



Capital League

PRIVATE WEALTH MANAGEMENT

STRATEGIC RETIREMENT PLANNING



Post retirement financial security

— **Knowledge Series** —

Paper 5

Introduction

Retirement planning is not merely about financial security; it's about ensuring a fulfilling and stress-free life post-retirement. In the Indian context, where the concept of joint families and traditional support systems is decreasing, individual retirement planning has become more crucial than ever.

Importance of Retirement Planning

Retirement planning is not a one-time activity; it's a dynamic process that evolves over one's lifespan. It's about envisioning the kind of retirement lifestyle one desires and taking proactive steps to achieve it. With increasing life expectancy and the changing dynamics of familial support, having a robust retirement plan has become indispensable. It begins with clearly articulating one's retirement goals and assessing the time one has to achieve them. From there, it involves saving and accumulating funds to create a Retirement corpus. The corpus needs to be invested during the pre-retirement phase wisely to foster growth as the investment horizon is long. On retirement, one needs to assess the corpus as well as the goals to be achieved during the next phase of life. This needs a lot of thought and consideration that leads to creating a strategic plan which can have tactical tweaks from time to time. While creating the plan, tax considerations to optimize post-tax returns also need to be kept in mind.

At Capital League, we believe in leveraging one's wealth to enhance one's life. For many, retirement isn't just about stepping back; it's about stepping into a new vital chapter of one's life with an active Lifestyle, Travelling for unique experiences, pursuing hobbies, and fulfilling passions. However, to sustain an active and vibrant retirement lifestyle, adequate financial resources are essential. Underestimating these needs can jeopardize the quality of one's retirement or even risk outliving one's resources. This is where strategic retirement planning comes into play – it's not just about saving for the future; it's about crafting a plan that aligns with one's aspirations and empowers one to pursue one's dreams.

In this guide/paper, we'll delve into the intricacies of retirement planning, providing actionable steps that can be tailored to an individual's unique situation and aspirations.

Understanding One's Retirement Needs:

Before delving into the intricacies of retirement planning, it's crucial to ascertain one's retirement needs. While there's no one-size-fits-all approach, estimating one's required retirement savings is essential. Factors such as one's current income desired retirement age, and envisioned lifestyle all play a pivotal role in determining one's retirement savings goals. The starting point would be the fund requirement for one's current lifestyle or outlays required on future plans like starting a new business or a club or activity or travel or holidays. Our guide will assist one in calculating one's ideal retirement savings, providing clarity amidst the complexity.

Factors to Consider:

As one embarks on one's retirement journey, it's imperative to consider various factors that may impact one's retirement goals. While contemplating post-retirement aspirations, something like relocation can be a big consideration and clarity on it will be crucial for aligning one's financial strategy with one's lifestyle preferences. Moreover, navigating the various asset classes, their potential for regular income vs growth, liquidity, annuity plans, life and medical insurance, and tax planning are all factors that require in-depth study, understanding, and careful consideration. Our paper/guide will help one navigate these factors, offering insights to inform one's retirement planning decisions.

How Much Should One Save for Retirement ?

Determining the ideal retirement corpus depends on various factors such as:

- **Income levels:**
Individuals with higher incomes may need to save more to maintain their desired lifestyle post-retirement.
- **Age of retirement:**
Early retirement is becoming increasingly popular. Therefore, those planning to retire early must save more aggressively to sustain a longer retirement period.
- **Inflation and Cost of Living:**
Inflation rates directly impact the cost of living. Retirees must account for inflation both in their country and the increase in forex cost of international travel when estimating their future expenses.
- **Health Care costs:**
With rising healthcare expenses, retirees should allocate a separate corpus towards health insurance and medical contingencies.



Key Steps in Retirement Planning

1.

Determine Retirement Spending Needs

2.

Estimating Retirement Horizon

3.

Assess Risk Tolerance

4.

Determining the ideal asset allocation

5.

Calculate After-Tax Returns

6.

