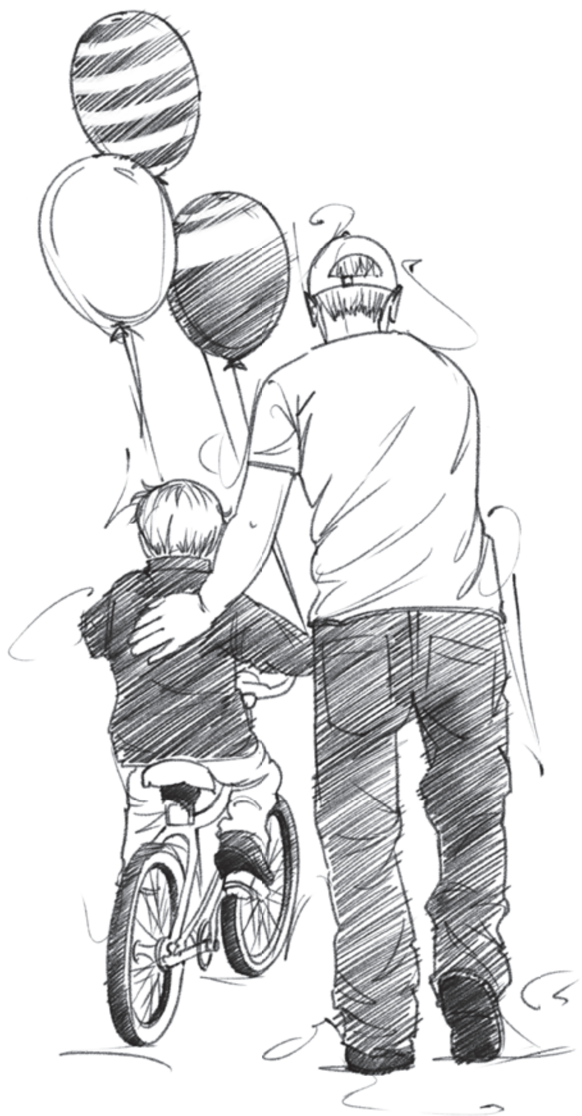
BE PREPARED FOR THE ‘IF’ IN LIFE

**IS RETIREMENT A SCARY WORD?
YES, INDEED FOR SOME,
BUT IT IS LIKE MUSIC FOR OTHERS!**

Why scary for some? Improper or absence of a plan for the retirement years may be the key reason. Not planning for it leads to insecurity and brings in an element of uncertainty and in turn makes you worry about the future. In the absence of retirement planning, uncertainty creeps into one’s life either at the end of a career or during an unforeseen career break or a sabbatical. The fear of not being able to have a steady source of income to take care of expenses or maintain current lifestyle.

Why music to some others? The reason is exactly opposite to the above. Those with a retirement plan have their financial risk and uncertainty mitigated and are able to pursue their dreams which were lingering within them for a long period; simple things like spending more quality time with family, visiting places of their interest and giving back to the society through charity and philanthropy.

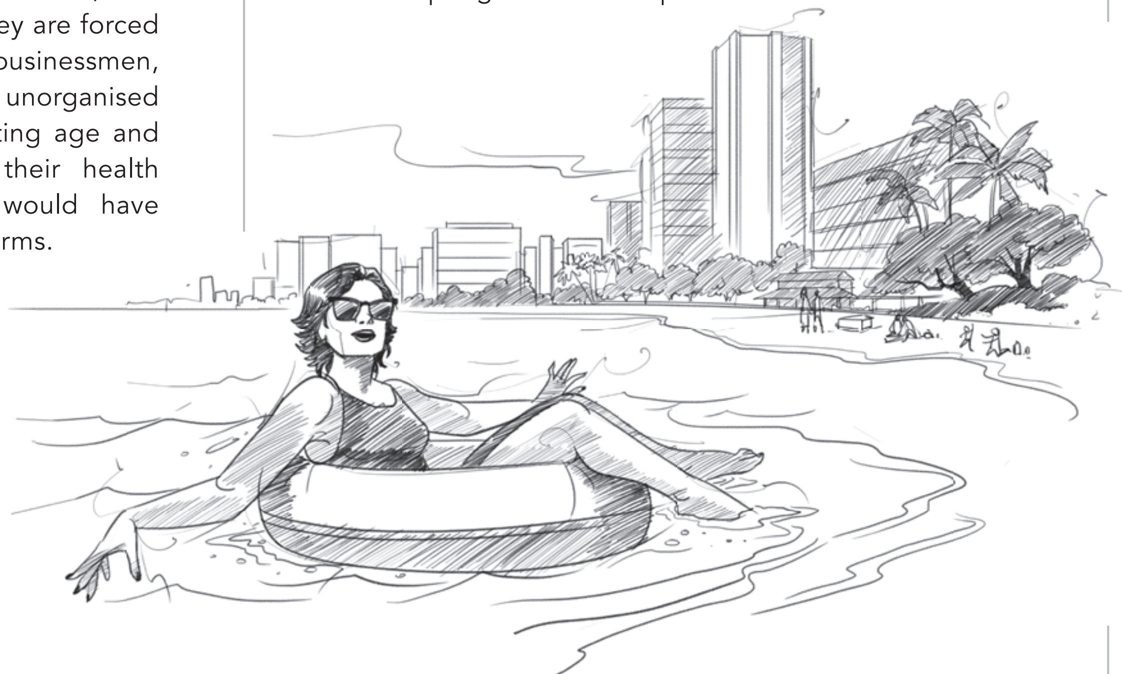


The concept of retirement planning has been there for ages, more so in the western countries but has been in vogue in India only during the last couple of decades. For a long time in India, the government was the major employer with superannuation benefits linked to the inflation benchmarks. Post faster industrialisation, globalisation, privatisation, corporatisation of entities and government directives, even private sector employees are offered superannuation benefits, of course not linked to any inflation benchmark.

Many of those who want to retire are incapable of determining the vesting age of retirement, except the salaried workers, who have a definite age at which they are forced to retire. Yet entrepreneurs, businessmen, and private workers in the unorganised sectors are unsure on the vesting age and they retire mostly only on their health grounds even though they would have chosen to retire on their own terms.

There are many factors like those detailed above which is required to arrive at the corpus needed at the time of an individual's vesting age. This process is a very daunting task as the corpus should yield annuity to take care of all requirements until one attains 75 to 80 yrs. And not to forget the legacy one wants to leave behind for their children.

Various models are available with financial planners to advise their clients now on proper retirement planning. However, one basic tenet is to have a good clarity on the difference between needs and wants while adopting a retirement plan.



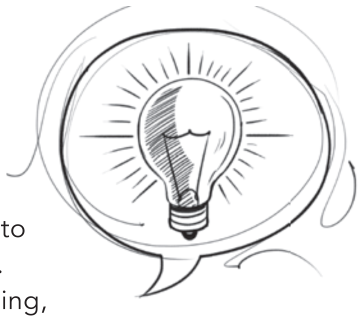
SO WHY SHOULD YOU LOOK AT PLANNING WELL FOR YOUR RETIREMENT

- Longer lifespan: With the advent of medical technology, the lifespan of Indians has increased to 78 years now compared to just over 50 years at the time of independence
- To maintain a comfortable and decent lifestyle post retirement
- To enhance one's lifestyle and to meet a higher cost of living
- Higher education costs for their children and increasing medical costs
- Dwindling employment opportunities has led to reduction in the retirement age in the formal sectors ranging from 55 years to 60 years unlike in many western countries where it is around 65 years

Retirement planning is not a process to be undertaken at the eleventh hour and repent later. Early adoption is a wise decision to lead a comfortable life later. Investments needed towards retirement during the pre-vesting period are lesser and the more time in hand gives you the benefit of the power of compounding. It is prudent to start at an early age to achieve the desired results of a good retirement plan. The key here is to have a longer horizon for retirement planning and willingness to invest in a financial product which meets one's risk profile.

Inflation, is the most important and a volatile variable one has to keep in mind while doing retirement planning as the investment returns should always beat inflation at all times to come.

‘Life’ is not only about living longer but to be prepared to take care of the two middle letters ‘if’. There are many models, tools, and financial products available now and offered by many institutions – viz. term assurance, annuity plans, life insurance, medical insurance with super top-up plans, retirement-oriented mutual funds etc. An ideal risk coverage should take care until 85 years. However, it can be up to 90 or 95 years depending upon the clan and lineage.



SOME THOUGHTS

MEDICAL NEEDS:
Often retirement planning is mistaken as related only to financial needs. It is not so. As part of retirement planning, one’s medical needs should also be included. Many of us often miss this important point.

ESTATE PLANNING:
Another critical aspect is leaving a will or probate for the estate. Indian culture and family habits generally doesn’t lead to this, but a legally enforceable probate eliminates many problems and instils harmony in the family post one’s life.

PROVIDENT FUND:
It's always wise to invest the maximum limit allowed in provident funds as per regulations to take advantage of the tax benefits which are available. Many dip into their superannuation benefits like provident fund for completing their domestic duties, viz. marriages of their children, construction of house, or an investment into a new business venture that they are not acclimatised with. These should be avoided. At no instance, the provident fund should be utilised for anything other than retirement planning of oneself.

REVIEWING YOUR PLANS:
Similarly, the investments in superannuation plans also need a review at the time of reaching vesting age depending upon the family circumstances, if a portion of that is needed to be encashed before the annuity starts as the annuity goes lower with refund of corpus to the nominees. Review of retirement plans are needed periodically pre and post vesting age and rebalancing of assets should be undertaken to be on track to meet the goals. It is necessary to understand the retirement planning products fully – the pros & cons before you sign the documents to avoid any mis-selling which do not conform to the set goals.

DIVERSIFY:
General prudence suggests not to keep all the eggs in the same kitty. Invest in different asset classes based on your risk appetite. Early adoption could have higher allocation to equity and as one nears the vesting age, investments can be into debt for certainty in income. Adequate liquid assets are needed to address the emergency needs which can cover monthly expenses for 9 to 12 months.

WASTEFUL EXPENSES:
Avoid investing in time shares issued by holiday resorts which generally are not used at all. It would be a costly affair. Unless it is essential, the reverse mortgage should be avoided. Very few outlive the statistical models and the probabilities of benefiting the institution is more than the mortgager.

In our culture, we tend to rely or depend on our children to take care of our needs post retirement or during old age. However, with the advent of globalisation and India emerging as a Global technology leader, two things are happening; nuclear family setups are increasingly more common and old-age homes across the country are mushrooming. These do necessitate having retirement plans in place.

I consider retirement also as an opportunity to give back to the society many things other than money. A great chance to share intangible assets like knowledge and experience and help a younger generation. It’s natural to dwell in the past as we age but wiser to learn to live for the day and plan for tomorrow. A prudent retirement plan keeps one’s self-esteem and pride held high always and gives real meaning to a happy and fulfilling life.

T Venkatesan

Kashyap Mody

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KASHYAP JOINED RELIANCE INDUSTRIES IN DECEMBER 2011. HE MANAGES A FIXED INCOME PORTFOLIO OF USD 15 BN, LEADING A TEAM OF SIX FIXED INCOME SPECIALISTS. PRIOR TO RELIANCE, KASHYAP WORKED WITH CITIBANK FOR NINE YEARS IN DIFFERENT ROLES RANGING FROM CORPORATE FX SALES, BALANCE SHEET ASSET LIABILITY MANAGEMENT AND PROPRIETARY RATES TRADING.

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APART FROM MANAGING MONEY, KASHYAP IS A PASSIONATE LONG DISTANCE RUNNER AND HAS COMPLETED SEVERAL MARATHONS AND ULTRA-MARATHONS IN THE LAST FEW YEARS.

ENJOY THE 8TH WONDER OF THE WORLD - COMPOUNDING

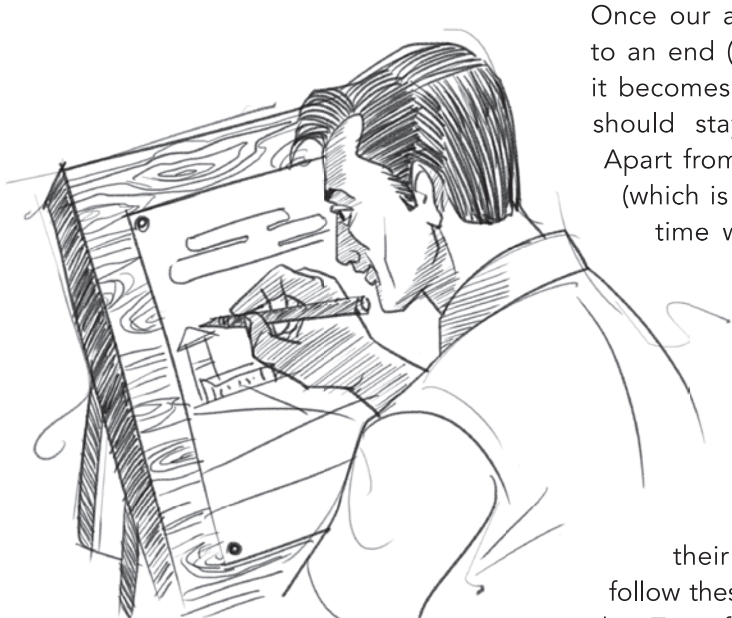
"Retirement" – Doesn't this word have different meanings and connotations to different individuals? It means a lot to some of us while for some, it really doesn't matter, or they just don't care for it. But eventually it is something that each of you will encounter and hence being aware of its implications on all aspects of our life is necessary, important and inevitable.

Often, when one thinks about "Retirement Planning", it is generally associated with financial planning and building an adequate kitty of savings such that it sustains our current lifestyle forever.

While that no doubt, is very important but surely it is also not the only aspect which concerns your retirement. With the average retirement age being in the 60s, most of us will have an active retired life for another 10 to 15 years considering the increasing life expectancy in India.

SO IN MY VIEW "RETIREMENT PLANNING" SHOULD COVER 3 ASPECTS –

1.
BEING PRODUCTIVELY OCCUPIED:



Once our active corporate/entrepreneur careers come to an end (which it will at some stage for most of us), it becomes extremely essential to think about how we should stay gainfully occupied in those afteryears. Apart from spending more time with your loved ones (which is necessary too), we should also spend more time with our hobbies, passions or causes which are closer to our heart. Why I say this is important, because giving quality time to the things we like will help not only to cope with ageing better but also to keep us fitter and healthier mentally. I know of friends who have cultivated long distance running or have started training to become an endurance athlete in their 40s and are now eagerly waiting to retire to follow these passions completely. And it doesn't stop at this. Two of my other friends always loved learning about various businesses and how to run them effectively.

They have already planned on how they could be an active part of small businesses and use their expertise to groom them into becoming better. This is their post retirement plan.

Apart from following interests and passions, I personally feel very strongly about taking an active part in contributing back to the society in whatever form and shape we can. Working with an NGO, setting up your own NGO, being an active fundraiser for a cause that's close to your heart, or simply consulting an NGO, the list of options is endless.

So what am I going to do? Well, I guess I might end up doing a bit of all.

And yes, creating the building blocks to help us follow such pursuits should not start in the 60s but much earlier than that. "Being Productively Occupied" is a choice and not surprisingly, there are an increasing number of us who will do that after their routine worklife is over.

2.
STAYING HEALTHY:
None of us want to spend our golden years visiting doctors, hospitals and consuming more medicines than food. To be in that state of health then, we got to start taking care of our fitness and our bodies now.

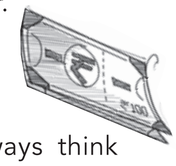
Spend 6 to 10 hours a week on staying physically and mentally fit and healthy. Whether you are walking daily or running or hitting the gym, do it regularly, do it consistently and make it a way of life. Swimming, cycling, trekking, yoga, meditation, zumba, there are several options to think about. But unfortunately, many of us ignore this when we are in our 30s and 40s only to realise it later that our sedentary lifestyle has already triggered lifestyle diseases in us. Don't reach that stage.

Wake up and work out! The worst days of retirement will be the ones spent in visiting doctors and hospitals. I love long distance running and today I desire to be as fit and to run as much in my 60s too. Ambitious, but then aiming low has never helped anyone, has it?

3.
FINANCIAL PLANNING:
Financial planning is the most necessary and important aspect of life but one that is the least focussed on, debated, and discussed about. Because a lot of us make the cardinal mistake of thinking about it only when we are in our 40s and by starting late, we give up the benefit of the "8th Wonder of the World" – Compounding.

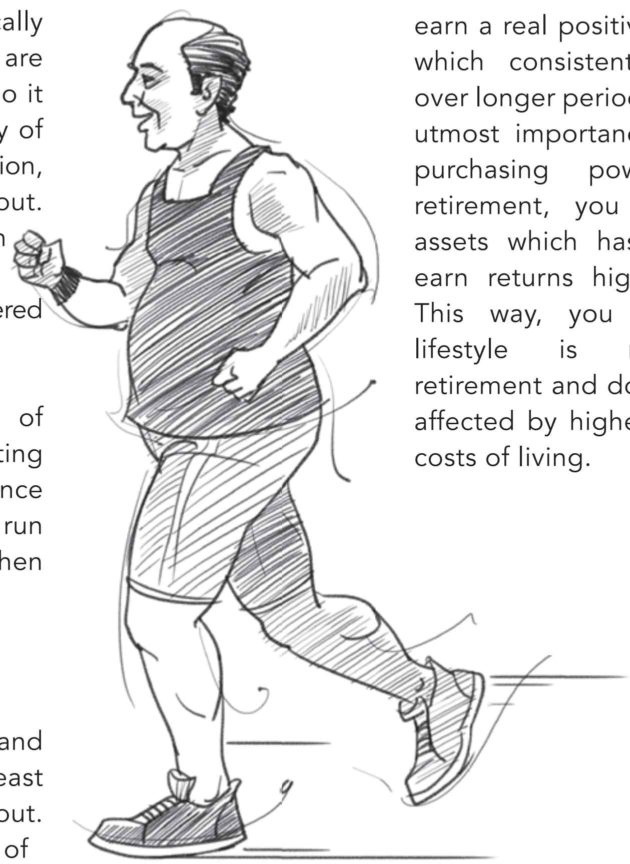
A FEW KEY POINTS WHEN YOU THINK ABOUT FINANCIAL PLANNING:

a.
START EARLY.
START VERY EARLY:
Saving and investing as a discipline should start from the day you start earning. Do not, I repeat, do not postpone it for a later date. From day one, save and invest first, spend later. This is a habit which will hold you in good stead forever.



b.
THINK POST TAX RETURNS:
When choosing investment options always think "post tax" returns and assess different investment avenues based on their returns after tax. Yes, tax laws can change over a longer term but that's something you can't control much. However, keeping this in mind will not only help you stay up-to-date with the current tax laws but also ensure you get the most effective return on your savings and investments.

c.
INFLATION:
The retirement corpus should look to earn a real positive return i.e. return which consistently beats inflation over longer periods of time. This is of utmost importance to protect your purchasing power. Hence, for retirement, you should invest in assets which has the potential to earn returns higher than inflation. This way, you can ensure your lifestyle is maintained post retirement and does not have to get affected by higher prices and other costs of living.



d.
ASSET ALLOCATION:
The right asset allocation is not only extremely important from the perspective of diversification of risk but also in improving the consistency in returns of your portfolio.
A healthy diversification across Fixed Income, Equities, Real Estate and Commodities becomes inevitable and prevents common investing mistakes like putting all your money in one type of investment.

e.
REVISIT YOUR PLANNING:

Investing in my view, is never a ''do it and forget it'' case. Once you decide on your financial plan and start actively saving and investing towards it, don't forget to revisit it every few years. As our life stages change, so do our financial goals. Our financial plans must keep pace with these changes; whether there is a need to increase investment amount or changing the asset allocation mix at fixed intervals, a review of the existing plan is necessary.

