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Handbook to

~~Retirement~~

Financial Freedom

Preface

At MIRA money, we have discussed with several clients of ours about financial freedom.

Each individual's financial freedom journey comes out as unique. But at the same time there are a lot of things that are common to everyone. Things like knowing your numbers, putting together a rock solid plan, maintaining discipline in executing the plan are common to everyone looking to achieve that freedom.

Modern times are quite different from before.

Almost none of the private enterprises have a pension plan for their employees. The current middle aged individuals does not want to depend on their children for their retirement expenses. People are living longer, thanks to advancement in medical technology. This makes it even more important to plan well, both in terms of health and wealth.

Inflation and interest rates is in the downward trajectory over the long term. This means hard assets like real estate, gold etc will not generate good enough returns. Hence going forward, it becomes important to rely more on soft assets like stocks and bonds to generate greater returns in your financial planning.

This handbook is our sincere attempt to help everyone achieve financial freedom. We have tried to make this a pleasant read and easy to understand. We hope you will find this handbook useful and informative.

*If you have any questions or feedback, please feel free to contact us at **hello@mira.money** and we will be more than happy to discuss with you.*

~~Retirement~~ | Financial Freedom

What is Financial Freedom ? How is it different from Retirement?

- *Retirement is about not wanting to continue in one's profession or occupation and to lead an idle life. Living an idle lifestyle during the golden years can be very detrimental to mental health and physical health.*

- *Financial freedom is about creating a big enough corpus to be able to pursue one's hobbies or passion without having to worry about earning for a living.*

- *Financial freedom helps to maintain an active lifestyle.*

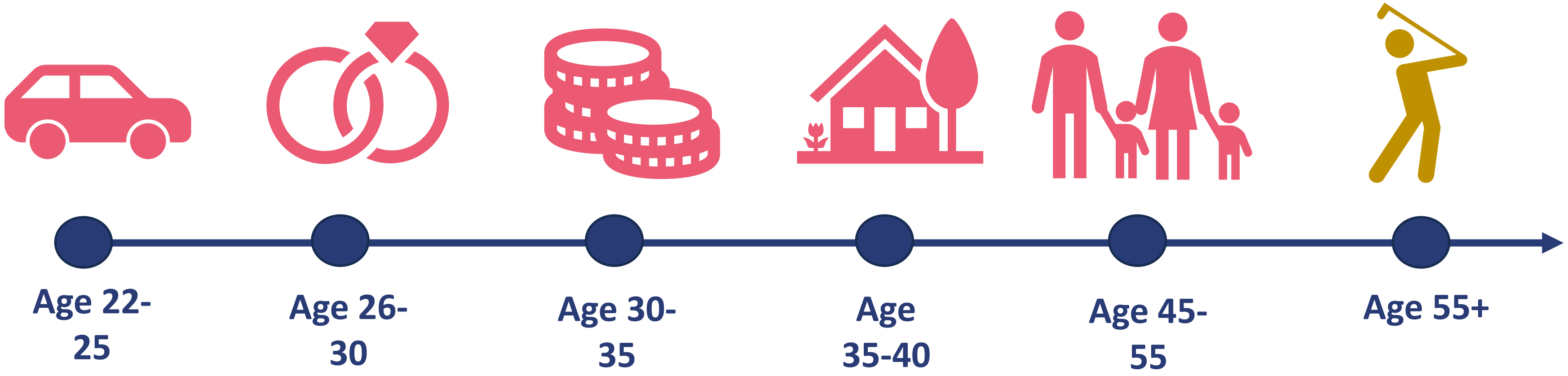
Our analysis and research shows that current generation is excited about achieving financial independence and start pursuing their passion rather than retiring & leading an idle life.

If all financial constraints and commitments are taken care before you hang up your boots, golden years can be used to pursuing the dream.

In the subsequent pages, we will be providing further insights on how to achieve financial freedom.

