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11 YEARS

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As Personal Financial Planner

Investment Options for The Retired Personal

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What Retirement means for Retired Personal ?

Retirement means the end of earning period for many, unless one chooses to work as a consultant. For retirees, making the best use of their retirement corpus that would help keep tax liability at bay and provide a regular stream of income is of prime importance. Building a retirement portfolio with a mix of fixed income and market-linked investments remains a big challenge for many retirees. The challenge is not to outlive the retirement funds - one retires at 58 or 60, while the life expectancy could be 80. Here are few investment options for the retired to provide for their monthly household expenses. The idea is to build a retiree portfolio with a mix of various products we discuss further.

Diversify your Retirement Investment Portfolio

“Don't put all your eggs in one basket” is sage investing advice. It advises the investor to think about where they invest their money and what kind of overall portfolio they're building. In other words, if you're investing, make sure to diversify and invest in different scheme, category & assets.

Diversification is essential to any successful investment strategy. Diversification provides an opportunity for both protection and growth within your investments.

The Downside of Diversification

When diversifying, it is important not to spread yourself too thinly. Diversification is not a bulletproof case for your investments, and it doesn't mean your investments won't go down in value.

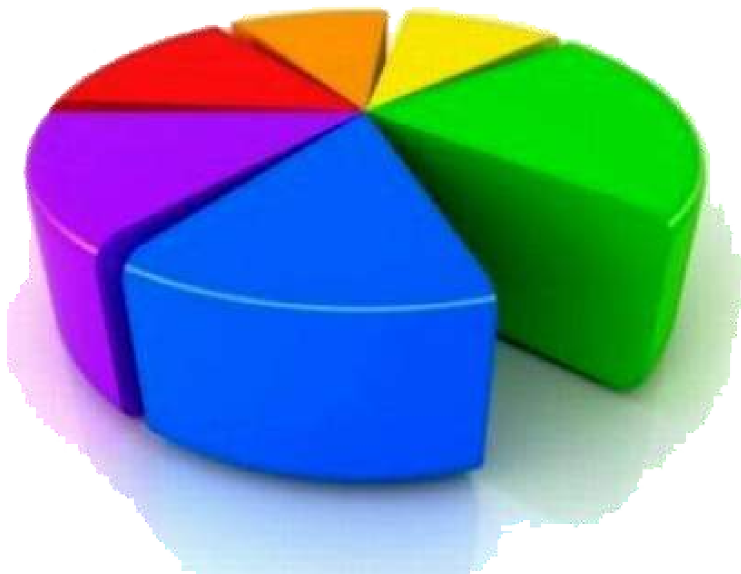
Spreading your money across too many investments may cause you to lose out on growth. Say you have only 1 Lakh invested in 5,000 different stocks. If one does well, you won't earn that much, because your initial investment isn't that much money. But if you had 1 Crore invested in 25 stocks, you would earn significantly more should one (or more) do well. Too much diversification can mess with your bottom line.

Diversification does offer some protection, but it doesn't fully protect you from a general market decline.

In the event of a total market meltdown, where the market declines and people sell off their "safer" investments like bonds, diversification wouldn't help protect you at all, as all asset classes would decline at the same time.

Diversity Is Still the Safest Investing Strategy

Diversifying is easier than it sounds, and each investor can diversify their investments however they want. Building a diversified portfolio is a way to both protect your investments and gives you an excellent chance to find a growing investment. Take into consideration all your financial goals and present situation, and build a diversified portfolio that works for you.



