

## Plan now, retire rich

'DO YOU have a plan for your retirement?' Amazing how such a simple question can get wildly different answers.

"Are you crazy? I'm 25; you retire if you want to, not me!"

"You know, retirement is for my dad. I'm still 35, I have a long time ahead before I think of retirement."

"Why do you want to retire me? I'm just 43. I have my kids' education to look after now. Then I'll think of retirement plans."

"Yes, yes, I should be doing something, I retire in just eight years at 60. I do have my PF you know. Dekha jayega, God will take care."

"Beta, I wish you had spoken to me about retirement planning when I was 25; my retirement may have looked different. At 65, it's too late to change the mistakes of my youth."

**This story is not about retiring.** It's about retirement planning. Understand the difference. It is not about quitting work today; it's about giving yourself options for tomorrow. Options that will mean you can well and truly stop working eight hours a day at an age when the spirit may be willing but the flesh is certainly weak. Look at retirement planning as preparing for financial independence. Something that will allow you to lead the life you want to when you are 75—comfortably and without compromising on basic values. Does that sound better? So, let's now revisit retirement planning.

First, what's your goal? It's financial security. To provide a lumpsum or an income stream at the end of an active career that will take care of all your financial needs for the rest of your non-working life. That kind of goal means retirement planning has to begin as soon as you begin work. It involves putting away money in a systematic manner into assets—financial or real—that will pay off when you no longer can or want to use your physical or mental faculties to fend for yourself and your dependants.

Second, how much will you need for this goal that could be two years or 40 years away? Individual needs differ, but it is likely that you will want to continue the standard of living that you are used to. It is improbable that you will enjoy travelling sleeper class if you have been used to second-class AC travel all your working life. A rough rule of thumb says that you need about 80 per cent of your current income to live on when you retire. Your expenses will be much lower since debts like home and car loans will be paid off, the children will be independent, and work-related expenses like commuting, clothes or eating out will be much lower. You will spend more on utilities—AC, heater, fans, phone—since you are home all day; on medical bills since old age brings on a host of problems; and on medical insurance since the premiums for older people are higher.

If all this looks very clinical and scary, read on. Meet some people across various age groups who are living life to the full—travel, gadgets, latest cars—and are yet salting away enough money to enable them to do the same things when they finally decide to retire from working life. Retirement planning is no longer the number gymnastics that accountants made famously dull—it is a smart new way of ensuring you have enough lifestyle choices throughout your life.

### **Age 25 to 30**

#### **Youth is chewing gum—it never ends**

Hotshot management consultant by day, award-winning potter by night, 27-year-old bachelor boy Rahul Kumar packs in a full life. Whatever his career and artistic commitments, he does not forget to plan for a future that is more than 30 years away. "Why forget the future while enjoying today," he says practically.

If Rahul can exude such earthy wisdom, so should you. This is a good age to begin planning for the long term. There are no dependants, you live with your parents or alone, and your expenses can very easily be cut back a little while still giving you a lifestyle you like. Begin by maximising your contribution to the Employees' Provident Fund (EPF) plan. Next, maximise your tax-saving investments and go aggressively for PPF, a product that still gives you good post-tax returns. Rahul does both of these and has subscribed to a couple of 25-year endowment policies that will return him about Rs 35 lakh when he hits 55, for which he pays a premium of Rs 13,000 every quarter. Since you don't have dependants, you need not buy life insurance but if you must buy insurance, our advice is to opt for a term policy and invest the difference in another investment product.

If your income allows you to buy assets already, don't leave your goals of a home and car for later. Rahul finds his spending money greatly reduced simply because after all his investments, premiums and the car EMI of Rs 7,500 a month, he has just enough left to indulge his passion for pottery and for other lifestyle needs. He plans to buy property as soon as his income rises. This is an excellent time to get locked into a long-term debt. Not only do you pay off your debt by the time you hit your 40s, you are wisely investing money that may otherwise have been frittered away.

You must keep aside a part of your money for investing in growth assets like equity. This is the age when you can take risks—you have over three decades to make up any loss—so take a part of your portfolio for a rough ride and experiment with stocks or mutual funds. Sensible stock investing can boost your portfolio in a way quite unmatched by any kind of risk-free product that you buy. Those with entrepreneurial ambitions should invest in their own business and go extensively for risk-free government paper to balance out the risk.

Remember the chief thing: starting early gives you the advantage of time. Something you'll look back at when you're 60 and thank your stars for.

## **Strategy for the Chewing-Gum Years**

- Start PF and PPF accounts
- Initiate a long-term stock strategy
- Buy a car on loan
- Start thinking of buying a house
- No life insurance yet; buy term

### **Age 31 to 40**

#### **Life begins to get real**

When she was denied her 51st Barbie, Sumit and Anita Lal's four-year-old Sanjeevini threatened to use her own money—all of Rs 2,500 she had collected in a little bag from the birthday and gift money doting relatives had lavished on her. It got Sumit thinking: if Sanjeevini could save for a goal, why not them?

Three years later, the young couple, with two kids now, has a long-term retirement strategy in place. But their goal is financial independence. "I don't want to work for money, I want money to work for me," says Sumit. He realises that corporate careers are getting shorter and life is getting longer. "There are no guarantees in work today. I may get a performance bonus this year and get fired the next; we need to build financial security," he adds.

