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Financial Planning For Retirement: Need Of The Hour

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Abstract:

Retirement planning is the process of planning *and managing short and long-term finances to help achieve financial dreams both during working years and retired life. It entails analysing financial objectives, current financial position and expected future cash flow to develop a comprehensive retirement roadmap. Without a judicious retirement plan in place, we run the risk of outliving our savings and not being able to maintain the desired lifestyle in our retirement years. It helps to determine how much to save today for retirement; how to invest our savings to get the desired returns; how to protect our assets and provide for in case of unfortunate events and how to make judicious use of retirement income post retirement. Creation of wealth is a time-taking process which lasts throughout our lifetime. So the earlier it is started the more number of times money gets multiplied. So it is always prudent to start planning early for retirement.*

Key words: asset allocation, financial, insurance, goals, investment, monitoring, retirement planning, risk, savings, tax planning,

Introduction:

Retirement planning is the process of planning and managing our short - term, medium - term and long-term finances to help achieve financial dreams both during our working years and retired life. It involves analysing financial objectives, current financial position and expected future cash flow to develop a comprehensive retirement roadmap. Without a judicious retirement plan in place, we run the risk of outliving our savings and not being able to maintain the desired lifestyle in our retirement years. We also run the risk of not being able to accumulate enough corpus for our dependants owing to unfortunate and uncertain events like death, disability etc. Retirement planning helps us to determine how much to save today for retirement; how to invest our savings to get the desired returns; how to protect our assets and provide for in case of unfortunate events and how to make judicious use of retirement income post retirement.

Retirement basically means termination of one's own employment or career particularly when one reaches a certain age or for health reasons (Garner, 2009). Though a happy retirement is the wish of many individuals, its accomplishment requires more than a mere wish. There is a need to put in place an efficient plan and carry out such other tasks to make it a reality. Retirement planning encompasses all activities from a worker's first employment, up to and after retirement not just financially but in all phases of life. The non-financial aspects comprise of lifestyle choices such as how to spend time in retirement, where to live, when to completely give up working and many more. Kagan (2017) opined that the financial aspect entails determining retirement income goals and the actions and decisions necessary to achieve those goals. It also involves identification of sources of income, estimating expenses, implementing a savings initiative and managing assets.

Benefits of Retirement Planning:

Retirement planning helps to maintain our desired lifestyle during old age. It helps to plan for key life stage events leading up to retirement. It provides financial security and dependents by enabling to make prudent investments during our working years. It also enables to make the best use of our hard-earned money post retirement. One of the key benefits of effective retirement planning is to cover for any contingencies arising from uncertain events which can compromise our ability to meet our financial goals.

The early jobs in India in the decade of 60s and 70s were created by the government and public sector undertakings. These early salaried individuals are either already retired or are on the verge of retiring. With security of government provided pension benefits, these retirees are able to spend their sunset years with ease. As the government provided the safety net of pension income, a majority of salaried individuals did not find it important to accumulate large funds to meet their post-retirement needs.

It is only from 80s, that the private jobs started getting momentum, which further amplified in 90s decade. The time has already come that the 80s salaried individuals are on the brink of retirement, and the 90s working individuals shall retire in next 15-20 years. Since private jobs, and also government jobs created after 1st January 2004, do not offer any pension benefits, it is the onus of the individuals to create retirement fund for themselves to take care of their post retirement financial needs. When there are discussions with individuals about retirement planning, it has been observed that though everyone agree to the importance of retirement planning; only few actually understand the reasons of why a structured, disciplined and early retirement planning is important.

Types of needs and life-events to plan for:

There are various kinds of needs and life-events, some of which are listed below:

- Buying a Home
- Job Transition
- Parenthood
- Children's Education
- Children's Marriage
- Retirement Corpus
- Post Retirement payout
- Insurance
- Tax planning

Why Plan for Retirement?

With looming demographic challenges, India faces a swelling non-working elderly population. Further, with the increase of life expectancy of people, the number of years in retirement is also expected to increase requiring funding a longer retired life. Also, with the joint-family system making way for the nuclear family system, self-support during non-working years is the new world order. Rising costs for health care and other essentials means we need to save and invest that much more and with proper planning.