Retirement often comes with a new focus and renewed motivations. It is an event in life which needs us to be well prepared. I hope I have given some food for thought to you to make the most of your retirement and look forward to a happy and fulfilling life ahead.

Kashyap Mody

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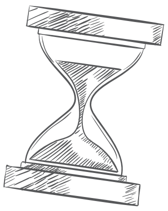
KNOW YOUR RISK APPETITE

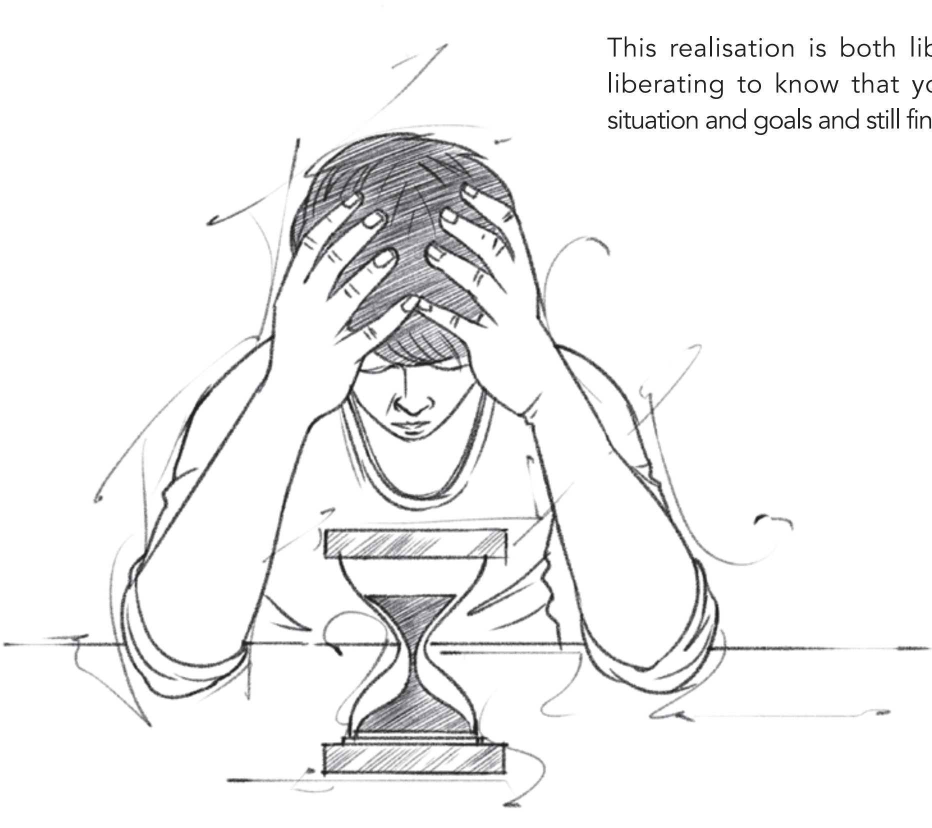
RETIREMENT. THE WORD CONJURES UP DIFFERENT THINGS FOR DIFFERENT PEOPLE.



One might picture a life of leisure, walking hand in hand with your significant other on a beach, enjoying that afternoon nap which they had been missing all these years. Some people can't wait to escape their day jobs, while others either love their careers and don't want to stop or want to start a new career – even if they're 60. Different meanings for different people. You might have heard that you'll have a comfortable retirement if you save a certain amount of money by a certain age. "Just save a million bucks and you're good", such advice goes. Perhaps you're starting to fear retirement planning because you're not doing something that experts say you must do to retire.

My guiding principle is that each person's idea of a happy retirement is different. Your goal for retirement is as unique as you. That's why a rule of thumb or guidance for someone else's retirement is not an exact roadmap for your vision of the future.

This realisation is both liberating and challenging. It is liberating to know that you can work with your current situation and goals and still find solutions for retirement planning.

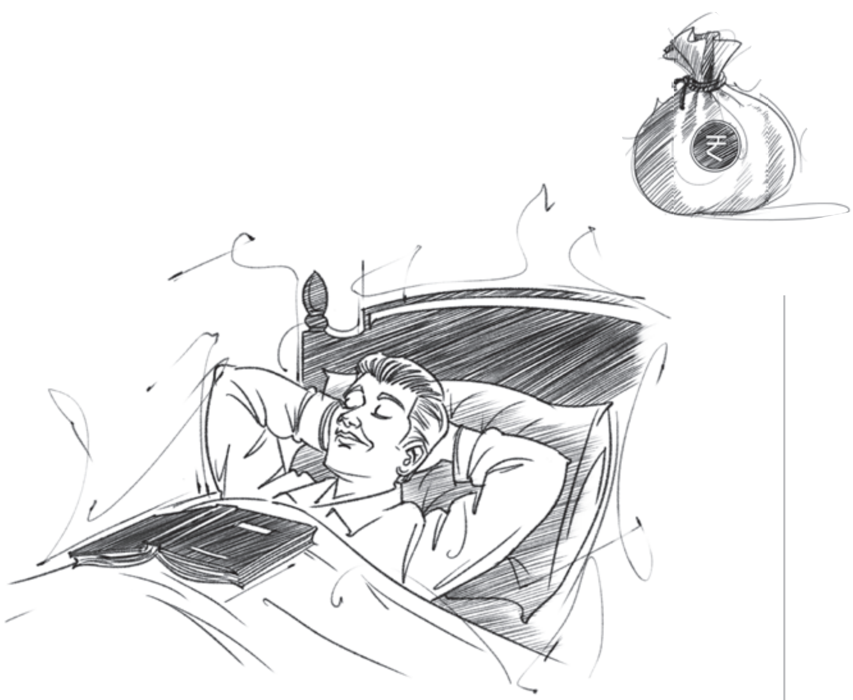


So, what's the challenge? The tougher part is figuring out what you want your retirement to look like, especially if your retirement is decades away. So, if guessing what you want your future to look like is so challenging, why bother?
Simply, the sooner you start, the easier the task will be. Time is your greatest ally when preparing for retirement, so don't waste it!

Retirement planning is simply about making sure you have resources available when you're no longer generating them from your labour. Famous investor Warren Buffett addressed the importance of putting your money to work when he said, **"IF YOU DON'T FIND A WAY TO MAKE MONEY WHILE YOU SLEEP, YOU WILL WORK UNTIL YOU DIE."**

Till a decade ago, retirement meant receiving pensions, purchasing a house to live in, and going on vacations randomly. Retirement was a peaceful phase and no such planning was needed for it. Investments produced high returns with decent safety.

However, the world has changed. Recessions, political changes have increased leading to an everlasting situation called "Uncertainty". Further, rising inflation numbers, slowing economic growth and of course too many financial products do not make life easy for any individual planning for retirement. What it does mean for a middle-class person is to be extra careful with his money.



WHY YOU NEED TO PLAN AND WHAT YOU NEED TO KNOW:

• NUCLEAR FAMILIES:
Long gone are those days when the elderly could rely on monetary support from a big family. The culture of the Indian families is changing as couples are going nuclear and staying separately. Twenty-thirty years down the line there may not be many relatives to take care of you as a senior citizen. Hence, it is vital to plan your retirement without expecting any financial help from your immediate family. There is a lot of mental satisfaction in having the ability to buy your own spectacles, medicines, and provide food for yourself. Why should that change when you are 60? Planning for your retirement allows you to always keep your head high and live a retired life full of dignity and respect.

• NO STATE-SPONSORED PENSION:
Private sector employees in India do not have a fallback option like a state-sponsored pension. Unlike the US and UK where they have state-funded/sponsored pensions or social security benefits during retirement, India so far does not have anything similar matching that scale. This means you are on your own when you are retired.

• IT PAYS TO START EARLY:
When it comes to planning retirement, the stark reality is that any delay could be the difference between a dream retirement and just a dream. 'You must be joking' is a typical response one gets from a 20-year-old when asked about their retirement plans. When we first start out in the workforce, retirement often seems a long way off. After all, most of us will have a career spanning 30-35 years, or even more. Rising longevity has meant that for all practical reasons, one will need to work significantly longer to build a sizeable corpus to see through the retirement years. The fear of outliving retirement savings is a very real risk given the volatile stock markets, high inflation and low interest rates; amid advances in healthcare.

• HOW MUCH TO SAVE:

The other dilemma is how much to save. In the current environment with social media penetrating our lives like never before, it is very easy to get influenced by the smart ad campaigns of various non-essential lifestyle products and get tempted to spend our hard earned money on it. This is where one's discipline comes into play. Set aside some amount of money for regular investments, come what may. If you are 30 years old, check how much money you spend now and how much money you would require to maintain your current lifestyle adjusting for inflation 30 years hence and accordingly start building a corpus. Also factor in spending for contingencies like children's education, their marriage, healthcare. Residual amount, if any, can be left for your temptations. Your money, your choice.

• POWER OF COMPOUNDING:

Compounding occurs when you earn return on returns. Albert Einstein is believed to have said that compounding is the most powerful force in the universe. And even if he didn't say it, the words are still true. Think of it this way. Suppose you put ₹1,000 into an investment that pays 5 percent interest a year. In the first year, you get 5 percent on your initial investment of ₹1,000, or ₹50. But in year two, you get interest of ₹52, not ₹50. Why? You didn't put any more money in the account. Well, in year two, you earned money on the interest from year one. Repeat this, and before long, the return on past years' returns becomes significant. When you start planning for retirement early, compounding does much of the work for you. You wind up with more money - even after contributing less from your salary.

ONE CAN FOLLOW SOME SIMPLE RULES FOR THEIR RETIREMENT PLANNING WITH TWEAKS SUITING THEIR INDIVIDUAL REQUIREMENT:

RULE 1:

Set aside 10% of your pay check towards your retirement: This is over and above your and your employer's contribution every month. 10% of your pay check means the amount which you are getting after any deductions towards PF contribution. These long-term savings will pay off big time through the power of compounding.

RULE 2:

As your income increases, increase your investments too: Just got a raise? Congratulations! But that doesn't mean you should go out and buy the PS4 or that new Gucci handbag or that new mobile phone. Not saying that you should not spend on your desires but be reasonable. Once Warren Buffett said, "If you buy things you do not need, soon you will have to sell things you need". What you should be doing is increasing how much you put away in terms of your investments. Sure, everything is more expensive than it used to be. But inflation is part and parcel of life and increased cost of living is no reason not to increase your investments.

It's the age of instant gratification. Want to see a movie, do it instantly on Netflix, want to buy something, you need not wait, do that instantly on Amazon and likewise. So, we forgot the art of being patient in the current environment. We delay things especially when it comes to financial investments. And when you add the angle of retirement which, for many of us seems like ages away, it doesn't become a priority. The instant gratification with that PS4 is looking way more attractive than a retirement plan. Make the right choice.

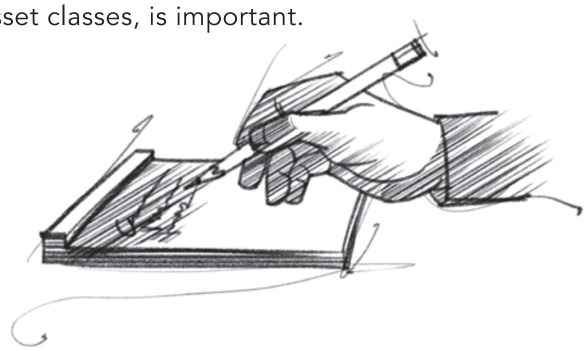
RULE 3:

Try not to plunge into your corpus before retirement: Every time you switch your job, your retirement fund is at risk. Reason? Many people find it easy to withdraw their PF fund rather than transfer it to the PF fund of the new employer. Risk? When suddenly you see a large amount in your account, you get tempted to spend it on stuff you wouldn't have bought if you had just your monthly salary to contend with. Then there's the option of withdrawing your PF balance if you need it, like, to buy a home, for a wedding, medical emergencies etc. If you keep dipping into your PF corpus, your investment won't be able to enjoy the full potential of compounding. Guard against these temptations.

RULE 4:

Know your risk appetite and choose the right assets to invest in: Retirement planning requires a careful balance of risk and return. If you play it too safe and don't take enough risk, your results may not be enough to give you the returns you desire. On the other hand, if you take on too much risk, you might suffer more volatility than you can handle.

Getting the right mix of risk and return is a pivotal element of a successful retirement plan. No risk, no gain. But what's the right amount of risk to take? What is a reasonable return? Although much of the future is unknown, especially over a span of 20 or 30 years, a general understanding of the risks and returns associated with different types of investments, or asset classes, is important.



USUALLY THE ASSET CLASSES TO LOOK FOR ARE:

A) EQUITIES
B) FIXED INCOME
C) GOLD
D) REAL ESTATE

Experts recommend that you should have an equity exposure of 100 minus your age. So, at 30, you should have about 70% of your portfolio in equities. At 55, the exposure to this volatile asset class should have been pared down to 45%. After you retire, your exposure to stocks should not be more than 25-30% of your portfolio. As you age, your risk-taking appetite also declines. The younger you are, the more risk you can take. Because retirement is likely far away and it's early in your career, you can withstand a tough market and stick with your long-term plan. Older workers closer to retirement don't have as much time to make up for a hit.

It is imperative to utilise multiple avenues to meet desired goals and mitigate specific risks. E.g.: Life Annuities brought from Insurance Companies provide a constant & stable pension like stream of income as long as one lives and are not subject to market volatility, but they do not provide protection against inflation & have withdrawal restrictions. For inflation protection, investment in Gold or Equity are good shields. Fixed Deposits/ Government of India Sponsored Bonds are quasi risk-free assets and the % of these assets increases as one ages while the % of risky assets such as Equity falls. Also, concentration (E.g.: Single Company Equity investment holding) should be avoided to diversify away risk.

Secondary factors such as taxes, level of financial wealth, etc. should be appropriately factored. An appropriate retirement plan should capture objectives, risk tolerance, constraints & determine the appropriate mix of investments.

Adam Smith, the father of modern economics says, “Money, makes money. When you got a little, it is often easy to get more. The difficulty is to get that little”. This not only emphasises the importance of one’s hard-earned savings during working life but also highlights that one can meet retirement objectives in the absence of working income. The key lies in planning and to invest prudently.

So get on the job. Now.

Girish Bajaj

Girish Sehgal

AUTHOR:

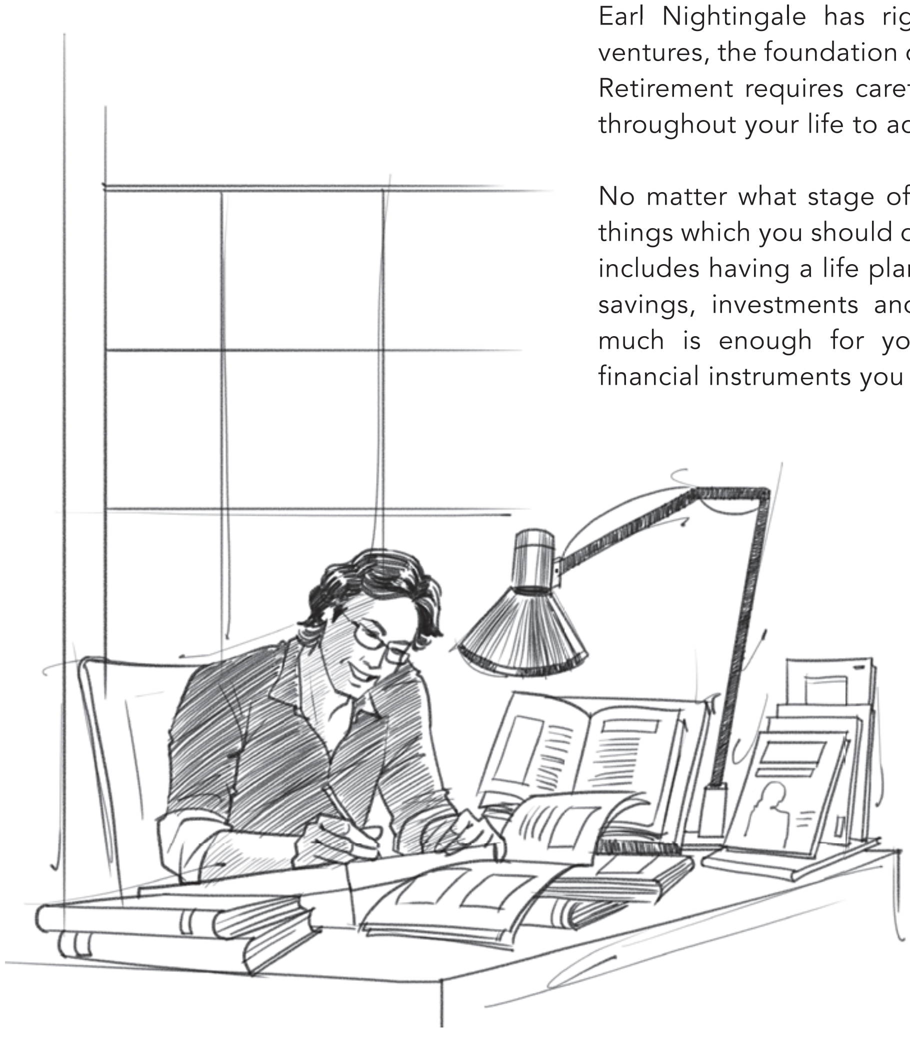
GIRISH IS A MANAGEMENT GRADUATE AND AN ENGINEERING GOLD MEDALLIST WITH OVER 16 YEARS OF DIVERSE EXPERIENCE ACROSS WEALTH MANAGEMENT, UNSECURED LENDING, RETAIL DEPOSITS, CREDIT, AND AUTHORISATION. AT ICICI BANK, HE WAS PART OF THE CORE TEAM WHICH SET UP AND BUILT THE WEALTH MANAGEMENT BUSINESS. GIRISH IS CURRENTLY HEADING THE WEALTH MANAGEMENT BUSINESS DRIVING REVENUE, AUM AND CASA OBJECTIVE OF THE BANK.

ENSURE AN ALTERNATE INCOME FOR THE INEVITABLE FUTURE

Life is full of milestones, be it your first school, college, job, starting a new family, buying your first house, children's education and their marriage and finally comes your retirement. Most of us don't think of retirement because of the various responsibilities we have to fulfil for our family. Different people have different perceptions about retirement; much of it are happy dreams which we want to make true.

A retirement could mean leading a luxurious life on an island, it could be spending more quality time with family, buying property, starting a new business or pursuing one's own interests and passions. Whatever it may be, it will require a sound financial plan and you will need to have a clear picture in mind before you start working towards it. Earl Nightingale has rightly said, "As in all successful ventures, the foundation of a good retirement is planning". Retirement requires careful planning and implementation throughout your life to achieve desired retirement goals.

