Started saving late? Catch up now

Find out how you can make up for lost time if you haven't been able to save enough for retirement

Start saving early. Nearly 54% of the retirees in an HSBC survey said this was the best financial advice they had ever got. Not all of us are so lucky, and most Indians get serious about retirement savings only in their 40s. Have you also frittered away the early bird advantage and not saved enough for retirement? There can be several reasons for your nest egg being smaller than that of others your age. Perhaps you didn't have a high income in your early years. Maybe you made the wrong investment choices or suffered a financial setback, which ended up wiping out all your savings.

Whatever the reason, there is no need to panic. You can make up for the lost time and put your retirement back on track if you follow the strategies explained here. Of course, this will require you to invest in a disciplined manner, make a few lifestyle sacrifices and even tweak your retirement schedule. If you can do all this, you have a fairly good chance of retiring the way you have always dreamt about it.

The graphic shows how disciplined investing can help you amass ₹1 crore in 15 years. As the risk goes up, the required investment per month goes down. Your choice of the investment option should be guided by your ability to save the required amount and the risk you are willing to take. Instead of concentrating your investments in 1-2 of these options, you should ideally have your retirement savings spread across all these options.

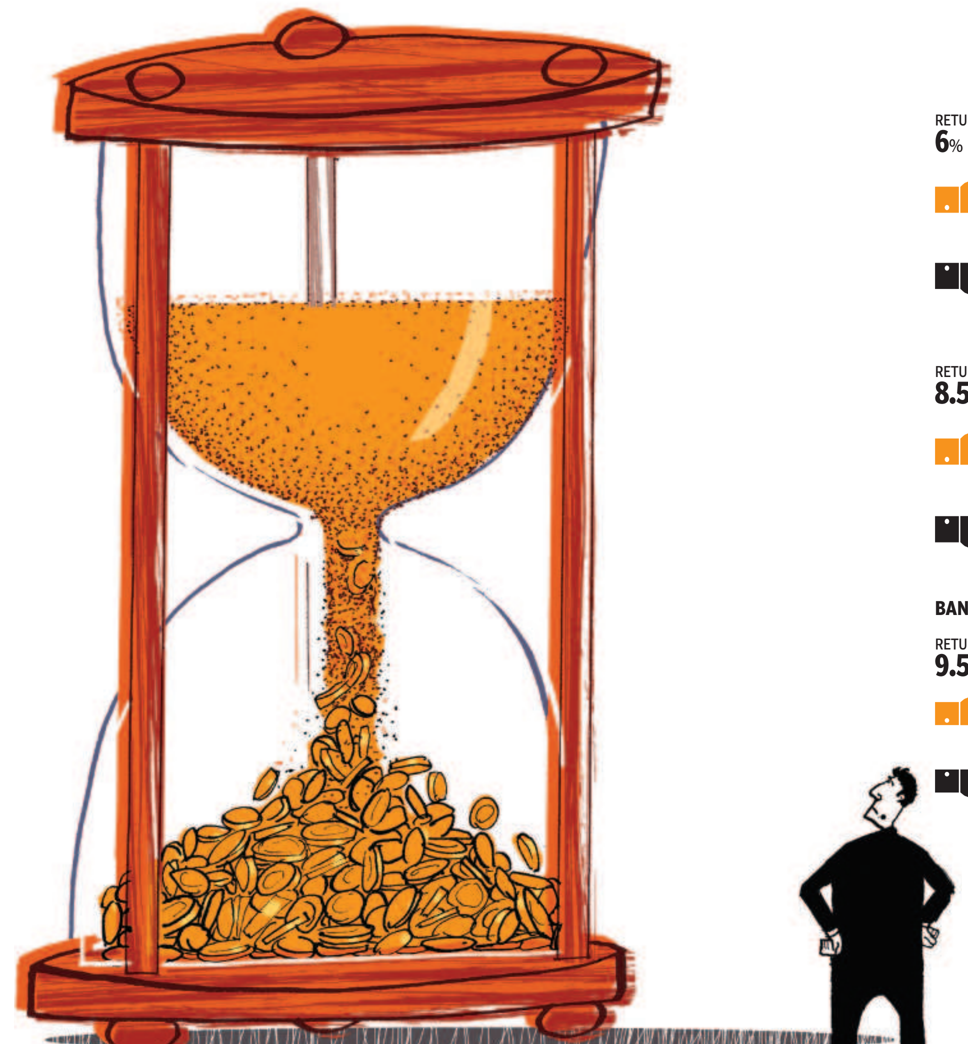
FOCUS ON SAVING, NOT RETURNS

We all want to earn high returns from our investments. But if you haven't saved too much and have only 12-15 years to go for retirement, your focus should not be returns, but the quantum of your savings. You can't afford to gamble in order to make up for lost time. Retirement planning is not like a 20-over cricket match, where batsmen must play risky shots if the required run rate is very high. You have to play it safe even if that means being content with lower returns. Just tighten your belt and start saving aggressively.

