Healthcare A Key Element Of Retirement Plan

Medical expenses can exhaust your corpus much faster than you think

Partha Sinha | TNN

Over the years, India has seen a rapid change in the family structure. From a joint family system, it has transformed mainly into a nuclear family structure. Which means, instead of being taken care of by children, a retired individual has to self-finance the sunset years. With the improvement in medical science, the probability of living longer is higher, which calls for building a larger retirement corpus.

This also calls for changes to investment pattern and other lifestyle-related issues for every retired person, financial advisers and planners said.

For one, "it's never too early to begin planning for retirement," said Akhil Chugh, director, Net Brokers. "The sooner you begin setting aside money for your retirement, the better off you'll be. The longer you wait, the more sacrifices you'll have to make to catch up. That's because of the power of compounding works better when you remain invested for a longer duration," Chugh said. According to financial planners and advisers, a delay in starting can have major implications on retirement corpus *(see table)*.

The conventional wisdom, that a retired person should not invest in equities, is passé. "Inflation is at 6-7% per annum and your bank FD grows at 8.5%. Thus the real rate of return is only 1.5-2.5%. A retired person should invest 40-50% in equity for the long term to hedge inflation," said Ankit Ajmera of Ajmera Investor.

According to Ajmera, systematic withdrawal plan (SWP) is one of the best investment options for retirees. He gave an example: Maulesh (name changed) retired on March 1, 2003. He received Rs 20 lakh as his retirement fund and invested Rs 10 lakh (50% fund) in a diversified mutual fund scheme at an NAV of Rs 25.96 on March 9, 2003 to get 38520.801 units. He opted for withdrawal of 1% (Rs 10,000) per month from his investment, that is 12% per annum that he receive in his bank account. On November 20 this year, the value of his investment was Rs 1.22 crore since he had over 26,930 units of the fund at an NAV of Rs 455. This is on top of his cumulative receipts of Rs 28.3 lakh (283 months x Rs 10,000) since retirement.

Illustration: Mahesh Benkar

WHAT WILL BE YOUR CORPUS...

...If you contribute every month Rs 2,000 till you are 58 years old...

Age at joining (years)	Corpus @ 8% CAGR at 58 yrs (Rs lakh)	Monthly pension (Rs)	Corpus @ 10% CAGR at 58 yrs (Rs lakh)	Monthly pension (Rs)	Corpus @ 12% CAGR at 58 yrs (Rs lakh)	Monthly pension (Rs)
20	55.1	35,477	92.03	73,389	155.7	147748
25	36.5	23,502	56.18	44,805	87.43	82,963
30	23.86	15,352	33.92	27,056	48.69	46,202
35	15.24	9,806	20.1	16,035	26.7	25,343
40	9.37	6,031	11.53	9,193	14.23	13,507
45	5.38	3,461	6.2	4,944	7.16	6,791
50	2.66	1,713	2.89	2,305	3.14	2,980
55	0.81	523	0.84	667	1.22	1,158
57	0.25	161	0.26	202	0.26	242

Monthly pension is an estimated figure

The next is the need for a comprehensive health policy for the family. According to Vishal Dhawan, founder, Plan Ahead Wealth Advisors, there could be unforeseen medical expenses in your sunset years. "Old age brings medical problems and increases healthcare expenses. If you do not have adequate retirement benefits, living out your golden years in comfort while also covering your medical expenses may turn out to be a burden too large to bear — especially if your health (or that of your loved ones) starts to deteriorate," Dhawan said.

SWATANTRA INITIATIVE ON ETNOW

UTI MF Swatantra initiative will soon be launched on ETNow as well. In the next few weeks, the following topics will be covered over several episodes: senior students joining workspace, young working professionals, single working professionals (female) and married professionals without children. If you belong to any of these groups and have queries related to financial planning, you could post them on **www.indiainvestkaro.com** and some of the most relevant ones would be answered by experts and professionals from the field.

You should invest smartly for your retirement years. "Determine how much income you will require to live contentedly in your post-retirement years. Remember, inflation on your expenses continues. Also remember your taxes. So your retirement income might be lower than you had anticipated," he said.

It is also important to simplify financial affairs. "As we get older, it can get harder for our brains to process information. Keep bank accounts to a minimum and make arrangements for bills to be paid by automatic payment, ensure vital documents such as Wills and insurance policies are up-to-date and stored safely," Dhawan said.