No matter what stage of life you are in, there are always things which you should do to be financially prepared. This includes having a life plan, assessing your current income, savings, investments and expenditure to work out how much is enough for you, and then working out what financial instruments you may need to reach your goals.



The real question isn't at what age you want to retire; it's at what income. You can start your retirement planning at any point in time; the earlier you start the better it is. The key is to identify what you want your future to look like and then create a sound financial plan to help you get the life you want.

According to findings of a recent survey, most Indians prioritise their children's needs such as education, marriage, and their family's security over retirement planning. 51% of respondents said they had made no financial plans for their retirement. More worryingly, 42% have neither an alternative income source nor any retirement plans.

Also, the study reveals that more than half of the Urban Indians have not planned their retirement. Some Indians simply said that they don't need a retirement plan. Of the 51% of Indians with no retirement plan, 55% simply said they don't need a retirement plan to achieve their goals in life. These often tend to be middle-aged (41-60 yrs) respondents from metros, who either run businesses or are self-employed, and typically have alternative sources of income. 41% of respondents said they had focussed their retirement investments on life insurance, while 37% preferred fixed deposits. Other popular retirement investments include health insurance (favoured by 15% of respondents), gold (15%), recurring deposits (14%), National Savings Certificate / National Savings Scheme (9%) and Property (9%).

As the data indicates, a large proportion of people either do not think they need retirement planning or do not have a well-defined plan, although the need for the same is paramount.

WHY RETIREMENT PLANNING?

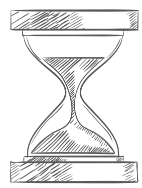
In current times, as our lifestyles change, our health problems are also increasing. Medical expenses make a huge impact in your finances post retirement. Studies show medical inflation is 10-15% a year. This means health costs becomes 4 times of what they were just 10 years ago. Inflation being another reason, even if it appears small in the short-term, can be massive over a few years.

Also, private sector employees do not have a fallback option like a sponsored pension. This means you are dependent entirely on your savings when you are retired. Then, there are always emergencies in old-age. So, having sufficient corpus to deal with all these is crucial. Retirement is an important reality for everyone and hence rigorous planning is required to face this reality.

Retirement is about focussing on the things that are important to you, by first identifying what those are. Some of the key aspects of good retirement planning includes identifying investment objectives, analysing current financial position, understanding income sources, investment planning, planning for uncertainties, medical emergencies, managing your retirement income and continuously monitoring of retirement assets. Creating a retirement budget, monitoring your financial position and making required changes in your investments is an ongoing part of retirement planning. This continuous monitoring helps you identify where you are deviating from the plan and rectify before it's too late.

THERE ARE ALSO SOME KEY FACTORS ONE SHOULD CONSIDER WHILE PLANNING HIS OR HER OWN RETIREMENT:

1.
TIMELINE:



Albert Einstein reportedly said that Compound Interest is the Eighth wonder of the world. It is never too early or too late to start thinking about your retirement, but planning your finances from an early age will give you some advantages. Not only will it help you earn more through compounding, but could even mean retiring earlier.

2.
RISK TOLERANCE:

Not everyone has an appetite for high risk. A financial planner can help you understand what your risk tolerance is and how comfortable you are with investing.

3. INFLATION AND OUTSIDE FACTORS:

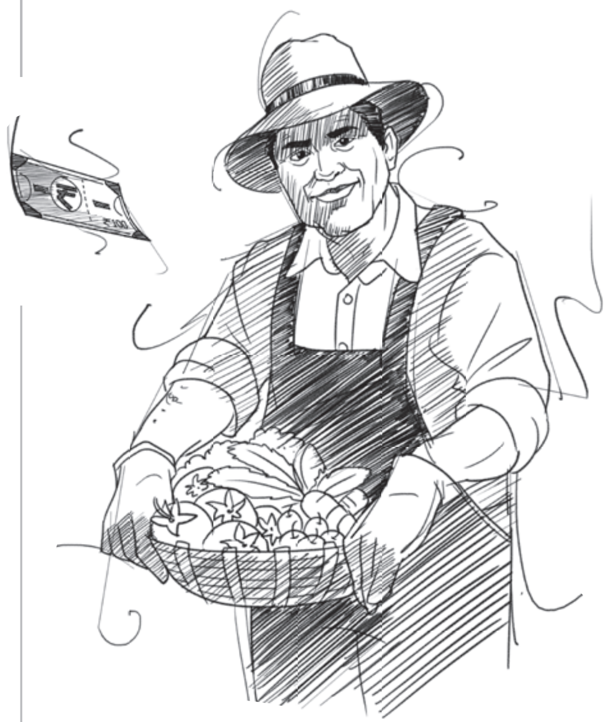
Inflation can diminish your purchasing power in retirement while increasing the cost of what you need and can seriously hinder your retirement savings. It could also decrease the value of your investments.

Working with a financial expert to protect your hard-earned wealth from inflation, taxes and other external factors becomes a very important part of your overall retirement planning. An easy rule of thumb says that you'll need to replenish 70% to 90% of your pre-retirement income to lead a good retired life. This means if you're making ₹70,000 a month (before taxes), you might need ₹50,000 to ₹63,000 a month in retirement income so as to enjoy the same standard of living you had before retirement, adjusted for likely inflation. For that, you need not only save, but also invest properly. This would mean investing in high-return assets so that your savings grow at faster rate than inflation. A financial expert can help you do the same.

A critical component of Retirement Planning is having adequate income protection. Given uncertainties of life, it is imperative to have adequate insurance to provide income support to the immediate family and dependent members in case of any eventuality. The same goes for medical insurance as well.

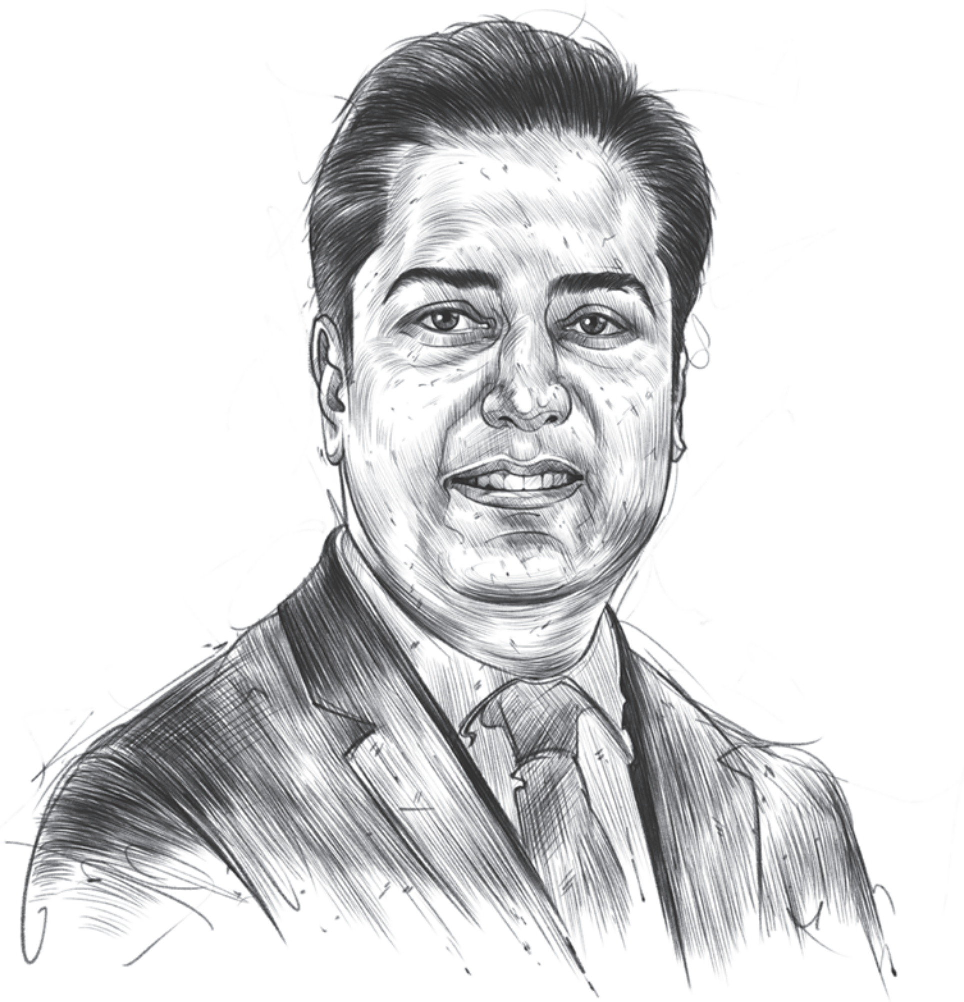
To conclude, retirement planning is all about ensuring an alternative income source to maintain your lifestyle when your recurring income stops. This is also needed for those who are self-employed since there are risks associated in running a business as well. A well-crafted financial plan with constant monitoring is the basic motive of all retirement plans.

Retirement is a time for new beginnings and a time when you take care of yourself, fulfil your passions and dreams. Let a strong retirement plan help you become financially independent and achieve boundless possibilities.



Girish Sehgal

Samrat Khosla



AUTHOR:

SAMRAT HEADS THE WEALTH BUSINESS AT STANDARD CHARTERED INDIA AND IS RESPONSIBLE FOR THE GROWTH AND DELIVERY OF SOLUTIONS ACROSS RETAIL AND PRIVATE BANKING CLIENT SEGMENTS, DRIVING ASSETS UNDER MANAGEMENT AND REVENUE ACROSS ALL WEALTH PRODUCTS. HE ALSO LEADS THE STRATEGIC DIGITISATION AGENDA FOR THE INDIA BUSINESS, SHAPING THE LONG-TERM STRATEGIC VISION AND DESIGNING ENRICHED END-TO-END CLIENT-FOCUSSED DIGITAL EXPERIENCE. SAMRAT JOINED STANDARD CHARTERED IN 2003 IN INDIA AND THEN MOVED ON TO HEAD BANCASSURANCE PRODUCTS AND LATER MOVED TO SINGAPORE IN 2010 TO JOIN THE GROUP WEALTH MANAGEMENT TEAM. SAMRAT IS A GOLD-MEDALLIST MBA GRADUATE FROM THE ASIAN INSTITUTE OF MANAGEMENT, MANILA AND HOLDS A BACHELOR'S DEGREE IN AERONAUTICAL ENGINEERING.

BUILD A BALANCE OF CERTAINTY AND FLEXIBILITY

Retirement planning is a multistep process that evolves over time. In today's age of access to information, a simple Google search of the two words "retirement planning" results in over 330 million results! With so much information available on our fingertips, retirement planning should not be difficult? After all, it is getting set for the longest holiday in one's lifetime!

However, the truth cannot be farther. Standard Chartered Bank's Wealth Expectancy Report of 2019 conducted across 10 markets including India showed some worrying statistics regarding wealth creators. Indian wealth creators plan ahead with 60% of them having a financial strategy but 49% of India's wealth creators feel far away from meeting their financial goals. In fact, many Indian wealth creators are very anxious about their financial future, with 64% of the affluent group saying that money worries affect their health, and 62% of the emerging affluent feel so overwhelmed by financial planning that they fail to even put a plan in place.

SO, THE QUESTION ARISES HOW SHOULD ONE GO ABOUT RETIREMENT PLANNING?

Let me first enlist a framework which could be useful in making a retirement plan. First, try to visualise your retirement. Every individual is different, so are their lifestyles. Their family and loved ones having varying needs and wants. The same applies to retirement. The first step to retirement planning is to think how you would want to spend your retired life.

HERE ARE SOME OF THE QUESTIONS YOU SHOULD ASK YOURSELF:

- Do you plan to retire early (40's or 50's)?
- Do you plan to start a business venture post retirement?
- Post retirement, is your monthly expenditure likely to go up or down?
- Have you considered expenses related to likely events in your life - like children's higher education, marriage, housing needs?
- Do you have enough to cater to medical exigencies in future?
- Do you plan to unwind by travelling more to explore world destinations post your retirement?

It is important to think deeply about the answers to these questions because they have a financial implication to you and knowing them will make you to understand the other side of the equation; the amount of money you need to save to have a worry-free retired life.

SECOND, PLAN YOUR RETIREMENT ASSIDUOUSLY:

Once you have a clear picture of your retirement goals and your future lifestyle, it is time to plan for your retirement. Research shows most retirees fall short of their income and wealth goals. The reason for this is our failure to plan for our financial future diligently.

A FEW GUIDING PRINCIPLES HERE CAN HELP PUT A PLAN IN PLACE:

1. START EARLY:

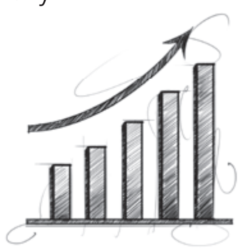
Like in business, an early mover advantage is immense in the world of investing. Let's take the example of a 25-year-old, who starts saving ₹10,000 per month till he/she is 50 and puts the savings in equities (that have historically compounded at a rate of 10%). The person would have a retirement kitty of ₹1.3 crores by 50 years. By comparison, somebody who starts late say at 35, and saves a similar amount at the same rate would have a retirement kitty of ₹76 lakhs, a shortfall of over ₹50 lakhs compared to a person who starts early. There are many calculators available online that you can use to estimate the amount you need to put away to meet your retirement goals. These calculators provide you clear data-driven insights that can aid your decision-making, taking out the guesswork. You will be able to get a fair idea of how much you need, how you need to save and how long will your savings last, based on factors like inflation, interest rates, life expectancy etc.

2. DO AN EFFECTIVE COST-BENEFIT ANALYSIS:

This is one of the most common pitfalls in retirement planning. Once goals are identified and a probable plan is drawn out, it is common to find a gap in the savings plan and your goal. This warrants adjustments which could be either a step-up of your current savings by cutting expenditure or by making changes to your post-retirement expenditure and lifestyle. While some expenditure is possible to cut down, making significant changes to your lifestyle is not easy, as with age, healthcare and other needs tend to rise. A better approach is to evaluate if your savings could have a greater potential to grow.

3.
MAKE YOUR MONEY WORK HARDER:

Most people use savings accounts to grow their wealth, which is understandable given the security they offer. The Standard Chartered Wealth Expectancy Report of 2019 showed that 59% of people in India prefer a simple savings account to achieve their goals. Indian wealth creators also use 80CC investments (EPF, NPS etc.) to build wealth. However, the 'real' returns on these two savings instruments after inflation can often be disappointing compared to investments. Thus, when making investments, it is critical to diversify.



4.
DIVERSIFIED INVESTMENT PORTFOLIOS BOOST RETURNS:

Insurance solutions, such as annuities and endowments are a popular way to preserve and grow wealth as they are typically long-term in nature and offer defined returns after a certain date. However, there is trade-off between certainty and flexibility – you can't access them easily in times of emergencies. In order to achieve a balance between certainty and flexibility, a diversified allocation to a basket consisting of stocks, bonds and gold is the way to go. Additionally, it is also important to diversify your investments internationally as it helps spread the sources of risk. Numerous researches carried out over multiple market cycles shows diversified investment baskets tend to give better risk-adjusted returns. The easy thumb rule to follow when deciding the split between equities and bonds, is to put greater money in equities during the early part of your working life, as you can take greater risks and put more money into bonds as you get closer to retirement when the need for wealth preservation becomes increasingly important. It is also important to consider the stage of market cycle and current bond yields in order to fine-tune the ideal allocation.

In conclusion, retirement planning starts with securing your financial future with a well-thought-out plan, mapped to your life goals. Try to start early, do an effective cost-benefit analysis and aim to maximise your savings potential. Finally, by diversifying your wealth across various investment solutions, you have the potential to generate better risk-adjusted returns, putting you on the path to a worry-free retirement.

Samrat Khosla

Feroze Azeez

AUTHOR:

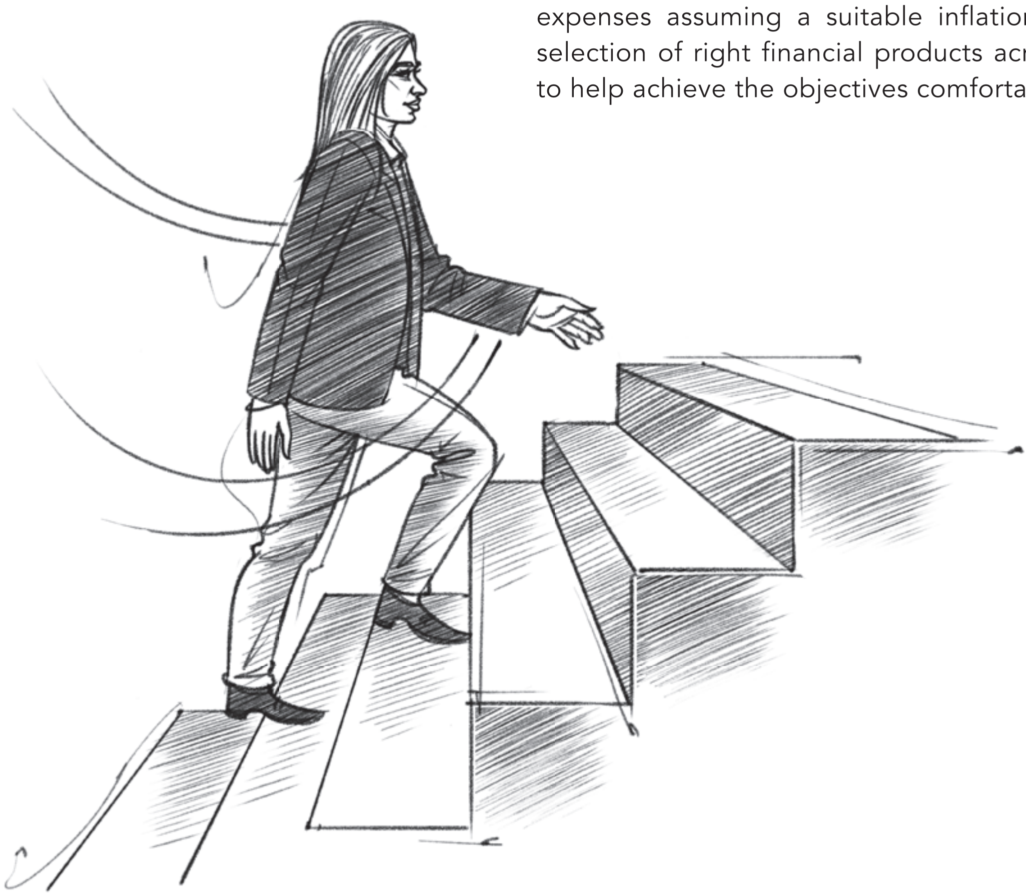
WITH AN EXPERIENCE OF 17 YEARS, FEROZE IS ONE OF THE TOP PRIVATE BANKERS IN INDIA WITH A FEW THOUSAND CRORES OF ASSETS UNDER HIS ADVICE FOR LARGE FAMILIES AND SENIOR MANAGEMENT PROFESSIONALS. HIS EXPERTISE IS IN UNDERSTANDING THE NUANCES OF THE WEALTH MANAGEMENT BUSINESS, AND THAT COMES FROM HIS DEEP UNDERSTANDING OF A CLIENT'S REQUIREMENTS. HE IS RENOWNED FOR CREATING THE MOST EFFICIENT PORTFOLIO STRATEGY TO ACHIEVE ONE OF THE BEST RISK-ADJUSTED RETURNS. HE BELIEVES THAT ONLY IF INVESTORS ARE FINANCIALLY AWARE, WILL THEY BE ABLE TO MAKE PRUDENT INVESTMENT DECISIONS.