Absence/insufficient Government financial Support: A non-pensioner, whether in private job, or in government job, will have to plan for all his post retirement income on his own. Every expense incurred on oneself, whether to meet basic needs or leisure needs, will have to be met by one's own accumulated funds.

Joint family system to Nuclear Family system: Increasingly, Indian joint family system is breaking down and nuclear families are becoming the norm. The next generation is less likely to support their parents in their old age, primarily due to not staying together. People who are planning for retirement need to factor in zero support from children and therefore have to take care of themselves throughout their lives.

Increasing life expectancy: With medical advancements, average life expectancy in India has increased significantly. 15 years ago, the average life expectancy in our country was 59-62 years. Now, it is 72 years. Over the next 10-15 years, we must expect it to increase to 80. Retirement period of at least 20 years will now have to be planned for, maybe more.

Increasing Medical costs: Total amount spent by individuals on health care is increasing, in direct proportion to increasing life expectancy and usage of medical facilities that cure ailments that were previously difficult to cure.

Falling interest rates on different investment avenues: 10-15 years ago, bank interest on deposits was 12% and company FDs gave 14-15%. Now, bank FDs give 8-9%, company FDs 9-10%. As the economy grows and matures, interest rates will keep falling. Over long term, the interest rates in India shall align with low interest rates prevalent in more developed countries. Over a 20-25 year period of retirement, investors will need to factor in gradually falling interest rates leading to reduced income post retirement. It means a larger fund shall be required on retirement to meet the future needs.

Increasing Aspirations: Gone are the days when the retirees used to sit in the varandah and read newspaper for whole day. Today's and future retirees shall be physically fit and will have aspiration to live a relaxed and leisure life than what they have lived in their working years. Senior citizen oriented foreign trips and club memberships are only couple of examples to illustrate the point. The freedom the individuals shall have after meeting their family commitments towards children and after completing their stressful working years, will motivate them to live life with full vigour and enthusiasm. The new, leisurely lifestyle shall demand more money than what a decade old pensioner required for his living. Therefore, a planned approach to retirement is essential.

Process of Retirement Planning:

Retirement planning is not an art but a definitive science which requires taking a 360 degree approach to studying one's current financial health, long-term goals and risk appetite to design a plan that addresses the retirement and other long-term goals of an individual. It involves a step-by-step approach as follows:

Step 1: Identification of financial and retirement goals: Short, medium and long term

Step 2: Analysing of current financial situation

Step 3: Risk Profiling

Step 4: Asset Allocation – Equity, debt, real estate, gold etc

Step 5: Investment Allocation Strategy

Step 6: Periodic Monitoring and Rebalancing

It is always essential to seek expert / professional advice and create a comprehensive roadmap based on the different stages of life to meet our financial requirements.

The right time to retire:

There is no right time for retirement. Deciding whether or not to retire is a decision that only a person can take. If his/her financial situation, health, age and feelings about job all point towards retirement, it's time to call it a day. Ideally one should work as long as he can. Based on individual requirements, financial stability and liabilities, one should plan retirement accordingly.

If retirement planning is started lately:

The early bird catches the worm. Starting late with retirement planning poses many difficulties for creating a strong corpus and sufficient wealth to see through retirement. However, the good news is that it's never too late to start. If someone is late, all is not lost and lost ground can be covered. Late starters should take the following measures to make up for:

- Cutting down of expenses.
- Seeking of expert advice or professional help to create a roadmap to maximise savings without compromising standard of living.
- Choosing best available investment options that give higher returns.
- It is good to have a working spouse to generate an additional income stream.
- Looking for additional income through another job / business simultaneously if possible.
- Starting immediately.

Conclusion: It's never too early to start retirement planning. Wealth creation is a time-taking process and usually lasts throughout our lifetime. So the earlier we start, the more time our money gets to multiply. By starting early with our retirement planning we can benefit from the power of compounding, manage the longevity risk and maximise our returns from high-risk and aggressive investments options. Therefore it is always prudent to start planning early for retirement.

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