MASTERFILE INDIA

Young & Carefree?

PLAN FOR THE SUNSET YEARS

BY VISHAL DHAWAN

Eight things you must know about retirement

New, young clients of mine, whom I'll call the Kumars, visited my office. "With the hectic lifestyles that we lead," Mr Kumar told me, "we'd like to retire when I'm 55, so that we may pursue our other interests, like travel and photography. And at 55, I'll still be fit."

"Good idea," I said, "I hope you'll also be financially fit for that."

They then showed me their file containing a neatly compiled list of stocks, mutual funds, insurance policies, bank FDs and suburban property they'd invested in. "So, what do you think?" asked Mrs Kumar after I had gone through the list. I admired their thinking about retirement even though the Kumars were only in their early 30s.

Meanwhile, other average clients of mine put numbers to every one of their financial goals: house, car, children's marriage and education, holidays... everything except retirement. I think it's only because when people are young, even in their 40s, retirement seems too far away. But you'll be surprised at the speed at which the good years go by.

If you're working today, retirement is quite a certainty—almost as certain as the bad old death and taxes. That's why it's critical to create a detailed plan, both from financial and emotional standpoints, and then go about executing it. And while you do that, there are eight truths you need to consider.

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1 Inflation is your enemy

The average annual rate of inflation in India has been about 7.6% during the last 25 years. This means most of the things you buy are at least six times more expensive than they were in 1986. That won't change when you survive long enough to look back in 2036, after another 25 years. So, if you spend ₹40,000 per month today and plan to retire in 2036, wishing to maintain the same lifestyle, you might then need about ₹250,000 every month.

In fact the future may not even be so bright! Considering all the excess money that has been printed across the world since 2008 to tide over the global financial crisis, don't be surprised if you'll need even more spending money in 2036. "Quantitative easing," the economic euphemism governments use to describe printing excess money, is a known inflation enhancer.

And then there's what's called "lifestyle inflation," which can happen as you earn more. Foreign trips replace your domestic holidays and parking in with relatives back in your native place. One car for the family becomes one car for each family member. You wore the same clothes for years, but you find yourself buying new ones every season. If all this sounds familiar, you'll need loads of spending money even after you retire.

2 You could live much longer than you think

Human life expectancy has steadily increased. A large number of us will end up spending as many years retired as we were working, maybe more. Some of my clients often disagree. They argue that the killer called stress, too, has increased. But then, medical advancements also increase dramatically, with newer stress, clot, cholesterol and cancer busters that help lengthen our lifetimes.

Thus your retirement plan must address expenses over a much longer period, well into your late 80s, maybe longer. Factoring in inflation, those monthly expenses that could grow to ₹250,000 by 2036 may touch ₹15 lakhs if you survived till 2061, a "normal" 25 years after retirement.

Scared? The "risk" of living very long is now very real. That's why it's essential to continue to make investments that will have the ability to beat inflation over long periods. Equity shares, equity mutual funds and real estate must be part of your investments, and good portions of them should be held even after you retire.

3 Your retirement plan needs to be your own plan

Without batting an eyelid, one of my clients who had fixed financial goals for everything except retirement, told me, "My son is my retirement plan."

A very endearing thought. But with an increasing trend towards nuclear families, your retirement plan needs to be far more robust. Your children will have their own financial goals, which may not include you. Remember the Amitabh Bachchan-Hema Malini starrer *Baghban*, where the old parents they portray are made to stay separately after retirement, since none of their children will take in both of them? If your account book has such a retirement plan in place, watch the movie, if you haven't already. It may actually be better than the book.

4 Buying a pension plan is not a solution

Not long ago, the tax laws gave a separate annual benefit of ₹10,000 if you bought certain pension plans. A very large number of people bought them for the tax benefit, and also in the belief that it will take care of their retirement. Yet, the amount they will receive on retirement will probably be enough for a couple of years' expenses, nothing more.

Any investment that you make for retirement need not have the word "retirement" in it. Stocks, bonds or good mutual funds can yield much better results and offer greater flexibility than the so-called retirement-specific investments.

5 Your expenses will not halve when you retire

Over time and from my clients' experiences, I've learnt that there is a tendency for post-retirement expenses to increase in the first couple of years, as the increased leisure time could result in more holidays and trips to the mall. It may decrease 10 to 20% afterwards. But your employer no longer pays for the newspapers, leave travel, house rent, petrol or the doctor. And with a probable significant increase in medical expenses, or the desire to spend on grandchildren, any reductions in living expenses may be neutralized to a great extent.

6 Start planning very early

A part of your first salary cheque should go towards retirement, just like a part of it goes towards buying gifts for your dear ones. If you didn't do that bit of saving, treat the next salary as your first.

Albert Einstein is said to have called compound interest "the most powerful force in the universe." When you are young, time is on your side. Take advantage of this by starting your investments at an early age. Unless you're going to win a lottery, this is probably the only sure-fire way of retiring very comfortably.

See examples of how compounding works. The Indian stock market has returned a compounded annual rate of at least 15% over any 20-year period. So ₹1 lakh invested in an index fund today (or in a bunch of good companies) could become ₹33 lakh in 2036. Adding ₹1 lakh annually could leave you with a ₹2.77-crore nest egg. If you stay invested, adding ₹2 lakh a year could boost that to ₹5.23 crore!

Or take a safe scheme like the government's Public Provident Fund, which returns a decent, tax-free 8% annually. ₹70,000 (the maximum allowed in any year) invested with an

addition of ₹70,000 every year could leave you with ₹60 lakh by 2036. You could double that by opening a second PPF account in your spouse's name. And since your employer will also have a provident fund scheme, you could contribute any additional amount over the minimum 12%. If that works out to, say, ₹1000, even doubling it to ₹2000 per month can make a huge difference to the compounded tax-free returns you collect when you retire.

7 Avoid major changes in your lifestyle soon after retirement

Retiring from an active work-life is itself a very significant event and requires a lot of readjustment. Combining this with other events like changing your residence, children getting married or moving to other cities for employment, may make it even more difficult. If possible, try to avoid letting several major events in your life coincide with or around your retirement date.

8 You don't have to stop working just because you retired

Most people today retiring at age 60 are healthy and in the prime of their careers. Your expertise could be sought after by other companies in your area of work. You may also have hobbies, like painting or writing, which you could convert to a full-time career. So while you are young, work around this and have a hobby you are passionate about. What's important is that you keep your brain sharp and active.

Any money earned can be a boon that will help you preserve, or even grow, your lifelong investments. Most people don't realize that a regular salary, even a small one, is really worth a lot. I mean, if you retire today even with a modest ₹50,000 monthly take-home pay, you're actually as fortunate as a *crorepati*. Because if you wanted to generate a work-free, after-tax ₹50,000, you'll need ₹1 crore invested in a fixed deposit at a good 8% interest.

I examined the Kumars' file. Although they had a basket of wide-ranging investments, the amount invested in equities and equity mutual funds were limited. Equities are risky, but only in the short term—not for the young Kumars who have time on their side. Also, they didn't separate investment earmarked for their sunset years from the rest. So I helped them fix this.

Finally, I would also like to remind you that we can't control regular inflation, but we can control lifestyle inflation by living a simpler life. If you plan well and reap the rewards, you can also continue to save and invest regularly even after you retire.

Is boxing dangerous? Ten percent of boxers answered yes, and 90 percent didn't understand the question. *Andrei Sharapov*