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LATER YEARS

Retirement planning still not a priority for most Indians

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India has the second largest population in the world, but it's at the bottom when it comes to retirement savings. The focus on retirement planning should increase given that in the recent budget, the government emphasized the need for an organized social security and pension system. The reality, however, is that Indians aren't overly concerned about retirement. According to research quoted in a retirement survey launched on 5 May by Reliance Capital Asset Management Co. Ltd, undertaken in collaboration with IMRB International, India's per capita retirement and pension assets as a percentage of gross domestic product is at 15.1%, among the worst in the world.

Results from various other studies have pointed in a similar direction. According to the *Global Benefits Attitudes Survey* conducted last year by global professional services company Towers Watson, 78% of Indian employees recognize that they will need to save more for retirement. The main reason behind the gap is that in our traditional set-up, the next generation takes care of elderly parents. But this has changed. It's never too late to start planning for retirement.

In the Reliance AMC survey, only 15% Indian respondents in the 30-55 years age bracket claimed to have planned for retirement. This may mean that majority of the population is either planning to rely on the pension, or on physical assets such as real estate and gold, or on their children.

If you consider an average inflation rate of 4% and a retirement date at least 30 years away, each rupee you have today will be worth 30 paise then. So you will have to make your money grow at least three times today, to simply match up with inflation. You will also need to earn returns to grow your corpus.

According to Suresh Sadagopan, a Mumbai-based financial planner, "Most people don't want a lesser lifestyle post-retirement. So, they want to build a corpus that can not only cater to comfort throughout their remaining life but also manage fancies like catering to grandchildren and travelling."

However, understanding the problem is only the first step; you also have to execute the plan. According to Manish Shah, co-founder and chief executive officer, BigDecisions.com, "Everyone appreciates that saving for retirement has to start early, but the actual investments get relegated to secondary status as other issues such as buying property and children take over."

Financial products best suited for retirement

One needs to allocate to different kinds of products based on the stage of investment and needs. Stage of investment refers to how far you are from retiring; if you have at least 10-15 years, using equity-linked products is suitable as these are flexible products that help beat inflation in the long run, and are also tax effective. You can look at equity mutual funds, including retirement funds, equity-linked insurance and pension plans, and National Pension System. You can also allocate to low-risk high-interest options such as Public Provident Fund. If you are close to retiring, a higher orientation to fixed income is preferred. This includes products such as debt mutual funds, tax-free bonds, non-convertible debentures and fixed deposits. "Choice of products depends on each individual's need for flexibility, risk preference and tax effectiveness," said Sadagopan.

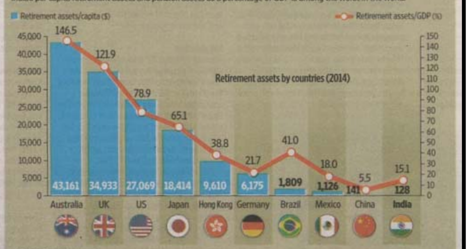
According to Himanshu Vyapak, deputy chief executive officer, Reliance Capital AMC, "In our retirement fund (launched in February 2015), around 66% assets have come to the wealth creation option, which predominantly invests in equity. But 95% of the investors have chosen this option, which shows that investors are looking at accumulating wealth for retirement." The scheme has around 50,000 investors, he said.

However, in context of the current retirement investment landscape in India, the fund house's research found that 90% of assets are allocated to fixed income. Ideally, if you have time on your side and retirement is at least 10 years away, consider systematic investments in assets that can beat inflation in the long run. This can be done through a partial allocation to equity-linked products.

Regardless of the product you choose, the key is to start the process by planning, saving and investing systematically.

INDIA : LOWEST RETIREMENT ASSET TO GDP RATIO

India's per capita retirement assets and pension assets as a percentage of GDP is among the worst in the world.



GDP: gross domestic product

Source: Reliance Capital AMC-IMRB Retirement Survey presentation

Subrata Jana/Mint

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