Retirement Plan

Overview

From Paycheck to Pension: Navigating Retirement Planning

Certain financial goals in life should be left to chance and one such goal is retirement planning. Imagine having to work until the age just because of a lack of planning. That is why retirement planning is of utmost importance.

Planning for a Life When Paycheck Stops

Most people rely on a monthly salary as their primary source of regular income. Thinking that one day paycheck will stop coming can be dreadful. But knowing that day will come someday and you have the time to plan is the silver lining. Unlike other emergencies that life can throw at you, retirement is on the calendar. You have the time to think and plan how you are going to save for retirement years before you actually retire. But how do you plan to replace the paycheck? Here's a simple step-by-step guide:

Step 1: Figure out how much money you will need to live comfortably after retirement. Remember, this amount varies based on many factors including, desired lifestyle, inflation, medical expenses, debt, location and taxation.
Step 2: Know exactly what lump sum you'll get when you retire, like your EPF savings.
Step 3: Pick the perfect retirement plan that covers all your post-retirement expenses. Mix it up with different options to spread the risk.
Step 4: Get a headstart by investing early. The sooner you start, the more time your money has to grow.

Crucial Calculations: How Much is Enough?

Calculating how much money you will need for retirement is an important aspect of financial planning. While it may seem daunting, especially if retirement is still decades away, having a target figure is essential. A simple rule of thumb is to aim to replace 70% to 90% of your pre-retirement income. For example, if you currently earn ₹40,000 per month before taxes, you might aim for retirement income between ₹28,000 to ₹36,000 per month. This range is calculated keeping in mind the same standard of living you enjoyed before retiring.

Retirement Plan Options

Investing in your future: Exploring retirement plan options

Let's explore some effective options for building your retirement savings:

- **National Pension System (NPS):** Managed by the Pension Fund Regulatory and Development Authority (PFRDA), NPS is a defined contribution retirement savings scheme. It empowers investors to make strategic decisions about their future by systematically saving throughout their working years.

- **Employees' Provident Fund (EPF):** Every month, a portion of the salary is invested into the Employees' Provident Fund (EPF). Managed by the Employees Provident Fund Organisation of India (EPFO), EPF savings can be withdrawn after retirement to fund expenses. Not just that, they can also be to avail of a loan. As a significant portion of EPF funds are invested in secure debt instruments within the country, the returns are considered safe.

- **Public Provident Fund (PPF):** Backed by the Government of India, PPF stands tall as a favoured long-term investment avenue. Offering the perfect blend of safety and attractive interest rates, it's a haven for investors seeking tax-free returns. With a minimum investment of just ₹500 and a maximum cap of ₹1,50,000 per financial year, PPF caters to all investment appetites. Plus, enjoy the added perks of accessing loans, withdrawals and even extending your account.

- **Mutual funds:** When it comes to retirement planning, there are specialised mutual funds that are a blend of up to 40% equity and the remainder in fixed income. They offer the perfect balance for long-term growth and stability. This strategic approach ensures steady returns, providing the peace of mind needed to enjoy retirement years. They come with a 5-year mandatory lock-in period.

- **Insurance retirement plans:** By contributing to a dedicated pool of funds, you are investing in your retirement benefits. During the investment phase, your money is strategically allocated across various assets like equity and debt to enhance returns and grow your corpus. During the investment phase, you can get tax benefits under Section 80C. At maturity, the accumulated corpus will be tax-free. However,

it's important to note that income in the form of an annuity is subject to taxation. The retirement insurance plan also provides crucial financial security in the form of a life cover.

- Senior Citizen Savings Scheme (SCSS): Tailored exclusively for senior citizens in India, the SCSS provides a reliable avenue for steady income along with unparalleled safety and tax-saving advantages. It is ideal for individuals aged 60 and above. This scheme prioritises stability over market fluctuations, making it the perfect choice for those who value the safety of returns above all else. With the SCSS, you can invest up to Rs 15 lakh either by yourself or with someone else. But you can't put in more money than what you have got from your retirement funds. So, you can invest up to Rs 15 lakh or whatever you received from your retirement, whichever is less. Under Section 80C of the Indian Tax Act, 1961, a tax deduction of up to Rs 1.5 lakh can be availed. But, the interest you earn is taxable. The tenure of the scheme is flexible with an average tenure of 5 years which can be stretched up to 3 additional years.

- Share dividend income: In simple words, dividend income is the amount distributed to a company's shareholders. These dividends can be in the form of cash or additional shares of stock. It is worth noting that dividend income does come as a guarantee. If the company or the sector you have invested in doesn't perform well, the amount of dividends can take a hit. However, to generate a good regular income from dividends, one needs to build a sizeable portfolio of stocks. Moreover, dividend income accumulates over time, so a long-term approach is essential.

- Reverse Mortgage: Reverse Mortgage is a relatively new way of financing against real estate. It allows senior citizens to access the equity in their homes. Unlike a traditional mortgage, where the borrower makes monthly payments to the lender, a reverse mortgage works in reverse. The borrower pledges their home as collateral to a bank or financial institution. The lender calculates the loan amount based on factors such as the senior citizen's age, the value of the property and prevailing interest rates. The borrower receives the loan amount as periodic payments (monthly, quarterly, or annually) or as a lump sum. The senior citizen continues to own the property and is allowed to reside in the property, till the end of his/her life. Upon

death, the house goes to the financial institution.

Building a safety net: Plan for medical insurance

Health is wealth, no matter how old you are. However, it becomes a priority during old age when health declines and so does income. This is why prioritising your well-being by planning for medical expenses and securing adequate insurance coverage becomes all the more important. Identify the risks associated with rising health costs and get adequate medical insurance coverage. Without it, you'll need to set aside a larger pool of funds to take care of medical emergencies during your post-retirement years.

Rethinking retirement: Why real estate alone isn't enough

Traditionally, retirement planning often revolved around buying a house as a primary asset. However, what is missing from the approach is the fact that property alone would not offer a stable pension-like income. Although you can explore options such as reverse mortgages, they often come with drawbacks such as low payouts, complex processes and lack of clarity. This is why real estate alone should not be the cornerstone of your retirement strategy. It's advisable to create a balanced portfolio comprising both fixed-return and market-linked products. This approach can help enhance your savings over time and bolster your wealth for retirement.

Conclusion

Balancing Risk And Returns: Why diversification Matters For Senior Citizens.

While traditional investment choices such as bank fixed deposits, Senior Citizen Savings Scheme (SCSS) and National Savings Certificate (NSC) are low-risk investments, they may not show sharp swings or match inflation. Therefore, your retirement corpus should not be confined to just traditional choices. Diversify your portfolio by investing in stocks, mutual funds, insurance plans and pension schemes from the government like NPS. They will distribute the risk, and offer better returns for more risk. A balanced portfolio is a mix of safe and growth-oriented investments.