PLAN BACKWARDS TO STAY AHEAD

The COVID-19 pandemic crisis has brought back the focus on 'saving for the rainy day'. Financial planning has become imperative in today's scenario. Surviving a crisis has become expensive if you factor in any medical expense and rapid pink slips across many organisations. Senior citizens need to restructure their retirement savings to ensure they beat the HNI inflation. And, the working class needs to plan for their retirement so that they can sail through any tough situations.

So, how does one plan to ensure that their retirement money is growing consistently?

For the working class, planning for retirement starts with deciding retirement age and setting pre-retirement and post-retirement objectives, estimation of monthly expenses assuming a suitable inflation rate, and then selection of right financial products across asset classes to help achieve the objectives comfortably.



Pre-Retirement Objective - Once an individual has decided his retirement age, it would help him set his return and risk objective as well as he would get a fair idea of his investment horizon to build the retirement corpus. To set a return objective for the portfolio, one needs to understand his inflation rate. For most High net-worth individuals, the inflation is typically between 8%-10% per annum over the long term. Hence, it is imperative to generate returns greater than 10% per annum on financial assets in the long term to keep the purchasing power of money intact. Second, one needs to know the investment corpus that would be needed to have sufficient wealth at the time of retirement. For this, one needs to estimate his current monthly living expenses and grow it at the inflation rate to get an understanding of the cash flow requirement post-retirement. Moreover, an emergency corpus that would take care of medical emergencies as well as a planned expenditure like children education, marriage, etc. should be added to arrive at the investment corpus. This will help do a back calculation to understand how much money needs to be invested every month to build the retirement corpus.

Post-Retirement Objective - To receive monthly or periodic cash flows along with generating consistent returns post-retirement, one can follow a 3-bucket strategy:

BUCKET 1: SHORT-TERM PORTFOLIO FOR MONTHLY CASH FLOWS (TENURE: 6 MONTHS - 1 YEAR)

For the immediate cash flow requirement, around 10% of the portfolio can be invested in a combination of low duration and liquid funds with monthly systematic withdrawal plans to ensure periodic cash flows for daily expenses.
These funds have a yield of 3%-4% in the current interest rate regime. These funds do not have an exit load and have the least risk amongst all debt instruments.

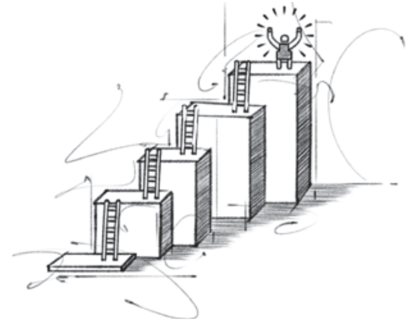
BUCKET 2: MEDIUM-TERM PORTFOLIO (TENURE: 1 YEAR - 5 YEARS)

For the short-term cash flow requirement of up to 5 years, requirement 30%-35% of the portfolio can be split equally in a combination of medium-term debt funds and moderate risk equity funds. Investments in debt can be made across Banking & PSU debt funds, Medium-term funds and Dynamic bond funds.

The equity investments can be diversified across equity mutual funds.

Medium-term funds have a yield of 5%-6% on average in the current scenario whereas equity funds have the potential to deliver 12%-14% returns per annum.

The systematic withdrawals can start from the debt component of the portfolio thereby allowing the equity component to compound at a higher rate for long tenure.



BUCKET 3: LONG-TERM PORTFOLIO (TENURE: 5 YEARS)

The balance 55%-60% of the portfolio can be invested into equity mutual funds with moderate risk in a combination of largecap, midcap, large & midcap, focussed and flexicap funds. These categories are capable of delivering an alpha over the benchmark. Historically, over a 10-year period, Nifty 50 has delivered a 14% return per annum on an average. If the funds are able to deliver a 2%-3% alpha, then 50% of the portfolio can grow at a handsome 16%-17% ensuring the portfolio beats inflation.

It is imperative that there is a regular rebalancing of portfolios at least on annual basis to ensure that portfolio is aligned as per the predetermined allocation in each of the 3 buckets. This will ensure monthly cash flows are maintained while the rest of the portfolio continues to grow at a higher rate to beat inflation.

Lastly, it is important to start retirement planning as early as possible to be able to accumulate enough corpus to invest across the 3 buckets at the time of retirement. It is of utmost importance to plan your finances in a methodical fashion to ensure that old age can be spent comfortably without relying on financial help from others.

Feroze Azeez

Rajiv Bajaj

AUTHOR:

RAJIV BAJAJ IS CHAIRMAN & MD, BAJAJ CAPITAL LTD. HE IS THE FOUNDING CHAIRMAN OF FINANCIAL PLANNING STANDARDS BOARD, INDIA AND HAS BEEN ONE OF THE KEY PEOPLE INVOLVED IN BRINGING THE GLOBALLY RECOGNISED CERTIFIED FINANCIAL PLANNER™ PROFESSIONAL DESIGNATION TO INDIA. MR. BAJAJ IS A MEMBER OF CII MUTUAL FUND COMMITTEE, ENTREPRENEURS' ORGANISATION (DELHI CHAPTER) AND A COUNCIL MEMBER OF EUROPEAN BUSINESS GROUP. MR. BAJAJ IS EXTREMELY PASSIONATE ABOUT SPREADING FINANCIAL LITERACY TO THE MASSES. HIS INTEREST INCLUDES GOLF, YOGA, FITNESS TRAINING AND MEDITATION.

PLAN FOR YOUR SECOND INNINGS IN LIFE

From among the various goals that people strive for, retirement remains the most crucial of all. After retiring, your once regular earning takes a pause. And with increasing life expectancy, your lifetime savings is what you must bank upon for your life post-retirement. However, retirement is not about 'retiring from life', rather it is just 'retiring from a job or occupation'. Hence, I am always telling my teams to talk to our customers and ask them to look at retirement in a different light altogether.

From being a 9 to 5 office goer, to be 'out-of-job' after retiring brings in a sense of despondency and lack of optimism in many of us. The realisation that after retirement from your work you will not lead your team and there won't be any subordinates who will report to you makes the post-retirement life appear scary. It is perhaps the sense of loss of power and belonging in office which might affect you.

However, in my opinion, Retirement is the time to shed those fears and apprehensions and unleash your true potential, pursue your interests and live your passions in the best possible way. It is that stage of life when you need to open-up your heart and follow your dreams. Something that has stayed at some corner of your heart for long, some meaningful acts that you always aspired to pursue in your free time. All these years, you have been carrying the responsibility of keeping your family happy, raising children, owning a house etc., but now at 60 when all those goals are accomplished, it is time to spend some quality time on oneself.

As far as financial matters are concerned, the superannuation money that you receive on retirement needs to be judiciously invested to meet your regular income needs for the rest of life. To take care of your post-retirement financial needs, you not only plan for an annuity stream for the rest of your life but also plan for a smooth passage of one's legacy on to the legal heirs.

A good retirement plan is one which makes you financially independent. With financial stability to rest upon, you can do the things you always aspired to: photography, music, entrepreneurship, travel, and many more. Retirement as I had mentioned earlier, does not mean doing nothing. To preserve your mental agility, you must keep doing meaningful work and having a purpose to life. Only then you will feel content and happy and look forward to each day of your retired life with enthusiasm and renewed energy.

Numerous studies have shown that most diseases are lifestyle-related. It's no wonder that India is the diabetes capital of the world. It also has a high incidence of heart-related ailments and cancer. Moreover, the high stress levels particularly in Indian metro cities combined with sedentary lifestyles and poor diet is taking its toll on our health and lives. However, on the other hand, there are also Centenarians, who are still going strong! What could be their secret? 'Having faith in God, Exercise, Eat Good, Sleep Good, Don’t hold a Grudge, Be a Vegetarian' - are some words of wisdom they believe in.

Even when you have several years to go before you retire, you must take time out to indulge in meditation, yoga and several aspects of healthy living. These habits will only help make your golden years in life happy and healthy.

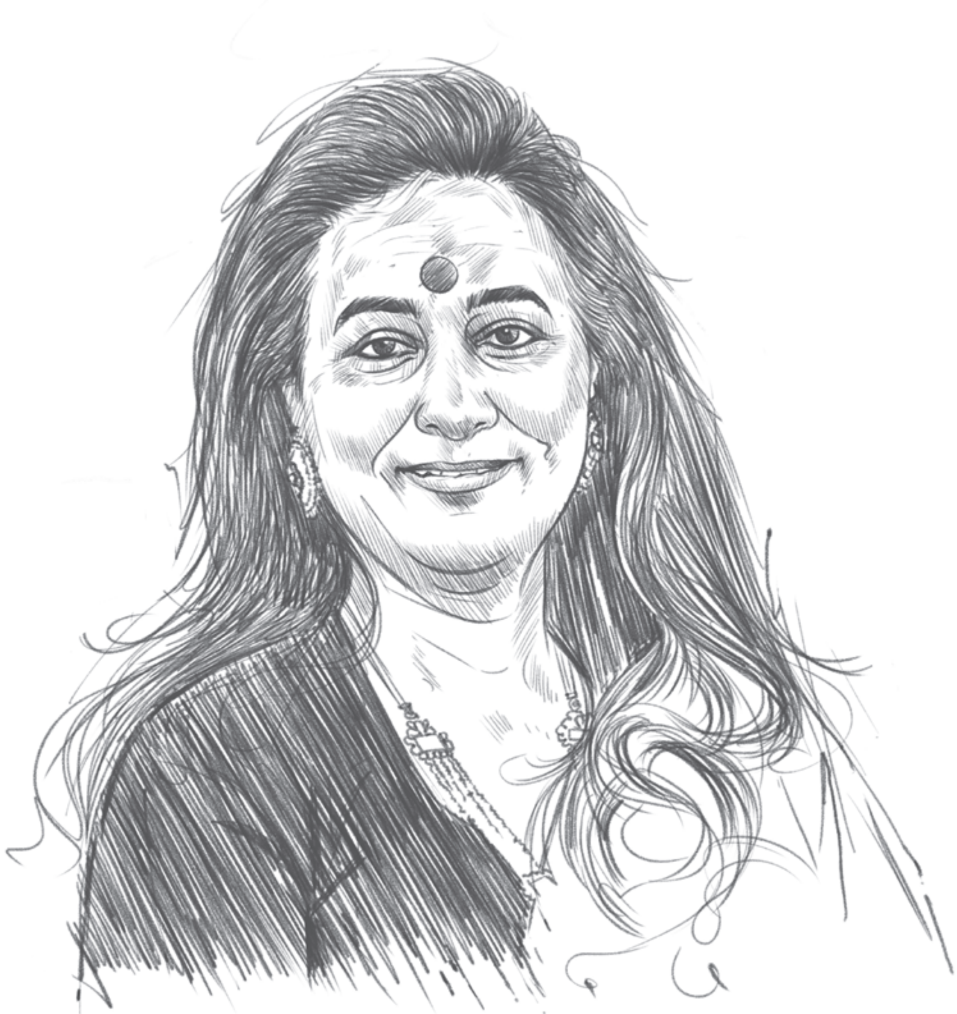
Enjoying togetherness is also an important aspect of good mental health and balance in life. Spend time with your spouse in exploring your dream destination or going on spiritual trips, take your grandchildren for a vacation, plan to buy a home in your village where your grandchildren can come and stay with you. These are simple joys of life which make retirement years a cherished one.

It is often said that the world is like an oyster waiting to be explored! Your retirement years can give you an opportunity to do that. According to a major study, it was established that people reach their happiest stage at the age of 82 and parts of the brain even improve as we get older.

So go on and make your second innings in life, which for most start at 60, a memorable one. Plan for it well when you are young and give your investments the time to grow and help you keep financially secure. There's a saying that the human body is designed to live up to 100 years – and from the time you retire, there are four decades still left to make turn them into the best phases of your life.

Rajiv Bajaj

Roopa Venkatkrishnan



AUTHOR:

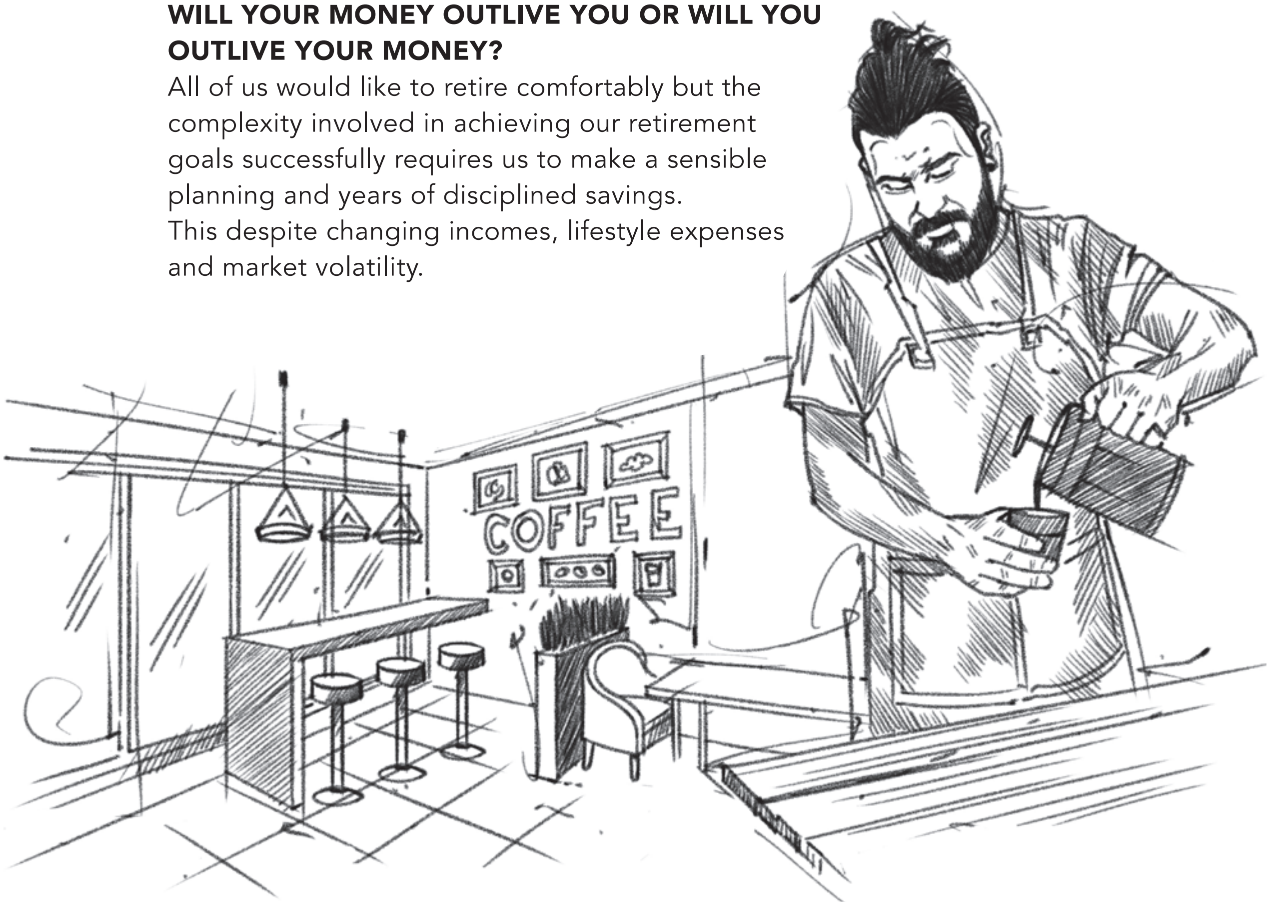
ROOPA IS A LEADING MUTUAL FUND DISTRIBUTOR OPERATING OUT OF MUMBAI. SHE HAS BEEN IN THE MUTUAL FUND INDUSTRY FOR THE LAST 22 YEARS. SHE TURNED INTO AN ENTREPRENEUR DURING 2003 AND SINCE THEN HAS BEEN ADVISING HER CLIENTS ACROSS ALL SECTIONS OF THE ECONOMIC STRATA. SHE HAS ENABLED HER CLIENTS THROUGH JUDICIOUS FINANCIAL PLANNING, PROPER ASSET ALLOCATION AND SYSTEMATIC SAVINGS TO BECOME HNIs (HIGH NET WORTH INDIVIDUALS). SHE TAKES GREAT PRIDE IN CREATING HNIs.

INVEST EARLY FOR YOUR FINANCIAL FREEDOM

Retirement is an eventuality in our lives. It is a time when we can cherish the memories of a working life well spent. Those frantic team meetings, office get-togethers and the joys which the completion of many projects brought. However, it is also the time when we will not be working, at least for some time without a regular source of income.

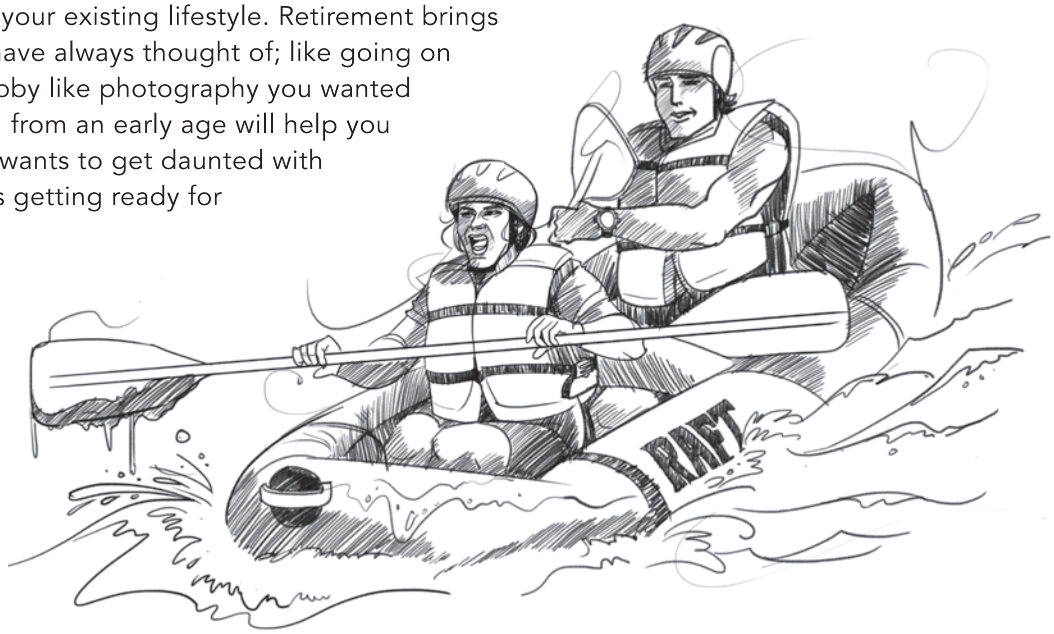
A good plan to allocate your savings during your earning years for your retirement needs forms the crux of retirement planning. Unfortunately, even though it is one of **the most important life events, planning for which is often ignored.**

In fact when retirement happens, your entire finances essentially collapses down to one binary question –
WILL YOUR MONEY OUTLIVE YOU OR WILL YOU OUTLIVE YOUR MONEY?
All of us would like to retire comfortably but the complexity involved in achieving our retirement goals successfully requires us to make a sensible planning and years of disciplined savings.
This despite changing incomes, lifestyle expenses and market volatility.



