An Investor Education Initiative

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HOW MUCH TO SAVE FOR EARLY RETIREMENT IN INDIA?

Financial independence post retirement is critical. While retirement planning to retire when you are in your mid 60's allows you some breathing space and a relaxed pace of investment, hanging up your working boots earlier requires a faster pace of saving for retirement.

The importance of retirement planning

Most people cherish the dream to be financially independent and have a relaxed and enjoyable life in their golden years. This requires substantial savings and a good retirement plan. During your working life, you can meet your regular expenses with your earnings, but post retirement, you would need to pay for your expenses for at least 30-35 years while there would be no source of regular earnings.

Retirement planning is also important because the average life expectancy in India continues to rise, it is impractical to work forever, and you may have to quit working due to health or other concerns at some point. Besides, medical expenses, which will form a significant portion of your expenses during retirement, are on the rise.

In order to understand the importance of retirement planning, consider this example: a 30-year-old with current monthly expenses of Rs. 50,000 would need about Rs. 2,87,174 per month to meet his expenses when he is 60 years old (considering inflation at 6%).

How much money do you need for retirement

Those planning to retire in their 60's would require around 60-80% of their pre-retirement monthly income during retirement. However, for early retirement, that figure is much higher.

Using a retirement calculator can give you a fair idea about how much money you need to save each month to fund a suitable retirement income. As an example, a 25-year old, who would like retire early at the age of 40 years and would like to have monthly income of Rs. 50,000 for 40 years, would need to save about Rs. 45,500 per month for 15 years assuming a 6% inflation, 12% returns and no current retirement savings.

Retirement Calculator for Early Retirement

The general rule of thumb that a retirement calculator follows is that you multiply your projected annual expenses with 30. This provides you with a retirement benchmark savings amount from which you can withdraw around 4% each year. Your retirement kitty needs to generate returns at a substantially higher rate than 4% (say 7%) in order for you to keep living off this corpus. As an example, if you plan to generate Rs. 4 lakh of investment income each year, you would need to save up nearly Rs. 1 crore by the time you reach your desired age of retirement. If you are a 25-year-old, who earns Rs. 5,00,000 a year and you can save half that amount for 15 years and garner a modest 7% annual return on that savings, Rs. 2.5 lakh invested per year would grow to nearly Rs. 62.8 lakh.

How to save for early retirement?

In order to save for early retirement, you need aggressive growth in your current investments. Using asset allocation, you need to carry out distribution of your investments across equity and debt so that you can derive growth (through equity investments) during your pre-retirement phase and income (through debt investments) during your post-retirement years. Mutual funds are an easy route to access the stock markets and debt securities. Equity funds offer inflation-beating returns, professional fund management and systematic investment plans (SIPs) for automatically investing money each month. Debt funds offer a variety of rated debt securities across different maturity periods and interest rates. The debt fund manager keeps a close track of interest rate movements and ratings of debt paper thereby providing you with professional management of your debt investments.

How much money you need to save for retirement is contingent on your own personal needs and lifestyle; however, by using a retirement calculator, you can get a figure that would be critical in providing you with a monthly income for the rest of your life post retirement.