End of one beautiful phase, Beginning of another.. That is Retirement

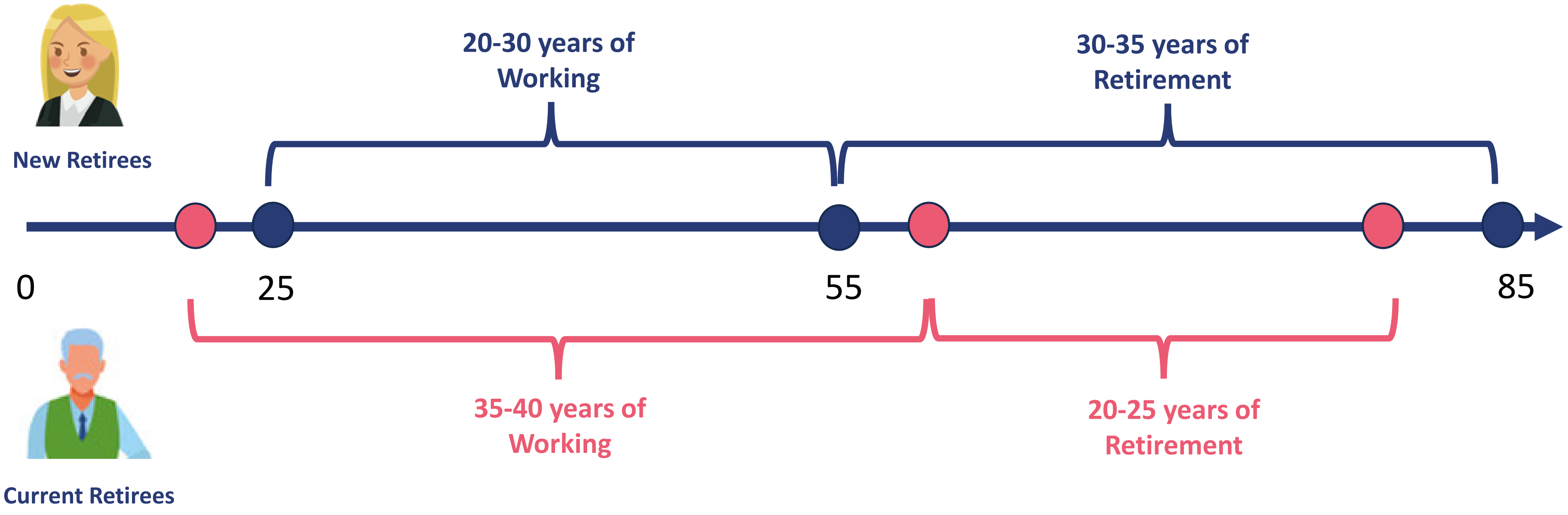
- Your life revolves around goals which come up as you grow richer, older and wiser.
- You start with a Car and end with Retirement as your last financial goal.



- Retirement might be the last financial goal, but it is going to last longer than any other goal.
- **Probably the only goal, for which you can’t take a loan.**
- All this makes the financial preparedness for Retirement important so as to enjoy those years.
- **Let’s take you to another important point about Retirement which might set the context. Why Retirement planning ?**

Current Retirees : Work Longer, Live Shorter
New Retirees : Work Shorter, Live Longer

An interesting point to note…



- As of today, if you are a new generation retiree, you might have lesser number of working years to plan for your **retirement corpus** to attain financial freedom.
- **So while we have introduced retirement corpus above, let's quickly understand it in brief.**

You can no more retire with a couple of crores!

- *What is a Retirement Corpus ?*

  Is the Sum of money accumulated

  - *Until the day when you hang up your boots from the professional working phase of your life.*
  - *To live through the years of retirement for your needs & wants*

  This money can be in form of asset classes such as Equity, Debt, Real Estate, Gold, Cash etc.

- But why is a couple of crores not enough ?
- 2 major reasons
  - **Inflation:** Things will get costlier each year and so will your expense pool.
  - **Increasing life expectancy:** As mentioned earlier, the more you live, more money you need to accumulate.
- Let's show this with an example. *(refer image on right)*

What could be their Retirement corpus on the day of retirement ?			
Current age	50	40	30
Current annual expense	Rs 32 lacs	Rs 16 lacs	Rs 8 lacs
Retirement age	55	55	55
Life span	75	80	85
Retirement Corpus required	**Rs 8-9 crores**	**Rs 12-14 crores**	**Rs 22-24 crores**

Let's understand the

Basics of ~~Retirement planning~~

Financial Freedom planning

You retire from work, but continue to live a life

Retirement is just an event wherein your regular source of income has stopped like salary or business income.

But that does not stop you to continue living a life the way you did before or plan for something else.

So before we proceed any further, let's first understand what are key reasons for financial freedom planning ?

Maintain standard of living	Be Emergency ready	Accomplish New Goals	Fight Inflation	Be Prepared for Longer Life
You want to continue living the current lifestyle & maybe upgrade it post retirement. Regular income from investments covers your expenses	Medical or financial emergencies can knock your door anytime. You do not wish to depend on anyone during such unexpected events.	With this next phase in life, you may want to start something new or resume your pending goals. Travelling, mentoring, painting, cooking, training, advising and many other recreational activities	Rs 3,000 jeans today will cost Rs 18,000, 30 years from now. Unlike humans, inflation does not retire. Thus, retirement corpus has to be inflation protected	Life expectancy in India doubled from 35yrs in 1950 to 70yrs in 2022. Science is helping us to live longer. This calls for the need to build a bigger retirement corpus

Mistakes to avoid in financial freedom planning

Some psychological mistakes & some financial mistakes

Thinking it's Too Early

When you are 25-35 yrs, 55-60 yrs looks very far to think whether any financial planning is required

But the ***sooner you start, at 25-30 yrs, faster is the ability to achieve the required retirement corpus without burdening yourself later.***

Carrying debt into retirement

With no regular income flow from salary/business, carrying debt into retirement can be difficult to manage daily finances.

Imagine, debt mortgaged against home & retirement corpus assets value has declined due to market.

Corpus saved for future has to be compromised to pay off the debt.

Being overly conservative

General tendency is to have higher debt in the portfolio because it is not risky.

70-80% of portfolio is parked under debt / real estate on the date of retirement.

Debt / Real estate returns post tax are not inflation protected & thus can be caught struggling with finances.

Kids as your Retirement plan

Previous generation retirees would have relied on their kids for retirement as sufficient education & employment was not available then to accumulate a decent retirement corpus.

Financial freedom arrives from reduced dependencies.

