High savings, aggressive asset allocation and a frugal lifestyle can help you hang up your boots a decade early.

If 40 is the new 30, 50 is the new 60 today. For those who want to hang up their boots at 50, that is. It may be an uphill climb no doubt, but retiring early is no longer considered an impossible dream. Especially if you stick to a plan and are willing to bend the rules a bit.

"It is common to see people wishing to retire by the time they are 45 or 50. But the fact is only five per cent are actually able to do it," said Nitin Vyakaranam, chief executive officer and co-founder, ArthaYantra, a Hyderabad-based money management firm. According to Suresh Sadagopan, a certified financial planner, a lot depends on the lifestyle a person is currently leading and how much s/he is able to save: "Only those earning well and maintaining a comparatively less extravagant lifestyle can hope to retire early."

Sadagopan further observes that people tend to save the most when between 50 and 60 years, as they are at the peak of their career. "Typically, what you earn during this period is equal to or even higher than what you earn till 50. Not only is your earning capacity at its peak. Most of the liabilities such as home loans, children's marriage and education requirements are taken care of by then." The numbers hint at the enormity of the task ahead. But that's no reason to lose heart. If you start early, save aggressively and get the asset mix right, it is possible to slam the door on your work life at 50.

Start early

The earlier you start, the better the chances of accumulating a sizable nest egg before you retire. According to wealth managers, it takes slightly less than 30 years to multiply your money 100 times, assuming a 17 per cent annual rate of growth of your investment. The number 17 denotes the long-term growth rate of broader equity market indices. Thanks to the power of compounding, a 25-year-old has a much better chance of retiring at 50 than someone who is 40. A 25-year-old investing and growing his capital at 17 per cent annually will multiply his money 50 times by the age of 50. A 40-year-old will be able to grow his corpus by only five times, say experts. Then, again, a 25-year-old will be in a much better position to bend the asset allocation rules than a 40-year-old, despite similar risk aptitudes.

Aggressive Asset Allocation

As a general rule, 100 minus your age is the percentage of savings that can be invested in equities. However, this will not work for those wanting to retire at 50. "A 25-year-old can afford to be ultra-aggressive and invest up to 100 per cent of his savings set aside for retirement in equities. This is because of the long-term nature of the holding period, which will considerably smooth out the volatility in equities. He can also use SIPs (systematic investment plans) to grow the corpus and start changing the allocation mix, either when the target is reached or when he nears retirement," says Ashish Kehair, head, wealth management, ICICI Securities.

According to Sunil Mishra, CEO, Karvy Private Wealth, a 25 to 30-year-old can afford to put a lion's share of his savings in equity and real estate. He recommends putting 75 per cent of one's surplus money in equity and real estate, in a 50-50 ratio. "Both these asset classes have done well in India. The value of real estate can be unlocked post retirement as well," he says.

The strategy would be slightly different for a 40-year-old, since he will have a much higher corpus to begin with, at his age. Someone starting planning for retirement at 40 years, should start putting 70 per cent of investments in equity and then gradually reduce it as one approaches 50 years, according to Balakrishnan Venkataramani, founder of Vensiva Financial Solutions.

Experts reckon a large component of a 40-year-old's retirement money will be needed in different time buckets. For example, the asset allocation for the corpus needed from ages 50 to 60 can be very different from what is needed from 70 to 80. "So, one can calculate the money he needs at 70 and that amount can be invested in equity, since it's a 30-year horizon," says Kehair.

The goal of retiring early should, however, be kept separate from other shorter term goals such as marriage, child's education or buying a house. Those goals will need a different asset allocation strategy. "Equity investment should never be used for any obligation which is maturing in the next three to five years. So, for example, if you are getting married in the next three years, you need to park your money in debt instruments, not equity," said Kehair.