Prioritize Estate Planning

Key Steps in Retirement Planning:

- **Determine Retirement Spending Needs:**
Realistic expectations regarding post-retirement expenses are pivotal for crafting a robust retirement plan. Factoring in potential healthcare costs and lifestyle adjustments ensures that one's retirement savings align with one's spending requirements. In addition to daily expenses, one needs to factor in travel plans and expenditures, or funds required to pursue an expensive hobby like Golf or Wildlife photography. For setting up a new business one not only needs to set aside a considerable corpus but may also need to assess new avenues for fundraising. One may also begin a career in consulting or teaching and any expected regular income needs to be factored in the cash flows. However, to be on the safe side, it is advisable to plan for the worst-case scenario.
- **Estimating Retirement Horizon:**
In the pre-retirement phase, saving for other goals (like children's education, marriage, or buying a house) needs to be supplemented by beginning to contribute to a retirement corpus. One's age and expected retirement age lay the groundwork for one's retirement strategy. Understanding the relationship between time horizon and risk tolerance is essential. Younger individuals can afford to take more investment risks leveraging the power of compounding to their advantage. Hence, the sooner one begins, the more risk one can take by investing in growth assets like equity, and the more one can benefit from the power of compounding.
- **Assess Risk Tolerance:**
Finding the right balance between risk tolerance and investment goals is paramount in retirement planning. Understanding one's risk appetite and diversifying one's portfolio accordingly mitigates investment uncertainties.
- **Determining the ideal asset allocation:**
Based on one's risk tolerance, goals, and lead time, an ideal asset allocation will form the basis of a robust retirement plan. An optimal asset allocation can not only help preserve the purchasing power of one's corpus but also grow the corpus to meet retirement-related goals over the long term.
- **Calculate After-Tax Returns:**
Evaluating the after-tax real rate of return enables one to assess the feasibility of one's retirement portfolio. Balancing investment objectives with tax considerations is crucial for optimizing one's retirement income.
- **Prioritize Estate Planning:**
Estate planning is integral to a comprehensive retirement strategy, ensuring that one's assets are distributed according to one's wishes. Collaborating with legal and financial experts facilitates the development of a tailored estate plan.

A multistage retirement plan must integrate various time horizons, along with the corresponding liquidity requirement, to determine the optimal allocation strategy. One should also be rebalancing the portfolio over time as one's time horizon changes.

Tailoring Retirement Goals to Indian Lifestyles

In India, retirement planning must consider cultural and lifestyle factors unique to the region:

- **Family Dynamics:**
Indian retirees often support extended families financially. Therefore, retirement planning should account for potential family obligations.
- **Post-retirement Aspirations:**
Many retirees wish to pursue interests like travel, philanthropy, or starting a new venture. Planning should accommodate these aspirations.
- **Real Estate/Property and physical assets:**
Property ownership is a significant aspect of wealth accumulation in India. Retirees may choose to downsize or leverage their property assets post-retirement to consolidate, simplify, and help meet their retirement goals.
- **Health Insurance:**
Investing in comprehensive health insurance plans can mitigate the impact of rising healthcare costs during retirement

Retirement Planning Strategies

A robust retirement plan shall incorporate several strategies from the perspective of liquidity, regular income, preservation of the purchasing power of capital, and growth of the corpus. The ultimate objective of a plan is not only to meet all of the above objectives but also to give one peace of mind so one is free to pursue their aspirations without worrying about their source of income.

In the accumulation phase, one can consider investment through the Systematic Investment Plans (SIPs) which allow investors to contribute regularly to mutual funds, helping build a substantial corpus over time.

The accumulated corpus meant for retirement can be invested in a combination of debt, equity, alternate assets through a combination of investment vehicles like Mutual funds, Portfolio Management Schemes, Alternate Investment Funds, Corporate Fixed Deposits, and Tax-free and Taxable Bonds, among others. Public Provident Fund (PPF)/Employee Provident Fund (EPF) with tax benefits and stable returns also make a popular retirement savings option. National Pension System (NPS), a structured pension scheme with tax benefits, is also suitable for long-term retirement planning.

Post-retirement, the retirement plan needs to be tailor-made based on the above-mentioned factors. The corpus in the retirement plan can be invested in all of the above vehicles based on the requirements for liquidity, regular income, and lumpsum withdrawals. Regular income can be provided through Systematic Withdrawal Plans (SWPs) from low-risk/hybrid tax mutual funds in a tax-efficient manner. This can supplement periodic interest payments from fixed deposits and bonds. One can also purchase Annuities from insurance companies to cover some part of their regular income requirements. Similarly, investment strategies can be planned to each individual's requirements and aspirations.

Conclusion

Retirement planning is not just about financial prudence; it's about ensuring a secure and fulfilling life post-retirement. By understanding the unique challenges and opportunities in the Indian context, retirees can tailor their retirement plans to achieve long-term financial stability and pursue their aspirations with confidence and peace of mind. One should start planning at the earliest to secure a brighter tomorrow.