Ignoring Health

Being sick can be burdensome as it first does not allow you to enjoy the freedom

Secondly, medical costs can be severely expensive

Over & above, ***not having a sufficient heath insurance can be considered as a financial crime as it would sweep away your corpus.***

Poor financial planning

Not considering realistic scenarios for building a solid savings plan for retirement can change realities.

Kid's education or marriage, proper financial documentation, considering inflation, owning a house, etc. All of it has to be accounted for to prepare a retirement plan.

4 key things to do in your Financial freedom journey

Knowing your Retirement Corpus

Financial management of the Retirement corpus

Having a good ironclad insurance plan

Going debt-free before Retirement*

**as discussed on previous page*

Simple Equation to calculate your Retirement corpus

To know your retirement corpus, you will have to assume multiple factors such as your current expense, expected increase in expenses based on future trends and responsibilities, inflation, year of retirement, life span post retirement & expected return during the period.

To put it simple, realities move differently from models. Yet models are always a good yardstick to set you on the path of achieving a goal.

*We have devised a formula to help you know what could be the range bound retirement corpus. **

Retirement Corpus = CE * ((1+ IR %) ^ NR) * NR * (NPR / 12) * Factor

CE – Current Annual Expenses (ignore EMIs, SIP investments, etc as they are one off and not regular expenses until your life span)
IR – Expected Inflation Rate,
NR - Number of Years to Retirement
NPR – Life span Post-Retirement (in number of years)

Factor based on age band:-
20-30 yrs – 0.8 to 1.0
30-50 yrs – 1.1 to 1.4
50+ yrs – 2.5 to 3.0

- *We advice you to do your own research or reach out to your advisor. As you or your advisor would know the personal finance situation better, above formula was to assist you on getting to a range bound retirement corpus.*
- *This is just an approximation of the retirement corpus. As mentioned above, realities move differently from models. Each individual's financial management depends on asset allocation, rate of return, risk appetite & time duration which can be unique.*

Know your Retirement Corpus

Part 1 | Things to know for calculating your Retirement Corpus

Following are the key parameters to be taken into consideration for calculating a retirement corpus.

Expenses [Current & Future]	Adjusting for Inflation	Year of Retirement	Calculating the Retirement corpus
• Your current annual expenses is the starting point. • Current dependencies & future upcoming dependencies have to be accounted for projection. • **Increasing salary will lead to increase in quality of life, thereby annual life upgradation expenses.** • Expenses post retirement generally will decline with reducing needs & dependencies.	• Expenses pre & post retirement have to be adjusted for inflation trends. • With respect to India, **it would be reasonable enough to take 5-6% as annual inflation.**	• This is a very important factor as **it helps in determining the earning years left to accumulate wealth.** • Individuals planning to retire early between the age of 40 to 50 will have to grow the wealth (earnings plus investment returns) at a higher speed to sustain the retirement years of 30-40 years.	• Using the parameters as discussed on left, calculate estimated expenses each year, from today until your expected life span. • Then, present value of the total expenses post retirement, until the retirement year, is to be calculated. • Use the expected rate of return on investments to calculate the present value. • Arrived value should be the retirement corpus.

If words, didn't help you, then you can know your Retirement corpus amount on the MIRA Money mobile application.

**ignore EMIs, SIP investments, etc as part of current expense as they are one off and not going to be regular expenses until your life span*

Know your Retirement Corpus
Part 2 | Retirement corpus for a 35yr old

Here are some snippets from the MIRA Money mobile application for Knowing the Retirement corpus

- Current Age: 35
- Retirement Age: 55
- Current Annual Expenses: Rs 15 lacs

Retirement Corpus (adjusted for inflation) at age 55

Rs 16 crores (approximately)

**ignore EMIs, SIP investments, etc as part of current expense as they are one off and not going to be regular expenses until your life span*

Know your Retirement Corpus

Part 2 | Retirement corpus for a 40yr old

ignore EMIs, SIP investments, etc as part of current expense as they are one off and not going to be regular expenses until your life span

- Current Age: 40
- Retirement Age: 50
- Current Annual Expenses: Rs 20 lacs

Retirement Corpus (adjusted for inflation) at age 50

Rs 11 crores (approximately)

Know your Retirement Corpus

Part 2 | Retirement corpus for a 50yr old

- Current Age: 50
- Retirement Age: 55
- Current Annual Expenses: Rs 30 lacs

Retirement Corpus (adjusted for inflation) at age 55

Rs 6crores (approximately)

**ignore EMIs, SIP investments, etc as part of current expense as they are one off and not going to be regular expenses until your life span*

Let’s understand

Financial management of

the Retirement corpus

Asset classes for your Retirement Corpus

There are a bunch of investment options available for your Retirement corpus. Each asset class have a different growth & risk profile which an investor has to match with their style of investing.

Here are the asset classes as an option based on it's growth & risk profile.