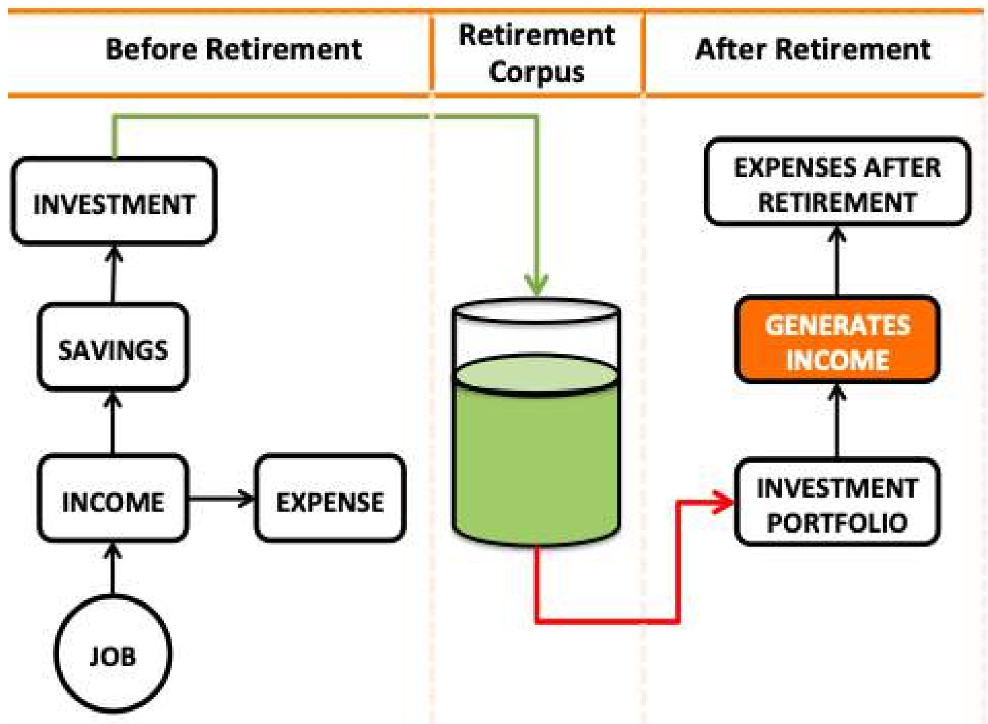
BEFORE & AFTER RETIREMENT

BEFORE RETIREMENT:

The priority at this stage of life is *"building retirement corpus"*. In this phase, the person is doing job to generate income. The person is also investing systematically in growth based options. Why growth? Because the risk is less (job security), and also the available time horizon is longer.

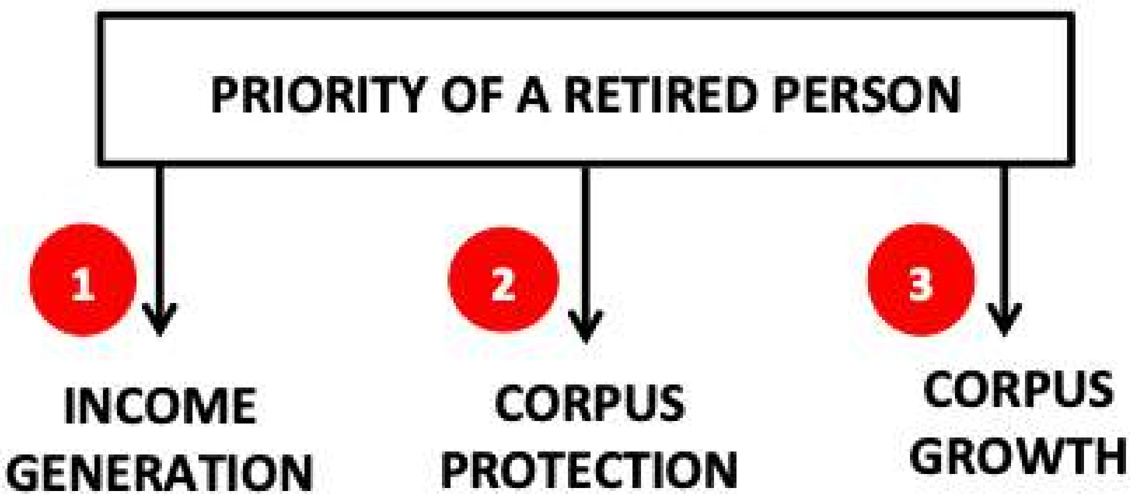
AFTER RETIREMENT:

The priority at this stage of life is "building a stable income source". What can be the source? A well built investment portfolio. The portfolio of a retired person consists of such investment options which can generate stable income.



Priority of a Retired Person

The first priority of a retired person is always income generation, but his/her ideal mix of priorities can be as shown below. This range of priorities ultimates shapes his/her investment portfolio.

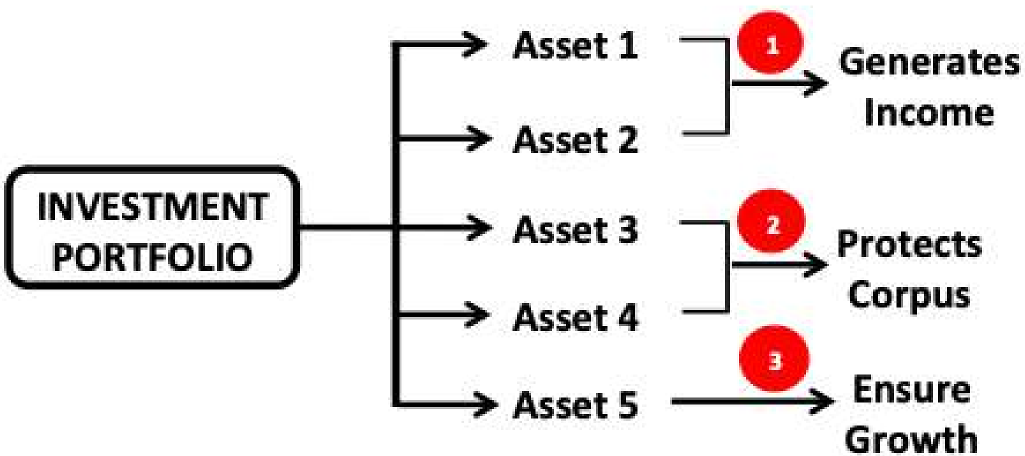


PORTFOLIO BUILDING

A well built investment portfolio can take care of the above three priorities of a retired person.

