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Retirement corpus requires sufficient liquidity, growth

Ruth Preeta Christian has built a corpus that now helps her lead a retired life independently

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Despite saving 10% of her earnings all through life, Ruth Preeta Christian, 58, often wondered whether she would be able to fend for herself after retirement.

"This is because I did not manage my money efficiently, even though I earned well," she said.

Currently settled in Chennai, Preeta worked in Dubai for 20 years. "I was so busy working and earning that I tended to just put the money in the bank," she said. Also, she invested heavily in real estate and bought a life insurance endowment policy for hefty annual premiums.

As much as money management became an issue initially after her retirement, Preeta said the same became a lot easier after she appointed Finzscholarz Wealth Managers as her financial planner.

Liquidity was an issue initially: When Preeta went to Finzscholarz three years ago, Renu Maheshwari, Sebi-registered investment adviser, chief executive officer and principal adviser at the firm, pointed out that liquidity was an issue for her.

"Though she had sufficient wealth, she had very limited liquidity. There was enough liquidity for the next 3 years, which got more strained when the rental income also went down," said Maheshwari. "And this fact made her insecure whether she would have enough money to live on her own."

After a thorough analysis, she was advised to liquidate some of her real estate. A redundant high premium insurance policy was also surrendered.

Currently, Preeta does not have life insurance. She has health insurance with a ₹10 lakh cover to take care of her medical expenses. Her plan also covers critical illnesses.

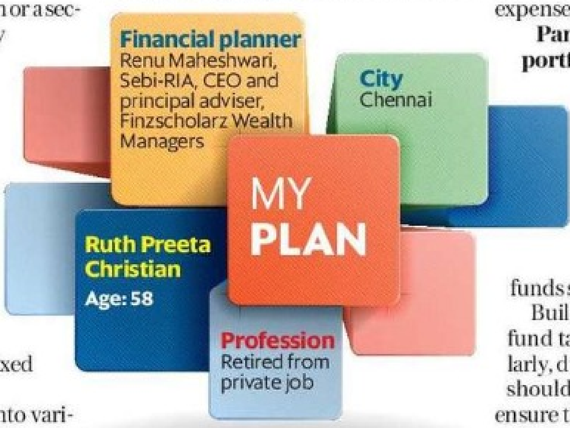
Generating a regular income: Post-retirement, the primary objective for Preeta was to ensure there was a regular income to cover her day-to-day expenses. "At no point in life do I want to be an inconvenience to my children, and I don't ever expect them to support me financially," she said.

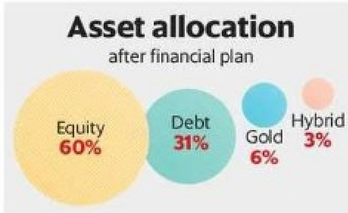
She does not have a pension or a secondary income, so the money has to be generated from her retirement corpus.

In such cases, two things need to be taken care of. "First is sufficient liquidity, second is growth of the corpus," Maheshwari said.

To ensure this, we keep five years of money meant for expenses in 100% safe instruments with easy liquidity. This can be a combination of various kinds of fixed income security, she said.

"Rest of the corpus goes into various instruments, for which the asset allocation depends a lot on the markets. We try to keep a substantial portion of this portfolio in equity. Considering inflation and increased life expectancy, it is necessary to ensure that the corpus grows at a rate sufficient to take care of inflation-adjusted income for the next 30-35 years," Maheshwari said. Most equity exposure is through mutual funds.





"Now, at the end of each year, we take out the money needed for next year's expenses and move it to her bank account. The redemptions are done based on market conditions and tax outgo," Maheshwari said. "We keep monitoring the portfolio and review it every six months and take corrective action if needed."

Expenses beyond: With a roof over her head, medical expenses and monthly expenses covered, the biggest wish Preeta expressed is to travel the world. "My travel plans were muted due to the pandemic, but from next year, I wish to start travelling," Preeta said. And, accordingly, her plan has been drawn up. "Whenever we get more than the targeted returns from equity, those profits are harvested and she can spend it on all her discretionary expenses," Maheshwari said.

Pandemic's impact on Preeta's portfolio: Initially, during the pandemic, Preeta's entire equity portfolio (she had about 46% of her portfolio in debt at the beginning of March 2020) went into red.

However, once the markets started reviving, the funds started coming up.

Building a substantial retirement fund takes years of planning. Similarly, during retired years, the corpus should be managed with caution to ensure that it lasts a lifetime.

Your retirement year can be bliss, but only if money is handled with care.