PLAN FOR YOUR RETIREMENT

IFE Academy

Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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About this book

We come across a lot of news about retirement that we may have to work longer or we may outlive our savings. But for having a peaceful retirement, you need not be a Crorepati now. By identifying what you can control and making your investments wisely, you can put yourself in a better position.

This booklet is not intended as professional financial planning advice. Rather a guide, to get you considering the key issues in retirement. We hope you would use it as an introduction to explore your retirement options.

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Retirement

The word means different things to different people. For some, it conjures up thoughts of travel, relaxation and recreational activities. For others, it means free time to start a new hobby, volunteer or take continuing education classes. No matter what your vision of retirement, there is one question that many people face:

"Will I have enough money to last throughout my retirement?"

In this guide, we provide a framework to help you develop a personal retirement plan — one that can help you answer the question above and many others. We'll also explain how your retirement savings plan can help you reach your retirement goals. By the time you complete this guide, you should have a clear understanding of the challenges you'll face in saving for retirement and an action plan for meeting them.

Why is a retirement plan important?

Investing enough money to make your retirement dreams a reality doesn't happen overnight. It takes years of disciplined saving, perseverance and a long-term investment plan. With a plan, you can determine how much money you may need throughout retirement and focus on how to achieve your financial goals.

Helps you control your financial future

When it comes to retirement planning, several factors are out of your control including taxes, inflation and the performance of financial markets. But, there are many elements that you can take charge of, including:

- When to start saving for retirement
- How much to save each year
- Where to invest your savings
- How to diversify your assets

Deciding on the answers to these questions will help you make a serious commitment to your retirement future.

Provides you with a disciplined and consistent savings approach

Some people postpone retirement planning because they believe that their PF & Gratuity will be enough. However, they are only expected to replace a portion of income for the average wage earner. The rest will come from personal savings — including the money you save in your retirement plan. The more years you have until retirement, the easier it can be to procrastinate. With housing costs, saving for children's education expenses and vacations, putting money aside for retirement isn't a priority for many people. But, starting to save early is one of the most important factors in successful retirement planning. Consider the following example:

The benefits of starting early

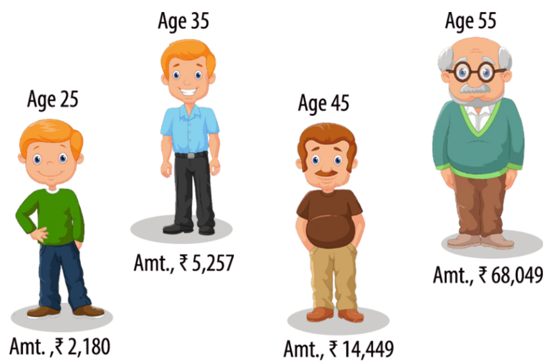
	Starting Early	Delaying
Savings method (30 year time horizon)	Invest Rs. 1 Lakh annually for the first 10 years No additional contributions	Do not invest for the first 10 years Invest Rs. 1 Lakh annually for the next 20 years
Total Amount saved	Rs. 1 Lakh x 10 = Rs. 10 Lakhs	Rs.1 Lakh x 20 = Rs. 20 Lakh
Value at the end of 30 years Assuming 8% return	Rs. 67 Lakhs	Rs. 45 Lakhs
% of end value from savings	15%	44%

Don't wait to start saving for retirement

If you are putting off saving until tomorrow, you may have to do the same with your retirement. Procrastination may work temporarily in some areas of life but it has never paid off when planning for retirement. Here's an example of how serious the cost of procrastination can be when it comes to saving for retirement.

Assuming a rate of return of 8% on your account, to accumulate Rs. 50 Lakhs by age 60, you would need to save the following amounts each month:

If you start saving at



How much is enough?

It's all in the numbers

The amount of savings you need to accumulate by retirement depends on your financial requirements. As a general rule of thumb you will need the following amounts to generate Rs. 25,000 per month assuming that you exhaust the corpus at the end of the period:

	6%	8%	10%
10 years	Rs. 22,51,836	Rs. 20,60,537	Rs. 18,91,779
15 years	Rs. 29,62,588	Rs. 26,16,015	Rs. 23,26,436
20 years	Rs. 34,89,519	Rs. 29,88,857	Rs. 25,90,615
25 years	Rs. 38,80,172	Rs. 32,39,113	Rs. 27,51,181

Saving isn't enough:

You need to have your money working for you

Choosing the right investments for your money is as important as the amount that you save. You should choose an investment strategy that reflects your investment personality. The different categories of investment personalities are:

Conservative

Investors who are primarily interested in preserving their investment principal. Conservative investors seek low volatility and a low probability of capital loss.

Moderate-conservative

Investors who seek moderate capital appreciation. Moderate-conservative investors are comfortable with only limited swings in the annual returns earned on their portfolios.

Moderate

Investors who seek higher potential growth with relatively stable capital appreciation. Moderate investors feel that maximizing returns is equally important to minimizing risk.