But before we dig deeper into the composition of investment portfolio, let's pause and ask a basic question. *What an investment portfolio means for a retired person?*

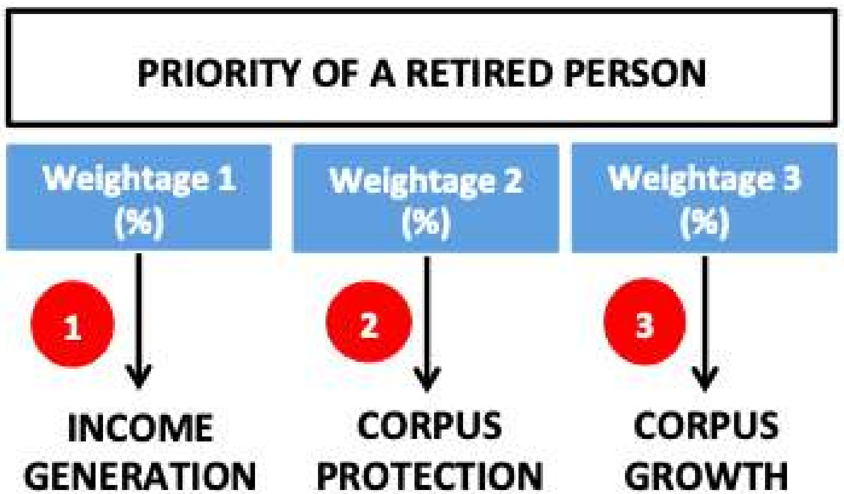
This portfolio has a *mix of different assets*. What is 'asset mix'? Proportions in which the retirement money is distributed among various investment options.



A retired person should not only know where to invest funds, but he/she should also know "how to spread the money among different assets".

THE THOUGHT PROCESS...

The thought process that goes into the selection of assets, varies from family to family. Why? Because every family is unique. They give different weightage to priorities.
It is the identification of right priorities, and giving correct weightage to it, ultimately decides the composition of ones portfolio.

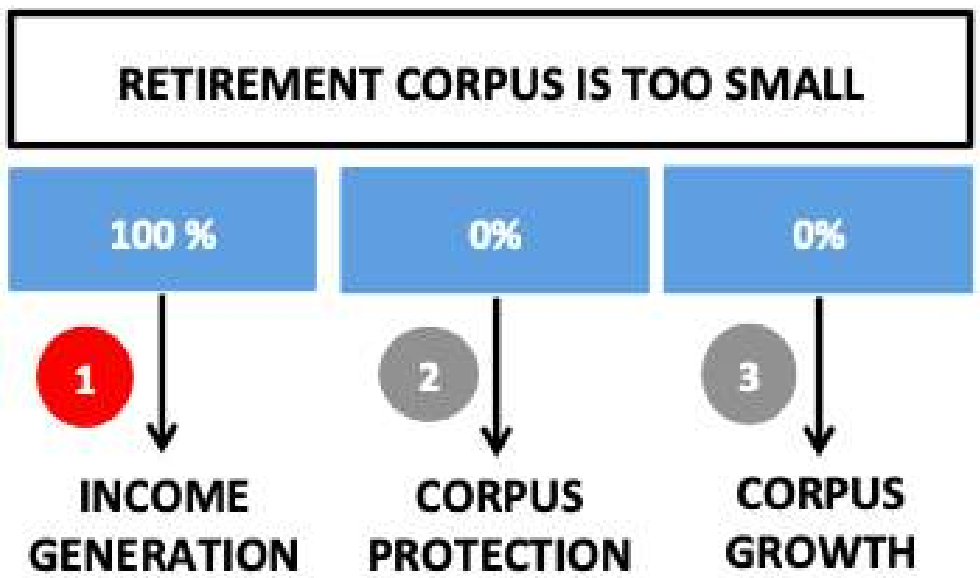


Different people will invest their 'retirement corpus' differently. The difference will be due to the weightage they gives to the three priorities.
For some, the protection of corpus will be more important. There'll be some for whom the priority will be corpus growth.