Each of us spends a major part of our lives juggling multiple responsibilities in work and family and somewhere we forget the act that we have our own desires, goals which we would like to accomplish.

Retirement perhaps is the best time to fulfil all these personal goals. But for this you must be well prepared financially, otherwise you may face limitations not only in realising your cherished goals but also keeping up with maintaining your existing lifestyle. Retirement brings to life so many plans which you may have always thought of; like going on a long vacation, opening a café, a hobby like photography you wanted to pursue. Planning your finances well from an early age will help you fulfil these easily. After all, who really wants to get daunted with financial worries at a time when one is getting ready for a fulfilling second innings!



MAKING A START:

Plans without execution are only plans! Hence, it is advisable to start putting aside an amount regularly as your retirement corpus as soon as you start earning. Yes, earnings may not be much during the start of a working career but the discipline of investing for retirement must begin. It may be a small amount which can be increased gradually with every increase in income.

Life expectancy around the world is consistently increasing thanks to technological advancement in medical sciences. If you observe, in the last few years, career span has reduced while life expectancy has increased. Hence, the earlier you start, the more likely you will be on track to take advantage of power of compounding and creating a large corpus for your retirement years.

In India too, the average life expectancy of an adult has increased from 60 to almost 78 and women tend to live longer than their male counterparts. That means one has to take care of themselves for at least 20-25 years post retirement. Hence, a late start in planning your investments may result in a compromise in your lifestyle post retirement. Moreover, the amount that you need to invest to build a large retirement corpus will depend upon how early you start saving. Later the start, higher will be the amount of investment needed and vice versa.

Retirees who hadn't planned for their retirement earlier are often left with no substantial savings or investments and pose a huge burden on their family. Health is another aspect which assumes significant importance with growing age. There may be a situation where you cannot work any longer due to health reasons and the savings for retirement will help support you well.

People who are unprepared for retirement often have to keep working beyond the retirement years to support themselves and their family. Not that one cannot work but it becomes more of a compulsion than a choice. It is very unlikely that they will generate income forever, hence investments play an important role in securing financial freedom.

Starting with your retirement planning in the 20's may seem too early but starting early allows you to develop a good saving habit and gives you more time to rectify any mistake and identify any shortfall in achieving your goal.

One of the challenges of creating a comprehensive retirement plan is striking a balance between realistic return expectations and a desired standard of living. Equities should and historically have delivered **POSITIVE REAL RETURN**, when averaged over long periods of time. But in the long run, what you really need is a framework to achieve your essential goals no matter what the market does.

Finally, the question remains with everyone is how we take the first step towards planning for retirement. I suggest you make a list and categorise all your life goals as essential, important or aspirational.

Retirement is an essential goal but not your only goal. Other financial goals include saving for child's education, buying a house etc. What you prioritise depends on a variety of factors such as age, your current income and savings etc.

While planning your investments for retirement, remember to consider three basic factors:

1. INFLATION
2. HEALTHCARE COSTS
3. EXPENSES AND DEBTS

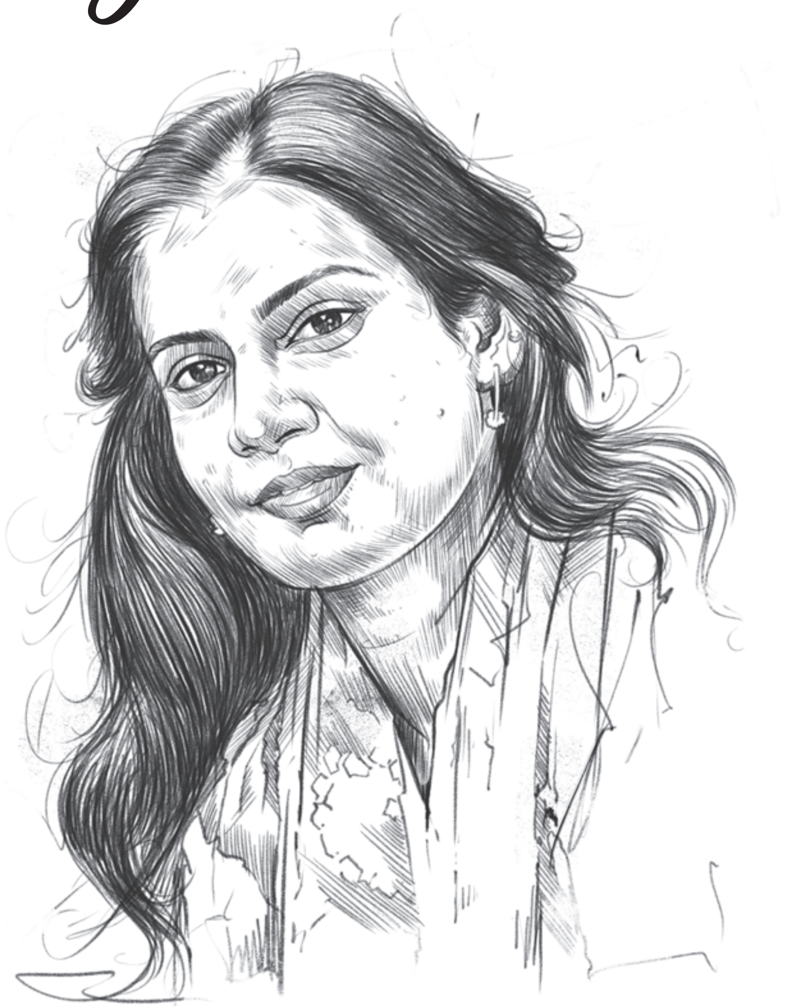
Once you arrive at the determined corpus, the best way is to start allocating a part of your monthly income systematically which could be 10% to 20% to your long-term goals like retirement.

Take advantage of Systematic Investment Plans that gives you the benefit of rupee cost averaging and in the long run gives benefits of compound interest too.

Investing, I believe is an integral part of your life and your financial freedom and security begins with it.

Roopa Venkatkrishnan

Priya Sundar



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BE READY, PSYCHOLOGICALLY AND FINANCIALLY

At an upscale, rooftop restaurant on a balmy evening, three friends Sriram, Ramesh and Karthik met at their college reunion after nearly three decades. Just a few years shy of 58, the topic of conversation veered towards how prepared they were to deal with retirement, both financially and psychologically.

THREE DIFFERENT SCENARIOS PLAYED OUT FOR THE THREE FRIENDS.

TACKLING A SHORTFALL

Sriram has just been informed by his financial planner that he will fall short of the required corpus needed to comfortably meet cash flows during retirement. His planner lays out three options in front of him -

(a) Increase his surplus by either trimming down expenses or increasing income through additional sources or salary raise. However, given Sriram's proximity to retirement and the uncertain business environment, increasing income was not an option.

(b) Extend retirement so he could meet expenses and invest his surplus for a longer period. Sriram was not too keen. He had worked hard for 30 years and was looking forward to pursuing other interests during retirement.

(c) Increase the risk in the portfolio. By allocating a higher proportion of his assets to equity, Sriram could increase his long-term wealth. However, changing the equity-debt mix would render his portfolio volatile in the short term and leave him unprepared to deal with upcoming cash outflows towards his daughter's higher education. Ultimately, a combination of options a and c were worked out to ensure Sriram could tide through his retirement without significant compromises to his lifestyle. Sriram needed to cut down expenses by nearly 40% to increase his investible surplus and raise his equity exposure to nearly 50% of his financial portfolio. His advisor recommended he plug any gaps between required retirement corpus and current corpus with adequate life insurance.

SEARCH FOR A SMARTER INVESTMENT IDEA

Ramesh has adequate assets to meet major cash flows that are imminent in the next few years. He has also saved enough to meet his family's retirement needs. However, he is worried about how he can efficiently invest his assets to generate a tax-efficient income post retirement. Ramesh has invested most of his debt investments in fixed deposits. Though a portion of assets can be invested in such deposits, interest on deposits falls under the marginal tax slab, which can prove steep if you are in the highest tax bracket. Given that the size of Ramesh's corpus did not offer much wriggle room for frictional costs, he needed to generate a tax-efficient income right from the outset. Towards this end, Ramesh can invest a significant portion of his debt assets in high-quality, short-term debt funds. Debt funds offer a better tax-adjusted return compared to fixed deposits, since they do not have a tax incidence as long as you remain invested. If you redeem after three years, long-term capital gains set in, which is taxed at 20% after indexation. Short-term capital gains are taxed at marginal rate.

If Ramesh invested a corpus of ₹1 crore in a 7% fixed deposit, he would generate an interest of ₹7 lakhs. He would pay tax of ₹2.1 lakhs at the 30% tax slab. If he invested the same amount with the same return and tax slab in a debt fund, his tax outflow will only be ₹15,000.
For regular income generation, Ramesh must consider the Systematic Withdrawal Plan (SWP) option in debt mutual funds. Let me illustrate why.

THIS IS BECAUSE THE REDEMPTION OR SYSTEMATIC WITHDRAWAL HE DOES THROUGH SWP FROM HIS DEBT FUND IS A COMBINATION OF THE PRINCIPAL AND GAIN, WHICH REDUCES THE TAX BILL, AS OPPOSED TO THE ENTIRE GAIN, WHICH IS TAXABLE IN A FIXED DEPOSIT.

FOREVER FREE, FINANCIALLY

Karthik is the wealthiest of the three friends. He has had a fabulous career run and can retire today and still not worry about meeting future financial goals. He believes his children must earn their financial independence and does not want to bequeath large assets for them. Karthik wants to earmark a specific endowment fund for his children, and a second one for the orphanage he supports. He wants to allocate the rest towards his retirement fund to ensure that he and his wife maintain their existing lifestyle and potentially upgrade to a higher one, if viable.

The two endowment funds must be allocated to high-quality equity investments, since the tenure for bequeathing those assets is potentially a decade or more away. The retirement fund needs to be allocated efficiently between safety, growth and liquidity, and invested in assets that offer higher tax-adjusted returns, so Karthik can comfortably beat inflation over the next forty years, given his high standard of living. Determining the target asset allocation, monitoring those assets, and rebalancing at regular intervals is crucial, since Karthik's goal is to optimise his portfolio returns to the fullest.

Most people use traditional instruments such as annuities, fixed deposits, rental income, and to a lesser extent - stock dividends, to generate income during retirement to preserve the principal and live off the fixed returns. This view is extremely conservative because returns from traditional fixed income instruments tend to diminish as an economy develops. Fixed deposit returns were 14% two decades ago. They are now at 6-7%. Rental yields today are as low as 3%. These assets are also taxed at the highest rate. In order to spend within this restricted income, the retiree may severely compromise his lifestyle, and potentially leave behind a large asset base after his lifetime, whereas he could have afforded to spend a lot more.

Instead, one must invest in a diverse mix of assets that are in line with what you want your money to achieve for you. For example, you may want to maintain the same standard of living post retirement or perhaps elevate it.

You may want to fund a grandchild's higher education without jeopardising your financial independence. You may want to help your daughter buy a house. These goals then determine the asset mix, which should be spread across diverse instruments to generate a composite return that meets these financial objectives comfortably. Do keep in mind that our life expectancies are increasing each year. Hence, you must plan for your assets to stretch till you are 100.

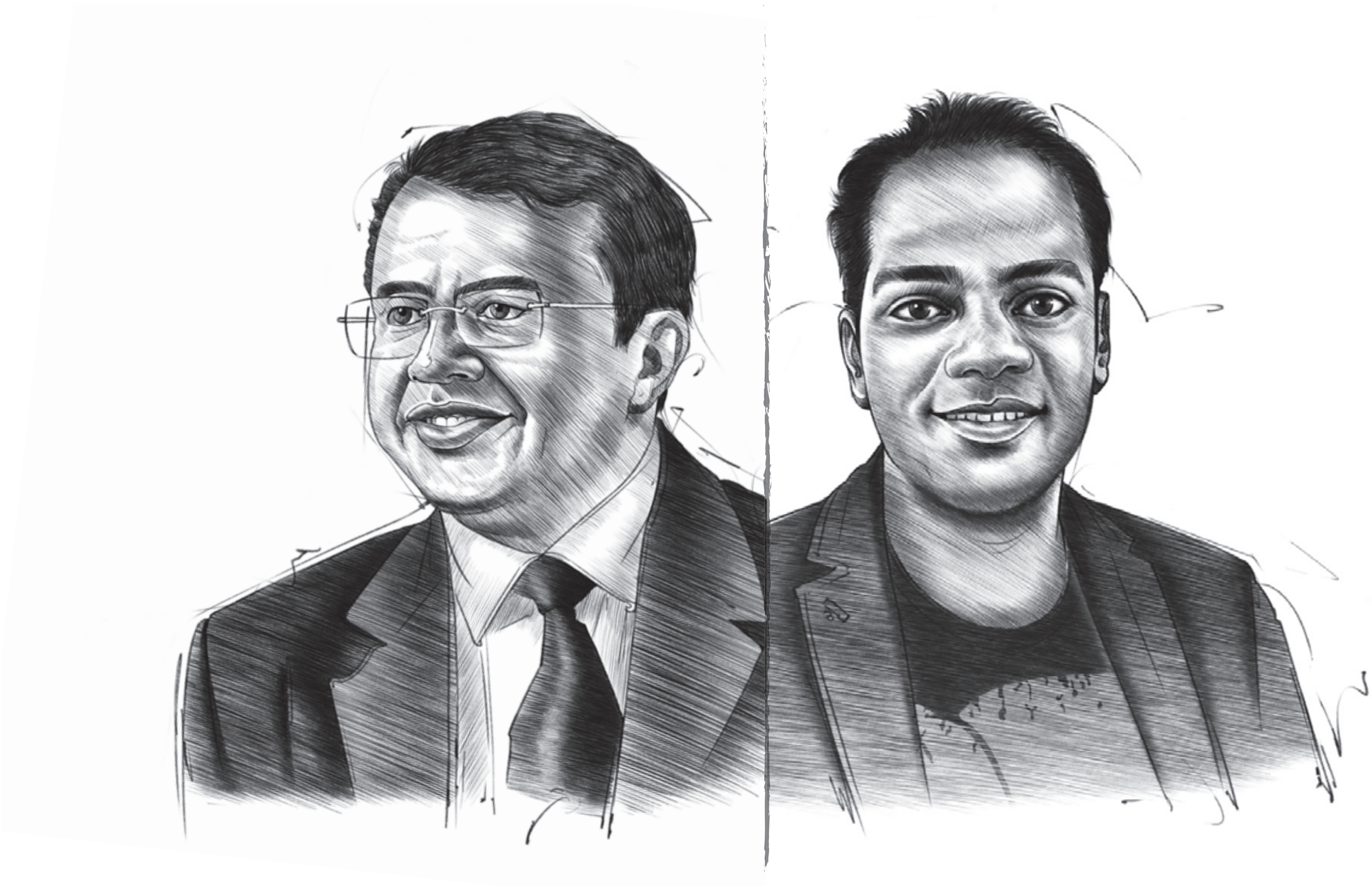
Here are a few pointers for imminent retirees, no matter what your retirement goals are - 1. Never enter retirement with liabilities. Bonuses or any other one-time inflows should be used towards paying down loans. It is hard enough to service EMIs when earning a regular salary. It will be a lot tougher when you are on a tighter income leash. 2. Monetise real estate. If you have several investment properties, downsize so that you retain as few as possible. The best real estate investment is quite simply the house you live in, since you enjoy its benefits every day. Managing other real estate as you grow older is stressful, especially when the upside does not significantly justify the downside of a highly illiquid asset. This is particularly true of those retirees whose assets are concentrated in real estate, leaving them asset rich and cash poor. 3. Sudden, large expenses can set your retirement corpus behind by several lakhs. Ensure you have adequate insurance, be it for health or property. Medical inflation is in high double digits today, and hence your health cover should factor in future healthcare costs, not current ones. 4. Protect future income streams by buying adequate life insurance, so that an unfortunate event does not jeopardise your family's future goals. 5. If you are keen to start a new venture, ensure you carve out the retirement fund and set it aside, so you don't dip into it. New ventures can go either way, but you shouldn't outlive your assets and become financially dependent as a result of a failed enterprise.

Most retirees ignore the psychological aspect of retirement. Once you've spent time with your children and grandchildren, gone on your dream holidays, tended to your petunias, joined the local laughter club, what next? How will you fill the next 16 hours of your day? Time weighs heavily during retirement and you begin to lose a sense of purpose. Hence, start laying the piping for an activity that fulfils you and fills your day before you retire. It may not pay much, but it will keep you socially, mentally and gainfully engaged.

After retirement, Sriram wants to create podcasts on the art of advertising. Karthik wants to mentor start-ups so they can leapfrog to a higher growth trajectory. Ramesh wants to rekindle his love for astrology and start online consultations. Whatever your interests are, start planning today for your tomorrow. After all, we are the architects of our own fortune, whether it helps us in fortune building or fortune telling!

Priya Sundar

Bharat Phatak & Shardul Joshi



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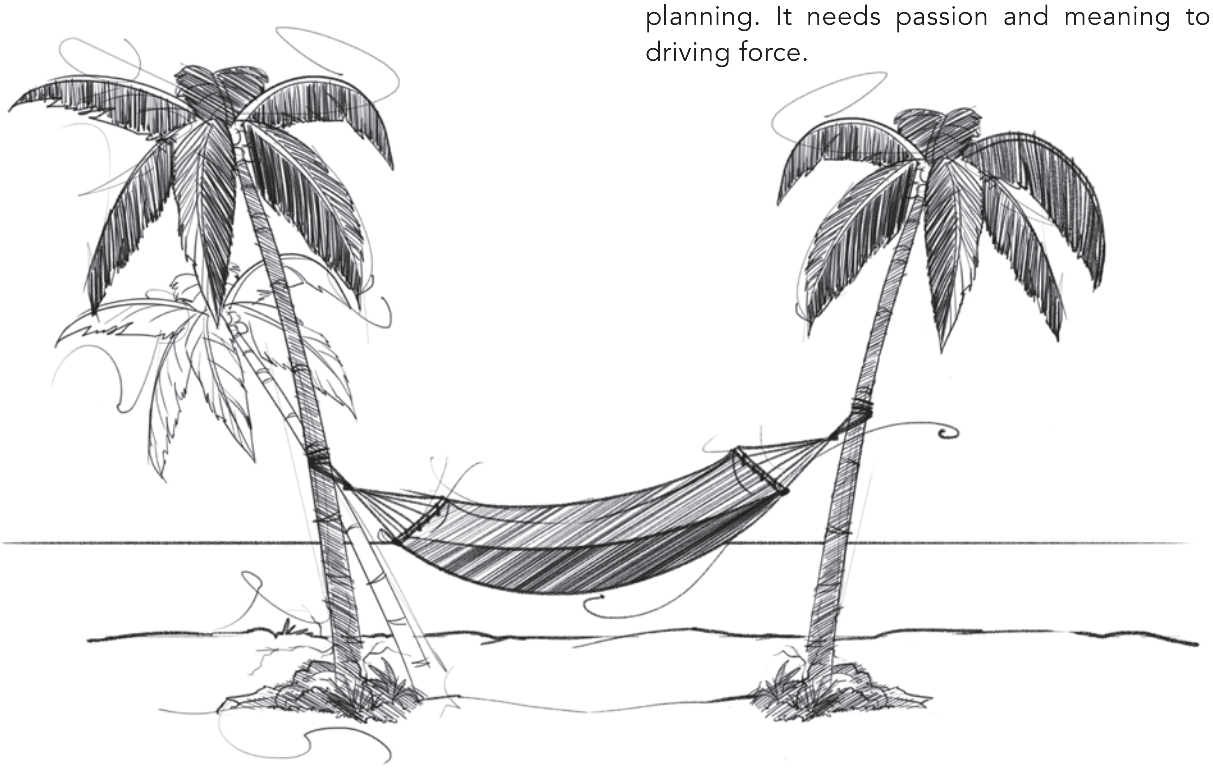
ENJOY LONGEVITY WITH DIGNITY

"Chaalis tak kaam fir aaram hi aaram!"
"By my 50th birthday, I will be running a boutique homestay in Goa!"
"Kal kisne dekha hai?"
"I will retire into a nomadic life fulfilling my wildest desires from camping to upscale city life!"

