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Spending ₹ 50,000/Month? Here's How Much You Must Save For Retirement

Reported by Renu Yadav | Last Updated: March 09, 2016 16:48 (IST)

Finance Minister Arun Jaitley rolled back his Budget proposal to tax 60 per cent of withdrawals from Employees' Provident Fund (EPF), but the controversy the move generated, has put the focus firmly on retirement planning.

Many salaried employees, especially high earners, pay little attention on planning for their retirement, but a look at some numbers will help them get out of their slumber and re-visit retirement planning.

If a 30-year old is currently spending ₹ 50,000 monthly (₹ 6 lakh annually), he will need ₹ 2.87 lakh per month (₹ 34.44 lakh annually) to sustain the same lifestyle on turning 60.

The huge difference between current and future expenditure, for maintaining the same lifestyle, is on account of inflation. Prices of goods and service increase over time and purchasing power goes down on account of inflation.

The above monthly expenditure assumes a 6 per cent annual inflation rate; if inflation rises at 8 per cent, monthly expenditure post retirement will jump to ₹ 5 lakh. And if inflation rises at a double digit rate, say at 10 per cent, an average person will need ₹ 8.72 lakh per month 30 years from now if he spends ₹ 50,000 per month currently.

Assuming prices will continue to grow at 6 per cent post your retirement, you will need a staggering ₹ 5-6 crore in your nest egg by the time you retire at 60, to maintain the same living standard. We have assumed that you will live up to 85 years. We have assumed that your retirement corpus will earn a return of 10 per cent after the retirement years. If we increase the inflation rate, the corpus requirement will also shoot up further.

Worried how you will achieve this huge corpus?

You can accumulate ₹ 5 crore in your retirement kitty provided you follow these principles:

1) Start early

Be an early bird. This will help you save more by investing lesser amount per month. If you start investing at 25 you will need to put in ₹ 7,698 per month to accumulate a corpus of ₹ 5 crore while if you start 10 years later, your monthly investment requirement goes up to ₹ 26,349. We have assumed a rate of return of 12 per cent per annum.

2) Invest in the right instruments

When it comes to investing for retirement planning, people generally fall back on instruments like public provident fund and employee provident fund which provide a rate of return in the range of 8-9 per cent. But as retirement is a long-term goal, one can achieve a higher return of 12-15 per cent by investing in equity oriented instruments like mutual funds.

"One can also consider investing in National Pension Scheme. It is a good retirement product as one can't withdraw from it before retirement and also it has the option to invest up to 50 per cent in equity. Now the withdrawals up to 40 per cent are tax-free," says Suresh Sadagopan, founder, Ladder7 Financial Advisories.

3) Plan for emergencies

If you want that your retirement plan is not disturbed by sudden fund requirements then you should have health insurance policy to meet cost of hospitalisation of you or any of your family members. Apart from this, also create an emergency fund to take care of your expenses for 6-12 months. This will help you to be better prepared for emergencies like job loss.

4) Invest regularly

You have to be very disciplined with your investing to achieve the goal. Follow the principle of spending after investing rather than the other way round.

"Invest as close to your salary credit date as possible, give standing instructions to your bank to automatically deduct money from your account," says Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors.

Use tools like systematic invest plans (SIPs) offered by mutual funds for regular investing, he adds.