Lets see few examples:

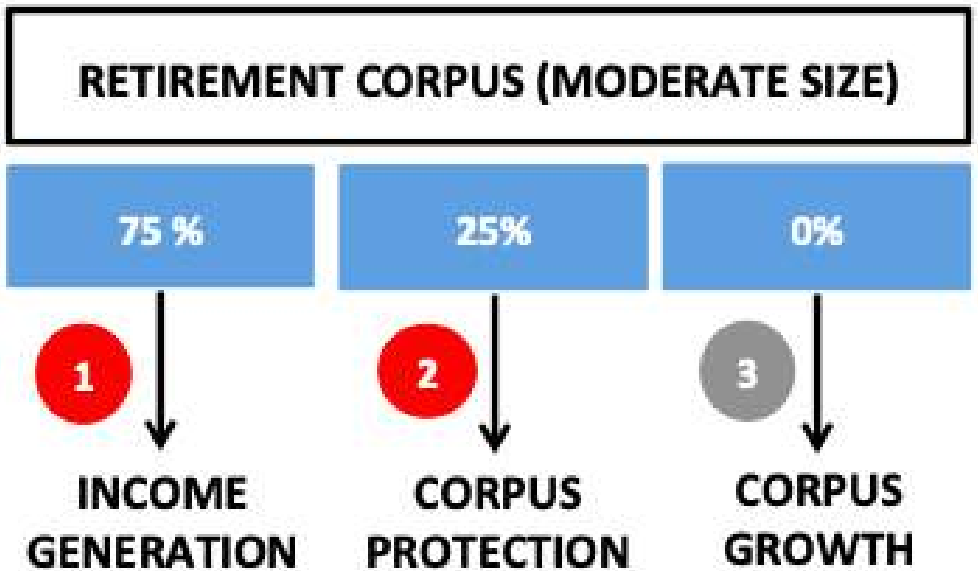
Example 1 – When size of corpus is too small

This is a retired person who has no other asset except for the retirement money (not even a home). How this person will invest? He will first buy a home. Then, whatever money is left, will be used only for income generation. His priority matrix will look as below. He can invest in only "low yield, debt based" plans, which can generate regular income.



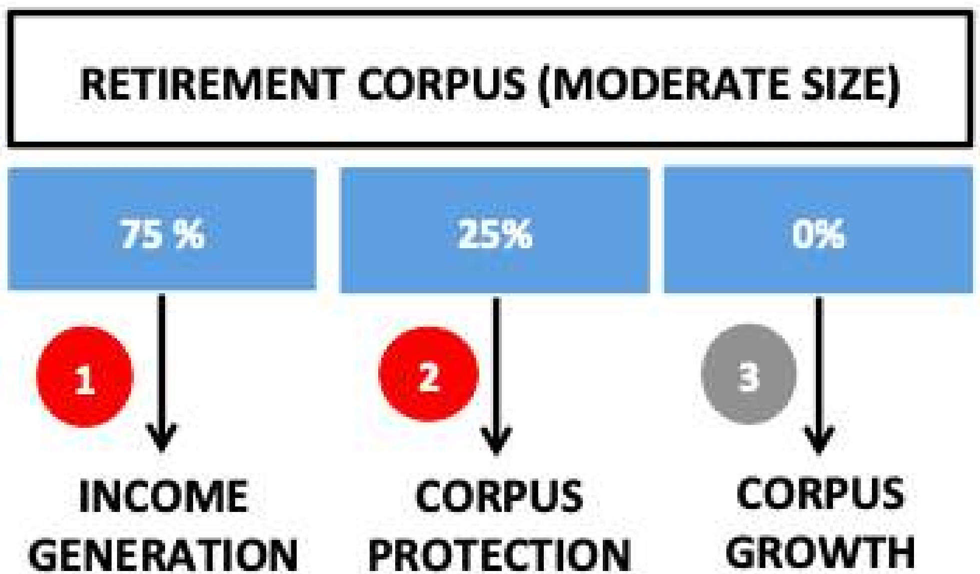
Example 2 – When size of corpus is moderate

This is a retired person who has no liabilities to take care after retirement. How this person will invest? As he has spare money, this person can also afford to think about corpus protection (inflation hedge). His priority matrix looks as below. He can invest in debt for income generation, equity (like balanced funds) for corpus protection.



Example 3 – When size of corpus is big

This is a retired person who has a retirement corpus, and also a rental property which takes care of his 50% monthly expenses. How he'll will invest? He is only 50% dependent on retirement corpus. Hence, he can do a bit more with his funds. His priority matrix looks as below. His choice can be debt, hybrid, and full equity.



Now we are ready to discuss about, what shall be the portfolio constituents of a retired person. But before that, let's read a "caution note".

