



Why is mutual fund retirement planning important?



Because most individuals believe that retirement is far off and that shorter-term concerns are more important, retirement planning is one of the things that working people disregard the most. Many people discover they haven't saved enough for retirement as their retirement date approaches, and they start to worry about losing their financial independence. Your years of arduous effort in your profession come to an end when you retire. This ought to be your prime time, and you ought to be financially worry-free.

Why is retirement planning crucial?

- **Inflation:** Over time, inflation lowers the purchasing power of money. After a year, Rs 100 will only be able to purchase goods for Rs 95 if inflation reaches 5%. It can only purchase things valued at Rs 60 after ten years and Rs 37 after twenty. Your money will get less and less worth while your needs stay the same. It is crucial that your money increases over time in order to combat inflation. You must account for inflation.
- **Growing health costs:** As people age, health issues become more significant for elderly citizens. Nonetheless, the price of high-quality private healthcare is rising quickly in India. According to several research, the annual inflation rate for medical bills is about 15%. A major illness might deplete a significant portion of your retirement funds and cause you to experience significant worry.
- **Declining interest rates:** For regular financial inflows, seniors have historically relied on government small savings programs and bank fixed deposits. The interest rates on government small savings plans have decreased dramatically during the past 20 years.

The money supply will expand along with our economy's GDP growth, and interest rates will decline even more. Increasing your savings and building up a bigger corpus can help you earn enough money to cover your post-retirement needs.

- **Pension:** The majority of Indian society does not receive pensions. Unlike workers in western countries like the United States or the United Kingdom, private sector employees in India lack a national pension program, which serves as a safety net. Throughout their working years, they must save and invest methodically in order to generate their own source of income after retirement. As such, one of your top financial priorities during your working years should be retirement preparation.

What is your retirement needs amount?

In our working life, we have a lot of duties, such as paying home loan EMIs, looking for our parents' aging needs, and attending to our children's schooling. It's a common misconception among many people that when they retire, the majority of their expenses would disappear. According to financial advisors, 70–80% of expenses continue after retirement. Assume you have ten years till you retire and your monthly costs are Rs 1 lakh. If inflation stays at 5%, your expenses after ten years will come to Rs 1.6 lakhs. Your monthly post-retirement expenses will be Rs 1.1 lakhs if your post-retirement expenses are 70% of your pre-retirement expenses.

If you receive an 8% return on investment, you will require a corpus of Rs 1.7 Crores to produce a monthly income of Rs 1.1 lakhs. When assessing the corpus, taxes and inflation were disregarded. You will require a retirement corpus of Rs 2.5–2.7 Crores to maintain financial freedom throughout your retirement, assuming a 25–30 year retirement period and 5% inflation. You should also have some emergency savings saved aside in case of illness or other unforeseen circumstances. You must have an even higher corpus if you wish to leave an estate (inheritance) for your loved ones.

The amount to invest and save?

Assume for the moment that you have ten years remaining to reach your retirement objective and that you require Rs 2.7 Crores. You would need to save over Rs 1.5 lakhs a month, assuming an 8% return on your funds, in order to reach your retirement target. Many investors may find it an intimidating undertaking due to other financial responsibilities such as home loan payments, preparing for their children's college tuition, planning for their children's marriage, etc. Even though it's a big task, if you have a solid financial plan and begin saving for retirement early in your career, you can accomplish it. Mutual funds may enable you to simultaneously achieve your other goals and your retirement planning objectives.

Using mutual funds to plan for retirement

One of the key components of wealth building is the return on investment. By exposing you to a variety of asset classes and subclasses, [mutual funds](#) may help you generate higher returns. Equity has historically been the best-performing asset class over the long run, according to historical data, and it may help investors make significant gains over an extended investing horizon.

The total returns index of the top 50 Indian stocks by market capitalization, or Nifty 50 TRI, has produced 10.3% compound annual growth rate returns over the past ten years (Source: NSE India). With a monthly investment of Rs 1.2 lakhs, you might have amassed a corpus of Rs 2.7 Crores if you had been investing in Nifty 50 TRI through monthly Systematic Investment Plans (SIP) over the last ten years in order to save for retirement. You might have achieved the goal of amassing Rs 2.7 Crores by investing just Rs 55,000 per month through SIP if you had started five years earlier.

Methodical Investment Strategies

One of the greatest methods to invest for retirement is through a mutual fund systematic investment plan (SIP). With SIP, you can use your regular monthly savings through auto-debit from your savings bank account to invest in the mutual fund scheme of your choosing, depending on your financial needs and risk tolerance. SIP can help you become more disciplined about investing because it forces you to set spending limits and make consistent investments. By utilizing stock market volatility, SIPs in equity mutual fund schemes also average your purchase costs (Rupee Cost Averaging).

As little as Rs 1,000 can be used to begin your SIPs, along with extremely tiny monthly (or other interval) investments. The force of compounding allows you to develop greater wealth throughout the course of your SIP tenure. The following graphic illustrates the monthly SIP investments needed to build up a corpus of Rs 3 crores over various investment horizons, based on an annualized return of 12%. As you can see, compounding has a tremendous amount of power over longer time periods.

SIPs for [mutual funds](#) are incredibly adaptable investing choices. If you miss a SIP installment because your bank account balance is insufficient, there are no fees or penalties. Simply said, you won't invest during the months when your balance is insufficient. If there is no pressure on you and you have enough money in your account, the SIP will start up again the next month. You should be aware, though, that your SIP may terminate if you fail to make three

consecutive SIP installments because of a low balance. For your SIP to resume, you will need to submit a new application for SIP registration. Whenever it's more convenient for you, you can pause and resume your SIP.

Conclusion

During our working life, one of our top financial goals should be retirement planning. Many people give up on their retirement goals in order to support their children's marriage or further schooling. They are unaware that they could wind up burdening their children financially if they lose their financial freedom in retirement. One investing option for retirement planning that also helps you achieve your other financial objectives is mutual funds. Talk to your financial advisors about how to use mutual funds in your retirement planning.