Moderate-aggressive

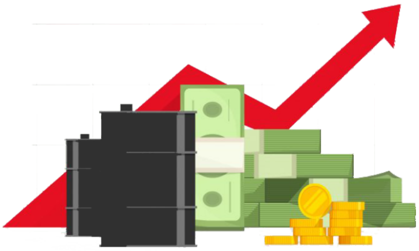
Investors who seek high potential growth. Moderate-aggressive investors are willing to accept an above average risk in exchange for greater potential gains.

Aggressive

Investors who want to build significant wealth over time and are willing to accept greater risk to do so. Aggressive investors will tolerate large market fluctuations in value in exchange for potentially greater returns.

Inflation

Inflation can silently eat away your nest egg. Inflation can quietly reduce the purchasing power of your money. The net result after inflation and taxes is that your "real return," or how much you've actually gained after factoring in the impact of taxes and inflation, can be significantly less than your stated average annual return. And, unfortunately, the "safest" investments for income can be most susceptible to the risks of taxes and inflation.



How much will you need?

Now that you've seen the benefits of starting early and investing for the long term, it's time to determine how much you should consider saving for your retirement. Many financial experts suggest that to maintain your standard of living in retirement, you will need 70-80% of your final salary for each year of retirement. While this percentage may appear high, consider those factors you can't control, such as inflation. If your investment returns don't stay ahead of inflation, your savings could diminish over time.

Learn how to estimate your needs

Although there are many ways to estimate how much you'll need to save for retirement each year, the worksheet below can help you make an estimate. First, estimate your retirement income gap. Your retirement income gap is the difference between what you've currently saved for retirement and the amount you will actually need to save for a comfortable retirement.

Your Monthly Budget

How much do you currently spend each month?		How much will you spend in retirement each month?	
Housing		Housing	
Food		Food	
Transport /Travel		Transport /Travel	
Clothing		Clothing	
Medicines / Health Care		Medicines / Health Care	
Entertainment		Entertainment	
Other utilities		Other utilities	
Total		Total	
X12 – Estimated Annual Budget		X12 – Estimated Annual Budget	

Table A - Inflation Factors

Years to retirement	3%	4%	5%
5	1.2	1.2	1.3
10	1.3	1.5	1.6
15	1.6	1.8	2.1
20	1.8	2.2	2.7
25	2.1	2.7	3.4
30	2.4	3.2	4.3
35	2.8	3.9	5.5
40	3.3	4.8	7.0

Multiply your annual retirement budget by your Inflation factor in Table A

The result is the future value of your estimated annual retirement living expenses : ____________________

Will you have enough Income?

How much do you expect to receive each year?		Have you earmarked any investments for retirement?	
Pension Income		Amounts held in EPF / PPF	
Interest Income		Mutual Funds	
Other Income		NPS	
Total Monthly Income		Others	
X 12 – Annual Estimated Income		Total retirement savings	

Table B – Appreciation Factor

Years to retirement	6%	7%	8%	9%	10%
5	1.3	1.4	1.5	1.5	1.6
10	1.8	2.0	2.2	2.4	2.6
15	2.4	2.8	3.2	3.6	4.2
20	3.2	3.9	4.7	5.6	6.7
25	4.3	5.4	6.8	8.6	10.8
30	5.7	7.6	10.1	13.3	17.4
35	7.7	10.7	14.8	20.4	28.1
40	10.3	15.0	21.7	31.4	45.3

Multiply your Total retirement savings by appreciation factor in Table B. This number equals future value of your savings reserved for retirement: ________

You can compare your Estimated Income and Expenses in retirement to ascertain whether you need to accumulate more.

Table C – Savings Factor per 100

Monthly savings to be made to achieve the target corpus:

Years to retirement	6%	7%	8%	9%	10%
5	1.433	1.397	1.361	1.326	1.291
10	0.610	0.578	0.547	0.517	0.488
15	0.344	0.315	0.289	0.264	0.241
20	0.216	0.192	0.170	0.150	0.132
25	0.144	0.123	0.105	0.089	0.075
30	0.100	0.082	0.067	0.055	0.044
35	0.070	0.056	0.044	0.034	0.026
40	0.050	0.038	0.029	0.021	0.016

Multiply your Target figure with the factor in Table C and you will get the monthly savings to be made. For eg. To achieve Rs.10 Lakhs over 15 years, at 10% interest, you should save Rs. 2410 per month. (1000000 x 0.241/100)

What are the available options?

With your estimated savings goal completed, the next step is to determine where to Invest.

Considering stocks for long-term growth

Over shorter periods of time, day to day, month to month, even year to year stock prices and returns can fluctuate dramatically. However, with a long-term horizon, stocks and stock based mutual funds have historically offered investors the wealth-building potential. Since it generally is a long-term investment tool, you should consider buying good large cap and mid cap stocks having strong and quality management and fundamentals.

The companies should have good corporate governance, and you should also look for consistency of returns before selecting a stock.