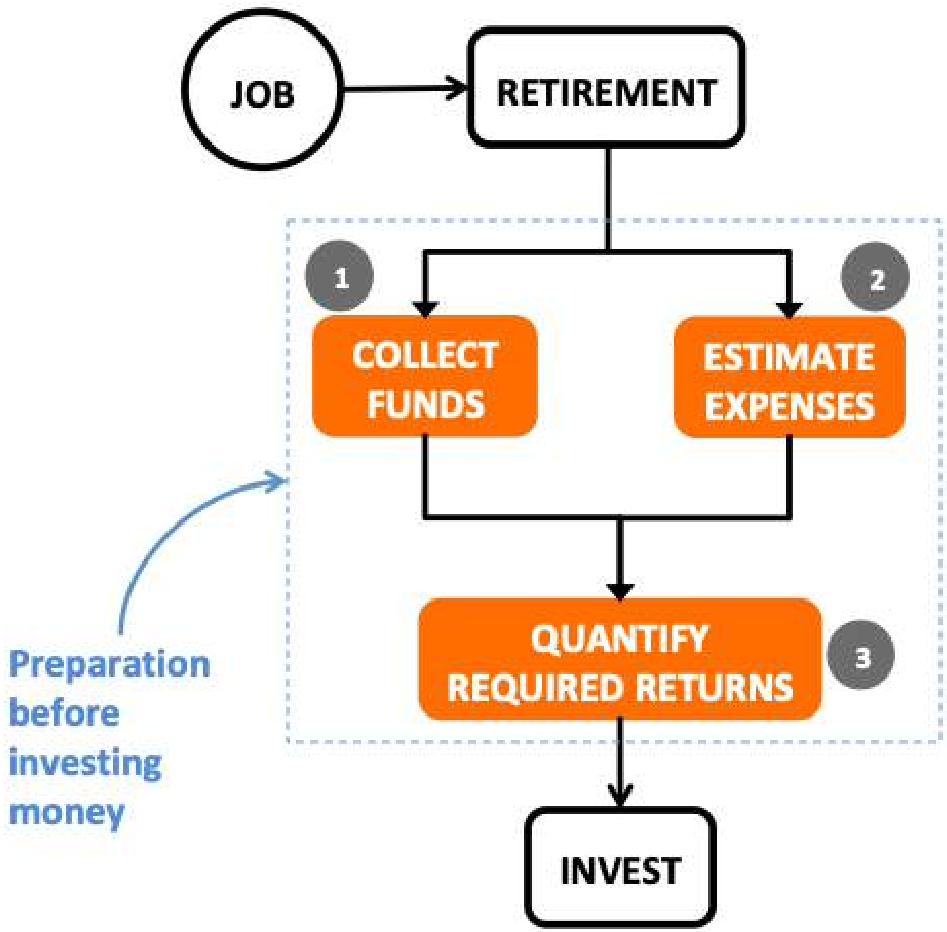
HANDLE FUNDS WITH CAUTION...

After retirement, people should not speculate or experiment with their money. How to ensure it? Prepare your priority matrix.

Wealthy individuals who retire rich, for them fixed income is not a priority. They can afford to talk about investment diversification, capital appreciation, equity, growth etc.

Majority of retired men in India has only handful of savings. Moreover, they are also not conversant with investment options, and risks associated with investing. For such people, it is better to handle retirement corpus with care.

PREPARATION BEFORE INVESTMENT



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Collect Funds

Collect all savings (like DSOP, EPF, Gratuity, PPF etc) that has been accumulated while in job.

Lets look at the total saving of a retired person in India:

- **DSOP / Provident Fund**
- **Gratuity**
- **Fixed Deposit**
- **Shares & Mutual Fund**
- **Endowment Plan**
- **Cash**

Total: Rs. 1 Crore.

Estimate Expense

Count all expense requirements. Idea of doing this exercise is to know exactly how much one need to dig into the retirement corpus each month to manage expenses. No matter how low is the expense, withdrawing money regularly from retirement fund will ultimately exhaust it.

Hence, investment is necessary to make the corpus grow fast enough, so that regular withdrawals are possible without depleting the corpus (as far as possible).

Here is a typical expense of a retired person in India:

- **Household expense**
- **Health**
- **Other expense**

Total: Rs.60,000/month.

Quantify Required Returns

In our example, retirement savings is Rs.1 Crore, and monthly expense is Rs 50,000. In order to generate income of Rs 50,000 per month, a return @ 6% p.a. will be necessary (=50000×12/10000000). In India, a return of 6% is not a difficult to generate.

Income Tax for Senior Citizens

For senior citizens, no income tax is applicable if annual income is less than Rs.3.0 lakhs. But TDS will still be deducted. In this case, while filing the income tax returns at the end of the Financial Year, income tax refund should be claimed. It is also important to keep all TDS certificate handy while filing the income tax returns.

Income Slab	Tax Rate
Income up to Rs 3,00,000*	No tax
Income from Rs 3,00,000 – Rs 5,00,000	5%
Income from Rs 5,00,000 – 10,00,000	20%
Income more than Rs 10,00,000	30%

Income tax slab for senior citizens

WHERE TO INVEST RETIREMENT MONEY?