Moderate Growth, Moderate Risk

- Debt Mutual Funds
- National Pension Scheme
- Balanced Advantage & Equity Savings
- Gold

High Growth, High Risk

- Equity Mutual Funds
- Direct Stocks

Low Growth, Low Risk

- Fixed Deposits
- Super Annuity / Endowment Insurance
- Provident Fund (PF)
- Public Provident Fund (PPF)
- Post office / NSCs

Low Growth, High Risk

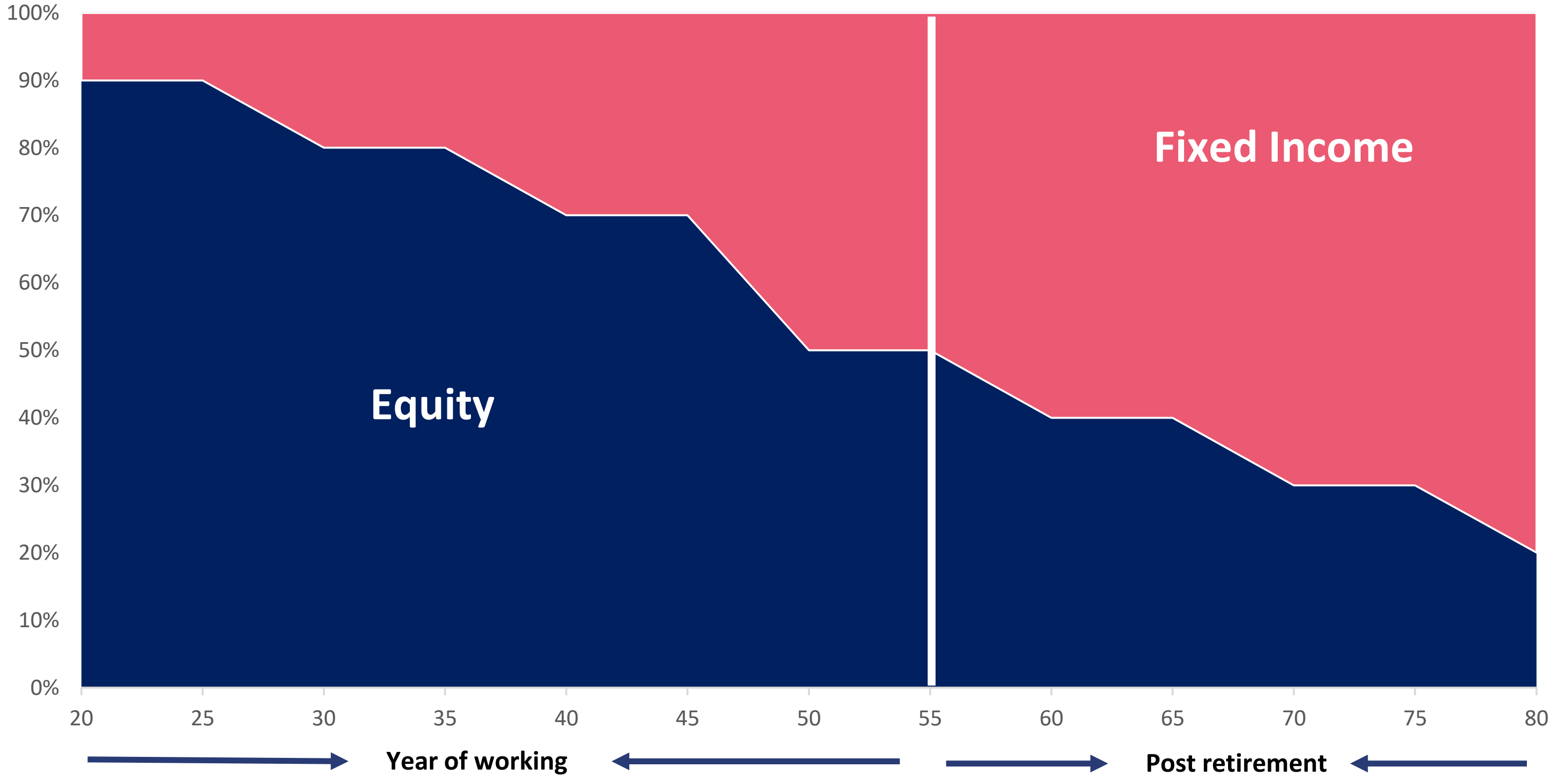
- ULIPs
- Real Estate
- Private Equity Investments

Don’t be overly conservative with your investment plan

Heard about this financial management rule ?

- *Equity allocation in your portfolio should be 100 minus your Current Age*
- *Going by this logic at age 60, when you are about to retire, your fixed income allocation would be 60% and remaining 40% in Equity.*

Several investors end up with such range bound allocation in fixed income when they near retirement & continue to increase the same post retirement.



This is an overly conservative portfolio. Let’s understand why ?

Don’t be overly conservative with your investment plan

Continuing from previous page, why do we call higher allocation in fixed income overly conservative ?

- *Retirement is mistaken as being conservative with approach.*
- *But you continue to live with the needs & the wants*
- *In the retirement years*
  - *You need to financially secure yourself to the extent of the immediate needs (about 5 years)*
  - *Let the rest of the money continue to grow for your future needs & wants.*
- *Fixed income is for your needs, Equity is for your wants.*
- *Thus, fixed income allocation is required for your monthly expenses post retirement. You probably need to keep about 5 years of estimated expenses in fixed income.*
- *However, having a 60% of fixed income portfolio will cover more than 8-10yrs of expenses.*
- *Thus, overly allocating your retirement corpus of 60% or more in fixed income is a conservative stance.*

