Top 7 Financial Pitfalls to Avoid in Retirement

Lack of planning and haphazard investments the biggest mistakes

Viral Bhatt

The author is head of Money Mantra, a Mumbai-based financial advisory firm.

Retirement brings with it a lot of anxiety and worry. The biggest concern is creating a balance between the life they are living compared to the life they want to have post retirement. While lack of planning and haphazard investments are easily the biggest mistakes in this regard; we have listed the top seven financial pitfalls to avoid in retirement planning.

Underestimating the income needed post retirement

Most people have no clue about the approximate sum of money they would need to be financially independent post retirement. A vague assumption is what people work on, which if too high can be unachievable and if too low can lead to a financial crisis later in life. Formulating a generic retirement plan is also risky as every individual has different needs. Retirees tend to spend on different things (most importantly healthcare) and considering their lifestyle, the income required needed post-retirement needs to be calculated.

Not Planning for Healthcare

In today's fast-paced life, keeping good health is often a tedious task. With numerous ailments and medical conditions that come with old age, healthcare costs will burn a hole in your pocket, forcing you to break your savings early or avail external monetary help. To avoid such circumstances, you must invest in a comprehensive health insurance plan that will take care of uncalled medical expenses and hospitalisation during old age

Putting all eggs in one basket

Most people tend to accumulate large amounts of stocks of select companies or asset classes over time. They don't diversify because they think that they know these companies well. This is a high-risk behaviour and it can diminish the possibility of returns from other, better investment avenues. A balanced portfolio of equity and debt can help your investments yield potential returns.

Easily accessible funds – What if you need the money later?
Retirement planning is effective when the saving starts at a young age. It is a long-term objective and during the course of life, various situations that may force your hand to break the savings prematurely. Hence, it is imperative that such investments should have a lock-in period or a penalty for withdrawing before the due date, which will curb the tendency to break investments regularly.

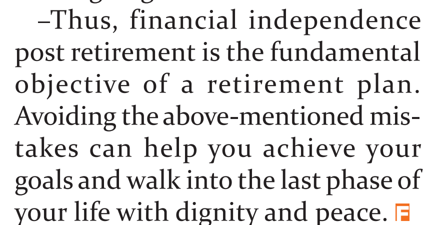
Lack of Analyse-Assess-Adapt method
Sticking to a long-term financial plan without analysing it can affect your returns post retirement. Change of job, city, birth of a child, change in market patterns and many such factors will demand that you alter your savings pattern. , Re-examining the retirement plan through the analyse-assess-adapt approach every few years helps take into account the market and lifestyle changes and makes your plan more relevant.

Leaving debt to pile up
Long-term debts such as home loans, property loans, vehicle loans, and payment of monthly EMIs for various long- and short-term investment goals such as child education, marriage, buying second home, etc, will take a major chunk from your monthly income. If you are paying EMIs even after you retire, it will take a heavy toll on your financial health. To avoid such scenarios, make sure that you take care of all your debts before retiring.

Ignoring price rise
Inflation is a demon that comes down hard on anyone who ignores it. Since retirement is a long-term goal, it is important to understand the impact of inflation on your financial goals. Inflation is the rate at which prices rise. It substantially reduces purchasing power. Assuming 7% inflation, Rs 1 lakh today will be worth Rs 13,000 after 30 years.

If you spend Rs 50,000 every month at the age of 30, you will need Rs 3.81 lakh a month at 60 assuming that prices rise at the rate of 7% every year. You have to invest in such a way that your returns are at least a couple of percentage points above the ongoing inflation rate.

–Thus, financial independence post retirement is the fundamental objective of a retirement plan. Avoiding the above-mentioned mistakes can help you achieve your goals and walk into the last phase of your life with dignity and peace.



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