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Want to retire 5 years early? Here's how much more you need to save

By Naveen Kumar, ET Online Last Updated: Dec 30, 2022, 12:07 PM IST

Synopsis
How successful you are in achieving early retirement will depend upon your ability to invest an appropriate amount. As you will have less time to save, you will need to increase the size of your regular savings. Annual income typically rises with time and so people are in a better position to save higher with time. That is why one should start with an affordable SIP amount and increase it annually as and when the income grows.

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Early retirement is increasingly becoming a popular aspiration for many people, especially among the young generation. Many success stories of early retirements have inspired a good number of people to actively explore if such a goal can be a reality in their case. However, no matter how attractive the goal may appear to be, achieving it is often very challenging and needs careful calculations and planning.

If you are also looking to explore the early retirement option, we tell you about the odds stacked against you and what it will take for you to get past these barriers and be successful.

Check if you are on the right course for retirement

The first step is to assess whether you have been on the right course to fulfil all your critical life goals. Moreover, you need to set your priorities appropriately for early retirement. "You should also ensure that you have taken all the necessary steps to keep your finances secure for the future — whether it is ensuring that the current lifestyle doesn't go down drastically or that you have funds to meet medical treatments, children's education and their marriages, expenses such as changing your car and going on vacations on a regular basis," says Sanjeev Govila, CEO of Hum Fauji Initiatives, a financial planning firm

The biggest challenge to overcome

Next, you need to identify the extent of difficulties you would be confronted with while pursuing early retirement. Harshad Chetanwala, Co-Founder of MyWealthGrowth, says: "Readjusting the required corpus is something that one should keep in mind while planning an early retirement. In early retirement, the years to invest reduce as the income drops after retirement. From the perspective of monthly expenses, you would have to deal with more years than what you had planned. At any stage, you would not like to outlive the savings or be dependent on others in the post-retirement stage," says Chetanwala.

What is the retirement corpus required to retire early?

Calculating the right corpus to retire is the most important part of this process. Anil Rego, Founder and Fund Manager at Right Horizons, says early retirement means that one needs to save more, to ensure it lasts long enough. "Typically, when you plan to retire early, it means you are planning to quit your job much before your actual retirement age. When you do this, you will have a greater number of years left to be spent at leisure. Hence, you need to save more to survive this period," he says.

For a 25 years old person with monthly expense of Rs 25000					
Planned Retirement Age	65 years	60 years	55 years	50 years	45 years
Desired retirement corpus	Rs 3.97 crore	Rs 3.58 crore	Rs 3.13 crore	Rs 2.69 crore	Rs 2.27 crore
Desired monthly saving rate	Rs 2,812	Rs 4,476	Rs 7,070	Rs 11,253	Rs 18,366
Early retirement age	60 years	55 years	50 years	45 years	40 years
Desired retirement corpus	Rs 3.58 crore	Rs 3.13 crore	Rs 2.69 crore	Rs 2.27 crore	Rs 1.90 crore
Desired monthly saving rate	Rs 4,476	Rs 7,070	Rs 11,253	Rs 18366	Rs 31,580
Desired increase in contribution	59.15%	57.96%	59.16%	63.21%	71.94%

Assumptions: Life expectancy 90 years, maintains same lifestyle, no prior savings for retirement, current monthly expense Rs 25,000, inflation 5%, rate of return till retirement 10%, return post retirement 7%, regular saving for retirement corpus through monthly SIP grows annually at 8%

What is the asking rate for additional investment?

As you will have less time to save, you will need to increase the size of your regular savings. "Different people will have different lifestyles and expenses. It is important to identify your day-to-day expenses and keep track of these. It will help to identify how much you would need per month or per year after your retirement. After finding this out, a financial planner can use inflation and human life value to find out the total corpus you would require to survive the retirement period," says Rego.

For a 30 years old person with monthly expense of Rs 30000				
Planned Retirement Age	65 years	60 years	55 years	50 years
Desired retirement corpus	Rs 4.98 crore	Rs 4.48 crore	Rs 3.93 crore	Rs 3.37 crore
Desired monthly saving rate	Rs 6,231	Rs 10,116	Rs 16,425	Rs 27,212
Early retirement age	60 years	55 years	50 years	45 years
Desired retirement corpus	Rs 4.48 crore	Rs 3.93 crore	Rs 3.37 crore	Rs 2.85 crore
Desired monthly saving rate	Rs 10,116	Rs 16,425	Rs 27,212	Rs 47,341
Desired increase in contribution	62.36%	62.36%	65.68%	73.97%

Assumptions: Life expectancy 90 years, maintains same lifestyle, no prior savings for retirement, current monthly expense Rs 30000, inflation 5%, rate of return till retirement 10%, return post retirement 7%, regular saving for retirement corpus through monthly SIP grows annually at 8%

What will it take to generate additional investment?

How successful you are in achieving early retirement will depend upon your ability to invest an appropriate amount. Govila of Hum Fauji Initiatives says the key to retiring early is having an ample bank balance and investments that can support you. “While most people decide to save 30% of their income for retirement, people who aim to retire early only spend 30-50% of their income. The remaining 70-50% is put into various investment alternatives as well as a savings plan. The secret to successfully retiring early, for most people, is learning to live below your means before and after retirement,” says Govila, a retired Colonel and a SEBI-registered investment advisor.

