



Ajit Menon
CEO

Reduce retirement corpus anxiety

March 2023

Dear Investors and Partners,

Most of us have a number of financial goals. If you ask someone what their goals are, the typical answers you get would be like buying a home, buying a car, children's education, or going on a holiday. Our proprietary research suggests that people tend to plan for happy outcomes and therefore push goals like retirement down in priority. However, I cannot stress enough on the fact that planning your retirement has to be prioritized early. The reason: retirement is the only financial goal for which you DO NOT get a loan.

At the simplest level, retirement planning involves estimating your expenses during retirement, accumulating a sufficient corpus and investing it in such a way that it covers the expenses. This article focuses on the second part, i.e. deploying a corpus for income generation in your retired years. Conventional wisdom suggests that the actual outcomes of this process may vary significantly based on the corpus you accumulate. If you do not start planning early for your retirement, you may not be able to accumulate the requisite corpus and hence your retirement income may suffer. Before you get anxious about your retirement, what if I tell you that you may still have a comfortable retired life despite accumulating a lower corpus? One can reduce the anxiety around how one fares in retirement years using two hacks: "The Three Bucket Strategy" and "skill monetization".

Firstly, let's see how the Three Bucket Strategy works. This strategy advocates asset allocation of your retirement corpus into different "buckets" based on the time horizons you would withdraw from each of these. The first bucket meant to cover the initial years (say 3-5 years) of retirement would primarily invest in safer instruments such as short-term debt. The second bucket, meant for the intermediate term (say 10-12 years) can invest in a mix of medium-term debt and equities. The third bucket, which one would withdraw from after 15+ years can invest in equities. This approach aims to balance market volatility and spread the corpus availability over longer period. Let's see how this approach would work best based on an example.

Mr. A starts planning for retirement at the age of 40. Adjusting his current monthly expenses of Rs. 50,000 for 6% inflation, he would need Rs. 1.6 lakh in the first month of his retirement at 60. To cover these expenses over the next 30 years, he plans to accumulate a corpus of Rs. 4.4 crore. Let us see a few scenarios based on the corpus he is able to accumulate, and how the Three Buckets Strategy can help him.

Corpus Accumulated	Rs. 4.4 Cr (100% of target)	Rs. 3.1 cr (70% of target)	Rs. 3.5 cr (80% of target)	Rs. 4.0 cr (90% of target)
Asset Allocation	30 years	31 years	48 years	Corpus unlikely to run out
	100% Conservative hybrid 30	30% Conservative hybrid 5	26% Conservative hybrid 5	23% Conservative hybrid 5
	0% Aggressive hybrid	35% Aggressive hybrid 8	37% Aggressive hybrid 10	38% Aggressive hybrid 12
	0% Equity	35% Equity 18	37% Equity 33	38% Equity 8
Corpus Sufficiency	30 years	31 years	48 years	corpus unlikely to run out

Inflation assumed to be 6%. Returns assumed as 8% for Conservative hybrid, 10% for Aggressive hybrid and 12% for Equity.

As you can see, the Three Buckets Strategy can allow Mr. A to sustain for 30 years even if he manages to accumulate only 70% of the corpus. One should not fret about achieving a certain financial number.

Secondly, one may look to diversify and monetize their skills. It could be anything from teaching to being a yoga instructor to becoming a content creator, dog breeder, trainer, volunteer and more. Most people who feel that they want to do nothing after hanging up their boots, find a deteriorating sense of self-worth at not being able to meaningfully contribute. This sometimes tend to manifest in deteriorating health which erodes the quality of retired living. Having multiple skills can not only provide an income stream in retirement, but also provide a sense of purpose when one suddenly finds oneself relieved of all duties. Indeed, the biggest risk to retirement is not the sufficiency of corpus one accumulates but the concentration risk of doing just one job all our working lives.

Stay safe & happy investing.