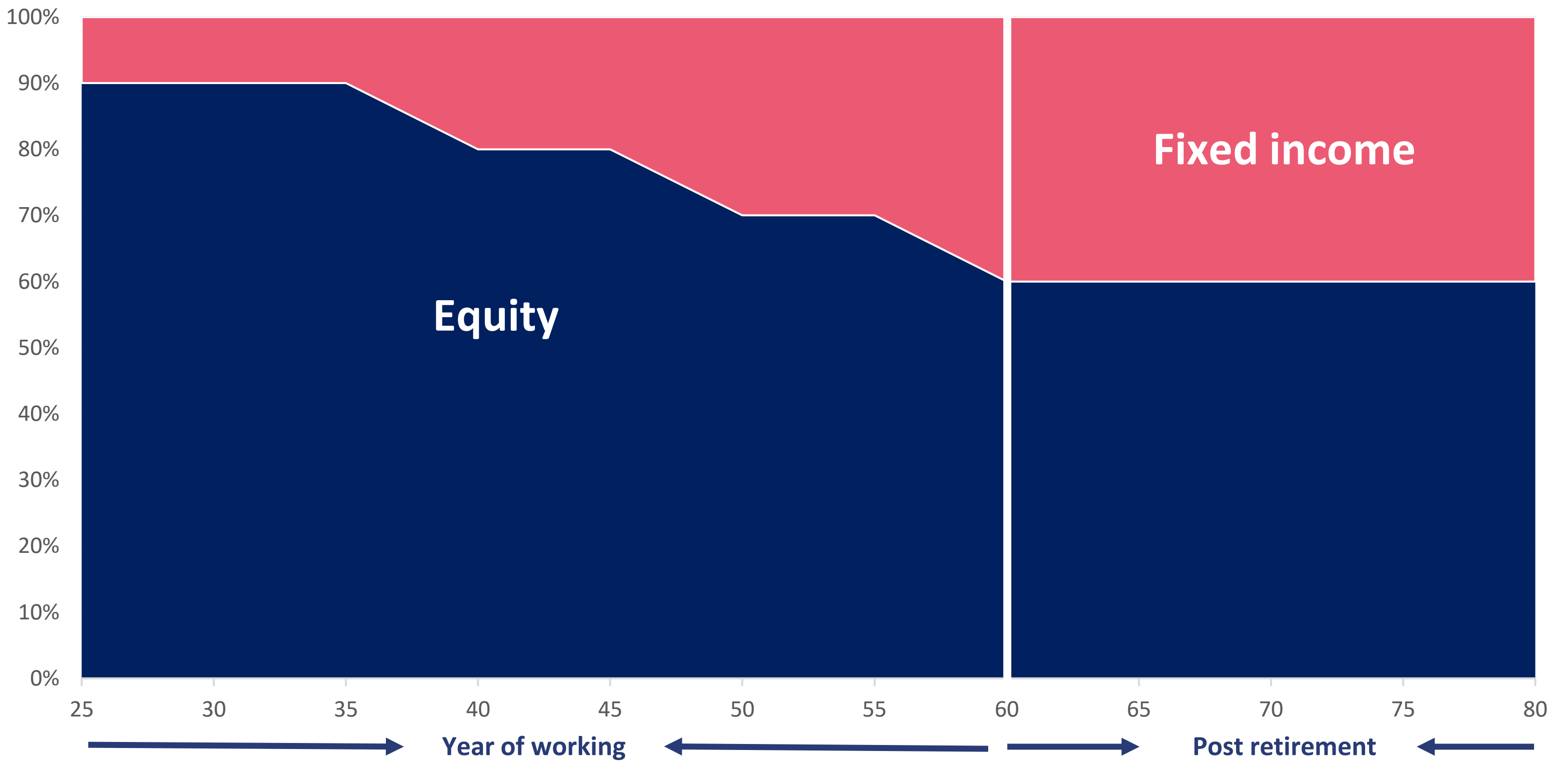
Which assets are included in fixed income?

- *An asset class which yield you in today’s market condition anything between 5-8%*
- *Fixed Deposit, PPF, PF, Debt Mutual Funds, NSCs, and Recurring deposit.*
- *Rental yields are also 3-4% p.a. Capital appreciation on real estate should not be accounted for monthly cash flows.*

Make a solid retirement saving plan

Retirement plan is not just about financial planning once you have retired. Instead it is a journey towards building a retirement corpus and then reaping the benefits during your post retirement life.

