RETIREMENT PLAN

Late entrants must aim for higher returns

GET PERSONAL

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"HAVE A safe flight — we will visit you in summer during your college break." As I waited in the departure area of the international airport, these words seemed to be repeated more than once, accompanied by the occasional breakdown, as parents saw off their children going to study abroad.

"I hope their financial plan allows them the luxury of family visits on each vacation," I thought to myself.

In our experience in dealing with financial plans, this luxury was unavailable in a majority of cases, as the middle years were devoted to paying off home loans, and children's' education, and it was only in the late 40s that the retirement goal came clearly into focus. Since planning for retirement at this age entailed investing for 10-15 years for a retirement spanning across at least a couple of decades, the moot question is "How does one achieve a retirement goal if one has not started saving towards this goal early?".

Retirement goals

Assuming that the minimum requirement for a retirement corpus to be created after adjusting for inflation is 10 times the annual income, and an investor is able to invest 50 per cent of his overall income, there may be a need for the investment strategy to be able to generate a return of at least 16 per cent per annum since the lost years have to be made up.

Considering that there are still 10-15 years to the retirement date, the portfolio may need to be tilted towards investing in more aggressive products like index mutual funds (historical five year returns average is 18 per cent per annum), diversified equity funds (historically five-year returns average is 19.5 per cent) or large cap stocks.

An equal mix of index funds and diversified equity funds is recommended, done through a rupee averaging process so that volatility in markets can be taken advantage of.

However, in case there is discomfort with a more aggressive exposure, as returns could vary depending on financial market performance, there may be the need to supplement the overall savings rate through a two-pronged approach of reduction in discretionary expenses, and generating supplementary income from a consulting or part time assignment.

Balanced approach

Goals that may come up during the interim phase like marriages for children, holidays, etc may need to be achieved in a very controlled manner, so that there is no further deviation from the retirement goal target.

However, in case it still looks like there may be a gap towards the retirement corpus, this may be the appropriate time to explore how the retirement age can be extended, either in the current assignment or in a different role.

Re-skilling that may be required for this purpose, would need to be done. If that too does not seem feasible, there may need to be a plan on monetising the residential home by replacing it with another residential home at a lower cost and using the difference towards the retirement corpus.

This should ideally be done at least a couple of years before retirement so that the family is able to adjust to the new environment prior to retirement.

So let retirement planning happen from today itself — "Better late than never".

The writer is a financial planner and founder of Plan Ahead Wealth Advisors.