

## How much is enough?

*Factors to keep in mind while building your retirement corpus so you don't fall short in your sunset years.*

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A retirement corpus is a critical saving, for it decides whether you will lead a comfortable retired life or not. But how much is enough? Well, there is no one-size-fits-all solution to this as the number differs for each individual on the basis of income and its growth, expenses and their growth, the stage of life one is in, lifestyle, number of dependants, assets in hand, future liabilities, future goals and so on. All this involves complex calculations and sometimes, even financial planners fail to get it right. However, with educated assumptions and a focus on the goal, one can close in on a desired reserve.

### **Eye on the future**

By the time retirement rolls in, many recurring expenses like those related to asset accumulation and children may be substantially lower, bringing down monthly spends. However, some costs may go up as well. With more leisure time, socialising and travel increase and you will also have to be prepared for higher medical and special care costs. "Some recurring expenses may not come up every month, like occasions that require gifting or travel. There are also expenses that happen every few years, such as home maintenance/ lifestyle-related ones," says Vishal Dhawan, founder of Plan Ahead Wealth Advisors. After retirement, as your active earning capacity comes to a halt or goes down significantly, your risk appetite to generate high returns also declines. This means the corpus should be sufficient enough to generate a good, regular income even with safe investments like fixed deposits or an annuity plan from a retirement fund or small savings schemes like a senior citizen savings scheme or post office monthly income scheme.

Inflation has to play a crucial role in calculations, not only during the accumulation phase but also after retirement. "You have to factor in the impact of different levels of inflation on different types of expenses in your retirement. For instance, healthcare inflation may be higher than the general consumer inflation estimates," says Dhawan.

### The right corpus

The right retirement corpus can be calculated on the basis of your monthly income/ monthly expense or purely on the basis of a desired retirement life. However, most experts advise that you use expenses and their growth as the basis as it gets you closest to the right amount needed. "Monthly expense is the critical factor to keep in mind while calculating the retirement corpus, as both fixed and discretionary expenses will change adjusting for inflation," says Dhawan.

However, there are many people who have a greater risk appetite even after retirement, especially if there are assets to fall back on. This allows for a segregation of the corpus into long and short term. "A common mistake many retirees make is to assume a single rate of return on the entire corpus. This often results in large corpus requirements," says Sousthav Chakrabarty, co-founder and CEO of Capital Quotient.

## FOR A RETIREMENT CORPUS THAT LASTS 25 YEARS

CURRENT MONTHLY EXPENSE	YEARS TO RETIRE	MONTHLY EXPENSE WHEN YOU RETIRE	CORPUS NEEDED
₹25,000	30	₹81,085	₹1.77 crore
₹40,000	25	₹1.06 lakh	₹2.32 crore
₹60,000	20	₹1.31 lakh	₹2.86 crore
₹80,000	15	₹1.44 lakh	₹3.14 crore
₹1,00,000	10	₹1.48 lakh	₹3.22 crore
₹1,50,000	5	₹1.82 lakh	₹3.97 crore

*Expenses will rise each year with inflation (4%), and post-tax returns on retirement corpus (7%). If each year you use interest and some part of the corpus to meet expense, corpus is exhausted by the end of 25th year of retirement*

"A better approach would be to break down the corpus into separate chunks for different time periods." So if you are looking for 25 years of retirement, you can take out a part of the corpus that you will need after 10-15 years of retirement. According to Chakrabarty, longer time periods allow for higher risk allocation, which means one can invest in instruments with higher returns. So, if the corpus generates higher returns, monthly income requirements would be fulfilled by a lesser retirement corpus.