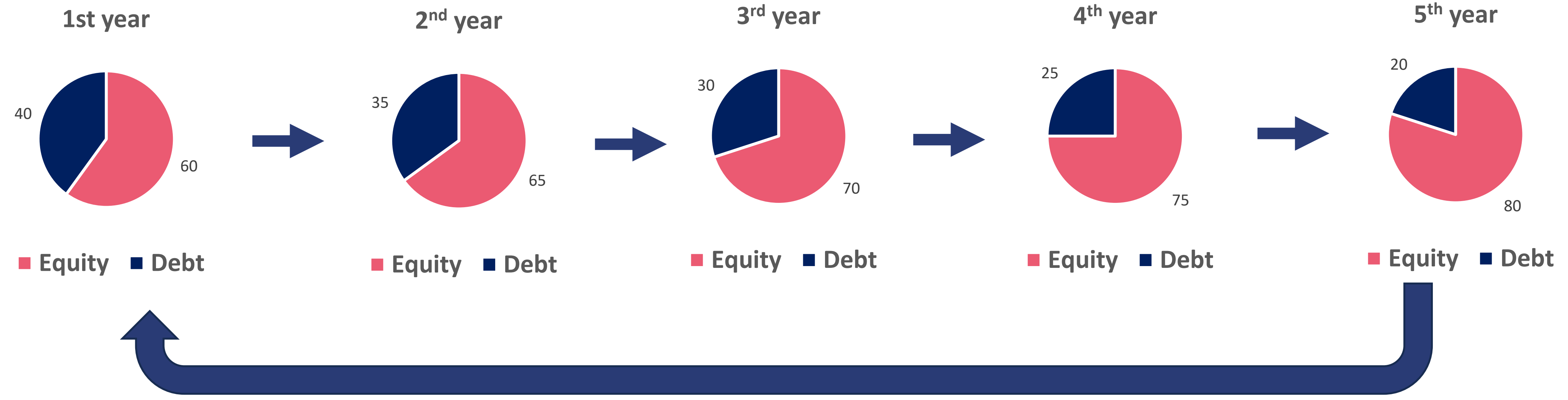
- *Grow aggressively during the initial years of investing with majority of corpus towards Equity. (from 20-25yrs to 40-45 years)*
- *Fixed income may or may not beat inflation. Thereby, it is important to beat inflation comfortably using Equity.*
- *Until age 45 / 55 continue to have 70% Equity in your portfolio. (unless you plan to retire early)*
- *Closer to retirement, build a 60:40 Equity & Fixed income portfolio.*



Per 5 year post-retirement approach

Let's understand how does this work

- *About 60% Equity & 40% debt split in your retirement corpus is a healthy investment blend.*
- *Debt provides the regular monthly inflows to take care of your monthly expenses for the next 5 years.*
- *Until then Equity investment continues to grows.*
- *To summarize, what will happen in these 5years, Debt investment will reduce as it is being used for monthly expense while Equity is growing*
- *Closer to end of 5th year, rebalance your overall portfolio back to 60:40 Equity & Debt.*
- *Continue to rejig the portfolio every 5 years by getting back to the mix of 60: 40 Equity & Debt.*



Continue this every 5 years

Now what SIP should you start with ?

No matter which age you are today, even if you haven't invested for your financial freedom, there is always a starting point to begin the journey.

Below table presents how much SIP you can start with considering a few parameters.

You can also check what should be your SIP considering your financial parameters on the MIRA Money mobile application

What is my SIP ?				
Current age	25	30	40	45
Current annual expense	Rs 4 lacs	Rs 8 lacs	Rs 16 lacs	Rs 24 lacs
Monthly expense	Rs 33k	Rs 66k	Rs 1.33 lacs	Rs 2 lacs
Retirement age	50	55	60	60
Retirement Corpus required	Rs 14-15 crores	Rs 15-17 crores	Rs 7-9 crores	Rs 5-7 crores
SIP today with annual step up of 10%	**Rs 23,000**	**Rs 25,000**	**Rs 30,000**	**Rs 67,000**

* For easier correlation, considered their life span to be until age 80

Cost of delaying can be high

Let's understand the mathematics with a very simple example.

- *We take 5 different age profiles*
- *Keep the Annual expense same at their respective ages, so as to derive what is their retirement corpus & SIP required*
- *Also keeping the Retirement age and Life span same for all 5*

Keep an eye on the SIP from current age to Retirement age to reach the Retirement corpus.

What is my SIP ?					
Current age	**25**	**30**	**35**	**40**	**45**
Current annual expense	Rs 8 lacs	Rs 8 lacs	Rs 8 lacs	Rs 8 lacs	Rs 8 lacs
Retirement age	55	55	55	55	55
Retirement Corpus required	Rs 29-31 crores	Rs 15-17 crores	Rs 7-9 crores	Rs 4-6 crores	Rs 3-4 crores
SIP until Retirement age (without any step up)	**Rs 40k**	**Rs 47k**	**Rs 57k**	**Rs 74k**	**Rs 1.05 lacs**
SIP with annual step up of 10%	**Rs 20k**	**Rs 25k**	**Rs 32k**	**Rs 45k**	**Rs 74k**

*** For easier correlation, considered their life span to be until age 80**

Let’s understand

Good Ironclad Insurance plan

Not having a insurance can wipe off your savings

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As serious does the headline sound, insurance is a shield protecting your wealth.

*No, we are not talking about Endowment, Money back guarantee, ULIPs or Term insurance *.*

It is the Medical / Health Insurance.

Increasing health care cost

Health care expenses are rising at an alarming rate in India.

Recent 2023 study revealed that **India has one of the highest medical inflation rates in Asia, reaching 14%**

Age related medical issues

Needless to emphasize, **with growing age comes several medical issues** which can be hereditary or lifestyle related issues.

Like COVID, new age diseases are also spreading which have no linkage to your genes or lifestyle.

Build an early health insurance history

Having a health insurance sooner is better (i.e before age 25)

Do not rely on your employer's health insurance. Take your own health insurance.

Cover your entire family under a family floater or independently cover each dependent family member.

Increase Health Insurance Cover

Healthcare expenses are increasing per year. So should your Health insurance cover.