The person shall try to divided the retirement corpus into six parts as shown below:

1. **SAVINGS A/C**
2. **FIXED DEPOSIT**
3. **POST OFFICE MONTHLY INCOME SCHEME (POMIS)**
4. **SENIOR CITIZEN SAVINGS SCHEME (SCSS)**
5. **DEBT MUTUAL FUND**
6. **MUTUAL FUND (LARGE CAP OR HYBRID) FOR CAPITAL APPRECIATION**

Savings A/c

Parking all retirement money in savings account is best. But its yield is too low (3.5% p.a. & we need 6%). Hence, better is to keep only 12 months worth expense in savings a/c (for liquidity). ***Fund allocation to savings account is limited to 1.7% only.***

Let’s explore other Best Alternative to Savings Account...

WHY SAVINGS ACCOUNT IS SO POPULAR?

There are several reasons for this. The most important ones are:

- **Liquidity and,**
- **Safety provided on deposits.**

Money can be withdrawn/paid from savings account by using following methods:

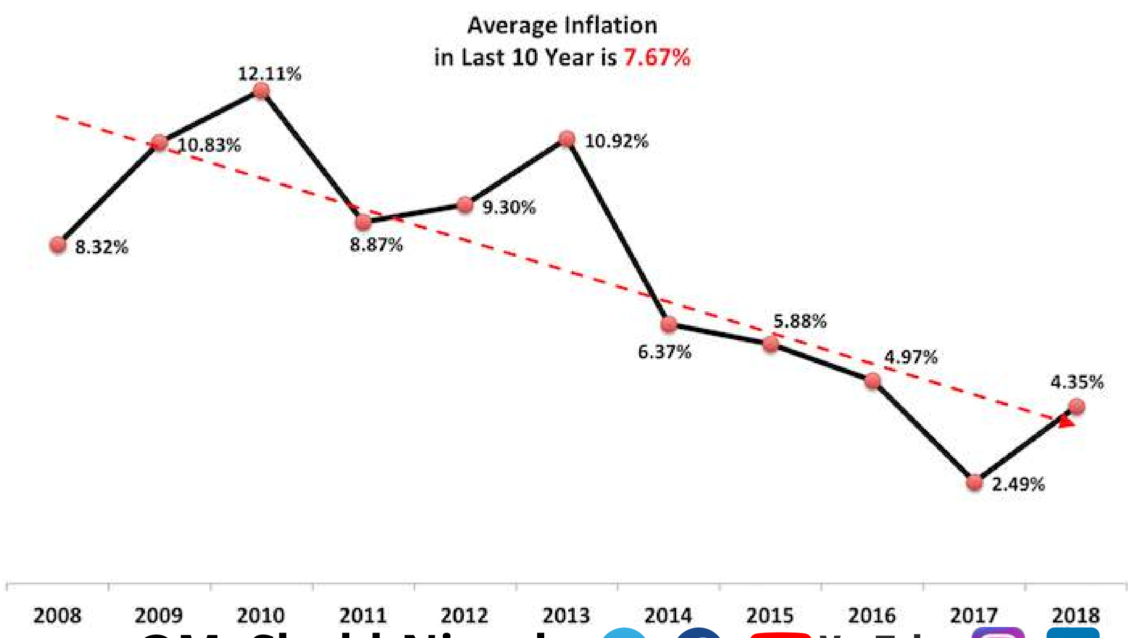
- **ATM for cash.**
- **Debit Card for online payment.**
- **Internet banking for online payment.**
- **Cheque for offline payment.**
- **UPI for instant online payments.**

WHY TO SEEK FOR SAVINGS ACCOUNT ALTERNATIVE?

What is the inflation rate in India?

The trend of inflation in India in last 10 years has been shown in the below chart.

Average inflation for the last 10 year period (year 2008 – 2018) has been 7.67% p.a.



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It is evident from the chart that the inflation-trend is falling.

What does it mean for investors who predominantly keep their money in banks (savings or deposits)?

The interest earned from savings and deposits will only fall in times to come.

To day savings account is giving 3.5% per annum and fixed deposits give 6% per annum.

Net of inflation returns on savings account is useless.

Net of inflation return of fixed deposits is close to zero.

This makes it mandatory for us to seek suitable alternatives of deposits in banks.

WHAT IS THE ALTERNATIVE TO SAVINGS ACCOUNT?

Mutual funds. But not any type of mutual fund.

These mutual funds fall in the below two categories:

1. **Liquid Funds.**
2. **Ultra Short Term Funds.**

These type os mutual funds can be the best available alternative to savings account.

These type of mutual funds gives better returns than savings accounts for sure.

Moreover they also ensure that the risk of price volatility (risk of loss) is also minimum.

#1. LIQUID FUNDS

On an average, all mutual funds in liquid fund category has given a return of 6% p.a. in last 10 years.

Compare this with the historic returns of savings account (3.5% p.a.).

#2. ULTRA SHORT TERM FUNDS.

