WHAT IS RETIREMENT PLANNING?

Chapter 21

A BEGINNER'S GUIDE TO MUTUAL FUNDS

To many, retirement seems like a distant dream. Especially in India, the concept of retirement planning is still alien. Not many people plan specifically for their old age or save for retirement. Yet, if you want to live a dignified and comfortable life in your latter days, it is imperative to plan for a corpus for retirement with the help of a sound financial plan.

However, since India does not offer a retirement benefit system in place, the onus is on individual investors. To some extent, schemes like employee provident funds can help cover retirement expenses for salaried individuals, but business people and independent professionals need to look to alternatives.

Depending on when you begin saving, there are many avenues that can help you build funds towards retirement, such as public provident funds to mutual funds. The earlier you incorporate a retirement corpus into your financial planning, the more you will be able to save. This can help you emerge a wealthy senior citizen, as opposed to being a dependant on your children or a family member.
Here is how you can build a substantial retirement corpus for yourself, depending upon your age:

Starting Retirement Planning in your 20s

When it comes to saving and investing, the sooner, the better. Beginning young can give you a head start and also allow you to experiment with different kinds of products. For instance, in your 20s, you still have about four decades to rectify any bad financial decision you would make.

For young investors, equities may seem appealing due to their long-term return potential. Mutual fund investments can be a good option to include in retirement plans. Market-linked returns and the power of compounding helps to multiply corpus over time. It can help beat inflation. If you cannot make a lumpsum investment, take out a SIP. This can help you inculcate a savings habit.
Make sure you diversify your investments across different products to benefit from different risk and return profiles.

Starting Retirement Planning in your 30s

It is still not too late to start planning for your retirement. In your 30s, you would have about 25-30 years to get your financial portfolio together. You can afford to take some risk, but not as much as in your 20s, considering your responsibilities may have also increased.

Apart from an emergency fund, with at least three months' worth of expenses, allocate about 50 per cent of your savings towards a retirement fund. This can be a combination of fixed-income investments, as well as equities or mutual funds in India. SIPs are still a good avenue to consider.

Starting Retirement Planning in your 40s

Better late than never. Starting in your 40s or 50s gives you considerably lesser time to plan for retirement. This is also the time when you may have to make crucial financial decisions, such as your children's further education or marriage. However, it doesn't mean that you should ignore your retirement.

Begin by cutting down on unnecessary expenses and ensure you allocate at least 50 per cent of your savings for retirement (more if you can manage). The short time-span calls for aggressive wealth building, so look to investing in mutual funds. However, you cannot afford to lose too much money at this juncture. Balance it out with investments in bonds, fixed income and liquid instruments. Also, evaluate your assets and see how they might fit into your retirement plans.

Secrets of a smart investor

Smart investors have a few tricks up their sleeves, which can help them retire rich. Here are some tips for you to save smart:

1. **Start as soon as you can. In fact, start saving for retirement now.**
2. **Diversify your investments. Do not put all your money into one bucket, although it may seem very tempting.**
3. **Even if you are a risk-averse investor, put some money in mutual funds so you can benefit from compounding.**
4. **Save your bonuses instead of splurging them on vacations and impulsive buys.**
5. **Increase your investment and savings amount every year, in tandem with the hikes you receive.**
6. **Talk to your partner or spouse about their retirement plan, and whether it would be sensible to link both.**

Bottomline

Many youngsters might think retirement planning is too far along the horizon. However, if you want to retire in style, with dignity, and maintain your ongoing lifestyle, you will need to plan in advance given that your income sources could diminish with age.