Retirement Planning: the need and how much.

What is retirement?

Retirement is a period when, most of us want to call it a day from work and the regular working hours of employment or self-employment and depend on savings created for sustenance. It is the period when, an individual would like to pursue a more relaxed life, of say, travel, social service, or pursuing one's hobbies or maybe even start a business as supplementary income.

Why Plan for Retirement.

Very often, we assume, retirement is too far away to bother about how we can sustain a lifestyle similar to our working years.

However, not many realize that retirement as a goal is one of the most important and most difficult to conceptualize, because of the lengthy duration to the start of goal date, lack of clarity on interest rates, returns, performance, sustainability and longevity of income required.

Today, with healthcare advances, the average life expectancy has increased from 67 years in 2005, to 69 years in 2013.

What does this mean? That your retirement savings corpus, needs to cater to the two additional years of life expectancy that has improved with medical advancement.

That is what makes this goal one of the most important priorities in the financial planning process.

Benefits for the organised sector:

Very often, for the employed or organised workforce, the organisation participates in defined contribution schemes, through EPF trusts, VPF, Pension schemes, super annuation and gratuity, as benefits to the employee for having worked for many years in an organisation.

The calculations vary, and are based on percentage of salary income, number of years of service. Hence, due to this forced savings, knowingly or unknowingly, many individuals create a nest egg for their retirement.

However, in India, for the unorganised workforce, like self-employed, there is no compulsory savings options. One of the recent initiatives of the Government, has been the New Pension Scheme, which is

a voluntary contribution of savings, towards creating a pension corpus. But it has its own inefficiencies and is struggling to make a blue print.

Many countries in the world, provide pension benefits to the employed workforce, when they retire, which is either funded by the government or the employer, based on the years of service and the designation of the individual.

Hence for someone in a company, most often the retirement benefits take care of the lifestyle needs of an individual post retirement.

However, the difficulty is more for self-employed individuals in India. They need to create a compulsory savings for the retirement years, to take care of their lifestyle, and medical expenses that arise when the pay check stops.

What are the factors to be considered while planning for retirement?

1. Identify monthly expenses: Fixed, Discretionary, Recurring, and Mandatory.
2. Identify what percentage of these expenses would be needed during retirement. You can classify each of them under major heads of Expenditure, like Household, Lifestyle, Utilities, Personal, Credit Card, Health Care, Insurance, Recreation, Health Insurance premiums,

Please note expenses towards dependents, loan EMIs, existing savings and investments, taxes are excluded since they will not form part of the expenses needed during the retirement period or retirement distribution phase.

How a Certified Financial Planner (CFP) CM can help:

After identifying these expenses, a Certified Financial Planner will help in the following:

1. Calculate the future value of monthly and annual expenses under the various heads mentioned above.
2. Find out the inflation and tax adjusted corpus needed to sustain the monthly expenses needed during retirement(retirement distribution phase)
3. Identify what existing resources will help the client meet the desired target corpus.
4. The client has two options of reaching the retirement goal.
   a) Investing a lump sum amount today and holding the same investment, at an assumed average growth rate, until retirement start date.
   b) Investment on a systematic monthly basis a fixed amount to reach the desired goal.

What are the various attributes of retirement income calculation?

Inflation, interest rate, real return, number of years for retirement, number of years in retirement. Fixed/ increasing monthly income and more.

Illustration:

Below is an illustration showing the varied current age profiles of individuals with desired retirement date. Expenses today is the current lifestyle annual expenses of an individual in column “c”. Column “d” illustrates the amount required in the first year of retirement. Column “f” illustrates the years in retirement. Column “g” shows the corpus needed at the start date of retirement to sustain an inflation adjusted lifestyle. Column”h” illustrates the amount needed to be invested per month to meet the desired target figure in column “g”

Inflation assumption @6%

Growth rate @ 9%

Illustration on Target Corpus needed for retirement and Savings needed to meet the target corpus.

Current Age(Yrs) (a)	Retirement Age (Yrs)(b)	Expenses today (c)	Amount required in the first year of retirement (d)	Life Expectancy (e)	Tenure in retirement(Yrs) (f)	Corpus needed to sustain till 80 years (g)	Amount needed to be invested per month to reach the corpus (h)
50	65	15,00,000	35,94,837	80	15	5,00,35,959	1,32,228
45	65	20,00,000	64,14,271	80	15	8,92,79,200	1,33,674
55	65	10,00,000	17,90,848	80	15	2,49,26,519	1,28,810
60	65	5,00,000	6,69,113	80	15	93,13,273	1,23,479

Therefore, if you are 45 years old today, and your current annual expenses is Rs 20,00,000. The amount needed in the first year of retirement, which is age 65 years (assuming the same standard of living) is Rs 64,14,271. Assuming a life expectancy of 80 years, the corpus needed to sustain from age 65 to 80 years is Rs 8,97,79,200. Therefore, an investment of Rs 1,33,674 per month is needed from age 45 years to age 65 years to meet the targeted amount of monthly inflow(assuming a growth rate of 9%) for your life, which is inflation adjusted.

Note: Resources created from savings and other investments are to be deducted from the accumulated target value, after the future value for the same is calculated.

