



YOUR MONEY

How to make retirement savings last for your lifetime

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Axis Max Life Insurance's Bharosa Talks India Retirement Index Study (IRIS 6.0) highlights a critical gap in retirement savings. Urban Indians have accumulated only 28 per cent of the target corpus on average. Just 11 per cent believe it will last their lifetime, while 39 per cent fear it may not last even five years. While those in the accumulation phase need to save more diligently, retirees must manage their savings more prudently.

Ideal corpus, withdrawal rate

Financial planners regard 30-35 times expected annual retirement expenses as a useful benchmark for the retirement corpus.

"If the corpus is below this benchmark, the retiree may need to control expenses or earn better portfolio returns," says Deepesh Raghaw, Securities and Exchange Board of India (Sebi)-registered investment adviser.

In the West, 4 per cent is regarded as an appropriate annual withdrawal rate. **Indian data**

supports a rate closer to 2.5 to 3 per cent," says Vishal Dhawan, chief executive officer (CEO) and founder, Plan Ahead Wealth Advisors.

The rate also depends on whether retirees want to exhaust the principal or leave a legacy. "A retiree who only wants the corpus to last for their lifetime may withdraw both investment earnings and part of the principal. Someone who wants to keep the corpus intact should withdraw only the earnings," says Arnav Pandya, founder, Money-eduschool. Rental income can reduce withdrawals.

Use time-based buckets

Divide the corpus according to when it will be needed. Keep the next one to three years' requirements in the first bucket. **Invest this bucket in very safe instruments to insulate it from volatility,** says Dhawan. The second bucket, for four-to-10-year needs, may hold longer-term debt and some hybrid assets. Invest money needed after 10 years more aggressively through index,

flexicap or multicap funds.

Choose right asset allocation

Match equity and gold exposure to risk tolerance and corpus size. A person with a larger corpus does not need to take additional risk. At the same time, as Pandya points out, a larger corpus also provides the leeway for a somewhat higher equity allocation.

Do not shift the corpus entirely to debt after 60. "Maintain some exposure to risky assets because inflation can severely erode the value of the corpus," says Raghaw. Allocate 60-70 per cent to income-generating assets and 30-40 per cent to growth assets. Lower-risk investors should invest more conservatively.

Use the right products

Younger retirees may use debt

Maintain emergency corpus

- Corpus size for elderly depends on health condition, ailments, family responsibilities, size of health insurance policy
- Should be enough to cover medical emergencies
- Some hospitals may not offer cashless treatment
- May need to pay medical bills, claim reimbursement later
- Metro residents may need bigger corpus as medical costs tend to be higher there
- Keep at least 12 months' expenses in liquid instruments like FDs and liquid funds

mutual funds and equity arbitrage funds, which are more tax efficient. Senior citizens may consider the Senior Citizens' Savings Scheme (SCSS), which pays 8.2 per cent annually, bank or corporate deposits, and Reserve Bank of India (RBI) floating-rate bonds, which pay 8.05 per cent annually.

"An annuity plan can be useful when purchased at an appropriate age," says Raghaw. Older buyers receive higher returns. A systematic withdrawal plan (SWP) from a debt fund can also be used to generate cash flow.

Equity index funds, exchange-traded funds, flexicap funds, multicap funds and aggressive hybrid funds provide growth exposure. Gold can deliver reasonable long-term returns but may be volatile. Real estate investment trusts (REITs) and infrastructure investment trusts (Invits) can provide growth and income.

Common mistakes to avoid

Avoid both excessive conservatism and attempts to close a corpus shortfall through excessive risk.

Early retirees may face children's education, marriage or home-purchase costs. Avoid excessive spending on these goals. Maintain liquidity instead of locking too much money into property for rental income.

"Try to meet withdrawals from corpus earnings. Drawdowns from the corpus can cause retirees to run out of money prematurely," says Pandya.