

THE IMPORTANCE OF FINANCIAL INDEPENDENCE & EARLY RETIREMENT IN CONTEMPORARY SOCIETY!

In this modern era, where financial literacy is crucial, understanding how to manage your wealth effectively can unlock new opportunities. The journey to financial independence is a personal triumph and a significant commitment in a world that often prioritizes material success over well-being.



Financial independence empowers you with the freedom to live life on your own terms. Imagine waking up each day without the pressure of a 9-to-5 job, knowing that your finances are secure & stable and your passions can take center stage. Early retirement isn't just about stopping work; it's about starting a new chapter filled with adventure and personal fulfillment.

In this context, recently, a survey was conducted by Grant Thornton Bharat from private sector employees aged 25-54, focusing on retirement planning, pension expectations, and financial awareness, to be taken as an example and find out the pros and cons of the subject. According to the Indian Pension Landscape survey by Grant Thornton, 43% of Indians aged 25 or below want to retire between 45 and 55. Around 74 percent of all survey participants said they contribute 1 percent to 15 percent of their monthly salary as retirement savings. Over half expected a monthly pension of ₹1,00,000 or more.

While these goals may sound lovely and desirable, they need comprehensive retirement planning to build the required retirement corpus, popularly known as the golden pot. On the other hand, for financial independence, retiring early requires much financial discipline; they must follow decades of discipline, savings, and a solid financial plan because they expect to retire between 45 and 55 years, much earlier than the conventional retirement age of 60.

Now, the question arises whether all young professionals have assessed their retirement corpus and adequately saved to make that dream into reality.

Considering the above survey, if young generations plan to live ₹100,000 a month at the start of retirement, say i.e., at the age of 55, a 6 % inflation rate will cost monthly expenses of ₹ 3,20,713 after 20 years. Hence, comprehensive retirement planning has to be made if they want early retirement.



Stages of Retirement Planning:

Retirement planning is a distinctive and critical process that requires individuals to strategically set aside a substantial portion of their income to create a robust retirement corpus. This endeavor fundamentally differs from other financial planning because it relies exclusively on personal savings; loans or borrowed funds cannot be utilized to cover retirement expenses. As such, the planning process is inherently long-term, aiming to secure financial independence and fulfill your anticipated financial needs later in life.

If individuals fail to initiate their retirement investments on time, they may find themselves ill-equipped to handle their retirement expenses, particularly in the face of rising inflation. The purchasing power of money diminishes over time, meaning that the cost of living could overtake fixed income sources. Furthermore, not taking advantage of investment opportunities can result in lost wealth accumulation and growth potential. Therefore, it becomes vital to actively manage your retirement savings, diversifying investments across various asset classes to mitigate risks and enhance potential returns. By taking this step, you can build greater financial stability and security during your transition into retirement.



1. Accumulation Stage:

Investment in this stage should be growth-oriented since the retirement corpus must be created in the long term. The investor generally takes a high risk, and the portfolio should be invested to earn a higher return.

Individuals in the accumulation stage of retirement planning should consider a mix of growth-oriented investment products to maximize their returns over time. Some specific options include:

1. Equity Mutual Funds
2. Index funds/ ETFs
3. Direct Stocks
4. Real Estate Investment Trusts (REITs)
5. Debt Funds: PPF & Bonds
6. National Pension System (NPS)
7. Gold, Gold ETFs, Gold Bonds, Gold/Silver mutual funds

Individuals must assess their risk tolerance, investment horizon, and financial goals before selecting specific products for retirement savings. Diversification across various asset classes can also help manage risks effectively.

All these investments must adjust the asset allocation as the target retirement date approaches, gradually shifting from growth to more conservative investments.

2. Distribution stage:

In this retirement stage, the corpus created in the accumulation stage is employed to generate the income required to meet retirement expenses. The investment made in this stage should be primarily income-oriented but not growth-oriented. In fact, at this stage, the ability to take risks is lower since any erosion in the capital cannot be replaced. The primary income at this stage will be a pension or the income drawn from the retirement corpus created during the earning period of the individual's life or a combination of the two.

Calculation of Retirement Corpus:

Retirement planning involves estimating the expenses in retirement and the income required to meet them, calculating the corpus needed to generate the income, assessing the current financial situation to determine the savings that can be made for retirement, and identifying the investment products in which the period savings made will be invested so that required corpus is created, and the products in which will be invested at the accumulated stage of retirement to generate the required income in the distribution stage.



Two questions arise in our minds while planning retirement:

1. How much is the income required in retirement to maintain a given standard of living?
2. What is the corpus that should be built to generate this income?

When planning for your retirement corpus, it's essential to consider several factors, including your current monthly expenses, the inflation rate, expected investment returns, the income you desire during retirement, your lifestyle, and life expectancy.

For instance, imagine a 35-year-old individual planning to retire at 55 with a life expectancy of 85. If his current monthly expenses are ₹ 17,500, these expenses will increase to ₹ 100,511 by retirement, assuming a 6% annual inflation rate. By building a retirement fund that provides a steady income, the individual can confidently cover expenses for a fulfilling life until age 85.

Estimating Retirement Corpus		
1	Monthly Income required at the time of Retirement ₹	100,500
2	Time- Years	30
3	Return on Investment (ROI)	8%
4	Assumed Inflation rate	6%
5	Real rate return/Inflation adjusted return	1.89%
6	Corpus required at the time of Retirement ₹	27,654,523

To ensure a stable monthly income of ₹ 100,500 at retirement, a retirement corpus of ₹276,54,523 is required. This assumption is based on an inflation rate of 6% and an investment return rate of 8%. While calculating the monthly income, it's essential to account for an inflation-adjusted return of 1.89%. After 30 years, this corpus will be completely exhausted.