A golden rule of financial planning says you should put away at least 10-15% of your income into retirement savings every month. Given your situation, you might have to put away a bigger portion to reach your target. Do you have the necessary discipline to save month after month? One effective way of ensuring this is by opting for a higher deduction in the Voluntary Provident Fund (VPF). If you are not covered by the EPF, you can open a PPF account, which has an annual investment limit of ₹1 lakh. If you need to put away more than this, you could consider the New Pension Scheme (NPS). The government-backed scheme works just like a mutual fund except that you cannot easily withdraw before 60 and must compulsorily use 40% of the corpus to buy an annuity.

Some experts might argue that the returns from these debt options will never be able to beat inflation, and if the same amount is invested in equities, the returns would be much higher. Indeed, if you put ₹10,000 a month in the VPF, your corpus would grow to ₹18.94 lakh in 10 years. If you put the same in an equity fund that gives 15% annualised returns, it would be significantly higher at ₹27.86 lakh. However, unlike the PF, the returns of an equity fund are not assured but linked to the performance of the stock markets.

Besides, you can't expect a fund to consistently deliver high returns over the longer term. Over time, even a good fund tends to slip. Reliance Vision was among the top-rated diversified funds 8-10 years ago. Today, it is a laggard that has underperformed its benchmark in the past 1, 3 and 5 years.



How to save
₹1 crore
in 15 years

LIFE INSURANCE POLICIES

RETURNS 6% — Monthly savings required ₹34,386

TAX-FREE corpus on maturity and reasonably safe investment. You are also eligible for tax deductions and get a life insurance cover.

VERY LOW returns compared to other options. If life cover is not 10 times the annual premium, the maturity amount is not tax-free.

PROVIDENT FUND, PPF

RETURNS 8.5% — Monthly savings required ₹27,641

Corpus is tax-free on maturity and the investment is very safe. The contribution to the PF rises with income and acts as a compulsory saving.

While the PF contribution is linked to basic salary, there is a `1 lakh annual investment limit for the PPF.

EQUITY FUNDS

RETURNS 15% — Monthly savings required ₹14,959

This option requires the lowest monthly investment and has the potential to give high returns. Long-term gains are tax-free.

Choosing a good scheme is not easy. Besides, good performers can easily turn into laggards over time.

BALANCED FUNDS

RETURNS 12% — Monthly savings required ₹20,017

With up to 35% invested in debt, these schemes carry a lower risk than equity funds, but long-term gains remain tax-free.

Choosing a good scheme is not easy. You can lose if the fund manager is not very prudent.

BANK DEPOSITS

RETURNS 9.5% — Monthly savings required ₹25,256

Bank deposits give assured returns and are reasonably safe. Five-year FDs can also get you tax deduction under Section 80C.

The interest earned is fully taxable, which eats into returns. Maximum term is 10 years, so there's a risk the rates may fall in the future.

ULIPS, PENSION PLANS AND NPS

RETURNS 10% — Monthly savings required ₹24,127

Ulips offer tax-free corpus, while the NPS is a low-cost option. Investor can choose the asset allocation and also gets tax deduction under Section 80C.

Even after the regulatory changes, Ulips and pension plan charges are very high. Investors in the NPS and pension plans have to buy annuity.

MIPS

RETURNS 10% — Monthly savings required ₹24,127

These funds invest 15-20% of their corpus in equities and the rest in debt, thus containing the risk. Offer stability even during tumultuous times.

Despite the equity exposure, this category of funds is taxed like debt schemes.

NO NEED FOR HIGH-RISK INVESTMENTS

Increasing the investment by 10% a year yields a higher corpus than the best equity funds.

	5-YEAR SIP		10-YEAR SIP	
FUND	VALUE (` LAKH)	RETURNS (%)	VALUE (` LAKH)	RETURNS (%)
ICICI Pru Dynamic	8.38	13.6	28.89	16.89
HDFC Top 200	7.47	8.89	25.92	14.85
DSPBR Top 100	7.25	7.67	24.46	13.77
Reliance Growth	6.95	5.95	24.16	13.53
Franklin Bluechip	7.65	9.82	24.07	13.46
Voluntary PF*	9.04	8.50	28.31	8.50

*VPF investment increasing 10% every year compared to static investment of ₹10,000 a month in the equity schemes.