Sumit and Anita have their future clearly in sight. Do you? This is the age when you are married, probably have young children, and are well settled in your career. Money is a perennial problem since needs are so many—rent, school fees, vacations and other lifestyle needs. You need life insurance now because you have dependants, maybe a non-working spouse and kids. Buy term policies with an exit date of 60 years. Next, maximise your EPF contribution and still go for PPF as a tax-saving investment. The Lal family does all this and has begun to plan for the future through annuities. For an annual premium of Rs 5,000 for 20 years, they get Rs 20,000 a year from year 21. They already have two such policies, and this year plan to buy a third.

If you don't have a car or house yet, and your money can stretch that far, go for long-term debt, take that home loan and tie up your disposable income. Keep aside a portion for equity and mutual funds to give your portfolio a growth edge. The prescription for entrepreneurs remains the same: your risk and growth comes from investing in your own business—balance it out by investing in risk-free instruments like PPF, RBI bonds and post office monthly deposits that still give good post-tax returns. In asset building, keep home-buying the top priority.

## **Strategy for the Thriving 30s**

- Maximise EPF contribution
- Maximise tax-saving investments
- Chase growth aggressively through equity
- Buy home and car and pay highest possible EMIs
- Buy life insurance—for protection, not investment

## **Age 41 to 50**

### **A new maturity demands discipline**

At 25, Ajay Parmar had plans of retiring from work at 45 and bought several endowment policies towards that end. Today, he's 45 and finds that things look very different. The intervening years have seen him change tack from being an employee to owning his own thriving publishing business. And today he has realised that the only life insurance policy worth buying is term and not endowment. "I am only into term policies for protecting my family now, the endowment stage is over," says Parmar.

The 40s are when many of you begin to get real about the possibility of being where your father is today—nearing 65 and happily enjoying his golf and gardening. This is the age when your children are reaching higher education goals and the scramble for money to send them abroad or enrol them in expensive courses is upon you. This is also when your income is at its peak as you are well established in your profession. Your home loan is over or should be in the next five to ten years.

Your life insurance needs continue as long as you have dependants, so keep funding that term policy. Continue contributing to the EPF and tax-saving investments. Now is the moment to rebalance your portfolio. If you don't have separate funds for your children's higher education, you may have to liquidate some investments. If you are aggressively into stocks, it is time to build some maturity into the portfolio by moving half the existing assets into debt funds. If your home loan is over and your disposable income is suddenly higher, allocate the extra money between equity and debt in a 50:50 ratio.

### **Just Before You Retire**

- Top up your medical insurance at least five years before you retire
- Pay off all debts at least five years before retirement
- Plan to switch to a smaller home or city to cut living costs
- Aim to be not covered under a life insurance policy after you retire
- Develop skills you could use to generate some income once you have retired

Or if you are an entrepreneur like Parmar, do what he does: his assets are all in his business. "I can sell the business and its assets (warehouse, office, publishing rights) when I am through working," he rationalises. To balance the risk, he maximises his tax-saving investments in government paper. Whatever your situation, if you have not begun long-term financial planning, begin NOW.

### **Strategy for the Get-Serious Years**

- If you haven't started a retirement account, start NOW
- Your home and car loans should be nearing full repayment
- Keep maxing EPF and PPF accounts
- If aggressively in stocks, tone down the risk and buy more debt
- Continue adequate life cover through term policies

### **Age 51 to 58**

#### **The retirement countdown begins**

Sarita and Vijay Anand are fortunate fifty-somethings. At a time when most people their age are stressing about imminent retirement and wondering how to gather enough in the next five to 10 years for a retirement corpus, the Anands have already retired. Anand retired this year from the Army at 54 and wife Sarita took VRS from her bank job at 52. They have planned well, and are using a mix of pensions paid out by the Army and the bank and their investments in RBI bonds that yield over Rs 20,000 a month to maintain their accustomed standard of living.

What about you? Your children should be financially independent and probably married by now, your home loan should be paid off, your career peaking. All this leads to a huge hike in your disposable income. Take a re-look at your life insurance needs. If you have already built up a corpus to sustain you, or your dependant spouse/parents if you are no more, terminate the term policy. Tank up on Mediclaim, your premiums will get higher as you age, and old age brings a higher risk of large medical costs. Important, if you have the energy, look at finding work for at least another 15 years.

Put away as much money as you can during these years with your higher disposable income. Use money released after paying off home loans or children's higher education to fund your retirement aggressively. Rebalance your portfolio and tone down aggressive investment. Depending on your risk appetite, a 20-40 per cent exposure in equity is still possible. Don't avoid equity altogether, at least 20 per cent in equity funds or stocks is good for growth. The rest can be put into assured-return government paper or debt funds. Consider annuity products as well, where you can contribute a lumpsum or a regular amount over the years.

If you are an entrepreneur, your strategy could change now. Your business may no longer need the infusion of capital it did earlier, so use the money to buy equity and debt funds, while continuing with risk-free investments in government paper.

## **Strategy for the Age-Gracefully Years**

- Fund your retirement account aggressively
- Keep your EPF and PPF accounts going
- Tank up on Medicare to cover future medical costs
- Prepare to quit term life policies now or soon
- Leave some money in equity or equity funds to boost your portfolio

Whether it's Kumar or the Lals, Parmars or the Anands, they are all planning pioneers. They are one step ahead of the pack simply because they have a plan in place. Yet, if you look at their asset allocation, it is still very debt-heavy, even when they are at an age when more risk can be digested. See Sideshow: 'Countdown to Retirement' to get a feel of how an ideal plan should look. But more important, try to understand the rationale for a retirement plan in the first place. After all, you will be old one day, why not prepare for it?

**By Monika Halan**

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