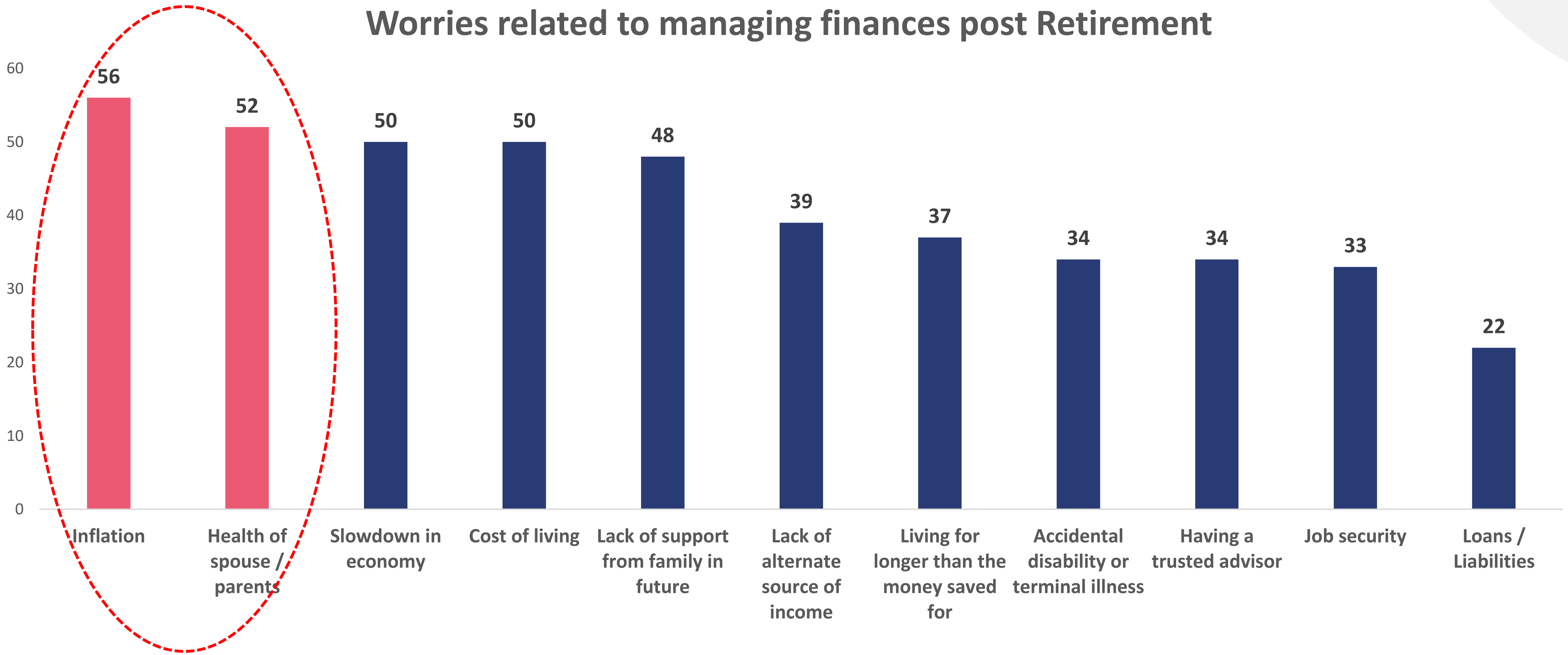
As a healthy practice, **always have a base health insurance + top up insurance cover.**

Every 5 year, increase the insurance cover based on current market trends.

****These insurances are meaningful for you & your family only until you are working. Thereby while purchasing such insurances choose the maturity date until the expected year of retirement. Otherwise you end up paying a higher insurance premium, which could otherwise be utilized for building the retirement corpus.***