Diversify through Mutual Funds

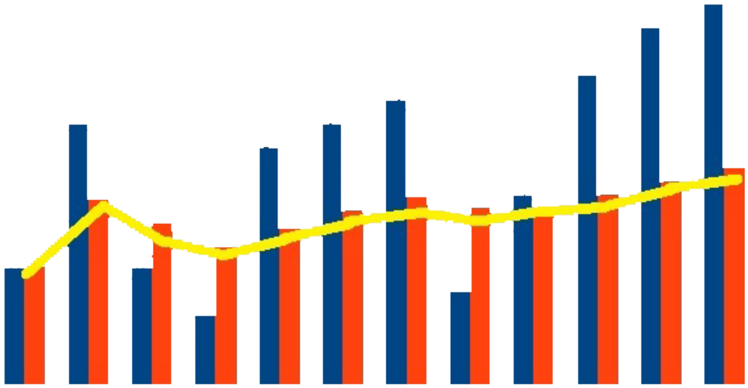
It may be tempting to put all of your retirement assets in investments that have recently provided the strongest returns. But historically, the financial markets have continuously fluctuated. That's why you should consider investing in a combination of mutual funds that have different investment objectives or invest in different asset classes for your retirement portfolio.

Goal Based Mutual Funds

Understanding the requirements, many leading fund houses have launched specific goal-based mutual funds with the combination of debt & equity. While some might have a higher exposure to debt to provide stability to the portfolio especially for investors whose financial goals are near to realisation, others might focus more on equity investments to provide growth for their investors whose goals are far from maturity. However another key difference between diversified equity oriented MF schemes and these special schemes is their "exit load". Since investing for a long term goal, most of these schemes come with a high exit load to discourage people from early redemption.

Invest Systematically

Systematic Investing (SIP) is an investment strategy that helps to invest regularly. It simply involves investing the same amount of money at equal intervals, e.g. Rs. 1000 a month, every month, for an extended period of time. The investments are made continuously irrespective of market movement. It's based on the proven investment philosophy "Rupee Cost Averaging" of buying more of an investment when prices are low and less of the investment when the prices are high. Rupee cost averaging does not assure a profit and does not protect against loss in declining markets. Because of fluctuating prices, investors should consider their ability to continue purchases throughout periods of both high and low prices.



Savings potentially grow faster through compounding

One of the most important investing concepts is the power of compounding. And, when you save through your plan, all the earnings from your investments are automatically reinvested into your account.

National Pension System (NPS)

A voluntary, retirement savings scheme designed to enable the subscribers to make optimum decisions regarding their future through systematic savings during their working life. NPS seeks to inculcate the habit of saving for retirement amongst the citizens.

Features of NPS

- All citizens between the ages of 18-65 years can join.
- Simple to operate
- Regulated by Pension Fund Regulatory & Development Authority (PFRDA) set up by GOI.
- Flexible Investment Option
- Low Cost
- Exposure to Equity – An opportunity for building wealth.

About Withdrawal / Pension

- Minimum 40% will be compulsorily invested in purchase of life annuity.
- Annuity can be purchased for more than 40% also, if subscriber wishes to.
- Purchase of Annuity may be deferred.
- Upto 60% (depending upon the Annuity Amount) can be withdrawn in lump sum or may also be deferred till the age of 70
- Compulsory redemption on completion of Age 70
- Facility to opt for complete withdrawal if the accumulated pension wealth is equal to or less than Rs.2.00 Lacs
- Contribution can be made during the deferred period.

Public Provident Fund (PPF)

PPF is another investment option which can be considered for retirement. The main advantage of PPF is that they give a fixed return. Since it is a government-backed instrument, investments made in a PPF account are safe. There is no risk involved. Minimum investment required is Rs 500 per month.

One can open a Public Provident Fund account with a post office or a bank and start investing.In PPF an investor can avail a loan as well and can do so after the third financial year. This facility is available till the 5th financial year and loans can be taken once a year. Moreover, a PPF account can be extended for another five years after the completion of its tenure of 15 years. An investor who wants to play safe and wants fixed return should invest in this scheme. Also, PPF is not a liquid instrument like mutual funds or shares, but some investments can be made in this instrument for retirement purposes.

Life Insurance

Many consider Life Insurance Policies as a retirement planning instrument. Life Insurance is a long term financial tool which makes the premiums very affordable. The premiums that are invested are tax deductible as is the maturity/vesting benefit from the insurance plan. The Life Cover component is also taken care of with an insurance plan and it also gives immense flexibility in terms of the avenues one would want to invest in. For financially savvy people, unit-linked insurance plans offer the options of switching funds and redirecting premiums which gives him a great amount of flexibility. Money Back plans and Annuity plans can also be used to ensure a steady stream of income after retirement.

Monitor your investments and periodically make adjustments if required

- It may be necessary for reviewing your portfolio periodically. Some reasons include
- New retirement goals and objectives
- A shift in your retirement timeframe
- A change in your sensitivity to market risk
- Performance of your investments
- A shift in your portfolio's asset allocation mix due to market movements

Consider getting help

Deciding how to invest your retirement savings requires your time and knowledge. Many investors choose to work with an experienced Investment Advisor to analyse their goals and devise a suitable plan.

Start Today

You've learnt about the importance of developing a retirement plan and how starting early can help you achieve your goals. Start investing now to have a peaceful retirement. As you review this book, speak with your advisor if have any questions.

About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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