PGIM India Mutual Fund

Blue Zones & Peaceful Retirement

Ajit Menon
CEO

November 2023

Dear Investors and Partners,

Blue Zones are geographical areas where people live remarkably long and healthy lives. These regions, include Okinawa-Japan, Sardinia-Italy, Nicoya Peninsula-Costa Rica, Icaria-Greece, and Loma Linda-California, USA, have an average lifespan exceeding 90 years. Influenced by diet, lifestyle, and community, Blue Zones offer valuable insights into promoting longevity and well-being. Singapore recently joined the ranks of Blue Zones, highlighting the potential for adopting healthy practices worldwide.

Given the medical and technological advancements around the world and increasing focus towards self – care and recreation, just imagine if this trend advances further in every country, in the areas where we live, and if, you or me, happen to live beyond our 100rds, it would indeed be a wonderful experience.

But, let's pause here as every coin has two sides. If one side is the above scenario, then the second side would mean that we may have to plan better for a longer than expected non-working life. This could possibly mean, if an individual's life span is divided into three major phases; the first phase being the initial 25 years of studying, next phase would have the 35 years of working, and the last phase would have the 40+ years of retired life. This would mean that we would have four decades, instead of two or three, of being dependent on our financial savings from the working years.

Before you start feeling the regular blues about your retirement, let me tell you that you can still live a comfortable retired life in a probable 'Blue Zone'. And that is possible by implementing the "3 Bucket Strategy", which I had written about in my earlier letter (March 2023) as well.

Let's revisit how the '3 Bucket Strategy' works. This strategy advocates asset allocation of your retirement corpus into three different "buckets", which is based on the time horizons you would withdraw from each of these.

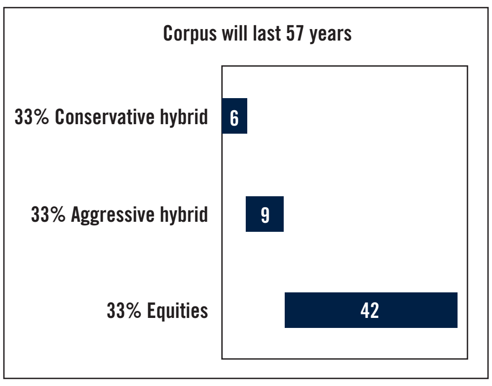
The Immediate Bucket: In the first bucket the investments should primarily be made in safer instruments such as short-term debt/conservative hybrid, etc. While it varies from person to person, but the immediate bucket is meant to cover the monthly expenses for initial, say 3 to 5 years, of retirement. While earning interest on this money is appealing, the primary focus is on reducing risk and ensuring that the money is available whenever you need it.

The Intermediate Bucket: The second bucket should have investments with a mix of medium-term debt and equities, which are meant to last for an intermediate term, somewhere around 8 to 15 years. Money invested in the intermediate bucket money should continue to grow to keep pace with inflation.

The Long-Term Bucket: In the third bucket, the corpus is invested in riskier assets with high growth potential like equities. The withdrawals from this bucket should be envisaged after 15-plus years into the retirement. Mimicking the historical stock market returns, these investments have the potential to grow the nest eggs more than inflation.

Let's see how this works: Mr. A starts planning for his retirement, with the target of retiring at the age of 60 with a monthly expense of Rs 1 lakh and a accumulated retirement corpus of Rs 2 crore, where the inflation rate is assumed to be at 6%. Mr. A allocates the retirement corpus of Rs 2 crore into three buckets equally; 33%-each in conservative hybrids, aggressive hybrids, and equities.

No. of years an inflation-adjusted withdrawal, of Rs. 1 lakh/month from age of 61 years, will last.



Assumptions
Investor's age at retirement: 60 years
Assume Inflation Rate: 6%
Allocation: 33/33/33 %
Monthly Expenses During Retirement: Rs 1 lakh
Retirement Corpus: Rs 2 crore

Retirement corpus value is rounded. Returns assumed at 8.6% for Conservative hybrid (25% Equity: 75% Debt), 11.5% for Aggressive hybrid (75% Equity: 25% Debt), and 12.9% for Equities (Benchmark: 10-year GSec, Equity NIFTY, Mean of 10 years'rolling returns between June 1, 2013 to May 30, 2023

In the above illustration, the corpus lasts for 57 years, and Mr. A can withdraw inflation-adjusted amount for his monthly expenses, every month for a period of 6 years from the first bucket, then for the next 9 years from the second bucket, and then for the next 42 years from the third bucket. Just imagine, he would comfortably sustain his earnings even if he lives for 117 years.

This 3 Bucket Strategy aims to balance the market volatility and spread of the available corpus over longer period. It guides investors by segregating assets into safety income, and growth categories, nudging behaviour towards a balanced, structured and disciplined approach facilitating their money to grow and last longer. However, the key to success is to withdraw only from the first bucket initially, followed by the second, and then the last bucket of equities.

In summary, if one plans retirement well, it helps avoid feeling the regular blues for the future, and makes one ready to enjoy what the retirement offers with longevity & peace, which is a 'Blue Zone' in itself.

In the forthcoming letters, I intend to talk about how one can plan for emergencies, during retired life, without compromising on the desired lifestyle even in challenging market corrections, and how a gig income can have a dual advantage of financial wellbeing and cognitive health.

Wishing all of you a Merry Christmas and a very Happy New Year in advance.

Stay safe & happy investing.