RETIREMENT PLANNING

Particulars	Case 1	Case 2	Case 3
Age (years)	**25**	**30**	**40**
Retirement age (years)	50	50	50
Time to retirement (years)	25	20	10
Life expectancy (years)	75	75	75
Years after retirement (years)	25	25	25
Income (₹)	8,00,000	20,00,000	35,00,000
Expenses (60 % of income) (₹)	4,80,000	12,00,000	21,00,000
Income at retirement (₹)	27,09,084	53,06,595	57,01,131
Expenses at retirement (₹)	20,60,098	38,48,563	37,60,780
Returns (pre-retirement) (%)	12	12	12
Returns (post-retirement) (%)	12	12	12
Income increment (per annum) (%)	5	5	5
Inflation (pre- and post-retirement) (%)	6	6	6
Real rate of return (%)	6	6	6
Retirement corpus required (₹)	2,87,46,694	5,37,03,004	5,24,78,085
Savings required (if income increases 5%)	10,511	39,091	1,88,300
Savings required per month (₹)	**16,888**	**58,382**	**2,34,240**

Source: Arthayantra

Savings

As a rule of thumb, saving 30 per cent of your net take-home pay is considered good enough. However, says Sadagopan, someone who wants to retire at 50 should aim for saving as much as 50 per cent of his take-home pay. The saving needs will also change depending on goals or needs other than retirement.

For instance, if you want to send your children abroad for higher studies, you have to save accordingly. "One of the common mistakes that people make is to underestimate the amount of savings by a large margin," said Vyakaranam.

One way to save more is to raise your earning power by switching to a higher paying job or by moonlighting. Or, indirectly increase your savings by adopting a more frugal lifestyle and keeping a tab on an urge to splurge. For example, you can shift to a two-bedroom apartment instead of a three-bedroom one, use public transport or car pools instead of taking your car, take a holiday once in two years instead of every year and avoid wasteful expenditure on the latest car or gizmo. Compromising on your current lifestyle will help you lead a more comfortable life after retirement.

Allocating money to only one asset class, especially real estate, is a common mistake, according to some experts. "Given Indians love for real estate many of us tend to own more than one property. The idea is that a second home can be sold or put on rent," says Venkataramani. But investors need to remember price appreciation in real estate can take 15-20 years and has its share of ups and downs.

Post-retirement strategy

Aim for your corpus to grow at least eight-nine per cent annually after retirement, to account for inflation and taxation. If you retire at 50, you might live for at least 25-30 years without regular income. Hence, it is advisable to invest about 20 per cent in equities after retirement. "While capital protection is important after retirement, remember that any AAA-rated debt instrument, be it fixed deposits or Public Provident Fund, will not be able to beat inflation. Today, retirement is like a black hole because you don’t know how long you will live," says Venkataramani.

Also, an individual might have goals even after retirement. "If a 70-year-old wants to leave wealth for his grandchild, he should invest largely in equities, since it is a long-term goal. One should not necessarily invest only in debt after retirement," said Vyakaranam. People can also build a rental yield portfolio of small commercial properties, as these offer better tax-adjusted yields as compared to deposits, and with every year, the rent increases with inflation. "The risk here is of vacancy or tenant default. Hence, tenant selection becomes key, even if it means a slightly lower rental yield,"says Kehair.

Plan early for a good retirement corpus

Vinyl Shetty, 28, a Mumbai-based Information technology professional, plans to retire before he turns 50. Shetty, a bachelor, estimates he will need a corpus of Rs 7 crore by retirement, after taking into account future expenses for wife and children. At present, he has assets worth Rs 15 lakh, which includes a property in Navi Mumbai and mutual funds investments.

He invests Rs 35,000 a month and is also paying off a home loan. Shetty, earlier employed with a leading software company, is now a consultant with a start-up firm. He gets monthly salary and a part of equity. "This job itself is a calculated move on my part. While my salary is a safeguard, if the company does well, I will earn higher returns from my equity stake," he says.

In case his savings fall short of his targeted corpus, Shetty plans to take up foreign assignments. "Since I am in the field of information security, I can look for foreign projects," he says. After retirement, Shetty plans to become an angel investor or venture capitalist for start-ups. The current job will also help him learn more about this segment, he points out. "Working on my own will give me the freedom of not only time but of thought. I like the idea of creating something on my own. I have friends who do pursue part-time hobbies like photography, along with their regular IT jobs. I help them look for clients. This gives me the satisfaction of helping those pursuing their dreams. As an angel investor, this is what I will do," he says.

Regards,

Turtle Team