Retirement dreams manifest in umpteen shapes, colours & forms. "Action" is what it takes to reduce the space between these dreams becoming reality! A collection of these actions is called 'Retirement Planning'.

DON'T RETIRE FROM ...RETIRE TO SOMETHING!
Retirement is not an end to your daily work routine. In fact, it is the beginning of an enterprising journey to realise your dreams. This warrants solid groundwork and planning. It needs passion and meaning to serve as a driving force.



Understand what is "freedom to retire". It conveys a sense of confidence, control, and passion than 'obligation to retire'. A mandatory retirement at a certain age may often give more meaning to the past than to the coming future. Freedom, on the other hand, allows you to look up to something even more meaningful & long cherished in your mind.

Why is it that the word retirement planning, a rarity until the recent past is suddenly buzzing in the financial world? A host of demographic, socioeconomic & lifestyle changes that occurred in the past 3 decades have increased the need to plan for retirement.

LONGEVITY:

Life expectancy at birth for an Indian has increased from 57.87 (1990) to 69.42 years in 2018. Lifespan in developed countries in Euro area or North America is 82 & 79 respectively. Advances in medical sciences and availability of healthcare will lead to further increase in life expectancy for Indians.

Parameter										
Life expectancy at birth, total (years)										
Country Name	1990	2000	2011	2012	2013	2014	2015	2016	2017	2018
India	57.87	62.51	67.13	67.55	67.93	68.29	68.61	68.90	68.17	69.42
North America	75.44	76.88	78.92	79.03	79.04	79.14	79.01	79.88	79.88	78.89
World	65.43	67.55	70.88	71.17	71.46	71.74	71.95	72.18	72.39	72.56
Euro area	75.91	78.28	81.23	81.23	81.51	81.94	81.57	81.95	81.93	82.06

Figure 1: Life expectancy at birth. Data Source - World Bank

NUCLEAR FAMILIES:

The descendants of baby boomers of 70's pioneered the migration for education & occupation, which has accelerated in the following years. This has led to increase in nuclear families. Contrary to joint family system, which had an inherent safety net of relatives, those in nuclear family system must rely on various service providers such as day care & old age homes. All these services come at a cost that are increasing disproportionately with inflation. Here, the only person who will take care of "the older you" tomorrow is "the younger you" today!

INFLATION:

As life expectancy increases, an individual is staring at an increasingly longer period of lower income and increasing expenses. Understand that even the governments do not pay fixed pension anymore. Senior living centres, healthcare & travel can be a large part of these expenses.
In summary, to enjoy longevity with dignity, ability to pay up for one's own expenses for the entire lifespan is vital.

Parameter										
Current health expenditure (% of GDP)										
Country Name	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019
India	4.03	3.25	3.33	3.75	3.62	3.60	3.51	3.54	3.54	....
North America	12.25	15.68	15.69	15.63	15.83	16.24	16.59	16.52	16.42	....
World	8.69	9.43	9.44	9.42	9.51	9.80	9.95	9.89	9.85	....
Euro area	8.64	10.09	10.18	10.23	10.27	10.21	10.20	10.16	10.14	....

Parameter										
Inflation, consumer prices (annual %)										
Country Name	1990	2000	2011	2012	2013	2014	2015	2016	2017	2018
India	4.01	8.86	9.31	10.91	6.35	5.87	4.94	2.49	4.86	7.66
North America	3.05	3.03	1.79	1.20	1.76	0.62	1.35	1.86	2.36	1.88
World	3.49	4.82	3.69	2.58	2.33	1.39	1.46	2.18	2.46	2.30
Euro area	2.85	3.29	2.49	1.22	0.24	0.04	0.18	1.38	1.70	1.45

Figure 2: Healthcare expenditure as % of GDP & Inflation of consumer prices. Data Source - World Bank

IT IS NEVER TOO EARLY TO START!

The power of compounding & benefits of starting early cannot be overstated. 'Eisenhower Matrix' is a popular decision-making tool that guides us to 'schedule time' to do "Important but Not Urgent" tasks like Retirement Planning. However, scheduling often takes a backstage & the importance is never felt till urgency of the task increases. Remember, a 20-year goal is something that cannot be achieved in 2 years after 18 years! Indecision and dilemma are the biggest enemies of long-term goals. This is the main reason, why these goals are seldom achieved. A goal without a plan is just a wish!

1) Do First First focus on the important tasks to be done the same day.	**2) Schedule** Important, but not-so-urgent stuff should be scheduled.
3) Delegate What's urgent, but less important, delegate to others.	**4) Don't Do** What's neither urgent nor important, don't do at all.

Seth Godin said, "the only thing worse than starting something & failing... is not starting something!" Starting young gives two distinct advantages - first is that you have time at your hand, and second one is that investing mistakes are made on small bets. Both these give some allowances for failure and course correction of your plans.

Not all is lost for those who have not started early. While early life gives more of time & energy, late life gives more of time & money. There is, however, a golden period of almost two decades starting at age 45, when one has time, money & energy. Even at this age, planning & building a sizeable retirement corpus is achievable.

At any stage do not dip into the reserves for any other goals. Retirement corpus often becomes a scapegoat for all other wants or desires, be it an expensive holiday, a bigger car, or another home. Most of the retirement products dis-incentivise such early withdrawals. This dis-incentive comes in the form of lock-in period or high penalties to opt out. The spirit of such dis-incentives against premature withdrawal of retirement funds is to ensure you have sizeable funds to manage post-retirement expenses.

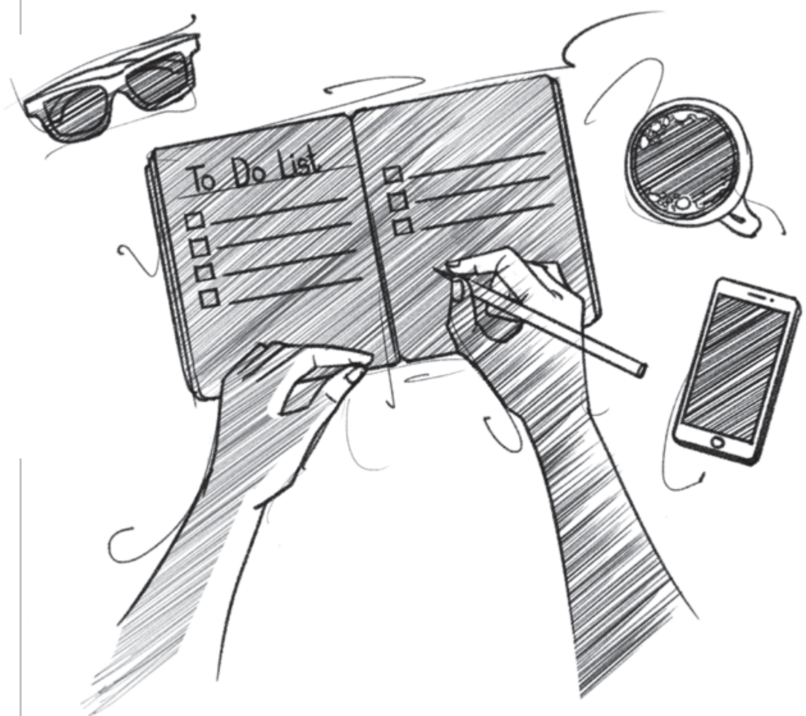
THE HOW-TO GUIDE:

Retirement planning is more individual than financial and one-size-fits-all approach will not work here. More importantly, following certain principles is paramount regardless of the plan.

1. Write it down - "Back of the mind" plans have escape routes.
2. Saving habit - It is the foundation.
3. Responsible borrowing - Only for productive assets like home purchase. Avoid taking loans for consumption, such as credit card dues.
4. Appropriate insurance - Cover the risks with Term Insurance, Accident Insurance and Health Cover. Keep insurance costs low and try to get the highest possible cover.
5. Take professional help of a financial planner.
6. Ideally, both the spouses should be involved in the planning process.
7. Keep it simple - It must be built brick-by-brick with the aid of facilities like Recurring Deposits, Systematic Investment Plans (SIPs).
8. Boring is better - Invest in what you understand and are comfortable holding it for long time.
9. Perseverance - Adhere to the discipline of saving and investing.
10. Asset allocation - Diversify your investments across assets and periodically rebalance.
11. Appreciating assets - Such as Stocks, Equity Mutual Funds, Real Estate and Gold should be the backbone of the long-term objectives.
12. Time in the markets over timing - It is said that more money is lost by waiting for correction than in the correction. Do not attempt to time the market.

This year make a resolution, that you will spend more time on learning about investments than that spent on researching the next mobile phone or other online shopping deals. Investment in knowledge gives the best return! Let us enlist a few basic things for you to start -

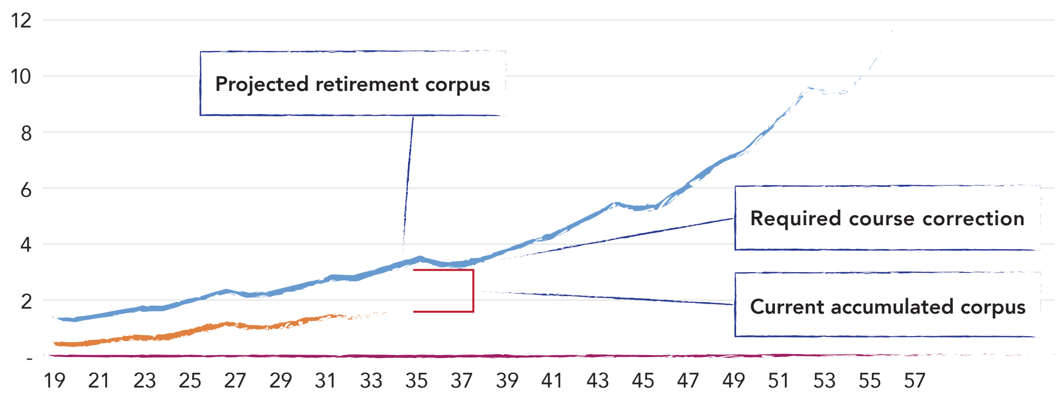
1. Asset allocation
2. Power of compounding
3. Rupee cost averaging
4. Income earning assets vs. appreciating assets
5. Tax efficient investments
6. How things have played out in the past



PLAN-EXECUTE-COURSE CORRECT-REPEAT:

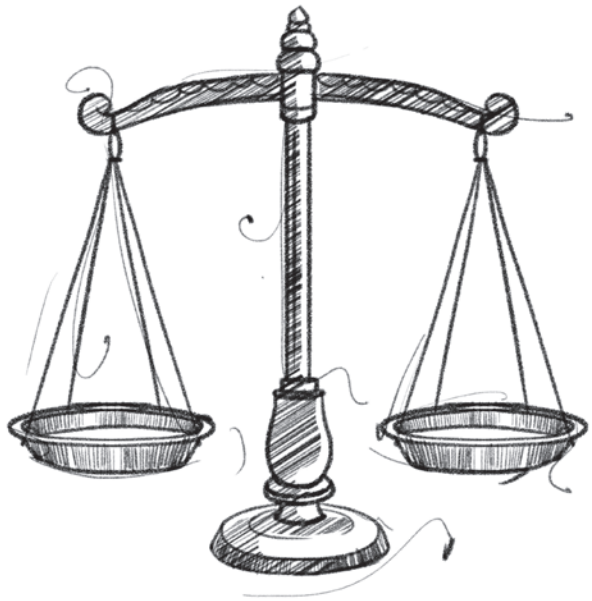
Excel sheets used for drafting a plan seldom disappoint, understand its limitations & don't let the false sense of security engulf you. Forecasting future income & expenses can be done with limited accuracy and is subject to huge errors. But planning for retirement and tracking your progress can highlight large deviations and give chance for course corrections. In the absence of tracking, deviations are never realised. The infographic below will clarify this further.

Corpus in Crore (₹) Vs Age



BALANCING ACT: LIVE IN THE MOMENT VERSUS DELAYED GRATIFICATION

You **O**nly **L**ive **O**nce! This YOLO effect should not be misunderstood to blow up all your income. Investments take away money from an individual's pocket that results in sacrifice today. An investor chooses to delay gratification in exchange for some expected interest or capital gains through investments. Every individual must walk on this tight rope & balance her/his conflicting attitudes viz. Live-in-the-moment & sacrifice today for a better tomorrow. There is no "Right" balance. Find your own!

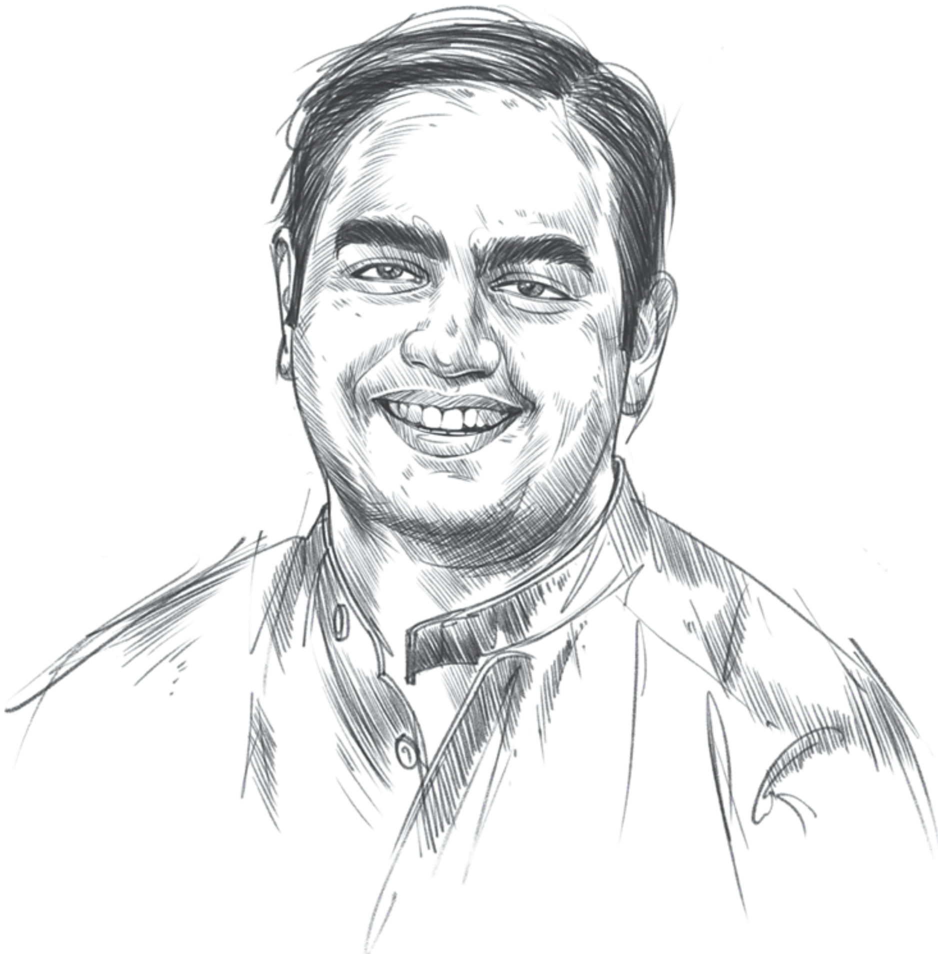


Bharat Phatak

&

Shardul Joshi

Ashish Modani



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BE FRUGAL TODAY FOR A BRIGHTER TOMORROW

YOUR LONGEST VACATION IN LIFE

Imagine you are planning for a 7-day vacation in the coming summers. How early would you start planning – maybe a month before or a few would start planning a few months earlier. After all, you have to plan your hotel stay, travelling, logistics, what places you will visit. I mean there are so many things to consider. We would try our level best to ensure that our vacations go without any hiccups.

For a 7-day trip, we put in so much of time and effort to make it successful; what about the longest vacation of our life – Retirement. When I say longest, it's going to be really long.

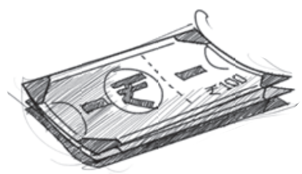
Today, life expectancy is close to 75 and after a couple of decades, it will be much higher. Even when you consider an average life expectancy for the majority, still 1/3rd of the population are likely to live till 85.

On the other side, the average working life is going down. Many of the jobs where people are specialised in are becoming obsolete. Strange but true: During retirement, financial risk is not of dying early but of living long.

Retirement planning therefore becomes one of the most important aspects of financial planning.

However, it's not just about retirement planning, it is about planning for money which lasts for a lifetime. The question isn't at what age you will retire but at what income! It should not be that we outlive the money which we would accumulate for our golden years.

The harsh reality is that most people fail to really plan for their retirement. 7 out of 10 Indians believe that their kids would take care of them during their old age (HSBC Future of Retirement Study, 2018).

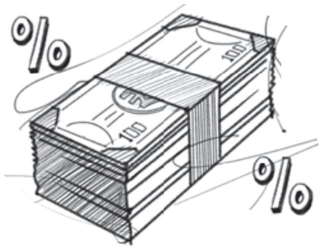


**IT'S NOT EASY:
FINANCIAL MANAGEMENT
POST-RETIREMENT!**

There are different issues that creep up when you approach retirement. Consider this - Investment options are literally drying up at this juncture. Interest rates which were over 12% three decades back, were close to a higher single digit a decade back and today it is much lower. If the trend were to continue, we would be at a lower single digit soon, much as many advanced countries are now. When our dependence would shift entirely on investment income, lower interest rates would be a big cause of worry. Even the Government is finding it difficult to fund the retirement needs of their employees and in 2004 they shifted their policy from Defined Benefit to Defined Contribution Scheme; thus, limiting their liability towards their employees.

Retirement planning is not about a few days, weeks, months, or years; it is multiple decades. Its nearly 1/3rd of life. When you ask people, when will they retire, they invariably end up saying 60 years. Mind you, you are not living your father's life or your grandfather's life. Today, 50 is the next 60! Many people are wanting to retire earlier, few would be forced to. So when planning for retirement, plan as if you would want to hang up your boots earlier and even if you would like to work then, assume that as part of a bonus. You don't plan your expenses based on bonuses. They only add to your comfort.