On an average, all mutual funds in ultra short duration fund category has given a return of 8.5% p.a. in last 5 years.

Compare this with the historic returns of savings account (3.5% p.a.).

Fixed Deposit

Bank’s fixed deposit is also a great option for income generation. But here too, the yield of FD is low (4.2% net of TDS & we need 6%). Hence, better is to keep only limited funds in FD. ***Fund allocation to FD is limited to 17.2% only.***

Read about how to earn high interest from FD’s.

THE BEST RATES ON 3-YEAR FDs FOR SENIOR CITIZENS

Bank	Annual Rate of Interest	What Rs 1 lakh grows in three years to (Rs)
RBL Bank	8.00%	126,824
IDFC First Bank	7.75%	125,895
AU Small Finance Bank	7.75%	125,895
DCB Bank	7.45%	124,788
IndusInd Bank	7.25%	124,055
Yes Bank	7.25%	124,055
Ujjivan Small Finance Bank	7.00%	123,144
Bandhan Bank	6.85%	122,600
Standard Chartered	6.50%	121,341
Karur Vysya Bank	6.35%	120,805

Data as on 22 July 2020 in respective banks website. Interest rate on three-year term deposits (for senior citizens of 60-80 years age; deposit amount below Rs 1 crore) of all listed (BSE) public & private banks and foreign banks considered for data compilation. Banks for which verifiable data is not available are not considered. For all FDs, quarterly compounding is assumed. Minimum investment amount may vary depending on type of term deposits.
Compiled by BankBazaar.com

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Post Office Monthly Income Scheme (POMIS)

Post office offers POMIS among a host of banking products and services, under the purview of the Finance Ministry. Hence, it is highly reliable. It is a low-risk MIS and generates a steady income. You can invest up to Rs. 4.5 lakhs individually or Rs. 9 lakhs jointly, and the investment period is 5 years. Capital protection is its primary objective. For the quarter ending 30 June 2020, interest rate is 6.6% per annum, payable monthly. The investment in POMIS doesn't qualify for any tax benefit and the interest is fully taxable.

CONSEQUENCES OF EARLY WITHDRAWAL OF THE SCHEME

TIME OF POMIS WITHDRAWAL	OUTCOME OF PREMATURE WITHDRAWAL
IF YOU WITHDRAW BEFORE ONE YEAR	ZERO BENEFITS
TO CLOSE THE ACCOUNT BETWEEN 1ST AND 3RD YEAR	THE WHOLE DEPOSIT REFUNDED AFTER 2% PENALTY
IF YOU CLOSE THE SCHEME BETWEEN 3RD AND 5TH YEAR ENTIRE	CORPUS REFUNDED WITH ONLY 1% PENALTY

Senior Citizens' Saving Scheme (SCSS)

Probably the first choice of most retirees, the Senior Citizens' Saving Scheme (SCSS) is a must have in their investment portfolios. As the name suggests, the scheme is available only to senior citizens or early retirees. SCSS can be availed from a post office or a bank by anyone above 60. Early retirees can invest in SCSS, provided they do so within three months of receiving their retirement funds. SCSS has a five-year tenure, which can be further extended by three years once the scheme matures.

Currently, the interest rate in SCSS is 8.0 per cent per annum, payable quarterly and fully taxable. The rates are set each quarter and linked to the G-sec rates with a spread of 100 basis points. Once invested, the rates remain fixed for the entire tenure. Currently, SCSS offers the highest post tax returns among all comparable fixed income taxable products. The upper investment limit is Rs 15 lakh and one may open more than one account. The capital invested and the interest payout, SHARE which is assured, has sovereign guarantee. What's more, investment in SCSS is eligible for tax benefits under Section 80C and the scheme also allows premature withdrawals.

Debt Funds

If you are looking for moderate growth of capital with virtually no risk, investing in debt funds is best for you.

Debt mutual funds invest your money in fixed income investments like short/long term bonds, securitized products, floating rate corporate debts etc. This type of funds are virtually risk free and yields average returns around 6% - 8%. This makes debt funds a better investment option compared to fixed deposits because of higher rate of returns and freedom to withdraw your money whenever you want. Interest rates and NAV of debt funds move in opposite directions. This means that falling interest rates are good for debt funds. When interest rates fall, the bond prices go up and it boosts the NAV of debt mutual funds.

Indexation is the reason why debt funds are considered an excellent fixed-income investment option when compared to conventional fixed deposits (FDs). Indexation makes the game of investment a win-win affair. The rate of inflation to used for indexation can be obtained from the government's Cost Inflation Index (CII).

