Save more, build equity-heavy portfolio to boost retirement corpus

Byline: Sanjay Kumar Singh

A recent survey conducted by Max Life Insurance with KANTAR has once again focused the spotlight on Indians' lack of retirement preparedness. The survey, which covered 3,220 respondents across 28 cities, found that nine out of 10 people aged above 50 regret not having begun to save and invest sooner for retirement. About 59 per cent believe their savings will get exhausted within 10 years of retirement, and 23 per cent admitted to not knowing how to begin planning for retirement.

According to Prashant Tripathy, managing director and chief executive officer, Max Life Insurance, “While Indians are realising the need to plan for early retirement, this awareness is yet to translate into action in terms of saving and investing proactively.”

WTW’s Global Benefits Attitudes Survey 2022 (India section) also came up with similar findings. Around 68 per cent of employees recognised they aren’t saving enough for retirement. Those aged between 40 and 49 showed the biggest gap between their ideal and actual saving rate.

Elderly population set to rise

India’s elderly population (those above 60) is set to rise. In 2021, it had 138 million senior citizens. According to the National Statistical Office’s (NSO) “Elderly in India 2021” report, by 2030 their number will rise to 194 million, an increase of 40.6 per cent over a decade.

A 60-year-old in India, especially one belonging to the middle class or above, can easily expect to live for 20 years or more. “Most people tend to underestimate the extent to which inflation will erode the purchasing power of their accumulated corpus over a couple of decades or more,” says Avinash Luthria, a Sebi-registered investment advisor and founder, Fiduciaries.

Salaried people at times tend to be complacent about their retirement savings. Says Ritobrata Sarkar, head of retirement–India, WTW: “Mandatory retirement plans like Employees Pension Fund (EPF) may not generate an adequate retirement corpus and must be supplemented with the National Pension System (NPS) and other personal retirement savings instruments.”

The elderly also tend to have higher health care expenses. “Increasing medical costs post 60 would be an additional burden on one’s retirement savings,” says Preeti Chandrashekhar, business leader, retirement, health and benefits, Mercer India. According to financial planners, while normal consumer inflation can be expected to rise 6-7 per cent annually, healthcare expenses will grow at 12-15 per cent annually.

Late start, regular withdrawals

Another big issue in India, as Chandrashekhar points out, is that over 90 per cent of the working population is in the unorganised sector and is not covered by a plan such as the EPF. They must save on their own.

Not only do many people begin to save for retirement very late, they also tend to withdraw from their retirement corpus for other purposes, which depletes it even further.

Many people, especially those in the private sector, could be forced to retire earlier than their expected retirement age of 58 or 60 because their skills have become obsolete, or due to downsizing. They may be forced to take up lower-paying consultancy and gig work. “In the absence of an extended family, one of the spouses could be forced to take a break to take care of an elderly parent,” says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisers.

How much will you need?

Many retirement calculators are available online which you can use to arrive at an estimate. But understand the assumptions (lifespan, inflation rate, etc) used by the calculator before using one.

Luthria suggests a simple rule of thumb. “A 60-year-old who expects to live for another 30 years will require a net worth equivalent to 30 times his current annual household expense,” he says. This applies to someone who lives on rent. If a person’s annual expense at 60 is ~10 lakh, he will require ~3 crore to maintain his lifestyle over the next 30 years.

In case of someone who lives in his own house, his financial investments (net worth minus value of house) should be 30x his annual expenses.

Suppose a 50-year-old has a retirement corpus of ~2 crore and an annual expense of ~10 lakh. “If this person retires today, he should have enough to survive for 20 years,” says Luthria.

If you are falling short

Many people awaken to the need to save for retirement only in their mid-40s or early 50s. If you belong to the ranks of such people, don’t despair as you can still salvage the situation.

Chandrashekhar suggests people in the 48-60 age bracket begin to save and invest aggressively—around 35-40 per cent of their earnings.

Normally, a person in his 50s should reduce his equity allocation. “To make up for lost time, build an aggressive portfolio with equity allocation of 55-65 per cent,” says Hrishikesh Palve, head-financial data, Anand Rathi Wealth.

Higher equity allocation is likely to be accompanied with greater volatility. “Don’t get affected by the ups and downs of the equity market,” says Sandeep Jethwani, co-founder, dezerv. Consider enlisting a financial planner’s help for building an appropriate portfolio and handholding you during turbulent times.

Jethwani emphasises the need to have an adequate fixed-income allocation in the retirement portfolio. “This will reduce portfolio volatility. When the market falls, you can withdraw money from the fixed-income portion and allocate more to equities,” he says.

If you still fall short, extend your work life beyond 60. “Try to work as a consultant or as a teacher in your area of expertise. Also rope in your spouse to augment family income,” says Dhawan.

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