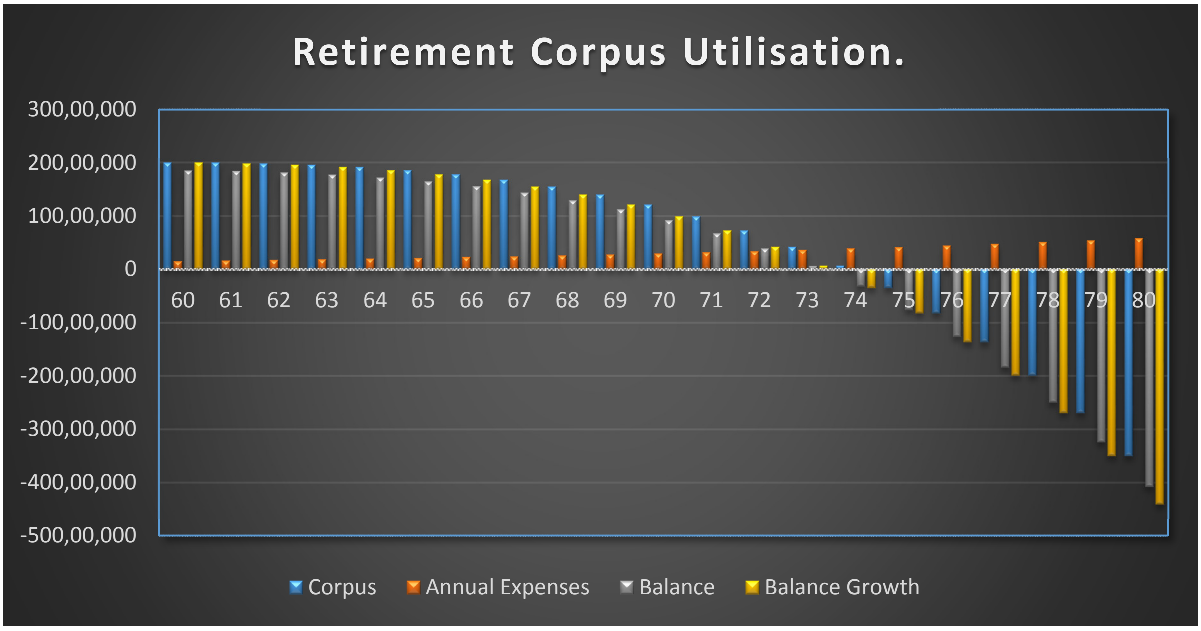
Illustration:

Now, let’s look at a scenario, where you have built a retirement corpus of say Rs 2,00,00,000 over your earning years through various savings and investments.

In the below example, if the expenses in the first year of retirement is say Rs 15,00,000 and say inflation is at 7% and investment returns you expect on your corpus growth is say 8% and your retirement start date is 60 years.

Retirement Corpus Built/ Planned	200,00,000
Expenses in the First Year of Retirement	15,00,000
Post Tax Investment Returns on Retirement Corpus	8.00%
Inflation during Retirement	7.00%
Retirement Age Start	60

Age	Corpus	Annual Expenses	Balance	Balance Growth
60	200,00,000	15,00,000	185,00,000	199,80,000
61	199,80,000	16,05,000	183,75,000	198,45,000
62	198,45,000	17,17,350	181,27,650	195,77,862
63	195,77,862	18,37,565	177,40,298	191,59,521
64	191,59,521	19,66,194	171,93,327	185,68,793
65	185,68,793	21,03,828	164,64,966	177,82,163
66	177,82,163	22,51,096	155,31,068	167,73,553
67	167,73,553	24,08,672	143,64,881	155,14,071
68	155,14,071	25,77,279	129,36,792	139,71,735
69	139,71,735	27,57,689	112,14,047	121,11,170
70	121,11,170	29,50,727	91,60,443	98,93,279
71	98,93,279	31,57,278	67,36,001	72,74,881
72	72,74,881	33,78,287	38,96,593	42,08,321
73	42,08,321	36,14,768	5,93,553	6,41,038
74	6,41,038	38,67,801	-32,26,764	-34,84,905
75	-34,84,905	41,38,547	-76,23,452	-82,33,328
76	-82,33,328	44,28,246	-126,61,574	-136,74,500
77	-136,74,500	47,38,223	-184,12,722	-198,85,740
78	-198,85,740	50,69,898	-249,55,639	-269,52,090
79	-269,52,090	54,24,791	-323,76,881	-349,67,032
80	-349,67,032	58,04,527	-407,71,558	-440,33,283



In the above example, the individual's corpus is lasting only till age 73 years. After that, the corpus that he has created is not sufficient to sustain him till age 80 years.

This is a classic case, showing, that many times, the savings that they have made, is insufficient to meet one's life expectancy.

Illustration:

Let us look at a last scenario, whereby an individual, after having created a corpus, would like to utilise the corpus for his retirement monthly income, **and ensure an estate is left for his/her heirs.**

In the below illustration, if an individual retires at age 75 years, with a corpus of Rs 1,92,00,000 and he would like to maintain an estate for his grandchildren or spouse, what would be the monthly income he can draw after the corpus has been set aside as an estate?

The Estate to be left for his spouse is shown in yellow background and the blue background shows how much he can withdraw every month for 10 years only.

Retirement corpus available at 75 as on current resources	192,00,000	192,00,000	192,00,000	192,00,000	192,00,000	192,00,000
Corpus left for estate benefits	**100,00,000**	**50,00,000**	**30,00,000**	**20,00,000**	**10,00,000**	**0**
No. of years in retirement	10	10	10	10	10	10
Monthly income fixed(tax not considered)	**54,677**	**1,00,219**	**1,18,435**	**1,27,544**	**1,36,652**	**1,45,760**
Annual fixed income(tax not considered	6,56,122	12,02,623	14,21,224	15,30,524	16,39,824	17,49,125

There many other illustrations and scenarios that can be built around retirement and calculations made.

Every individual case is unique and needs a personalised plan of illustration and calculation.