During old age, your finances would not only be hit hard by lower interest rates but also by rising health care costs, shrinking family size, and a host of other concerns. The only viable solution to good retirement is a bigger corpus at your disposal, which can take care of you comfortably.



**THE RETIREMENT PROBLEM STARTS
WHEN YOU START TO EARN**

You must be wondering how retirement problems can start when you are just in your 20s, young enthusiastic and earning an income. Unfortunately, it is true. When planning for a retirement corpus, time is your biggest asset. It helps to compound your investments and thereby helping your thousands become lakhs over a period of time. The later we start, higher the need for investments. Most people cannot compensate for the loss of time with a higher amount of investment and, hence have to settle for a lower retirement corpus. Most people who have retired today feel that their late-start has been the single biggest reason for their retirement blues. Unfortunately, those who are young, don't really learn from the mistakes of others.
During our working life, we Earn, Spend, and Save. Most people think that problem lies in lower income. That's the biggest myth. The problem lies in how we spend what we earn. In today's hyperconnected world, where having the latest phone is a fashion statement, going to parties is a must and taking frequent vacation breaks is a need than a want, retirement planning has actually taken a backseat. When friends and relatives sit together, the discussion is always on the kind of lifestyle we are maintaining now and not what kind of lifestyle we will be able to maintain in the future after we have no income source.

In this age, savings and investing is also a big concern. This is on account of our lack of financial understanding. One, we don't really invest what we save; on the top of it, we don't invest in an optimal manner which often leaves us wondering if our investments are of any use. We invest money which we require for the short or medium-term in financial products which are meant to be invested in for the long term. We invest in long-term assets like equities with the mindset of a short-term investor, kicking out the benefits that the power of compounding can give our money.

STEPS TO BE TAKEN FOR GOOD RETIREMENT PLANNING:

1. Start visualising yourself how would you like to be when you retire, what kind of lifestyle would you like to live?

2. Set some reasonable targets as your retirement corpus. This should be based on your estimation of your future expenses. The problem here is that we overestimate our current expenses and underestimate future expenses. We do that because we do not want to sacrifice our current lifestyle. Don't make this fatal mistake.

3. Start saving and stick to it. This is one area where most people slip. They do save for retirement but land up withdrawing the money in between citing some or the other reason - kids, emergency, vacations, etc. This is where your discipline would be tested.

4. Talk about your Retirement when you are with your friends, your family members, so that you remain conscious about it. Do take the help of an expert if you need guidance.

5. Do not complicate the process. Stick to the 3S mantra. Simple products, Simple solutions, and a Simple approach. Anything which is complicated is not good in the long-term.

RETIREMENT PLANNING IS ALL ABOUT REVERSE ENGINEERING

Imagine that you have retired today. What kind of lifestyle you would like to live? Would you want to see yourself struggling with money and then having difficulty in maintaining even a basic lifestyle, or would you want to live a life where there is no compulsion to attend office calls at 9 am on a Monday morning? Would you like to travel the world, do things that you always aspired to do but could not do because of financial struggles, or would you like to depend on your kids to pay your monthly bills? I am sure, you would like to live the life of your choice. But for that it is essential you have a sufficiently big retirement corpus. To make it happen, it is essential that you start investing early. My advice - adore equities and run your SIP in equity funds for a very long term!

Don't be frugal tomorrow, its best to be frugal today. Tomorrow if you were to regret it, you will not have the chance to turn the table around. Don't start a lifestyle that you can't maintain throughout your life.

In the end, retirement planning starts from the age you start to earn, and it goes all the way. It is conscious planning spread well over 50 years!

DON'T RETIRE FROM SOMETHING; HAVE SOMETHING TO RETIRE TO.

Ashish Modani

Amar Pandit

AUTHOR:

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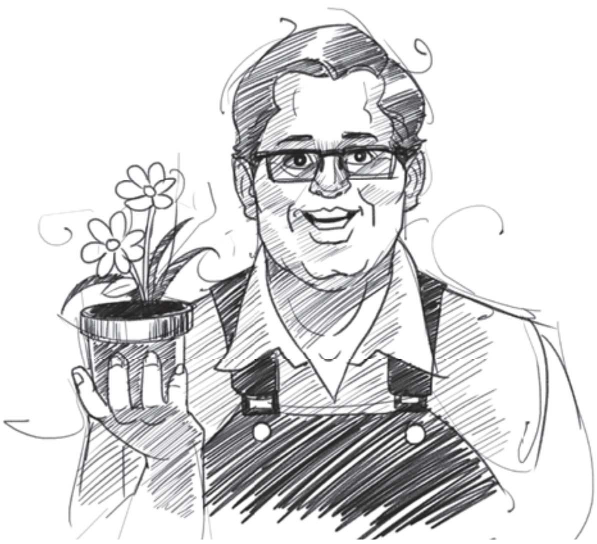
SEEK OUT A PURPOSEFUL RETIREMENT

To retire at 45 is a fantasy that many professionals cherish! It truly sounds like that one dream you always wanted to be there when you woke up. Even though there might be half-baked information about the notion of retiring at 45, many people aspire to do so. I too thought so when I was 30. However, now at 46 and having a real good opportunity to retire if I wish to, I have a slightly different take on the matter, having helped many achieve their retirement goals and the experiences of my own journey.

Try typing into a search bar - ‘What to do when you retire at 45?’ You will see page after page dedicated to ‘How to retire at 45’ and examples of how someone has done it and you can do it too. But despite this wealth of “information”, I couldn’t find a single credible source telling me what to really do if I retired. Therefore, I have tried to highlight a fresh perspective on the concept of retirement and work.

Think about it for a minute. ‘What would you do if you retire?’ Most people, including me, would say that they would travel for a month or two, spend time with family and friends, do some philanthropic work, read, play sports, and maybe end up watching Netflix. Understand this ‘These are just moments in Retirement not your entire Retirement.’

In the Jan-Feb 2020 edition of the Harvard Business Review, John Legere, CEO of Global Crossing, said, “In 2011, after 10 years as the CEO of Global Crossing, I sold the company and left the job. It was the first time in my adult life that I wasn’t working full time and I ended up getting divorced within the same month. Post the divorce, I spent some time self-actualising and realised that the whole retirement situation sucked and wasn’t workingl for me.”



John is spot-on in his analysis because I believe that often, people don’t do too well when they aren’t working. People are born to work, and it is when we’re working that our mind remains engaged and degeneration is avoided. In my company, our chief mentor at work is 74 and he joined us not because he needed to but because he wanted to. Now he says that working with us in the last 2 years has improved his health and sharpened him as a professional. In fact, his family and friends now tell him that he looks 10 years younger!

The key point I am trying to make is that just retiring at 45 will not do you any good. There needs to be a clear reason for which you want to retire. Generally, people think that retirement at 45 is a great place to be in, but their wishful thinking doesn’t extend to the point of figuring what they want to do when they reach that place.

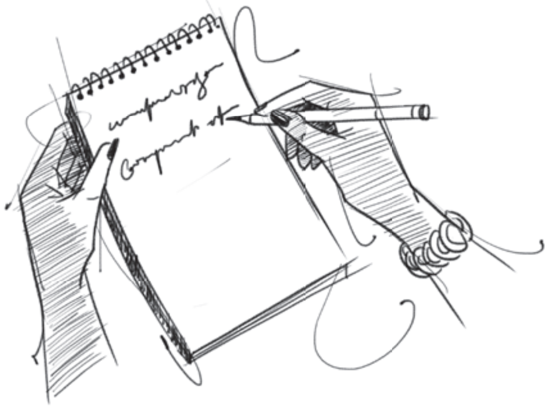
So, why do people want to retire at 45?

The common thread that I have seen in the many people who say this, is that they don’t enjoy what they are doing and that they are in it only for the money. With so many professionals burning out in their early 40’s, retirement seems like the only viable escape from their current reality. I agree that there are certain professions, like in the sports and entertainment industry, where people might have to retire at a certain age. But even these people don’t stop working and find alternative career options instead.

The best people in almost every profession work for as long as it is possible for them to. The brightest examples are Warren Buffett and his partner Charlie Munger, who by no means need to work, but continue to do so of their own volition and are at the top in their profession. Similarly, I have seen doctors, lawyers and others working full-time, well into their 70’s, not simply because they truly love what they’re doing, but because it keeps them healthy, alert and energised. Despite being at the top of their fields, they’re constantly looking to give back and make a real difference in the world.

Remember what I said about considering the idea of working longer and not retiring at 45? Let’s get back to that. I have a few key points to back my case too which might seem both, simple and difficult at the same time.

- The first is to find work that you don’t consider as work but is something you love and wouldn’t want to retire from. Some people might say that not everyone is lucky enough to do what they love. Fair enough, but I believe that where there is a will, there is a way.



- The least one can do in a seemingly hopeless situation is to seriously think about their need to retire and what they would do after they retired. Introspect and write down your reasons for wanting to retire on a piece of paper, then share it with your loved ones and take their opinion.

- Take a look at your family situation, draw up a grid with each family member’s name, their age and understand what their needs might be at that time.

- Finally, write down a tangible financial goal that reads something like, "I would require ₹2 lakhs per month post-tax starting January 2027". To bridge the gap between where you stand currently and where you aim to be, seek the help of a financial planner to figure out what you would require for retiring at 45.

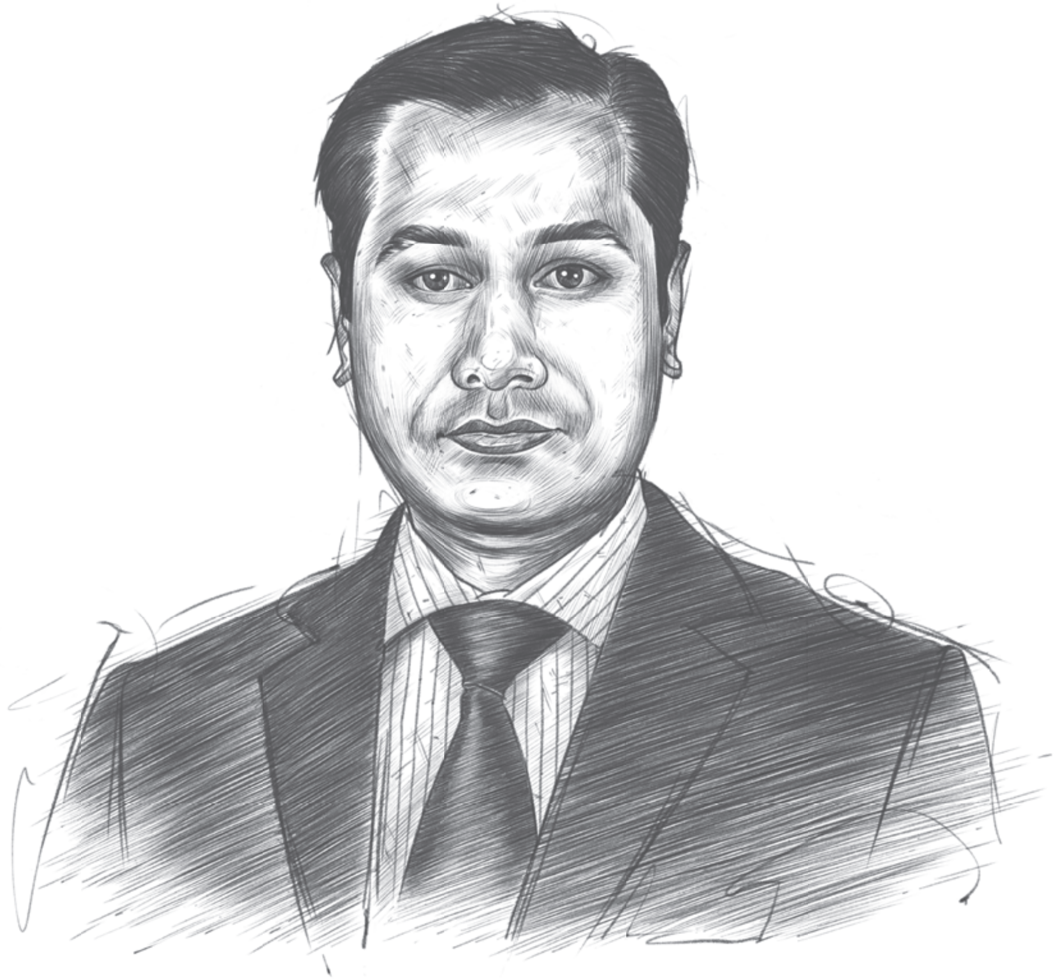
About a decade ago, my friend Rajesh (who is now 53) used to tell me, "I will retire at 45 and build a small bungalow on a plot of land that I am buying in Lonavala." In response, I would often tell him that considering the difficulty he had in visiting Lonavala even for a weekend, he would probably never end up building anything there. It was impossible for me to accept that he would retire at 45, not because he couldn't afford to but because he wouldn't want to. My repeated non-acceptance of his plan led to a bet between the two of us on the matter, and guess what? To this day, Rajesh is trying to build that bungalow. He is not only enjoying his work but has also been desperately trying to sell that piece of land.

Retirement is just a lousy and outdated concept that has been sold to us and we now believe that's just how life works (and that we must retire from work and live our life). The next 30 years will prove otherwise as people are already living beyond their 90's and 100's. It's time we debunk this myth and focus on things that give us real happiness.

To quote the Dalai Lama "The ultimate source of happiness is found within oneself." The true source of happiness for most of us would come from living a purposeful life, having meaningful work, loving family and friends, good health, new experiences, helping others, and constantly learning.

Amar Pandit

Gajendra Kothari



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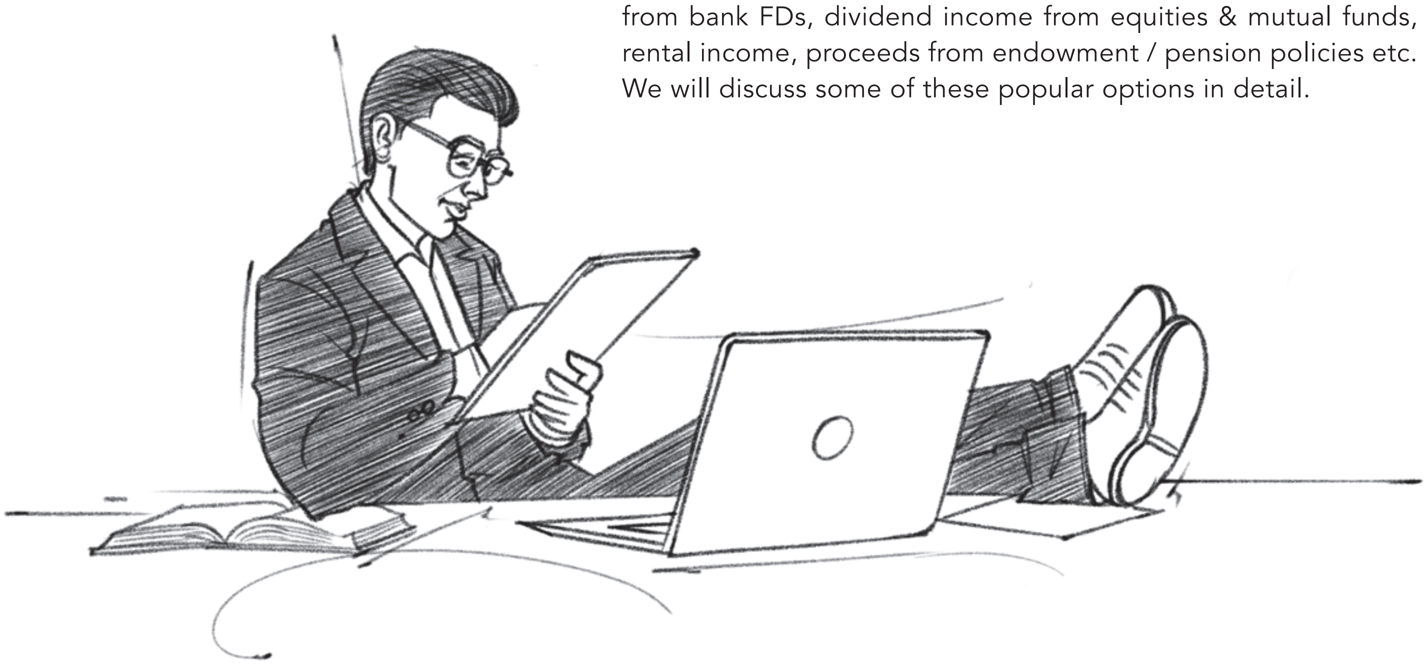
SWP - AN IDEA WHOSE TIME HAS COME

We have a lot of attached emotions and mixed reactions, the moment the thought of retirement comes to our mind. Even though very few of us (less than 10% of the population) are adequately prepared for this second innings, almost all of us start getting sleepless nights on the very thought of being able to manage our expenses for the remaining 20-30 years when our active income would have come down significantly or may have even become nil.

Most people start planning for retirement very late in life. Also, many of us have no clue how much corpus is going to be required to fund the biggest goal of our life. Thanks to technology today, we have many resources available online to give us a broader idea on how to plan for the R-day. Once we have a clear retirement age and corpus in our mind, the idea is to then choose the right retirement planning alternatives based on our individual risk and return profile.

Let us look at what options most of us have for our retirement goals and which ones are preferable. There are primarily two phases for the retirement goal - accumulation phase and the distribution phase. The investment vehicles can be different for these different phases. During my interaction with a large number of investors, the following options are most ubiquitous for building a retirement corpus - EPF, PPF or VPF, NPS, Bank FDs, Mutual Funds, Equities, etc. and for the distribution phase, people use a combination of the following to generate a regular monthly income - monthly pension from the employer, interest from bank FDs, dividend income from equities & mutual funds, rental income, proceeds from endowment / pension policies etc. We will discuss some of these popular options in detail.



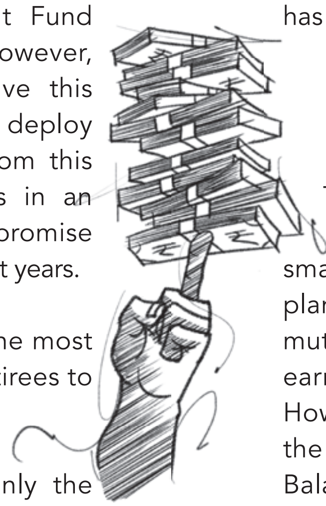
EPF / PPF / VPF: Provident funds have been the preferred way of planning for the sunset years. Most people take this medium very seriously and contribute their savings to it in a disciplined manner. As a result, a decent corpus is built by the time the person touches 60. Most of us either have a mix of Employees Provident Fund, Public Provident Fund and Voluntary Provident Fund (mostly meant for defence personnel). However, often we get confused when we receive this corpus at maturity and don't know how to deploy it prudently to earn a regular income from this corpus. We end up putting this corpus in an inefficient manner and hence have to compromise either on income or liquidity in the subsequent years.

BANK FDs / CORPORATE FDs: One of the most preferable and simplest option used by retirees to invest their retirement money (EPF, superannuation, gratuity etc.) is in Bank / Corporate FDs. The idea is to utilise only the interest income for their lifestyle expenses and not to touch the original corpus so that they can leave it as a legacy for their children. As a result of this, I have seen people making some big mistakes. The first mistake is most of us tend to compromise our lifestyle during retirement since the interest rates are too low and hence not much is coming our way in the form of monthly interest. It means, we are compromising our retirement for our children's sake. Though we all want to leave as much for our children, I would like to bring the airline safety announcement here, i.e. Please put your oxygen mask first before helping others.

