SEIZE THE DAY, MY FRIEND!

By **Himali Patel**

It's always, earlier the better, when it comes to planning for the time after you hang up your boots. It's a long-term proposition and is often tangled with a host of duties and dreams. Saving from an early life smoothens the job but a late-starter is certainly not a no-getter.

After a 10-hour toil through the day, the 40-something man would go to sleep every night, clinching a dream. Fifteen more years of struggle and then a happy life with a lot of sun and smile.

Sunil Dahima was not frugal when it comes to spawning the dream. He cared to build his dream block by block. A solvent retired life, his two daughters educated and married happily, and a 10-day holiday by the sea every year – he planned everything meticulously – but he didn't care enough to work towards his dream.

He was unprepared when one day he realised that the sea had suddenly turned too rough to sail. A host of eateries mushroomed in the vicinity of his small restaurant and he failed to match pace with those mightier rivals. Fifteen years zipped by and the dream crumbled at one blow, not block by block this time. Dahima lost it all. The man from Bangalore suburbs represents 51 per cent of over 600 million working Indians who hardly have anything planned for their life after retirement. For most of them, the golden sundown comes as a blazing blow when the income stops one day. The appalling state of financial planning brazenly stares at them. The situation is worse when seen in the backdrop of a year of nightmare we have just left behind.

PAY CUT

MEDICAL OR HEALTH CRISIS

"Someone's sitting in the shade today because someone planted a tree long time ago." That was Warren Buffett on the importance of investment with a long-term horizon. That's the thumb rule of financial planning. As *Outlook Money* delved deeper into the system of retirement planning, a host of variations cropped up – both among the doers as well as the dreamers.

PLANNING WITH IRREGULAR INCOME

Planning towards financial goals for a self-employed person whose cash flow is not usually as consistent as salary often appears challenging. It, however, comes with a host of opportunities. "The best way to work on your financial goals like retirement, children's education and children's marriage is to look at what is the average investible surplus you had in the previous six months to one year. This can give you some visibility of how much you can invest for these financial objectives every month," says Harshad Chetanwala, Co-Founder of MyWealthGrowth.com.

OMKESHWAR SINGH
Head of RankMF, Samco Group

The thumb rule in savings says that in your 20s, 30s, 40s, and 50s, save at least 20 per cent, 30 per cent, 40 per cent and 50 per cent, respectively, of your income

A self-employed man like Dahima should invest in recurring deposits for yearly school fees, direct equity for emergencies, SIPs, national pension schemes (NPS) and public provident fund (PPF) for retirement, and Sukanya facility for children. Reworking the strategy of investing equal proportion every month in mutual funds, direct equities, PPF, NPS and Sukanya Samriddhi Scheme helps long-term goals like those of Dahima's. Someone in early 40s has more than 10 to 15 years to plan for the retired life. "One can consider

Dreamers are countless in this country but there are too few doers who work towards making their dreams real. Ironically, the 49 per cent doers have something planned but they are mostly clueless about the widening gulf between what they have planned and what they would need. A study by PGIM India Mutual Fund throws up yet another contrast. While retirement planning was rated low when it comes to priorities, security for children and spouse, and fitness and improved lifestyle ranked higher. If there's anything to blame for this, it is nothing but lack of awareness about life after retirement.

"The only financial goal for which you do not get a loan in today's world is retirement. There's a loan for everything else – be it higher education or house, car or entrepreneurship and so on," says Ajit Menon, the chief executive of PGIM India Mutual Fund.

SHALINI SADANI, 41

MUTUAL FUNDS HAVE 70% STAKE IN HER RETIREMENT PORTFOLIO, DIRECT EQUITIES 15%, AND PPF THE REST

PARI SAVLA, 31

SAVES 50-60% OF SALARY AND INVESTS 40-50% OF IT. MFS HAVE 50% SHARE IN HER INVESTMENTS, DIRECT STOCKS 10-15%, FIXED INCOME PRODUCTS 15% AND JEWELLERY OR LIQUID FUNDS 20%

RACHIT CHAWLA
Founder and CEO, Finway FSC

I would reduce investments from 70% to perhaps 50% for a 60 plus investor

having higher allocation in equity-based investments. While the investment allocation depends on multiple factors like time horizon, risk appetite, and existing assets, he or she may like to consider 70-30 per cent investment allocation in equities and non-equity-based instruments for better growth opportunity," Chetanwala suggests.

Although interest rates have been low for a long time in the aftermath of the Covid-19 pandemic and that has eroded returns on debt investments, the scenario may change when the interest rate starts increasing, believes experts. On equity-based investment, someone with irregular cash flow need not look for large investments every time. While the challenge of inconsistent cash flow continues, a disciplined approach can easily help him overcome this situation.

