INVESTMENT ADVICE

PLAN AHEAD

Retirement, Done the Right Way

Just because you have stopped working doesn't mean your money has to! **Viral Bhatt** busts some myths that we hold

How would it feel to live without a salary for 20-30 years? To be precise, that's what retirement is all about!

An HSBC survey, titled "The Future of Retirement: Healthy New Beginnings", said that financial concerns are the biggest roadblock to many Indians' retirement plans. One reason for this is that not many of us plan for retirement, the last and probably the most crucial of life's financial goals.

Indians generally make it a point to save for a house, their children's education as well as their marriage. However, when asked about their finances for retirement, a typical answer is, "Dekha Jayega". This very answer is revealing; it indicates that the requirement is not urgent.

Usually, in India, people expect their children to look after them or presume that their EPF corpus will suffice for their retirement expenses. But if you calculate the approximate money needed to lead a stress-free, retired life, you will realise why planning for your retirement is as important as planning for your other life goals.

Similarly, while you have been planning for your retirement, you may have also believed some of the retirement planning myths that are branded about. Hence, whether you are about to start planning your retirement or have already started it, about to retire or have already retired, this article is for you.

1) Retirement is a Lifelong Process

Retirement is usually treated as a long holiday. But that is exactly what it is not. How can you be on holiday for 20 years of your life? Certain retirees often experience alienation during their retired life as their role as a worker is over. They do not feel productive and feel disengaged from their lives. Some look for support in their communities or try to find light work to feel productive. Hence, retirement is not

INVESTMENT ADVICE

a long holiday for the rest of your life. It has various phases, and individuals keep thinking of various ways with which to productively utilise their time.

2) You Save and Invest When You Earn and Spend When You Retire

While it is true that you are encouraged to keep saving and investing for your retirement, that is simply so that you can be relatively free of financial burdens during your retirement years. But does this imply that you only keep spending during retirement? Hardly. Even in your retired life, you have a future to consider, bills to pay and expenses to meet. You may have a corpus hefty enough to meet your needs for the next 20 years, but can you say you will be able to meet all unplanned expenses as well? Retiring does not give you a free ticket to go binge spending.

If saving money is a habit you have inculcated all your life, there is no reason to stop it the moment you retire. If you have a substantial retirement corpus, you will not be using the entire corpus at one go. Hence, keep a part of it invested, ensuring that your funds are not lying idle. If you also generate supplementary income by doing some part time or consulting work or have rented out a property, income coming from these streams is adding to your corpus. Hence, you need to work out a plan for investing this regular income too. In short, just because you have stopped working does not mean your money has to.

3) 'I don't plan to retire, so no need to save'

With such quick changes in technology, many kinds of jobs have become obsolete. By the time you retire, the work you do may become obsolete as well. Hence, to find work suitable to your skill set could be challenging, especially if companies are looking to hire young, temporary workers. Instead of relying on your continued working, rely on your present income to generate future income. The future might be uncertain, but the present is not. You salary comes in every month; you might be getting a yearly bonus and

salary increment as well. Start your savings and investment for retirement. Do not give yourself the illusion that you can be frivolous today and keep working because you anyway do not plan to retire.

4) You Should Exit Equities At Retirement

One of the biggest myths surrounding retirement planning is that your corpus should not be invested in equities or equity-oriented mutual funds. There are taboos surrounding equity investments for retirees which have led people to believe equities are unsafe and volatile.

You could not be more wrong! Equities or equity-oriented mutual funds are the best instrument for long-term investments. It is true to a certain extent that short-term investment in equities does not always yield the best returns, but equities as an asset class have been the highest return generators over the long run. The long-term period reduces volatility and also increases returns. Hence, if you are planning to start investing for your retirement, equities should be your priority as you benefit from the time value of money and the power of compounding.

5) You Need 80% Your Pre-Retirement Income

This is not an exact figure. You can be certain that you will have to pay less tax, that you will hopefully not have loans to repay, and will not have to save for specific life goals — no need to save for your children's education and so on. All your major life expenses will have been taken care of by the time you retire. You only have to bear living costs, and for everything, you will have your corpus.

This is not to state that you should not aim to invest and save the most that you can for your retirement. In case you have not managed to create a corpus which gives you 80% of your pre-retirement income, you do not have to worry about not making a living. Everyone has their own set of expenses and lifestyles and nobody can accurately predict the percentage of pre-retirement income that will be sufficient.

However, the idea simply is that when your major expenses have been taken care of, less is more.

6) You Should Repay Loans Before You Start Saving for Retirement

A lot of us tend to believe that since the goal of retirement is far away, we can start planning for it much later. This is a costly mistake. If you start early, you can start small and reduce the financial burden later on. Many investors prioritise repayment of loans before starting their plan for their retirement. They tend to treat retirement planning as a secondary goal compared to the repayment of debts.

At this stage, you have to remember that a person who cannot help himself is no good for others. Hence, break the myth of "shall plan for retirement later" and start doing so now, along with your various debt repayments.

Conclusion

Retirement is that one goal for which you must have a plan. For every other goal, you have the option of taking a loan and repaying with your future income. Retirement does not allow you that luxury. You have to make the best with what you have saved and invested. Hence, do not fall for these myths and set up hurdles in your retirement planning process.

Viral Bhatt is head of Money Mantra, a Mumbai-based financial advisory firm.