



Issue 14 - When planning for those twilight years, prudence is a must
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Sanjay Sinha. CEO, L&T Mutual Fund

Retirement is the time when you would like to do things that you like most. Hence, planning for life after retirement with prudence and a long-term vision is important.

Planning through equity mutual funds is a viable option, given the facts that private employees have not taken up the New Pension System in a big way and it has become difficult for conventional schemes to offer high returns now after the imposition of a regulatory restriction on guaranteed return in pension plans.

With life expectancy increasing considerably, it is natural that people live a longer retired life. To ensure that the retired life is happy and a desirable one, it is necessary to ensure good health and wealth for a long run. India is a fast emerging country which is known worldwide for its saving habits. But Indians by and large are conservative investors. This results in saving in instruments that guarantee safe returns, but not high enough to be able to enjoy a good life in the future.

Most Indians shy away from saving in instruments that may involve a little risk, but yield better returns. In fact, they end up protecting their hard earned money in a few instruments that yield minimum returns rather than creating wealth.

However, the future decades are expected to pan out differently from the way they were for our parents and grandparents. The inflationary pressure on life is expected to increase manifold and the life expectancy post working years is expected to go up. A changed lifestyle is bringing in many new ways to spend even in the old age, such as travelling abroad. A longer life also increases chances of lifestyle related health issues. These are good reasons for most of us to create wealth in a systematic way and enough to ensure that we lead a happy retired life.

There are some interesting ways to beat inflation worries and create long term wealth:

- Start early and think for the long term. The earlier you start, the better are your chances of enjoying the benefit of compounding.

A happy retirement can be planned with systematically investing a fixed amount every month for post-retirement years.

A small amount saved every month for a long time will create a sizable corpus over time. An investment of Rs 3,000 per month in MF schemes (yielding 12 per cent per annum) assuming monthly compounding over working years (assumed as 30), will yield tax free return of Rs 1.05 crore at the age of 60. That's the power of compounding.

- There is no tax on long-term gains for equity investments, although debt investment such as fixed deposits and other similar instruments do attract tax on long-term gains.

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- Do consider future healthcare cost; it would be a wise decision to make a separate kitty for your future healthcare requirements, else it can cause erosion in the other expenses.
- Diversify your investment to minimise risks and maximise returns. Put your money in different asset classes to minimise risk — debt, equity and hybrid.
- Disciplined investment for the long term has a proven history of returns.

Equity is one of the investment tools for long-term wealth creation. If we consider the Indian equity market, it has seen an average annualised growth of 16.8-15 per cent over the last 20 years. So, if somebody had made a Rs 100,000 investment in sensx stocks in 1990, in 20 years the return would have been Rs 22 lakh as on 2010.

However, the volatility of markets, wrong advise and fear of losing money almost at the same rate as you would have gained in equity could deter you from taking the risk. All of us have seen this only too closely that making money in the equity markets is easy; losing it is easier.

Relying on tips and recommendations is like kissing your money a friendly goodbye, rather knowingly. If you buy a stock directly, it has to be something that you have done your homework on, but you won't really know how to manage the diverse portfolio or miss out on an interesting opportunity. A better overall policy would be to use mutual funds. In mutual funds, fund managers invest in diverse companies and sectors. The fund management teams comprise highly educated and experienced analysts who research on companies, thus minimising your risk and maximising returns.

Things to remember

- Decide how much income you require to live comfortably in your post-retirement years. Consider aspects like increased medical costs, vacations but reduced costs such as children's education and rent (if you own your home). Map this income based on your current lifestyle.
- Determine how much you need to save regularly, starting today, to have the right amount. Start allocating funds towards your retirement kitty
- Select a set of investment instruments that will help you meet your post-retirement requirements.

Start saving now. Starting early helps and systematic investment from a young age reduces your financial burden incurred during the post-retirement years. It helps you to plan for a carefree and financially secured post-retirement life. After all retirement is the time when a person would like to spend his days in peace and comfort — travel, live in a farm house, start a poultry farm or restaurant. So, why not do it with confidence and aplomb.

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