Importance Of Early Investing

Details	Start @ 25 Yrs	Start @ 35 Yrs	Start @ 45 Yrs
Investment Amount Per Month	₹5,000	₹7,000	₹11,667
Amount Invested	₹2,100,000	₹2,100,000	₹2,100,000
Value of Retirement Corpus @60 Years of age	₹32,154,797	₹13,151,926	₹5,828,436
Delay by 10 years would reduce your corpus by		59.10%	55.68%

Calculations are done assuming a rate of inflation at 8%

Source: Samco Group

STRIKING THE RIGHT BALANCE

Standing at 63, Shyamal Kumar Dey feels content having invested his funds in various instruments to realise his dream of traveling around the world with his son, daughter and daughter-in-law. He made a substantial savings through the years of success in running his business.

The Jamshedpur resident had started his financial planning when he was 27. Today, 70 per cent of his investments are in mutual funds, 20 per cent in real estate and the rest in fixed deposits. In ideal scenario, it is better to revisit his portfolio components and diversify the risk by reducing exposure to MFs and allocate some funds in government-run investment schemes like Pradhan Mantri Vaya Vandana Yojna and Senior Citizens Savings Scheme (SCSS), where the investment cap is set at Rs 15 lakh.

"He should include more risk-free securities which generate stable returns such as debt mutual funds, Senior Citizen Savings Scheme, National Savings Certificate (NSC) and tax-free bonds issued by the government. These can generate a stable return in the range of 7-9 per cent per annum," says Suresh Surana, who had founded RSM India.

Dey had thought his investments in mutual funds (SIP) would fulfill his retirement goals. "But the interest rates are falling down and it has become very difficult to plan the investments afresh at this age," he says.

"I would reduce the investment from 70 per cent to perhaps 50 per cent. There would be a big pole in the corpus in case the equity market goes down since he has achieved most of the objectives," advises Rachit Chawla, Founder and CEO of Finway FSC, a financial services company.

PLANNING FROM AN EARLY AGE

At 31, Pari Savla is young enough to plan her finances for a secured future. The marketing manager in a reputed stock broking firm in Mumbai wants to own a house by 2035 through outright purchase, fund her own marriage, and ensure three-four vacations – one of

them overseas – every year. She saves 50-60 per cent of her salary and invests 40-50 per cent of it.

Since her first salary, she has been investing 50 per cent of her savings in mutual funds, 10-15 per cent in direct stocks, 15 per cent in other fixed income products and around 20 per cent in jewellery or liquid funds for emergency or spends on premiums for insurance and mediclaim.

Since equity allocation forms a major part of the portfolio, the compounding effect will help achieve her long-term goals. "Such kind of portfolio allocation can easily provide double-digit returns and reduce the downside for the portfolio during market correction due to the hedge provided by gold and debt," says Vijay Kuppa, Co-founder of Orowealth. While planning from an early age like Pari, one should allocate major part in equity as an asset class towards mutual funds as the risk is diversified in the funds and fund managers can manage the underlying stocks very well.

As she moves towards a higher age bracket, it becomes imperative for her to slowly start increasing the allocation towards fixed income as capital protection takes precedence considering the investor is approaching retirement. "Once she reaches the age of 50, an asset allocation of 50 per cent equity and 50 per cent gold should be good. Further stepping up her investment in correlation to salary increments will always assist in building up the corpus rather than spending the additional income," explains Kuppa.

SAVE MORE, SPEND LESS

How little is too little and how much is just enough – the thought has always dogged Shalini Sadani. The hodophile in her very early forties wants just about enough to travel the world, fund her son's education and marriage, and ensure a secured retired life.

Mutual funds have 70 per cent stake in Shalini's portfolio, direct equities 15 per cent, and PPF the rest. A back-of-the-envelope calculation shows that this would be just about enough for her targets. But the challenge remains in spending. She needs to manage her expenses such that she can save enough to build her retirement corpus. "Inflation acts as a big hurdle towards this and I end up spending much more than planned," she says. The thumb rule in savings says that in your 20s, 30s, 40s, and 50s, save at least 20 per cent, 30 per cent, 40 per cent and 50 per cent, respectively, of your income, says Omkeshwar Singh, Head of RankMF, Samco Group.

One should be very specific and decide the corpus based on the tenure of the goals. "For a goal around seven years away, Shalini can invest in equity-oriented funds or in direct equity, with 20-30 per cent in hybrid funds. As she nears the goal, she can convert her equity investments into debt investments to avoid last-mile hiccups," Singh says.