The second mistake people make is to go for FDs that give higher returns (either from smaller cooperative banks/company FDs) but also is relatively much riskier. We have seen the recent instances of several banking and NBFC's having issues in ensuring timely repayments. My simple advice is never become greedy for 0.5-1% extra returns and put your entire capital at stake!

RENTAL INCOME FROM PROPERTY:

For many mass affluent individuals, rental income from property is a much better option compared to FDs since they believe a property will always appreciate in the future and meanwhile rental incomes will keep coming to meet their expenses during retirement. For quite a few, this is the preferable route, and in the process, they end up investing in many properties.



The problem with this approach is in some cases; it may end up becoming "Asset rich, income poor". People may have quite a few properties, but there is hardly any liquidity when it matters the most. A reverse mortgage would have been a much better option to meet the liquidity requirement, but this concept has not been successful so far in our country.

INCOME FROM MUTUAL FUNDS AND EQUITIES:

Thanks to a lot of investor education programmes over the last ten years, few smart investors have likened the idea of planning for retirement through the route of mutual funds and equities so that they can earn better inflation and tax-adjusted returns. However, so far, the idea has been to enjoy the dividend (monthly dividends from Balanced Advantage Funds became very popular over the last few years) from the Mutual Funds and equity corpus without touching the original investment. The problem with dividends is, it is not paid at a defined frequency, and hence it can create a cashflow mismatch. Also, the dividend option has now become very tax-inefficient as it is now taxed at the marginal rate to the investor.

To overcome the above issues, the concept of Systematic Withdrawal Plan (SWP) has become very popular over the last few years. I firmly believe this is a pathbreaking idea whose time has come. Just like SIPs has been a superhit concept in the previous five years, SWP will become an even bigger idea in the next ten years to come. An SWP offers greater flexibility in terms of cashflows, and it is highly tax-efficient too. But not too many people in our country are aware of this concept.

Like in SIPs, we keep investing money every month to create a larger corpus in the future, in SWP we can use the same corpus to start withdrawing a smaller sum every month to meet our retirement expenses for the next 20-30 years. Monthly withdrawal from an FD is a kind of SWP only. But in an FD, since we only withdraw the monthly interest that we earn, our principal remains intact. In case of SWP from a mutual fund scheme, if the monthly withdrawal rate is lesser than the rate of return, then one will end up having a much bigger portfolio in the long term since the corpus not withdrawn will continue to generate returns. E.g.: I have taken the below data from an SWP calculator from www.advisorkhoj.com.

I have chosen a Hybrid Equity Fund which invests around 65-75% in Equity and the remaining in Debt and can be suitable for a moderate risk for investor expecting approximately 10% return over a ten-year period. If someone had invested ₹1 crore as on Jan 01, 2010 and withdrew ₹50,000 per month, i.e. ₹6 lakhs per annum which is roughly 6% of the annual returns of the fund, then the investor would have withdrawn around ₹65,50,000 till date (Dec 04, 2020) from around 131 monthly instalments of ₹50,000. Even after drawing 6% monthly, he is sitting on a corpus of ₹1,93,73,564 because his investment has yielded him an annualised return of 11.1% while his withdrawal was @ 6% only.

If we take the withdrawal at 12%, i.e. ₹1 lakh drawdown per month, then his current value remaining is ₹58,92,154 as he has started dipping from his original capital because his annualised return is 10.3% over the last 10 years.

THERE ARE MANY ADVANTAGES OF SWP PLANS:

- SWP can be done from any Mutual Fund type - Debt, Hybrid or Equity.
- It can be started from any day. We can choose to invest the lump sum corpus and SWP from the next day itself.
- One can choose any amount to withdraw from SWP and can also change the amount any number of times in the future.
- It is much more tax-efficient compared to monthly dividends received from Mutual Funds for people who are in the highest tax bracket.
- It is entirely flexible. One can withdraw lump sum amount also at any point of time.
- One can change the funds or withdraw the entire investment amount also at any point of time. A few years back, I received the below message in a WhatsApp forward, and the message is compelling and relevant in today's context.

THINK OF EQUITY AS YOUR 3RD CHILD

Most families have two children. We spend a lot of money over a 25-year period in educating our children, providing for all their needs, marrying them off - in short, getting them well settled in life. I tell my friends to think of Equity as their 3rd child.

Put in the same amount each year into an equity fund that you spend on one child.

Do that for the same 25 years. After 25 years, whether your real children look after you or not, this 3rd child will look after you very well for the rest of your life.

I believe SWP from a Mutual Fund can be the perfect 3rd child for most parents to help them live comfortably during their sunset years. And who knows, this 3rd child can also assist its other two siblings financially long after their parents are gone.

The real issue is that overall the awareness towards SWP is very low in our country. I believe over the next ten years; this idea will become the best tool for someone to plan for their retirement. So, let me end my thoughts here by asking you a question "Kya aapne apne Retirement SWP ke baare mein socha hai?"

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Sanjeev Govila

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PRESERVE YOUR NEST EGG WITH THIS FOUR-STEP STRATEGY

'RETIREMENT IS A TIME TO DO AND ENJOY THINGS WHICH YOU NEVER HAD TIME TO, WHEN YOU WORKED'

Retirement heralds the beginning of a new phase in anybody's life. It is a transition from a lifetime of work to a time when one can relax, spend time with the family and pursue other interests, which somehow took a backseat when in service.

Not only this, retirement also marks a transition in one's finances. With the regular stream of income now severely curtailed to a pension bearing out of the savings and investments made over one's working years, most of the people face a restriction to maintain the lifestyle one has got accustomed to. Even if one decides to go in for a second career after retirement, it will be for a limited period of time. Taking a life-expectancy of 85 years or more, there are still at least 25 years of non-earning life to be lived, with a challenge of increasing expenses and desire to maintain at least the same living standard as while earning. For such investors, capital protection and liquidity are priorities.

In this article, we profile some investment avenues that retirees can consider adding to their portfolios.

However, before that, we need to look at certain challenges that retired people face.

A.
INFLATION MANAGEMENT:

The actual big challenge for retirees comes from an enemy which is not easily recognised - inflation. Just as compounding works to grow your corpus, inflation eats away at its value without your knowledge. A retirement corpus of ₹1 crore may seem like a lot of money today but over 25 years, an inflation of 8% can reduce its equivalent purchasing value to less than ₹17 lakhs of today! That is, at this very-real-in-India rate of inflation, ₹1 crore would buy what ₹17 lakhs can buy today. And to think that consumer-level inflation could actually be in double digits in India at a lot of times in these 25 years. Actually, a low-to-moderate inflation rate of 7-8% does not attract attention of the working class. That's because prices of products and services do not seem to be shooting up 'fast' but it nevertheless erodes your money-value ever so quietly! And if inflation goes into higher than 7%, heavens will surely fall!

B.
TAXATION MANAGEMENT:

The second big challenge for retirees is taxation. The bank FD rate is already down to 5.5% or less. If you are in 20% bracket, your actual returns are only 6% annually with the tax deducted at source. And if you happen to be in 30% bracket, this number dwindles down to just 3.85%! Hence, while your own money earns just this much, its purchasing power or the actual value, depreciates by much more at 7% or more. 'Death and taxes are the only certainty in life' – while you can do nothing about the former, latter can always be managed with prudent planning and investing.

ABOVE ARE THE EXTERNAL CHALLENGES THAT CONFRONT A RETIRED PERSON WANTING TO LEAD A GOOD LIFE. BUT THESE ARE NOT THE ONLY ONES. ANOTHER SET OF BIG CHALLENGES, WHICH I PREFER TO CALL THE INTERNAL CHALLENGE OR MORE APPROPRIATELY THE 'BEHAVIOUR GAP', COMES FROM THE PERSON'S OWN MINDSET. THE MOST DOMINANT AMONG THESE ARE AS FOLLOWS:

A.
SAFETY OF RETIREMENT CORPUS:

This is the biggest illusion that I have seen amongst retired persons. They feel that putting all their money in Government avenues like in the Post Office instruments or in Bank FDs will keep their money safe. I call these avenues 'assured-return, assured-risk' avenues. You get assured returns here, no doubt on that. But you consign your money to an assured lifetime of loss of purchasing power. You see, all over the world, assured return avenues, generally the Govt-backed avenues, are tax-inefficient and are naturally designed to give after-tax returns below inflation.

As explained earlier, once it happens, you might seem to get your interest, but the same is so little in effective terms that it cannot cover up for inflation and your money can only buy a decreasing number of things in the market over the years.

B.
INSTANT LIQUIDITY:

For some inexplicable reason, most of the retired or retiring persons want almost all their money to be available at short notice, without realising that instant liquidity can only be available either at severe penalties or investing all the money in short-term instruments where returns would be low. Also, rarely in the past, ever would they have required lakhs of rupees at short notice. Then how come, when most of the responsibilities are generally over, would they require their money in this manner.

Thus, an entire lifetime of planning of the retired people, or the ones who are going to retire soon, boils down to managing these monsters - external and internal. Notwithstanding the above, it has to be kept in mind that the primary aim of all investments is to make the money grow more than inflation and taxes, and this aim remains constant, whether you are still working or retired. The wider implication of this is that, while your expenses will rise with inflation, you will have lesser money available each year and a time will come when a cutback in the standard of living will become imperative. The only investments that make it possible with adequate liquidity are necessarily equity-related like stocks and equity mutual funds.

However, one has to take a call on how much risk is acceptable to him or her. Hence, a judicious and comfortable mix of safe debt products, equity products, rarely real estate and some gold would be a good combination to cater for returns and liquidity requirements. Those retiring from a job which provides them a pension, like armed forces personnel, are a bit lucky as they get pension on retirement; but there is one negative thing attached with this – pension keeps people in illusion that pension will be sufficient for them to have a comfortable retirement or all their expenses like household expenditure, leisure activities, vacations, repairs & maintenance of house, social obligations and maybe some liabilities which are still balance to be tackled. They forget that pension will be close to half of their income, basic pension gets frozen with only DA rising over the years (except on a Pay Commission review) and that the expenses that are currently borne by the exchequer, are not available after retirement. You need to go beyond safe investment avenues to help your overall portfolio earn more than the combined eroding effect of inflation and taxation, if you do not want 'living long' to be your biggest fear. It is therefore advisable to invest a calculated amount in some high growth investment avenues which generates returns enough to offset the low returns of 'safe' avenues. This will not only support your expenses but will help pursue your dreams post-retirement.

RETIREMENT CAN BE AN UGLY WORD IF YOU DO NOT HAVE AN INVESTMENT PLAN. HOW DOES ONE GO ABOUT IT?

First assess the amount you need per month depending on your expenses and lifestyle. Add to this the future bulk money needs that are going to come at various points of time due to your balance of family responsibilities like children's education & marriages, purchase / alteration / improvement required to your house, change of a car now or in later years, any expenses on your personal hobby, regular domestic and international holidays or repayment of a home loan. Ideally, the entire corpus available with an individual on retirement (as also additional monthly investments, till the capability exists) should be related to individual goals as stated above. To this end, the money available needs to be invested in an array of instruments which meet the desired financial goals while still taking only those risks which are acceptable to the investor.

FOLLOW THIS FOUR-STEP RETIREMENT STRATEGY TO PRESERVE YOUR NEST EGG WHILE BEING ABLE TO LIVE A GOLDEN RETIRED LIFE:

1. KNOW HOW MUCH YOU NEED:

The income that you need to live off on after retirement is approximately 65-70% of the income that you live off on while working, considering no big purchases or expenditures. However, this rule of thumb may not be accurate for everybody since people are living longer than ever and retiring in good enough health to incur additional expenses (travel, entertainment, and so on).

This estimate applies if your situation fits the following criteria:

- Your house will be fully paid off (no rent/loan after retirement).
- Your children will be financially independent.
- Fewer taxes because of lower income and no debt of any sort.

2. DECIDE YOUR ASSET ALLOCATION:

Don't put all your nest eggs in one basket. That's too risky a strategy for something as important as living on post-retirement. The nest egg should be a mix of different asset classes and investment instruments. While debt and fixed income instruments form the backbone of the allocation, do not forget equities and a small allocation to gold. Equities, preferably through mutual funds, offer a distinct advantage because they can deliver significantly higher returns than other investment over the long term. However, this is a generalised statement and finally, everything depends on your risk attitude and aptitude.

3. CHOOSE APPROPRIATE PRODUCTS:

Once you have decided your asset allocation, choose the investment vehicles that will take you to your destination. Instead of investing in a single scheme, do so in a bunch of instruments, which not only assure regular income if you need it but also allow your corpus to grow in tandem with your withdrawals and rising inflation. This strategy should alter with the age or stage of life after retirement. So, for the first 6-8 years after you retire, allow your funds to grow at a rate faster than the withdrawal. Even as you use the interest earned through debt options to meet your expenses, invest in equity through mutual funds or monthly income plans. The crux of all investment though remains a very aggressive monitoring after you have parked your funds in them.

4.
FORMULATE
A WITHDRAWAL PLAN:

The final step in your retirement planning is to formulate a withdrawal strategy. Your retirement portfolio must have two essential components: liquidity and growth. It should provide you regular income and also grow fast enough to take care of future expenses. Systematic Withdrawal Plan (SWP) options of the Mutual Funds and rentals from a good residential / commercial property are ideal in this regard. SWPs are the most tax-efficient vehicle for a retirement withdrawal plan. An important investing tip: Don't undermine the importance of a qualified and experienced investment advisor. Powered by expert advice and prompt service, a good investment advisor can ensure that your post-retirement investments become a hassle-free affair and you are hand-held to a Golden Retirement period that you had always looked forward to.

AND FINALLY, HOW DO YOU GO ABOUT YOUR DREAMS OF A GOLDEN RETIREMENT?

1.
EASIEST WAYS TO FRITTER AWAY YOUR CORPUS:

- Traditional insurance policies.
- Impulsive buying like taking a property even when you already have your own house.
- Keeping large amounts in savings bank account, bank FDs etc.
- Investing in stock markets with little or no knowledge.
- Relying on free advice. Nothing ever is free!!

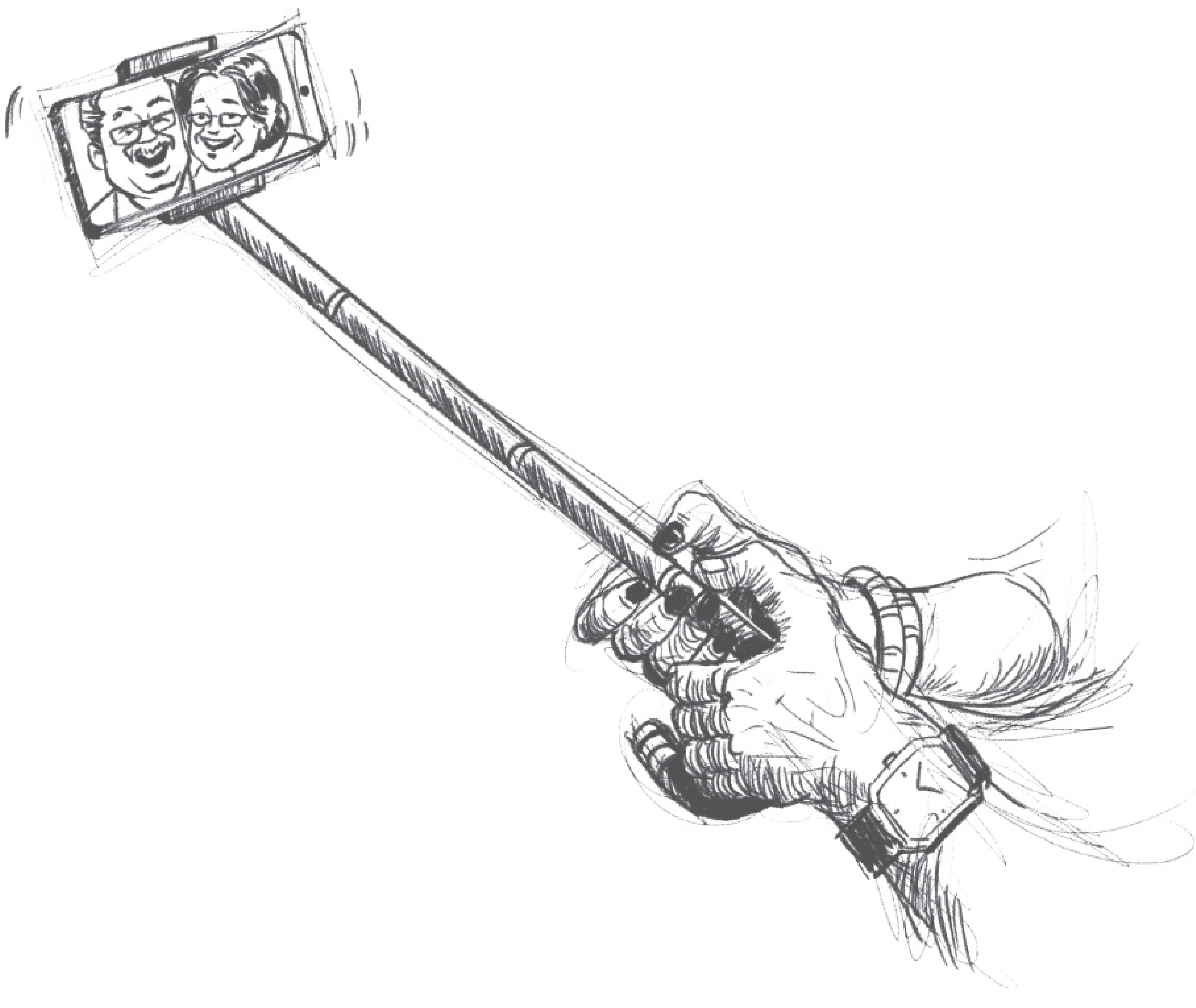
2.
YOU NEED TO LIVE A LIFE WHICH IS:

- Enriching, enjoyable and fulfilling, post your retirement.
- It is not the time to create more assets but enjoy what you've created all your life now.
- Let the children fly on their own. You have done your responsibility – let them negotiate their way through the world now.
- It is your time now to explore the world, connect with friends, do what you wanted to do but couldn't do due to service constraints, and above all, live like you've never been richer!

3.
IN A NUTSHELL,
HOW DO YOU GO ABOUT IT?

- Prioritise your requirements over the next 30-40 years and make a practical plan.
- Take money out only if & when, you need it.
- Keep your expenses in check – don't carry forward fauji hangovers.
- Equity & Debt Mutual Funds should be your primary investment vehicles for long-term value creation for the best flexibility in investing and withdrawal, as also for being the most tax-efficient.
- Take insurance only if you need it – most of the officers don't need it.
- Don't put all your investments in 'safe' avenues like FDs, SCSS, PO MIS etc.
- Don't lock up your money in Real Estate, Gold and Insurance policies.
- Make your Will, Power of Attorney, Trust Deeds, Gift Deeds, Nominations etc. carefully.

Sanjeev Govila



"Happily Ever After"

is not just about the good
times that we look
forward to.
But, it is about living our
life to the fullest and to
seize every bit of the
moment that we would
intend to spend thereafter.