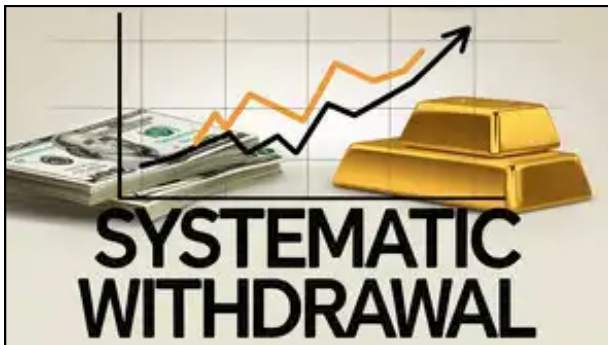


Systematic Withdrawal Plan: A Sustainable Income Strategy for Long-Term Retirement Planning

Retirement marks the onset of a new chapter in life, offering individuals the opportunity to prioritise their own interests and well-being. During this period, many can finally dedicate time to hobbies, enjoy leisure activities, and experience a sense of tranquillity. However, achieving this freedom relies heavily on continued income, which is essential once traditional salaried employment ends.

Historically, retirees depended on sources of income such as pensions, fixed deposits, rental income, and interest from savings to finance their golden years. However, various economic factors have changed this landscape. With declining interest rates, rising inflation on essential goods, increasing medical expenses, and longer life expectancies, relying solely on a substantial retirement corpus is no longer sufficient. It's crucial to convert these savings into a stable, inflation-adjusted monthly income to maintain financial security in retirement.

In this scenario, the Systematic Withdrawal Plan (SWP) offered by mutual funds becomes one of the most effective and flexible tools for retirees in the post-retirement era.



In this detailed article, we will understand:

- What SWP is and how it works
- Why SWP is better than traditional income sources
- A practical example with the SWP amount
- How long the corpus may last
- Why the SWP amount or corpus must sometimes be revised
- Strategies to improve SWP sustainability

1. What is SWP (Systematic withdrawal Plan)?

An SWP allows an investor to withdraw a fixed amount regularly (monthly, quarterly, or annually) from a mutual fund. The remaining money continues to be invested, growing through market returns based on the scheme you have opted for.

In simple terms:

- You invest a lump sum amount in a mutual fund scheme

- You receive regular income at each interval, say, monthly
- Your remaining money grows based on the fund's performance

It makes SWP a perfect tool for retirees who need a substitute for a monthly salary.

SWP = Regular Income + Growth + Liquidity + Flexibility

In an annuity product, your money is locked in permanently, and you receive a fixed amount at a specified date, either monthly, quarterly, half-yearly, or annually, which you opt for when buying the annuity product.

Whereas in SWP, you have the freedom to withdraw any amount at any time, flexibility to change or stop SWP at any time, and complete control over your capital. In SWP, return is not fixed; it is based on market conditions. However, in the long term, it helps you beat inflation due to decent returns.

This combination of income and accessibility makes SWP one of the most powerful retirement solutions available in India.

2. Why SWP is Superior to Traditional Income Tools?

SWPs (Systematic Withdrawal Plans) are preferable to Fixed Deposits (FDs) because the income generated from mutual funds—such as conservative hybrid funds, aggressive hybrid funds, and large-cap funds—tends to be significantly higher than that from FDs. Additionally, mutual funds are more tax-efficient.

This higher income allows retirees to maintain their current lifestyle and effectively combat inflation over the long term. In contrast, the interest on FDs is fixed at the time the FD is opened, without any opportunity for adjustment.

Moreover, the interest earned on FDs is taxed on an accrual basis. For example, if you have a Fixed Deposit of ₹ 1,000,000 at an interest rate of 7% for three years, it will mature after three years. However, you will need to pay income tax on the interest earned each year. This means that you will incur a tax liability of ₹ 70,000 for the first year, based on your income tax slab rate.

On the other hand, with a Systematic Withdrawal Plan, you only pay capital gains tax on the amount withdrawn, depending on the scheme you choose, rather than on the entire investment. This makes SWPs a more flexible and tax-efficient option compared to Fixed Deposits.

Investing in a SWP (Systematic Withdrawal Plan) can often deliver better returns than rental income. Typically, the net yield from rental properties ranges between 3% and 4% of the initial capital invested.



This yield can be volatile and is often subject to market fluctuations. Additionally, property ownership requires ongoing maintenance and management costs each year, which can further impact overall profitability.

