Beyond FDs: Blend growth, income assets in retirement portfolio

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Indian households invested ₹29.7 trillion in financial assets in 2022-23, according to a special research report by the State Bank of India. Of this, 33.4 per cent was held in bank deposits, 6 per cent in mutual funds, and 0.9 per cent in shares and debentures. Senior citizens held about 47 per cent of bank fixed deposits (FDs), according to the same report. Beyond FDs, which other instruments should senior citizens consider when building their retirement portfolio?

One reason for retirees' high reliance on FDs is familiarity bias. "They would be familiar with bank deposits all their lives and only recently become acquainted with stocks and mutual funds. Furthermore, after retirement, many people become more conservative than they were in their working years. They want predictability, which is what bank FDs offer," says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors.

A retirement portfolio, according to experts, must have three parts. "One, it should have enough invested in liquid instruments to meet emergencies. Two, a part of the portfolio should work on generating a fixed and regular income to meet their monthly expenses. And three, a part of the money should be invested in growth assets to offer protection against inflation," says Hemant Rustagi, CEO, Wiseinvest.

Generating a regular income

To meet the need for a fixed and regular return, senior citizens may invest in instruments like FDs, high-quality bonds, senior citizens savings schemes, and post office monthly income scheme.

A part of this portfolio segment can also be invested in annuities. The interest rate of fixed-income instruments often changes once the tenure ends, subjecting the investor to reinvestment risk. In an annuity, the buyer (and even her spouse, in a joint annuity) gets the same payout for the entire life as was promised at inception.

"Annuities also safeguard the investor against the risk of living too long," says Dhawan.

Growth assets to tackle inflation

One of the key risks senior citizens face is inflation. "A corpus that produces an adequate return at the start of retirement may no longer suffice after a few years, owing to inflation. This could force the retiree to dip into her corpus, which means the return generated from it in the future would be even lower," says Raghaw.

To safeguard against inflation, one part of the portfolio must be invested in growth assets — equity mutual funds and hybrid funds.

"On the equity side, senior citizens should bias their portfolios towards largecap funds, preferably index funds. Hybrid funds invest in a mix of equity, debt and arbitrage. Investors can choose from equity savings, balanced advantage, and aggressive hybrid funds, depending on their risk profile," says Rustagi.

Mistakes to avoid

Many senior citizens underestimate the corpus they will require after retirement. "They underestimate the impact of inflation, taxation, health-related expenses, and the heavy premium they will have to pay on health insurance," says Dhawan.

Many also do not have an adequate emergency corpus, or an adequate health insurance cover, which forces them to dip into their retirement corpus.

According to Raghaw, many investors do not understand that investment returns could decline over time. Returns from fixed-income instruments, for instance, can fall due to a secular decline in interest rates. Finally, taking excessive risk out of desperation can also prove counter-productive.

UNDERSTANDING ANNUITY PLANS

PROS	CONS
Payouts never change: Amount promised at inception continues for lifetime	Amount received is constant, hence its value erodes over time due to inflation
No reinvestment risk: Changing interest rates have no impact on payouts	It's an illiquid product because withdrawal of principal amount is difficult
Last for lifetime: Annuity payouts protect buyers against longevity risk (risk of living too long)	Rate of return is usually not very high (but improves with age)

Health insurance sublimit: A crucial factor for policyholders

Do you read all the policy-related documents before taking a health insurance policy? Many policyholders discover a lesser-known aspect of their coverage much later. It is called the health insurance sublimit.

What is sublimit?

Sublimit is a predetermined cap on specific medical expenses within a health insurance policy. For instance, you have a health insurance policy of ₹5 lakh, and there is a sublimit of ₹20,000 on certain medical procedure in your policy. Then your insurer will only pay only ₹20,000 for that procedure, irrespective of the fact that you have ₹5 lakh cover.

Common sublimits

- **Room rent:** This is one of the most common types of sublimits. Policies often specify a maximum daily room rent that the insurer will cover.
- **ICU charges:** Usually limited to twice the room rent sublimit.
- **Doctor's fees:** May be restricted to a certain percentage of the sum insured or a fixed amount per day.
- **Specific treatments:** Certain procedures like cataract surgery or knee replacement may have predefined limits.
- **Ambulance charges:** Some plans have caps on ambulance fees, which can add to the medical expenses if not adequately covered.

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