Data as on 12 Nov 2013
Source: Value Research

Experts say you should not rely on factors you can't control. "Interest rates and the stock market's performance are beyond your control, so don't lean on them too much. You can control only how much you save and spend—so focus on that," says Sudipto Roy, business head of Principal Retirement Advisors.

To compensate for the lower returns from a safe option like the VPF, you can increase the quantum of savings. We compared the returns of 5 top-rated equity funds and found that despite the high returns, the value of SIP investments in these funds was lower than that you would get if you simply increased the contribution to the VPF by 10% every year (see table). To be sure, this is not a fair comparison because the VPF investment increased every year while the SIP investment remained static at ₹10,000 per month. Yet, it shows how you can amass a significant amount without taking on any risk.

Reducing the risk does not mean you shun stocks completely. Equities are a volatile, yet rewarding, asset class, and there should be at least 10-15% allocation to stocks in your retirement portfolio. This allocation should be in good quality, large-cap stocks, not risky mid- and small-caps. For best results, you can opt for a large-cap diversified equity fund or go for the low-cost NPS.

CUT DOWN WASTEFUL EXPENSES

Increasing the quantum of savings is not easy if you don't have an investible surplus. This is where you need to bring in certain lifestyle changes and cut down on wasteful expenses. We don't mean small savings that come from giving up dining out or putting your electronic gadgets on standby mode to save electricity. Instead, you need to think several times before you upgrade to a new car or buy that sleek smartphone launched last week. Investment guru Warren Buffett, who has a net worth of $40 billion, but leads a life of relative frugality, says that if you buy things you don't need, you may soon have to sell the things you need.

If you are a spendthrift, here's a tip: put your credit cards in the locker and use cash when you go to the mall next time. Studies show that when you pay cash, it pinches more than if you were to swipe your card. Though you end up paying the same amount, the very thought of cash going out of your hands reins you in, while the credit card encourages you to spend.

The changes you bring in your lifestyle now might be a tad difficult, but believe us, they will be far less painful than the ones that might be required to in 10-20 years if you don't do this now. Dropping your wife at the library before you head for the club on a Sunday morning may seem like a dream retirement. However, it can be a nightmare if your wife has been forced to take up part-time job at the library while you work as a temporary accountant at the club to make ends meet.

REVIEW YOUR RETIREMENT PLAN

You may have planned for a certain income level during retirement, but if your savings are not enough, you must scale down your expectations. Delhi-based finance professional Sanjay Goel and his schoolteacher wife Madhu had planned to save ₹3 crore for their retirement. However, Sanjay has lost his earlier contributions to the PF due to bungling by his former employer. So, the Goels have had to rejig their retirement plan. "We will have to make do with a lower retirement corpus and scale down some of our plans," says Sanjay. The couple is now looking at saving ₹2 crore over the next 11 years.

If your retirement goal is still too daunting, you might have to postpone your retirement by a few years. This can make a significant difference because the longer you work, the more you are able to save. Besides, the period of withdrawals shortens, so the required corpus is smaller.

Extending retirement is not always possible and much will depend on whether there is demand for your skills and the condition of your health when the time comes. To ensure gainful employment after retirement, keep in touch with the latest developments in your industry and develop a network of people who matter. Above all, maintain good health so that you can shoulder the burden of work as a senior citizen.

CONSIDER REVERSE MORTGAGE

One of the most common reasons people are not able to save in the early years is that they put all their life's savings into property. The net result is asset-rich, but cash-poor, people. They might be living in houses worth crores of rupees, but their standard of living is quite modest in comparison. Reverse mortgage helps unlock the value of the property. It is just the opposite of a home loan. In a loan, a person buys property with money given by the bank and repays it with EMIs. In reverse mortgage, the bank starts giving the owner a monthly payment as a loan against his house. His heirs will have to repay the reverse mortgage loan taken by him against the property.

The best part is that the money received from the bank is actually a loan and is, therefore, tax-free. The government has recently made reverse mortgage annuities from insurance firms tax-free as well. "Reverse mortgage is the most tax-efficient way of earning a pension," says Sudhir Kaushik, co-founder and CFO of tax filing portal, Taxspanner.

Though the concept is very common in the West, it has not picked up in a country where property also has an emotional value. People love their homes so much that they cannot bear the thought of selling the property. However, it's an option worth considering if you enter your sunset years with an insufficient corpus.

Managing wealth for post-retirement needs

Whether it is the wealth of Sachin Tendulkar, or yours, the principles for making it grow are surprisingly similar, according to Uma Shashikant

Sometimes, it is tough to let go of an opportunity presented by hype. At a time when everyone seems to be talking about a story, adding to it is easier than getting an idea to stand on its own feet. There is a wealth management story to tell around Sachin Tendulkar's retirement. By retiring he has given up his primary source of income. Or, perhaps, he crossed his peak income at a young age, having another 40-50 years to provide for.