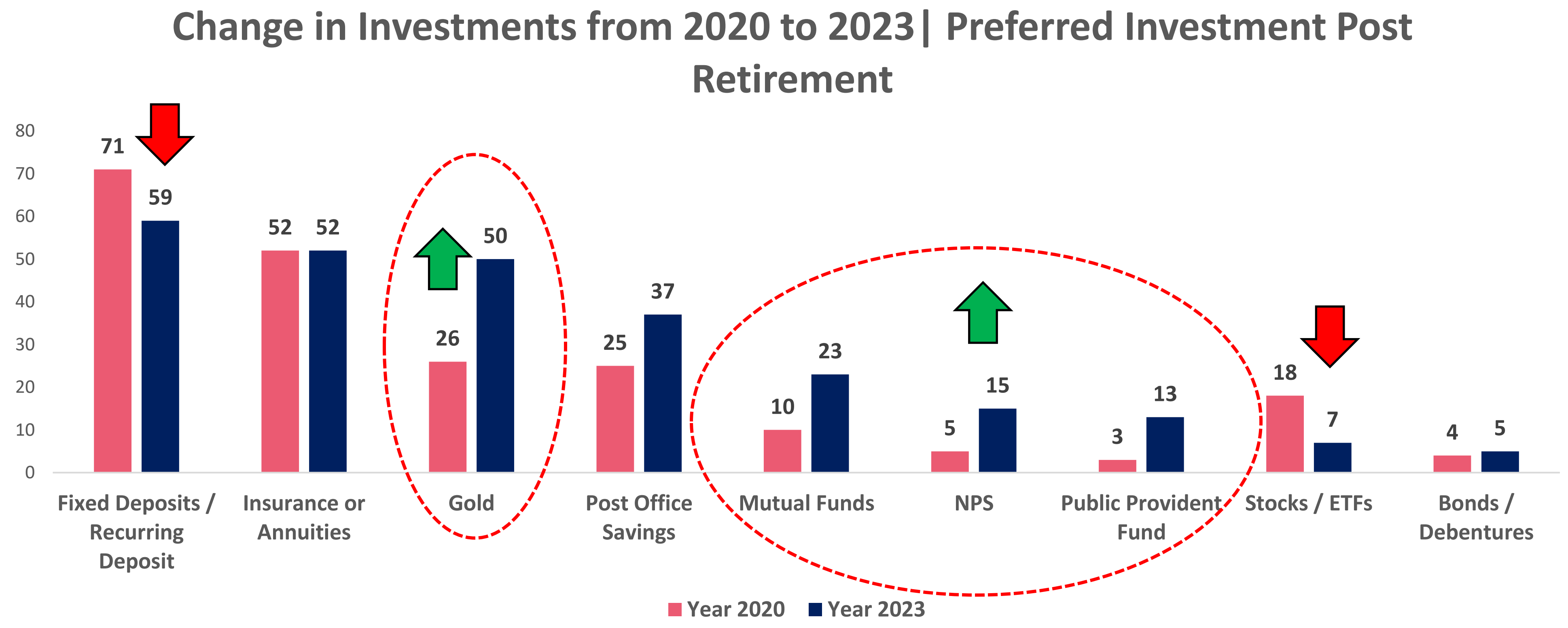
Something more to know…

Inflation & Health are top concerns post retirement



***Source: Survey conducted by PGIM Mutual Fund in 2023**

Mutual Funds, NPS & PPF are gaining significant preference
Fixed Deposit & Stocks losing preference



*Source: Survey conducted by PGIM Mutual Fund in 2023

9 in 10 Indians regret saving late for retirement

9 in 10 Indians

above the age of 50, regret not starting earlier saving for Retirement

1 in 2 Indians

hope to stay with their children during retirement although nuclear families dominate social structure

3 in 5 Indians

worry that their retirement kitty will deplete in max 10 years

3 in 5 Indians

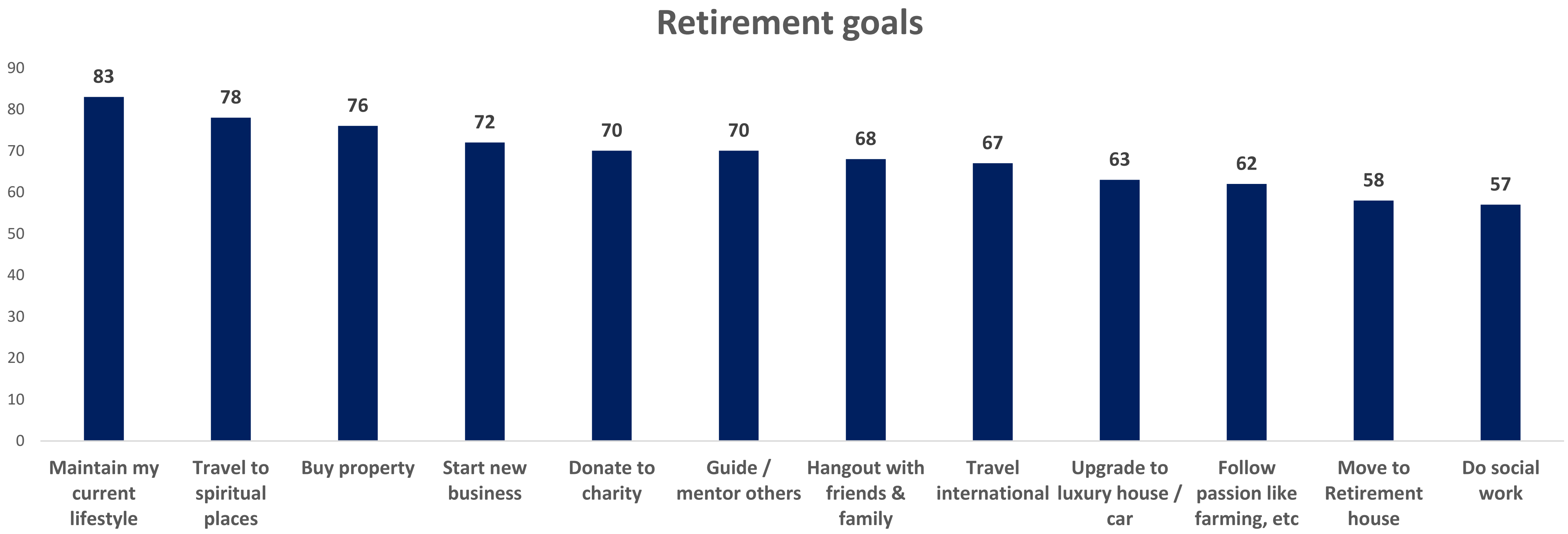
consider Health to be the most important factor in retirement

70% Indians

still depending on family wealth and children to finance retirement

***Source: Survey conducted by Max Life Insurance in 2023**

83% of individuals want to maintain the lifestyle post retirement



*Source: Survey conducted by ICICI Life Insurance in 2022

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