BUILDING A STRONG FOUNDATION

All her life she taught scores of students the importance of money. And, she pampered her wanderlust with diligent planning. Asha Gala is now 65. The retired head of the economics department at Mumbai's SIES College has always saved around 25 per cent of her salary in various instruments.

The professor's financial planning covered another aspect of her life – a non-government organisation, a health centre and a skill development centre for women in Nani Tumbdi village in Kutch, Gujarat.

Gala invested 60 per cent of her savings in FDs, 20 per cent in SCSS and PPF, 10 per cent in insurance and mutual funds, and the rest in various other instruments. Her pension takes care of her regular expenses. Had it not been for the steady

HARSHAD CHETANWALA
Co-Founder, MyWealthGrowth.com

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ASHA GALA, 65

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A SOLVENT RETIRED LIFE, HIS TWO DAUGHTERS EDUCATED AND MARRIED HAPPILY, AND A 10-DAY HOLIDAY BY THE SEA EVERY YEAR - THESE WERE THE DREAMS HE FOSTERED

SUNIL DAHIMA, 42

pension, her savings wouldn't have been enough to cover all her major expenses like healthcare, higher education for her daughter, and her marriage. As the real interest rates do not cover the full impact of inflation, people need to diversify their savings judiciously. "A mix of portfolio management services or direct equity market investments in early years of career, equity MFs in SIP form, debt MFs, gold, FDs and NPS are some of the avenues where investments can be made keeping in mind the retirement needs," says Nirav Vakhariya, who heads the research wing at Share India. Given her age, Gala's debt exposure must dominate her portfolio, says Aditya Shah, the Founder and Chief Investment Officer at JST Investments. One of the smartest things that she should do is drop one of the non-essential goals. "Financial planning must be done from a very early age. At the age of 65, there is very little scope to do change too much," he says.

NIRAV VAKHARIYA
Research Head,
Share India

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Investment Required For A Retirement Corpus

Particulars	Option 1	Option 2	Option 3
Monthly Salary	60,000	80,000	100,000
Monthly Spent	50,000	65,000	80,000
Monthly Spent post Retirement (70%)	35,000	45,500	56,000
Assumed as 70% of current Spent			
Inflation Cost	6%	6%	6%
Risk Free Rate	5.5%	5.5%	5.5%
Expected Rate of Return	12%	12%	12%
Market Rate of Return			
Current Age	25.00	45.00	55.00
Number of Years to Retire	35.00	15.00	5.00
Considered Retirement Age of 60 Years			
Life Expectancy in Years	80.00	80.00	80.00
Assumed Total Age of the person			
Years after Retirementg	20.00	20.00	20.00
No. of Years the person will be alive after retirement			
Future Value of Retirement Spent Monthly	269,013.04	109,043.40	74,940.63
Future Value of the Assumed 70% monthly Cost post Retirement at the time of Retirement			
Future Value of Retirement Spent Yearly	3,228,156.45	1,308,520.77	899,287.59
Future Value of the Assumed 70% yearly Cost post Retirement at the time of Retirement			
Inflation Adjusted Return	-0.47%	-0.47%	-0.47%
Retirement Corpus Required	61,750,234.82	25,030,219.63	17,202,146.35
Total Fund Required at the time of retirement to manage monthly Spends post retirement till Death			
Real Rate of Return (Monthly)	0.96%	0.96%	0.96%
Monthly SIP to meet Retirement Corpus	10,975.49	52,527.54	213,466.15
Monthly investments as of today to build the corpus at the time of retirement.			

The major challenges she faces include high cost of living, inflation, high income tax rate, reduced interest rates on savings, and increase in health expenditure along with a heavy premium for health insurance. "Exposure to equity cannot be increased keeping in mind the risks. Therefore, the goals must be toned down so that it does not create a drag on the corpus," Shah says.

'Tomorrow never knows.' When John Lennon composed the song under the influence of the *Tibetan Book of the Dead*, it says, what ruled his thought was uncertainty about future. We do not know what the future will unleash for us. As *Outlook Money* looked into the saving habits of people from various walks of life, many unforeseen possibilities seemed to be jutting out, questioning the blueprint for a brighter tomorrow. We listed some of the exigencies and reached out to experts in search of answers.

WHEN THE BREADWINNER IS DEAD

Not just the breadwinner, but every earning member, is individually significant in the running of the entire family. An untimely demise of the earning member puts the survival of the family at stake. Insurance, for obvious reasons, is the most potent hedge against such an eventuality. It must be seen as an onus on every earning member to buy a term life insurance plan with adequate life cover especially when the family members are financially dependent on him or her. The investor should not ignore the