For a 35 years old person with monthly expense of Rs 40000				
Planned Retirement Age	65 years	60 years	55 years	50 years
Desired retirement corpus	Rs 3.90 crore	Rs 3.51 crore	Rs 3.08 crore	Rs 2.64 crore
Desired monthly saving rate	Rs 8,801	Rs 14,688	Rs 24,824	Rs 43,839
Early retirement age	60 years	55 years	50 years	45 years
Desired retirement corpus	Rs 3.51 crore	Rs 3.08 crore	Rs 2.64 crore	Rs 2.24 crore
Desired monthly saving rate	Rs 14,688	Rs 24,824	Rs 43,840	Rs 85,741
Desired increase in contribution	66.88%	69.01%	76.60%	95.58%

Assumptions: Life expectancy 90 years, maintains same lifestyle, no prior savings for retirement, current monthly expense Rs 40000, inflation 5%, rate of return till retirement 10%, return post retirement 7%, regular saving for retirement corpus through monthly SIP grows annually at 8%

Instead of a fixed SIP, it’s better to plan one that goes up annually

If you plan to meet the target saving amount through fixed systematic investment plans (SIPs) over a long period, it should give you a very big amount. Chetanwala points out that a small change in this strategy can increase the benefits. "The target amount for most retirements is high and if someone plans to build the corpus with the help of a fixed SIP amount throughout the years, the SIP amount would be a lot higher. However, an annual increase in the SIP amount will help you plan your investment for multiple goals, and it does not take too much of a toll on your savings and investment plan," he says.

Annual income typically rises with time and so people are in a better position to save higher with time. That is why one should start with an affordable SIP amount and increase it annually as and when the income grows. "It is important to do that to ensure that lifestyle inflation impacts are planned for, as well as to ensure that increases in salaries also result in an increase in investments," says Vishal Dhawan, Founder of Plan Ahead Wealth Advisors, a SEBI-registered investment advisory firm.

However, one needs to be very conservative in estimating the annual growth of contribution in SIP as some assumptions about a constant annual increase in SIP contribution come with risks. What if the income doesn’t grow as anticipated? “A practical financial plan will state whether an increase in saving rate is possible or not — any attempt to force it would amount to compromising today’s lifestyle for a future life — one that hasn’t come yet and is still hazy. Of course, if a higher saving rate is possible because of the cash flows or by cutting down wasteful expenditures, it would go a long way in ensuring the continuity of a good lifestyle and meeting financial goals comfortably after early retirement," says Govila.

For a 40 years old person with monthly expense of Rs 50000				
Planned Retirement Age	65 years	60 years	55 years	50 years
Desired retirement corpus	Rs 3.82 crore	Rs 3.44 crore	Rs 3.01 crore	Rs 2.59 crore
Desired monthly saving rate	Rs 15,974	Rs 27,748	Rs 49,989	Rs 99,248
Early retirement age	60 years	55 years	50 years	45 years
Desired retirement corpus	Rs 3.44 crore	Rs 3.01 crore	Rs 2.5 9crore	Rs 2.19 crore
Desired monthly saving rate	Rs 27,748	Rs 49,989	Rs 99,248	Rs 2,58,630
Desired increase in contribution	73.71%	80.15%	98.54%	160.59%

Assumptions: Life expectancy 90 years,maintains same lifestyle, no prior savings for retirement, current monthly expense Rs 50000, inflation 5%, rate of return till retirement 10%, return post retirement 7%, regular saving for retirement corpus through monthly SIP grows annually at 8%

Tweaking the asset mix to enhance your return

Should there only be an increase in saving rate or should there also be some change in the asset mix, with a higher weightage to aggressive investment? "A mix of both is important in an aggressive investment. In today's situation of increased inflation, one should consider increasing their saving rate year on year as the living expenses are also increasing year on year," says Rego.

If the time left to retire is long — say, 10 years or more — then your ability to take higher risks to generate additional return will also be higher. "Just increasing savings will not help your investments grow. For this, we need a good asset mix that will help you have an aggressive investment strategy. We need to create a portfolio that will deliver the maximised return at the given risk level. An aggressive portfolio can have 70-80% of high growth assets and 30-20% of income assets or cash.The aggressive portfolio should be further diversified in such a way that no stock or sector has a higher concentration," says Rego.

Going for gradual withdrawal when close to retirement

To make sure your portfolio doesn't get a last-minute shock in terms of market crash or correction, you would need to ensure gradual de-risking of your portfolio when you are close to the retirement period. "One may not need to make a bulk withdrawal but move assets to lower-risk assets as the goal approaches.This can also happen in a phased manner as it may not be possible to time the market precisely. If the market is highly volatile, we can consider moving the bulk amount to a safer investment avenue and fund the same when required," says Rego. His suggestion is to increase the debt component in the portfolio in a disciplined manner at least 3 years before the goal.

3 critical precautions to take while planning for early retirement

1. **Will you be able to pay off your debt completely:** This is the utmost important thing to consider whenever you plan for retirement. "Nobody wants to have unnecessary debts when they retire; people want to have a peaceful life ahead. So

it is important to plan to pay off debts before retirement," says Rego.

2. **Getting adequate health cover for retirement life:** The amount you spend towards health planning will increase with age. "So it is necessary to get a good health coverage to reduce the expenses towards health planning. This insurance plan can be renewed and topped up yearly based on health needs," says Rego.

3. **Making sure that other goals are not overlooked:** The founder of Right Horizons says apart from retirement, people may have other goals such as a house purchase and education expenses of dependents. "We need to plan a budget for these as well. So it is important to identify other financial goals and the time period of these goals," adds Rego.