When comparing investment options, the Systematic Withdrawal Plan (SWP) offers advantages over traditional Annuity Plans. Generally, the interest rates on Annuities are lower than those on Fixed Deposits (FDs). Additionally, while FDs may not always keep pace with inflation, SWPs offer greater flexibility than Annuities, where your funds are often locked in for extended periods.

Understanding these differences, you can make better financial decisions for your retirement corpus.

3. Benefit of SWP:

1. Inflation-Adjusted Income: Imagine a steady flow of income that not only supports your lifestyle but also keeps pace with the rising cost of living. This feature ensures that your purchasing power remains intact, allowing you to confidently manage your expenses over time.

2. Capital Appreciation: Visualize your investments blossoming like a well-tended garden, growing in value as market conditions change. This potential for capital appreciation transforms your initial investment into a more substantial asset, enhancing your overall financial wealth.

3. Tax-Efficient Withdrawals: Think of withdrawals designed to minimize your tax obligations. This strategic approach enables you to optimize your returns, allowing you to retain more of your earnings for reinvestment or personal use rather than paying taxes on them.

4. Market-Linked Growth: Envision your investments dynamically connected to the pulse of the market. This feature allows you to tap into the potential of market growth, ensuring your portfolio can flourish alongside economic advancements and trends.

5. Easy Liquidity: Picture having the freedom to access your funds with ease, whenever you need them.

This liquidity offers you the flexibility to navigate life's financial demands without the stress of locked-in investments, empowering you to make timely decisions.

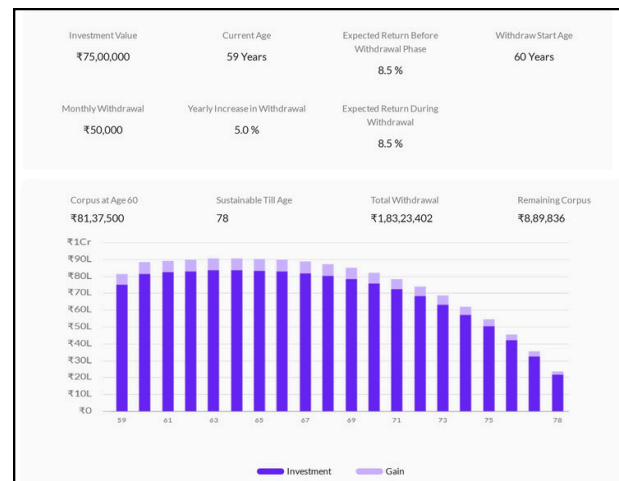
This balance of stability, growth, and flexibility makes SWP the preferred choice for long-term retirement planning.

4. Understanding the Example

Let us take a constructive approach by examining the details through a practical example based on realistic assumptions.

- **Initial Investment:** ₹75,00,000
- **Current Age:** 59 years
- **Withdraw Start Age:** 60 years
- **Monthly Withdrawal:** ₹50,000
- **Annual Withdrawal:** ₹6,00,000
- **Expected Return:** 8.5% per year
- **Inflation:** 5% increase in SWP every year

The annual withdrawal amount is ₹600,000 (₹ 50000 × 12 months), which is 8% per annum on the amount invested (₹ 75,00,000).



The investment strategy is categorised as moderately aggressive, with an expected inflation rate of 5% and a projected return of 8.5%. This approach typically suggests a balanced opportunity for growth while acknowledging potential risks. To further clarify the associated risk levels, the risk matrix is outlined as follows:

- 4% = very safe
- 5–6% = sustainable
- 7–8% = moderately aggressive
- 9%+ = risky

Here, 8% withdrawal + 5% inflation adjustment means the withdrawal amount will rise to:

- At the age of 64: ~₹7.29 lakh
- At the age of 69: ~₹9.30 lakh
- At the age of 74: ~₹11.87 lakh
- At the age of 78: ~₹14.43 lakh

Given the 8.5% return rate, withdrawals will start to outpace investment growth relatively quickly. As a result, the overall corpus is expected to decrease gradually over time. A detailed analysis is presented in Table No. 1.

