## Are you ready to retire?

India has a woeful record in providing social security, so when it comes to life after retirement, it's generally each to his own. This could lead to a life of compromise, simply because your retirement savings are not enough to let you maintain the standard of living throughout your sunset years.

Some years ago, Alan Greenspan, then chairman of the US Federal Reserve, said, "One of the most complex economic calculations that most workers will ever undertake is deciding how much to save for retirement." Once you know how much you need to save, look at the various investment options available.

### The easy path to planning

Conventional images of retired people have them pruning roses, playing golf, sipping tea or strolling by the seaside. We would all like to be in their place, wouldn't we? Sadly, we might not be able to indulge in these activities—unless we have planned wisely for the post-career years. "The most important part of retirement planning is knowing when you can retire and when you can't". To know when you can retire, you'll need to find out when you will have enough to live on, without being compelled to return to income-generating activities when you are over 60.

That's the first step to retirement planning. Each person should decide on an adequate retirement income and then work towards creating a corpus that can provide this income. While calculating the ideal retirement income, consider when you wish to retire, how long the corpus should last and your lifestyle in retirement. Remember to factor in the rising prices and the rate of inflation, as well as increased interest rates.

A rule of thumb is to save 15% of your pay for retirement regularly and over a long period of time. However, if you start later, you will need to save a higher percentage of pay (see How Much to Save). Thats why someone should ideally, not wait much longer. When asked about his retirement plans, the young man in 30s' laughs it off. "You must be kidding. Who is thinking of retirement now? It is too far away," he says. But your happy retirement  will vanish if not start at right time.

Unlike the retirement planning phase (accumulation), where there is plenty to choose from, the payout phase currently does not have much to offer, apart from annuities. "There are ways to use existing instruments to serve as income-generators in retirement. There is a lot that one can expect in the coming years". There are capital-guaranteed and indexed annuities that are yet to come to the market, but will be available with time. For now, smart planning will let you make the most of the limited options available. We have split the payout phase into three periods. See how you could plan your retirement around these.

**Phase 1: Early retirement years**

“If all is planned well, by now one would have a home, a car and be clear of all debts,”. This is perhaps the most difficult stage of retirement as you deal with the maximum change. It is  realised that though some expenses had gone down, and others had risen.

It’s critical to check expenses at this stage as the temptation to spend is high when retirement benefits flow in along with loads of free time. Use this time to start a retirement budget. It’s a bit like starting financial planning from scratch—you’ll need to segregate savings into growth and regular income generation. About 20% of retirement savings should take care of the regular expenses that one will incur through annuities and pension plans.

As for the rest, “Keep another 20-25% in MIPs and liquid funds to take care of the unforeseen,”. The remaining should be invested in growth schemes of mutual funds or others to work towards wealth creation.

For those who are not so lucky as to have their retirement plans in place, the most difficult shift is to cut expenses and begin a lifestyle that they are not used to. “Some thought they had planned well, but a medical complication forced them to dip into their Provident Fund savings just before they was going to retire,”. Ideally, retired people should retain assets that are essential and ones they can maintain. Asset insurance in this phase is a must.

With interest rate fluctuations a given, it’s increasingly difficult for the newly retired to live off the interest without dipping into the capital. “This is why the retired people need growth strategies,”. For the risk-averse, debt-friendly fixed income retirees, the interest accumulation with the principal no longer balances the inflation rate

**Phase 2: The middle years**

Once you turn 65, you are officially a senior citizen, at least for the tax authorities. Planners suggest that you work out your retirement plan to make the most of the tax benefits at a stage when you need to balance growth and security.

This is also the time when you are unlikely to have financial dependants, except your spouse. “All my children are well-settled and only my wife is dependent on me, but as we had planned jointly for our retirement, there is not much to worry about,”. Some of their retirement benefits are locked into annuities, which take care of the regular cash flows, while the rest, invested in growth instruments like mutual funds, continue to grow.

This is also the phase when one should start liquidating some investments to generate cash flows. “What is the use of not spending enough on oneself?” Most often, retirees keep saving for their dependants, when they could be living in better quality and comfort.

**Phase 3: Golden phase**

This is what we all want retired life to be—no family demands, enough money to indulge the grandchildren and plenty to do. Financially, this is when you can bring down your equity exposure unless you still like taking risks. However, do not invest beyond 15% of the portfolio in monthly income plans of equity funds. Liquidate other assets into income-generating instruments.

Largely, you should be receiving money from annuities, income and dividends from investment in this phase. The danger in this phase is that you could end up spending all the capital, leaving nothing to live on.

Unfortunately, most people neglect their regular budgets in this phase. For instance, regular household expenses are accounted for, but many start to travel abroad to meet their children. This is not factored in, so they dip into their reserves.

Increased life expectancy and better healthcare systems mean your retired life can stretch 25-30 years. It’s turning into just another stage of life with its own set of challenges and opportunities. As one is free to choose what one wants to do rather than what one has to do, taking up a hobby will ease life in retirement.

A retired couple, who is not suffering retirement, but thanks to a good plan, is enjoying it to the fullest