All of us have a perfect vision for retirement – a comfortable life and doing everything we have not had the time for, such as travel, taking up a hobby, etc. To make this vision a reality, retirement planning is becoming increasingly necessary.

Planning for retirement is complex. If, however, simplicity is the path you like to take, then, here are 10 simple steps to plan for a secure and comfortable retirement.

1. Start right away

The best time to start retirement investment is when you receive your first pay check. If you have not done so, then the best time to start is now. Delaying will mean saving more to accumulate the same amount because you would lose out on the power of compounding. For instance, a 25-year-old adult who wishes to retire at the age of 60 and requires Rs.5 crore to fund his retirement, assuming a rate of return of 12% per annum on his investments, will need to invest only about Rs.6,850 per month. However, a 45-year-old adult with the same parameters will need to invest about Rs.86,050 per month for his retirement kitty!

2. Rent vs buy a home

Owning a home during retirement is very critical. It provides security and relieves you from heavy monthly rent which rises over time due to inflation. Also, real estate is an asset that, in the long term, is expected to appreciate in value.

3. Healthcare costs

With the ever-rising instance of diseases and a sharp rise in medical costs, any medical emergency could be crippling, physically and financially. It can make a big hole in your retirement kitty. Medical insurance thus becomes a necessity. It is ideal to buy medical insurance when you are young as premiums are low and coverage is high.

4. Pick a retirement date

The number of years you have to build your wealth and the funds required for your retirement are centred on your retirement date. Most people retire at the age of 60 or 65, but some are retiring earlier; this implies building a higher kitty for retirement.

5. Life gets more expensive with time

Due to inflation, cost of living rises each year. By the time you are ready for retirement, you will need to spend much more each month to retain the current standard of living. Also, health-related costs will go up as you age. These costs have to be factored in your sustenance expenses during retirement.

6. Factoring in life expectancy

With advances in medical science, life spans have increased dramatically. Put a number to your life expectancy to ascertain your retirement corpus. It's important to have sufficient corpus to retain your financial independence and maintain the same standard of living post retirement.

7. A comfortable nest egg

You must accumulate enough to comfortably see you through your retirement years. It's preferable to accumulate a little more than a little less.

8. Where to invest?

What should your retirement portfolio comprise of? If you have more than 10 years to retirement, investing in equity is a good option as it is an asset class that has the ability to beat inflation and provide high returns over a longer time horizon. If, however, you are closer to retirement, it is advisable to invest in debt instruments (or a combination of debt and equity where debt forms a major component of your portfolio). Debt investments not only provide stability to your portfolio, but also generate regular income.

9. Should I take the SIP route?

SIP or Systematic Investment Plan offered by mutual funds is an ideal and disciplined way of investing over a long period of time. It not only provides the ease of investing a modest sum periodically, but also lets experts manage your investments.

10. Don't give up!

Being disciplined and consistent with investing is the key to retaining your financial independence during retirement.

Here is an easy rule-of-thumb method of computing how much retirement kitty you need to accumulate.

Use the formula:

$$=((1+\text{inflation rate})^{\wedge\text{number of years to retirement}}) \times \text{annual expenses} \times 16^{\text{Note1}}$$

Note 1: Assuming your retirement kitty can earn 8% and you need 5% of this for your annual expenses – 8%/5% = 1.6 x 100 = 16 times

Now to compute how much you need to invest each month starting today to achieve your retirement corpus, use the formula:

$$\frac{((\text{Amount to accumulate for retirement} \times (1+(\text{Expected Rate of Return}/12))^{\wedge\text{-Years to retirement in months}}]}{(((1-(1+(\text{Expected Rate of Return}/12))^{\wedge\text{-(Years to retirement in months}})))))/(\text{Expected Rate of Return}/12)}$$

RETIREMENT PLAN

3 situations to understand retirement planning

	Young Adult	Early to late 30's	Early to late 40's
Current Age (years)	28	35	45
Expected retirement age (years)	60	60	60
Number of years to retirement (years)	32	25	15
Expected life expectancy (years)	80	85	90
Owns a house?	No	Yes	Yes
Sufficient medical insurance?	No	Yes	Yes
Planning for retirement	In this case investor should first get a home & health insurance. He could start investing small sums for retirement till he completes EMI payments	Here, the investor can start investing for his retirement right away	Here, the investor can start investing for his retirement right away
Monthly Expenses ₹	30,000	50,000	60,000
Annual Expenses ₹	3,60,000	6,00,000	7,20,000
Inflation rate (assumed)	0.06	0.06	0.06
Expected rate of return on investment	10%	10%	10%
Assumed multiple of annual expenses at the time of retirement	16	16	16
Amount you need to accumulate at the start of retirement ₹	37,171,507	41,201,959	27,608,350
Amount you need to invest each month to achieve your retirement corpus ₹	13,346	31,053	66,611

Disclaimer: These computations are only for illustrations purpose.

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