Table no-1

Age	Withdrawal		Year End Corpus
	Monthly	Yearly	
59			₹ 81,37,500
60	₹ 50,000	₹ 6,00,000	₹ 82,29,188
61	₹ 52,500	₹ 6,30,000	₹ 82,98,668
62	₹ 55,125	₹ 6,61,500	₹ 83,42,555
63	₹ 57,881	₹ 6,94,572	₹ 83,57,097
64	₹ 60,775	₹ 7,29,300	₹ 83,38,147
65	₹ 63,814	₹ 7,65,768	₹ 82,81,121
66	₹ 67,005	₹ 8,04,060	₹ 81,80,958
67	₹ 70,355	₹ 8,44,260	₹ 82,32,080
68	₹ 73,873	₹ 8,86,476	₹ 78,28,333
69	₹ 77,567	₹ 9,30,804	₹ 75,62,944
70	₹ 81,445	₹ 9,77,340	₹ 72,28,458
71	₹ 85,517	₹ 10,26,204	₹ 68,16,673
72	₹ 89,793	₹ 10,77,516	₹ 63,18,577
73	₹ 94,283	₹ 11,31,396	₹ 57,24,266
74	₹ 98,997	₹ 11,87,964	₹ 50,22,870
75	₹ 1,03,947	₹ 12,47,364	₹ 42,02,457
76	₹ 1,09,144	₹ 13,09,728	₹ 32,49,941
77	₹ 1,14,601	₹ 13,75,212	₹ 31,50,975
78	₹ 1,20,331	₹ 14,43,972	₹ 8,89,836

Since returns are only 8.5%, the withdrawals begin to exceed growth soon. This means the corpus will decline gradually over time.

As the 19th year (at the age of 78) draws to a close, the principal amount will be almost entirely depleted. By the time you reach the 20th year (at the age of 79), the remaining balance will stand at ₹8.89 lakhs. It shows that a moderately aggressive withdrawal should be reconsidered, and you should plan a sustainable withdrawal rate of 5-6% for your monthly SWP.

To sum up, the analysis indicates that the Systematic Withdrawal Plan (SWP) can remain viable for approximately 17 to 19 years. However, the initial corpus is expected to decline significantly after about 12 to 14 years. This decline is compounded by the fact that withdrawals tend to outpace portfolio returns, ultimately rendering the SWP unsustainable.

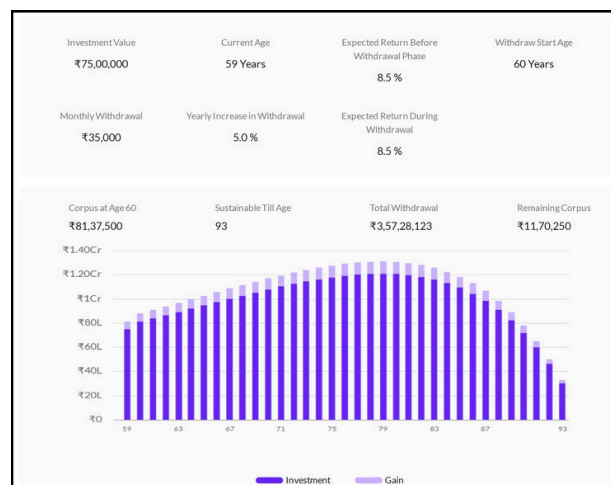
Conclusion

A Systematic Withdrawal Plan is one of the most effective ways to generate stable, tax-efficient, inflation-adjusted income during retirement. However, its sustainability depends on maintaining the right balance between:

- Investment amount
- Monthly Withdrawal
- Expected return
- Inflation

In the given example of a ₹75 lakh investment with a monthly withdrawal of ₹ 50,000, the SWP can provide reliable income for nearly two decades but will eventually face pressure from rising inflation.

Regular reviews, strategic adjustments, and thorough planning are vital components of successful financial management. When approached effectively, a systematic withdrawal plan (SWP) can be an invaluable strategy for achieving long-term financial independence. This allows retirees to enjoy their lives without the constant concern of monthly income fluctuations.



If a retiree opts for a Systematic Withdrawal Plan (SWP) that withdraws ₹ 35,000 per month and provides a sustainable annual return of around 5.50% on the total investment, they could potentially maintain these withdrawals until age 93. This scenario is illustrated in **Graph 2 above**, which shows the long-term viability of such a withdrawal strategy.

The concept of systematic withdrawal plans (SWP) can differ significantly from person to person, depending on individual needs and lifestyles. It is essential to begin proactive planning at an early stage. By focusing on goal-based investing, you can build a robust retirement corpus and take full advantage of compounding. Your Systematic Withdrawal Plan (SWP) will meet your financial needs throughout your life, and later on, your family will be able to use the remaining funds.

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