

MASTERCARE INSIGHT

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RETIREMENT PLANNING

Retirement is a milestone in every one's life. It is only retirement from regular work but not retirement from life style. You cannot compromise on the life style you enjoyed for years together simply because you are retired. But it is not given due importance as it should have been like any other commitment like housing, children's education and marriage. It is utmost critical for those who do not have pension. Even those who would like to plan also not sure how to go about.

Points to be considered while planning for Retirement :

1. Expenses incurred currently excluding financial commitments like education, marriage and housing loan EMI should be arrived at. (It is assumed that these commitment will be over by 60 years).
2. Inflation. This is a killer both in accumulation and post retirement stage. Hence the next step is to assess the current cost and extrapolate it to your retirement age.
3. Assess the Retirement corpus required at 60 years. This can be arrived at by multiplying the monthly expenses by 12 to arrive at the expenses required per annum. Then based on the life expectancy, investment yield and inflation one has to arrive at the Corpus required to sustain the life style.
4. Where to invest. There is a myth that retirement planning should only be done thru fixed instruments or balanced funds. It is not. If the time available for retirement is more than 10 years, it can very well be planned in Equity Funds. In fact this would also make up for the short fall in time/ corpus required for retirement, if any.

For calculation purpose, let's take Rs.50000/- as the monthly expense required at today's value as explained above. This might increase as the years go by as given in the following table :

Years	Cost Rs.	Years	Cost Rs.
5	70,127	20	1,93,484
10	98,357	25	2,71,371
15	1,37,951	30	3,80,612

Put it simply whatever Rs.50,000/- would purchase today may require Rs.70,127/- after five years and Rs.3,80,612/- after 30 years. Inflation of 7% is only considered which is normal in India.

Hence, the retirement corpus required is :

Years to Retire	Expenses per annum at 60 yrs Rs.	Retirement Corpus Required Rs.	Assumptions
5	8,41,524	1,54,77,823	Retirement Age 60 yrs Life Expectancy 80 yrs Post Retirement inflation 7% Post Retirement investment growth 8%
10	11,80,284	2,17,08,503	
15	16,55,412	3,04,47,348	
20	23,21,808	4,27,04,110	
25	32,56,452	5,98,94,653	
30	45,67,344	8,40,05,378	

Savings Required to achieve this corpus :

Years to Retire	Corpus Required Rs. Crs.	SIP Invt required Per Month At		
		8% Yield	12% Yield	15% Yield
5	1.55	2,09,553	1,87,909	1,72,833
10	2.18	1,18,371	93,828	78,232
15	3.05	87,556	60,446	45,060
20	4.28	72,181	42,836	28,233
25	5.99	62,567	31,565	18,239
30	8.41	56,055	23,824	11,977

If you look into the above figures, even as low as Rs.11,977/- invested for 30 years at 15% yield can generate a mighty corpus of Rs.8.41 Crores. What Rs.56,055/- could get in debt instruments at 8% can be comfortably created by investing just 1/4th in equity funds. So not only early saving is important and also instrument you chose also play a vital role in creating the retirement corpus.

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Similarly even at 50 years Rs.2.2 Crores can be created by investing Rs.78,232/- in equity funds for 10 years. So even a late entrant need not regret provided he makes the right choice in investing thru equity mutual funds. Otherwise, the same corpus can be achieved only by investing 50% more thru debt instruments over the same period.

So Smart investors should consider not only early saving but equity savings if the time horizon is more than 10 years to have a comfortable retired life.

Happy investing.

L.KUMAAR

Disclaimer : Though utmost care has been taken, Mastercare cannot be held responsible for any errors in the above calculations.

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0.90%

0.90%

Rs. 1,54,77,823.10 Rs. 2,17,08,503.82

841524	1,54,77,823		Rs. 4,27,04,110.05	Rs. 5,98,94,653.04
1180284	2,17,08,503			
1655412	3,04,47,348			
2321808	4,27,04,110			

49	0.006666667	0.01	0.0125	
1.55	Rs. -2,09,553.75	Rs. -1,87,909.84	Rs. -1,72,833.50	60
2.18	Rs. -1,18,371.68	Rs. -93,828.38	Rs. -78,232.30	120
3.05	Rs. -87,556.84	Rs. -60,446.79	Rs. -45,060.81	180
4.28	Rs. -72,181.80	Rs. -42,836.50	Rs. -28,233.03	240
5.99	Rs. -62,567.47	Rs. -31,565.61	Rs. -18,239.54	300
8.41	Rs. -56,055.64	Rs. -23,824.94	Rs. -11,997.45	360

0.90%

Rs. 3,04,47,348.03

Rs. -8,40,05,378.92