Individuals should consider diverse investment options to build this retirement fund, including bonds, debt instruments, equity mutual funds, debt mutual funds, and hybrid mutual funds.

Furthermore, analyzing the monthly SIP amounts needed to build a retirement corpus of ₹276,54,500, the individual may invest in various investment products, having return rates ranging between 8% to 12% over 20 years. The required monthly SIP amount is as follows:

It is shown that when the rate of return of the products is less, the monthly SIP amount will be higher. Assuming the product will generate a 12% return, the saving amount will be ₹ 27,678. That means if ₹ 27,678 is invested monthly at an annual rate of 12% for 20 years, the savings will compound to ₹ 276,54,500, the required retirement corpus.



Monthly Savings: Retirement Corpus

Time Period-Years	20	20	20
Annual Rate of Return	8%	10%	12%
Future Value ₹	27,654,500	27,654,500	27,654,500
Monthly SIP Amount ₹	46,639	36,117	27,678

As per the example, a monthly income of ₹ 100,500 is estimated to sustain the desired lifestyle after retirement, which has been calculated after considering inflation of 6% on the current expenses of ₹17,500 per month for 20 years. This figure, however, is not set in stone; it can fluctuate based on various unforeseen costs that may arise as one transitions into retirement. Additionally, key factors such as the anticipated rate of returns from the investment corpus and the prevailing inflation rate can substantially alter the income needed during retirement. Therefore, carefully considering these variables is crucial for a secure financial future.

Challenges to Achieving Financial Freedom and Early Retirement:

- 1.High Savings:** In today's world, managing daily expenses while saving for investment can be challenging for many individuals. Achieving a high savings rate is particularly difficult for those with limited income or substantial expenses. This reality highlights the importance of financial planning and the need for effective budgeting strategies to enhance savings potential.
- 2. Investment risk:** Investing in equities, mutual funds, and equity-related financial instruments involves several risks that investors should be aware of. These include market risk, interest rate risk, credit risk, liquidity risk, and inflation risk. These risks can significantly affect your financial independence and overall investment outcomes. Therefore, it is essential to understand and manage these risks effectively to make informed decisions and work towards achieving your financial goals.

3. Lifestyle adjustments: Living today can be challenging, but everyone can adopt a frugal lifestyle. With some planning and commitment, you can make it possible.

Key Features for Retirement Income and Portfolio Building:

The income in working years has to be thus apportioned to meet current living expenses as well as to create a corpus for future living expenses. A retiree can examine multiple features while calculating the retirement income and building the retirement portfolio. Primary features among them are:

- Estimate expenses during retirement.
- Expenses before retirement are different from expenses after retirement.
- Pre-retirement and post-retirement expenses need to be calculated and provided for.
- The risk of overspending exists in retirement since income is reduced.
- Income and Expense management has to be well managed.
- Adequacy to meet expenses in retirement with inflation protection.
- Income security and protection from longevity.
- Stability and certainty of the quantum of income.



- Tax advantages.
- Flexibility: Draw additional funds/change investments/change options
- Access to Capital and review the retirement corpus periodically.

Many of these features are inherently in conflict with each other. For example, the higher return that would make it comfortable to meet expenses in retirement will not come with stability and certainty. Similarly, protection from inflation will mean higher volatility risks in the portfolio. Simple products may be inflexible and have lower returns. The importance of any of these features while structuring the retirement income portfolio will depend upon individual circumstances. Adequacy and sustainability through retirement, however, will rank right at the top for all retirees.

Tax implications of retirement corpus:

The investments made, and returns earned in the retirement portfolio of investments created to accumulate the retirement corpus in the accumulation stages and subsequently generate retirement income in the distribution stage are subject to taxation. Some investment products provide tax benefits during the accumulation stage. However, they are taxable when redeemed or mature at the distribution stage. The tax impact should be considered while calculating the retirement corpus, and the return from the investment should be maximized.

Some investment products, such as PPF, NPS, mutual funds, and tax-free bonds, earn returns that are not charged to tax when they are earned. All the above products return compound faster than other investment products' returns, which are taxable.

Conclusion:

Many young Indian professionals aspire to retire early, and shifting their perspective on retirement and financial independence can significantly influence our country's growth and overall quality of life. Imagine retiring at 45; they must build an adequate retirement corpus to sustain their lifestyle for the next 40 years. With the increasing life expectancy of Indian people, improved living standards & healthcare, it's more important than ever to plan wisely. By working for just 20 years, they could enjoy 40 fulfilling years of post-retirement life, potentially living well into their 80s.

In our fast-paced, ever-changing society, achieving financial independence and pursuing early retirement have become more than just dreams; they are essential goals for many. The desire to break free from the constraints of traditional work life and enjoy greater control over our time is increasingly resonating with people of all ages.

Achieving financial independence is a vital goal that we should actively strive for in today's society. This goal represents the freedom to make personal choices without the constraints of financial pressure and the ability to build a secure and fulfilling future. In an ever-changing

economic landscape, achieving such independence empowers us to live on our terms, opening doors to new opportunities and experiences.

Retirement is the stage in a person's life marked by an abundance of time to pursue all those hobbies and dreams for which they had no time in their working years.

In retirement, the absence of a regular income can create challenges, but you still need to cover living and leisure expenses. Your income after retirement largely depends on the savings you accumulated during your working years. It is essential to ensure that your monthly income in terms of pension, interest, and other income is sustainable and to take proactive steps to adjust for inflation throughout your life.

Disclaimer:

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