



## YOUR MONEY

# Late in retirement savings at 40? Act now

**SANJAY KUMAR SINGH & KARTHIK JEROME**

Ritu Arora (*name changed on request*), who works at a publishing house in Delhi, recently turned 40. A conversation with a senior citizen neighbour, who described his growing difficulty in coping with inflation and rising healthcare expenses, made her realise with a jolt that she had not begun saving for retirement, apart from the mandatory deduction for the Employees' Provident Fund (EPF).

A recent survey by 1 Finance of 1,218 individuals aged 40-60 found that 75.5 per cent of respondents nearing retirement did not have a detailed retirement plan.

### Low on priority list

"Present bias" often makes near-term expenses appear more urgent than retirement. "Retirement falls in the category of important but not urgent goals. The benefits are visible only after a long period of time, while shorter-term goals demand immediate attention," says Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors.

"Many salaried individuals

assume future salary growth will compensate for delayed savings," says Arvind Rao, founder, Arvind Rao and Associates.

Some fail to recognise that longer life expectancy has made retirement planning more important now. "Many underestimate the impact of inflation on future expenses," says Arnab Pandya, founder, Moneyeduschool.

### Delay raises savings burden

Suppose that a person sets a target corpus of ₹5 crore. Assuming an annual return of 10 per cent, one who starts at 25 needs to save about ₹15,500 a month. One who starts at 40 needs to save almost ₹73,000 a month. "The required monthly saving becomes nearly five times higher due to the 15-year delay," says Rao.

### Estimate the corpus

A 40-year-old should begin by calculating current annual expenses. Next, identify expenses that may not continue after retirement. Also identify expenses that may rise after retirement, especially healthcare and leisure related. "A safe estimate is that post-retirement expenses will be about 80 per cent

of current expenses," says Rao. "Target a retirement corpus equal to 30-35 times annual expenses," says Dhawan.

Another way to estimate the required corpus is to use the 4 per cent withdrawal rule. "This rule assumes that annual withdrawals should not exceed 4 per cent of the corpus," says Rao. If annual retirement expense at age 60 is ₹30.8 lakh (applying 6 per cent inflation over 20 years to ₹9.6 lakh current expense), the base corpus required would be around ₹77 crore.

### Use right product mix

A 40-year-old should not invest too conservatively. Equity mutual funds should be a key investment vehicle as the portfolio still has a 20-year horizon to grow. They tend to beat inflation over long periods. But investors must be

able to tolerate volatility.

Another product that can be used is the National Pension System (NPS). NPS offers additional tax benefit of ₹50,000. "Under the new tax regime, salaried individuals can invest up to 14 per cent of basic salary through NPS and qualify for deduction," says Rao. It has a low fund management charge and allows equity allocation of up to 75 per cent.

EPF returns (8.25 per cent) are higher than that of many other fixed-income instruments. "Employees with access to EPF should take full advantage of it and should not touch EPF money except in a life-or-death situation," says Renu Maheshwari, Sebi-registered investment advisor, cofounder and principal advisor, Finscholar Wealth Managers. But EPF is available only to salaried employees.

Public Provident Fund (PPF) offers tax-free return of 7.1 per cent. It has a 15-year lock-in. One can, however, invest only up to ₹1.5 lakh per annum in PPF. PPF and EPF cannot provide growth impetus. "But they can provide stability and tax-free returns," says Pandya.

### Prioritise retirement

Late starters should identify how much their current retirement-linked assets can grow to by age 60 and compare that projected value with the target corpus. Once the gap is known, they should create an annual savings plan and try to step up their investments. "Avoid high-risk strategies such as F&O and short-term trading. Don't turn excessively conservative either," says Maheshwari.

## Cost of delaying investments

**A 15-year delay, from age 25 to age 40, reduces the final corpus by about 85 per cent across these monthly investment amounts**

Monthly investment (₹)	Corpus at 60	■ If started at 25	■ If started at 40	(₹ cr)
10,000	6.43	0.98		
15,000	9.64	1.48		
20,000	12.86	1.97		
25,000	16.07	2.47		

Assumption is that monthly investment grows at 12% per annum until age 60. Source: Moneyeduschool