Retiring or Retiring Rich

Retirement, it is often said, is the golden era of one's life. And rightly so, after all the retirement planning gives you the freedom to live your life your way. And for a completely peaceful retirement, one needs to start planning as early as possible.

While all of us would like to retire comfortably, the complexity and time required in building a successful retirement plan can make the whole process seem a tad bit confusing. So, let us guide you through this process and show you how simple it actually is. All it takes is a little homework, an attainable savings, a disciplined approach and a long-term commitment.

How Much Will I Need?

There really isn't a single number that will guarantee everyone a comfortable retirement. It depends on many factors, including your desired standard of living, your expenses (including any medical costs) and your target retirement age.

However, it's entirely possible to determine a reasonable number for your own retirement needs. Providing you plan ahead and estimate, it's certainly possible for you to accumulate a corpus sufficient to last through your retirement years.

There are several key tasks you need to complete before you can determine what size of corpus you'll need in order to fund your retirement.

The most important task is **to decide your retirement age.** This is essential as it serves as the foundation for all the subsequent decisions to be made, such as, it lets you know how many years you need to build a sufficient corpus as well as how many years of retirement to cater to. Further, the number of years to retirement will help you estimate the amount of investment to be made, rate of return that your investment needs to grow at, etc. You should also decide the annual retirement income you would need in order to fulfill all your dreams. There would be a storehouse full of things you always wanted to do like a stroll on the world's most exotic beach, or simply planning a vacation. Your annual retirement income should be at the higher end keeping in mind the impact of inflation in order to live your dream retirement. **Adding up the Current Market Value of your Savings and Investment** is the next step. While doing so one should also determine a realistic rate of return (net of inflation) on your investments till your retirement age. Finally, you should **estimate for your future health expenses.** Old age typically brings health problems and increased medical expenses. Without your own corpus, living your retirement years in comfort while also covering your medical expenses may turn out to be a burden too large to bear – even if you have a health insurance.

While estimating the retirement corpus, one should keep in mind the cost of living for the surviving spouse after one's death. We all would want our spouse to live with the same level of comfort and standard of living even in our absence. Hence, aiming at a financial plan with instruments that provide a life cover during post retirement years will be a sound decision.

HOW MUCH WILL I NEED? : KEY TASKS TO BE COMPLETED
➔ Decide the **Age** at which you want to retire
➔ Decide the **Annual Income** you'll need for your retirement years
➔ Add up the **Current Market Value** of your **Savings and Investment**
➔ Estimate for your **Future Health Expenses**

Where Will My Money Come From?

There are many sources you can choose to build your retirement corpus. Once you look at them all clearly, you can then determine how much money you'll need to save every month in order to reach your retirement goals.

1. Annual Income

Your annual employment income is probably the largest source of incoming funds you receive - and the largest component of your contributions to your retirement fund.

For your retirement plan, simply write down what your after-tax annual income is and then subtract your annual living expenses. The amount left over represents the discretionary savings you have at your disposal. Depending upon how the numbers work out, you may be able to determine the portion of your employment income that you need to save towards building your corpus. The key is to balance your savings towards your retirement and other priorities in life.

2. Your Post Retirement Security

You may or may not have a retirement plan through your employer. If you don't have an Employer-Sponsored Retirement Plan, you will need to focus on funding your retirement.

Also look at other post retirement benefits that you might receive like – health expense cover for an army officer, fixed pension for a government employee, etc.

However, relying completely on the benefits made available by the employer or the government may leave you in a difficult position as these have their own limitations. Also, the unexpected expenses that may arise are not covered by these securities.

3. Current Savings and Investments

Also consider what current savings and investments you have that are long term in nature and are dedicated towards your retirement. If you are yet to begin saving for your retirement or are coming into the retirement planning game late, you will need to compensate for your lack of current savings with greater ongoing contributions.

If you do have current savings and investments, be sure to determine a realistic annualized real rate of return (net of inflation). Also, one should have a balanced portfolio in order to be on a safe side. A risk return optimization of your investments will help you in securing your money. Securing your capital is as important as generating good returns on your investment.

Another major point to be kept in mind is whether your investments provide a guarantee at the end of the tenure or not. Keeping in mind today's financial condition, guaranteeing some amount of your returns provides a cushion to your retirement.

Building a Corpus

While building a corpus one should take a note of the following points:-

- Not a one stop store –

Managing your retirement is an ongoing responsibility that carries well into one's retirement years. Even if you have a retirement plan in place, you will have to keep making appropriate changes in it to be really sure. A single investment vehicle may not be sufficient for everything that your retirement planning requires.

- Effective Diversification -

As you contribute savings to your retirement fund month after month, year after year, the last thing you want is for all your savings to be wiped out by a major economic turmoil. Given this reality, you absolutely must diversify your investments.

Doing so isn't really that difficult, and there are many ways to achieve diversification, even if you have only a small amount of money to invest. Diversification helps in risk and return optimization, securing your capital and growth.

- Migrating from high risk to low risk investments –

Your retirement corpus is built over a long period of time, it can be impacted by financial turmoil.

A downturn in the market a year before you are all set to cash out could put a serious damper on your retirement hopes. The closer you get to retirement, the less tolerance you'll have for risk and the more concerned you'll become about keeping your principal safe. Once you ultimately reach retirement, you'll need to shift your asset allocation away from high risk to low risk investments.

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Jiyo Befikar