# Why you need equity in your portfolio even after retirement

*Inflation actually eats into your returns if you keep much of your corpus parked in fixed-income instruments.*

Lisa Barbora | November 30, 2021 | 10:13 am IST

Typically, people over 60 prefer to deploy their money in fixed deposits (FD) and other such fixed income investments. But if you live till, say, 80, this approach can leave a gaping hole in your portfolio.

**Conservative or practical approach?**

Let's suppose you have Rs 1 crore with you at age 60. If it lies in your bank account for the next five years, it would be worth Rs 86 lakh, if you account of an inflation of 6 percent. If you leave it in a FD, this may be worth Rs 95 lakhs, before taxes.

But if you invest in a mutual fund scheme that invests, say around 60 percent in equity and the rest in debt instruments, you can potentially have around Rs 1.2 crore (pre-tax). And if you just park that money in equities, you could potentially end up with Rs 1.35 crore (pre-tax) at the end of this period, net of inflation.

But aren't equities risky during our retirement?

No. As the numbers suggest, inflation actually eats into your returns if you keep much of your corpus parked in fixed-income earning instruments. And inflation is here to say. At age 60, if you have to prepare for an income over the next 30 years, then solely relying on fixed income options is not enough. If you had invested in an FD 10 years ago, you'd have earned just about 2.5 percent a year, on a 8.5 percent interest FD, due to a nearly 6 percent inflation rate. Today, bank FD rates are at a low, so it only gets worse.

Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors, says, "Someone who is retiring at 60 should think of themselves as being younger with a need to plan for the next 30 years. You can then have a conservative allocation to cater for the next 5-7 years of expenses. For requirements beyond that, use inflation-beating investments. One also has to consider tax-efficiency while choosing where to invest this retirement corpus."

Vivek Rege, Founder and CEO, VR Wealth Advisors, points out that the theoretical rule of going conservative with age is changing as individuals now have an understanding and experience of market-linked risk. "The thumb rules do not always work," he adds.

Deepali Sen, founder, Srujan Financial Services recommends some allocation to equity for her senior citizen clients. "The exact proportion of equity in the portfolio depends on the risk-taking ability, expenses and also the presence of pension income. First, emergency money is kept aside. Then, funds needed for daily expenses over the next 5-7 years are structured into short and medium-term investments such as money market, short term income and corporate bond schemes. Requirements which fall beyond the first 7-8 years are catered for through equity linked investments, mainly equity mutual funds."

Sen, says that once the risks of inflation are clearly spelt out, clients understand the need for making some calculated allocation to equity assets.

**Quality is the key**

Whether it is investing in equity or fixed income alternatives, quality is important. Rege says, "Risks in individual financial products have to be evaluated and we are willing to settle for lower yield in favour of options where there is the slightest chance of capital destruction because of portfolio quality or construct. Similarly, we evaluate and research the risks around every startup investing option that some clients bring to table. We have refused many, purely based on the level of uncertainty involved."

Your active income can no longer fill in for mistakes made with poor-quality investments.

**How should senior citizens plan their equity allocation?**

Keep these four rules handy:

**Get solid advice:** Medical costs go up after retirement. At the same time, the investment landscape has gotten more complicated. Make sure you have a guiding hand.

**Take a pinch of mid-caps**: Like in all portfolios, diversification is the key to reducing your risk. Don't just stick to large-cap funds or even passively-managed schemes. Invest in small and mid- cap funds, too. Just tilt your portfolio towards large-cap oriented funds to bring that added safety.

**Automated solutions help:** To maintain your asset allocation, it's important to have schemes in your portfolio that do that for you. A Balanced Advantage Fund helps you do that. You may have a mix of equity and debt schemes, but a few automated solutions help. Sen says, "There is no need to add undue risk to a portfolio where we are conscious of the need for capital preservation. Hence, focus on the quality of the portfolio is primary. Moreover, in current times, because equity markets have had a good two-year rally, we are also tempering down the incremental return expectation to a more conservative level."

**You cannot escape inflation:** Wholesale inflation, at present, is at 12.5 percent. It means that prices of wholesale goods and services have shot up by 12.5 percent in the past one year. That's not good news, if you wish to avoid taking risks, completely.

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