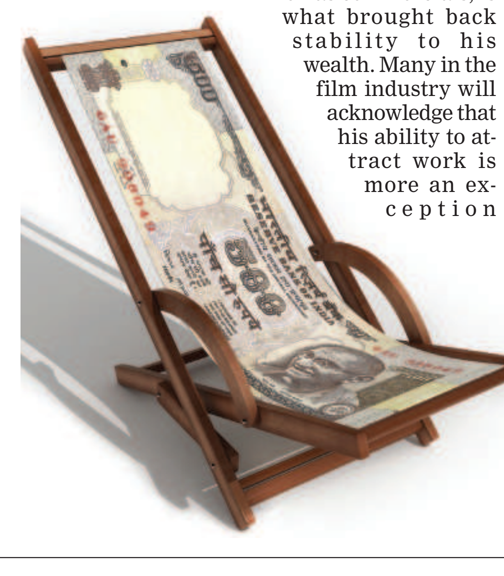
There is a basic income and wealth equation in all our financial lives. If we enjoy a surplus from our incomes on a regular basis, we are able to use it to build wealth. The poor, who struggle to meet their basic expenses, fail to build wealth. It is not merely the income one earns, but the wealth created that defines how comfortable one's financial life will be. Sachin's biggest advantage is his accumulated wealth built over years of high income.

Wealth can be divided in three portions. The first is preservation, which is the amount needed to take care of all the essential expenses over a large number of years of one's life, or the household's needs. The wealth that is meant to secure the household's needs cannot be exposed to risks.

The second portion is accumulation. If the entire wealth is conservatively kept to be secure and safe, it will simply erode over time since inflation is a monster that can increase the needs of the household dramatically. Therefore, some growth in wealth is desirable so that it appreciates in value over time. The third portion is maximisation. This is the active deployment of wealth with the objective of increasing it. It is obvious that in terms of risk and return, the three portions progressively hold higher risk and higher return.

Sachin would have provided more than adequately for preservation. He would also have wealth invested in various assets that will serve the accumulation and maximisation objectives. However, the decisions he takes after retirement can impact these portions of wealth significantly. There would be business propositions that eye his wealth. Advisers are asking him to set up sports academies, sports management firms or mentorship organisations. All these propositions are based on the assumption that there is enough wealth to be put into the maximisation bucket. However, the risk in this portion can shake the foundations of the other two portions. This was realised by another celebrity when he retired after an injury.

When Amitabh Bachchan set up ABCL Corporation, he was leveraging the fact that he had earned and accumulated adequate wealth to pursue a wealth maximisation strategy. However, the initial years of struggle with ABCL took away quite a bit of his wealth without generating any income for him. His return to earning income as a star, doing television shows as well as commercials, is what brought back stability to his wealth. Many in the film industry will acknowledge that his ability to attract work is more an exception than the norm. Every film star hopes to remain in the limelight and every sports star hopes to earn income from endorsements, commentaries, speaking assignments and columns, but not all manage this for a long, sustainable period. The stories of failed business enterprises that were meant to maximise wealth are too many to ignore.



The risk to Sachin's wealth comes from the decisions that may be taken keeping the current wealth in mind, ignoring the reality that his ability to earn may have actually peaked. He may not be able to earn the same amount of money in 48 years of retirement that he did during 24 years of active playing. Since the wealth cannot be replenished without a continuous income stream and a steady accumulation, Sachin should ensure that the first two portions of his wealth are not compromised to chase the third portion of maximisation. The risk to a highly successful professional is the mistaken belief that everything he attempts will succeed, or the smugness about being able to do tasks never attempted before. Amitabh's willingness to start over is indeed a rare quality in someone who enjoyed mass adulation. Sachin, hopefully, does not see himself as God, a title adoring fans have bestowed on him and, instead, takes his business decisions with the same calmness and sensibility that he displayed in his game.

The reason retiring professionals and celebrities try to secure their incomes is that they want to cushion the wealth from business decisions that may go wrongEvery good business decision maximises the pie, as happens in shrewd business families that have mastered the art of taking risks, making large investments and managing them efficiently. When business decisions backfire, the erosion in wealth is tough to manage, even for someone like Vijay Mallya, whose losses in Kingfisher are threatening the other components of his wealth.

The salaried class, used to the comfort of a regular income, might not have the stomach for business to jump from preservation to the maximisation mode. Many of them live in the illusive world, believing that a few tips from brokers will open the world of magical returns for them. They skip accumulation and demand that all investments preserve their wealth and also earn high returns. Find out how your wealth is apportioned and how you will build and use each. You may find the principles to be surprisingly similar, whether the wealth is yours or Sachin's.