Business Standard

Checklist: Don't just assume you are saving enough for retirement

Calculate methodically how much you will need, then save regularly for it using a diversified portfolio

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The sixth annual Aegon Retirement Readiness Survey puts India at the very top in terms of retirement preparedness among the 15 countries surveyed. In the online survey that covered 900 workers and 100 retirees, India scored 7.6 on the Aegon Retirement Readiness Index (ARRI), well above the global average of 5.9. Financial planners and wealth managers, however, say that there is a lot of scope for improvement in Indians' retirement preparedness.

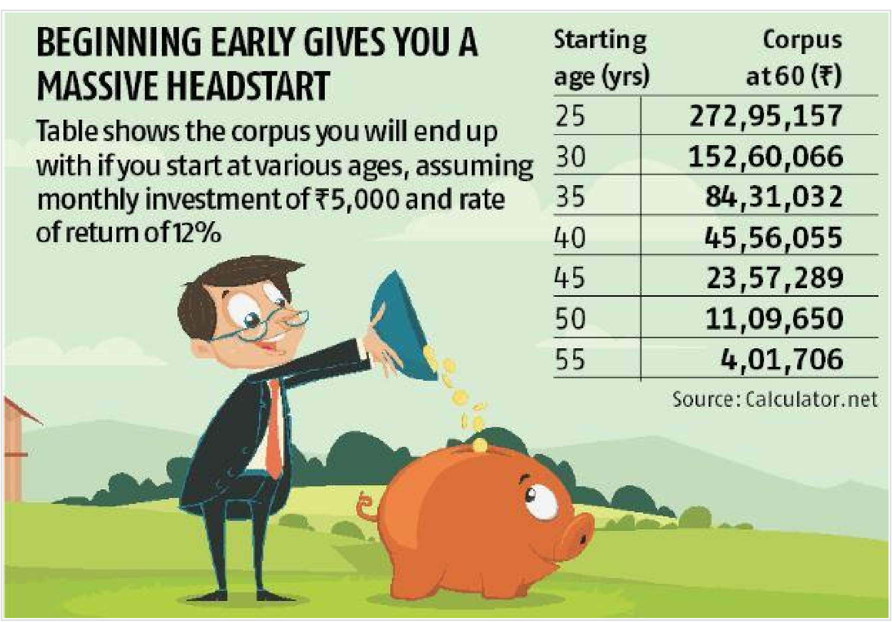
While many savers think they are ready for retirement, a look at their actual numbers reveals that their savings are inadequate. Says Somnath Mukherjee, managing partner and head-products, investment strategy, advisory and international business, ASK Wealth Advisors: "Most people don't take the pains to calculate accurately how much they will need upon retirement. Only when they identify the quantum of their need can they work towards that objective."

Savers often underestimate the impact of inflation on purchasing power. According to Anil Rego, chief executive officer, Right Horizons: "If you save and invest Rs 120,000 every year for 20 years in assets that yield 15 per cent return annually, you will reach a corpus of Rs 15 million. But assuming 6 per cent inflation, its value in inflation-adjusted terms will be only Rs 6.8 million."

Using an accurate estimate for inflation is crucial. In the past few years inflation has declined to four-five per cent, so one may get lulled into believing that this is the new normal. But financial planners say we need to watch the trend for longer. "It had fallen between 2004 and 2007 as well but rose again.

At this point it would be more prudent to use the longer-term average of around 7.5-8 per cent," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Not beginning to save early can also make it difficult for you to retire in comfort. "Most people begin to worry about saving for retirement only in their fifties. By then it is often too late," says Rego (*see graph*).



Starting age (yrs)	Corpus at 60 (₹)
25	272,95,157
30	152,60,066
35	84,31,032
40	45,56,055
45	23,57,289
50	11,09,650
55	4,01,706

Source: Calculator.net

salary corpus graph

Savers also don't accurately estimate the money they will need to meet their healthcare expenses in old age. Many people underestimate medical inflation, which at around 12.5 per cent is far higher than consumer inflation.

They also don't provide sufficiently for expensive ailments or those that take a long time to treat. Buy adequate medical insurance at an early age and keep enhancing the sum assured periodically, or buy a top-up.

Many people are also guilty of not accounting for lifestyle inflation. A person may have become accustomed to air travel during his corporate career. Once he retires he will have to bear the expense himself if he wants to live in the same style. "The only way to manage lifestyle inflation is to allow it to creep up very gradually during your working years," says Dhawan.

Parents in India often overspend on their children's education and marriage, leaving them with insufficient funds for their own retirement. Financial planners say that people should view all their goals holistically and strike a balance between them. Parents should also undertake succession planning in tandem with retirement planning. "If you do so, you will know that you have the option to spend on your children now or pass on your assets to them in the future," says Dhawan.

Excessive reliance on fixed-income instruments also prevents people from building an adequate corpus. Says Rego: "Most salaried individuals compulsorily save through Employees' Provident Fund and then via bank fixed deposits. The post-inflation return from most fixed-income instruments is a pittance. One needs to diversify into equities to earn a higher return." After retirement, too, a portion of the corpus should be in equities to help you deal with inflation over the next 20-30 years.

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