Fixed Deposit VS Mutual Funds

Factor	Fixed Deposit	Debt Mutual Fund
Typical Returns	*5-6%*	*5-8%*
Taxation	*As Per Tax Slab*	*Indexation Applicable*
Lockin Period	*Premature With Penalty*	*NIL*
Indexation	*Not Applicable*	*Save 70-80% of Tax*
Post Tax Returns	*3.8-4.2%*	*4.8-7.2%*
Risk Factor	*Low*	*Low*

 # Taxation details are as per existing tax laws. The nature of tax will depend based on the individuals tax

Taxes significantly affect income from FDs

While interest from Bank FDs is always taxed at your maximum rate, Debt funds attract almost 70% less tax after 3 years. Upto 1 year the tax impact for both is similar.

The illustration here -an investment of Rs 10 Lakh each ,we've assumed in a given year, all 3 investments deliver a return of 6% can help you understand the comparison better.

Illustration - Fixed Deposit VS Mutual Funds

Factor	Fixed Deposit	Debt Mutual Fund
Investment Amount	*10,00,000*	*10,00,000*
Compound Return (%)	*6%*	*6%*
Time Duration	*3 Years*	*3 Years*
Intrest Earned	*1,96,681*	*1,96,681*
Inflation	*5%*	*5%*
Indexation Benifit	*Nil*	*1,61,472*
Net Taxable Income	*1,96,681*	*35,208*
Tax Paid	*59,004*	*10,562*
Net Intrest Income	*1,37,676*	*1,86,118*
Post Tax Returns	*4.39%*	*5.85%*

LONG TERM FUNDS

Long term debt funds invest in Corporate bonds and Government of India bonds that have a long-term maturity period. Long term income funds usually benefit when the interest rates are moving downwards. However, they are highly vulnerable to the changes in interest rates and are suitable for investors who have a long term investment plans and likely to take high risks.

Interest rates and prices of the debt instruments have an inverse relationship. This means they move in opposite directions. For example, a falling interest rate is good for debt mutual funds. When interest rates fall, the bond prices go up and it will boost NAVs of the debt mutual fund schemes. The risk of losing the capital and the interest on the investment is credit risk. Instruments with lowest credit rating will have the highest credit default risk and will certainly give higher yields.

SHORT TERM FUNDS

Short term funds mainly invest in Commercial Papers, Certificate of Deposits, Money Market Instruments, etc. The average maturity period of a short-term fund is usually between six months to 12 months. They may provide a higher level of return than ultra-short-term and liquid funds but will be exposed to higher risks.

Interest rates and prices of the debt instruments have an inverse relationship. This means they move in opposite directions. For example, a falling interest rate is good for debt mutual funds. When interest rates fall, the bond prices go up and it will boost NAVs of the debt mutual fund schemes. The risk of losing the capital and the interest on the investment is credit risk. Instruments with lowest credit rating will have the highest credit default risk and will certainly give higher yields.

Mutual Fund (Large Cap) for capital appreciation

LARGE CAP FUNDS

If you are looking for steady growth of capital and are not willing to take a lot of risk, large cap equity funds are best for you. Equity mutual funds invests the collected amount in companies listed in stock market. Size of these companies depend on their market capital. It is defined by the number of shares issued by them multiplied by value of each share.

When a mutual fund is categorised in terms of market capital, it indicates the size of the companies that mutual fund invests in. Large cap mutual funds invest companies with market capital of at least Rs. 20,000 Cr. Companies with a large market capital have a history of consistent growth which makes them a wise choice to get good returns with lesser risk compared to mid cap and small cap companies.

Mutual Fund (Hybrid) for capital appreciation

HYBRID FUNDS

A hybrid fund endeavors to create a balanced portfolio to offer regular income to its investors along with capital appreciation in the long-term. The fund manager creates a portfolio according to the investment objective of the scheme and allocates the funds in equity and debt instruments in varying proportions.

SUMMARY

WHERE TO INVEST RETIREMENT MONEY?

Best Popular Option

1. **Savings A/c** *(Alternative Option - Liquid Funds & Ultra Short Term Funds)*	**14%**
2. **FIXED DEPOSIT**	**5.5% (6.5 Lakh)**
3. **POST OFFICE MONTHLY INCOME SCHEME (POMIS)**	**4.5% (4.5 Lakh)**
4. **SENIOR CITIZEN SAVINGS SCHEME (SCSS)**	**15% (15 Lakh)**
5. **DEBT MUTUAL FUND**	**50%**
6. **MUTUAL FUND (LARGE CAP OR HYBRID) FOR CAPITAL APPRECIATION**	**10%**

CONCLUSION

In this book we saw, how to distribute ones retirement corpus so as to generate net returns of 6% per annum.

This was done by distributing funds as shown in above infographics.

The wiser will be the fund distribution (low risk, just-enough returns), more peace will be bestowed on the retired person.

It is important to lock our savings.

Why? To prevent it from getting spent needlessly.

How to lock it? By investing and not keeping it free in savings account.

But in the spirit of investing, one must not take unnecessary risks.

Have a happy investing.