

Retirement at Risk

Factors to consider when planning Retirement

- Insurance — If the client is insurable, determine if the cost is worth the coverage, especially health insurance.
- Cost-of-living adjustment — Help your client in considering an annuity option that helps him to offset inflation.
- Life expectancy of spouse — The joint and survivor annuity may make more sense as women tend to live longer
- Income tax — Annuities and benefits are treated as taxable income

EXPERT SPEAK



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has encountered clients who have had to make financial adjustments to plan for a financially sound retirement without feeling scared about uncertainties in the golden years.

Do clients realise they have less to live with in retirement?

Though it may sound a bit odd, actually most people don't realize they will have a shortfall in their retirement corpus and when the realization does strike, it's a bit late in the day. Even amongst those who estimate future needs; the assumptions do not consider inflation and the impact of tax, which puts the retirement corpus far too less than necessary.

What corrective measures do you suggest clients who face retirement shortfall?

It actually depends on when the problem is identified. Most often clients walk in when they are very near to retirement and are looking for investment options in retirement. While it gets too late to explain and work on saving adequately towards retirement, we tend to focus on the situation in hand which calls for ways in which the retirement corpus can be stretched. We also ensure liquidity and medical cover for any emergencies without impacting retirement savings and income streams.

What key issues do you evaluate and consider from the basic information provided by the client, when a client is in such a situation?

We draw up a plan considering the client's requirement and resources from the data provided, which helps in bringing out the perfect picture on the retirement gaps that exist. We

go extremely conservative in our estimates once we identify the gap in retirement savings and redraw the plan. The higher inflation and lower returns does paint a grim picture, but it also indicates the worst case scenario which may not be what one will face necessarily. We determine the reasons for the short fall, which typically can arise because of four reasons:

- Insufficient savings, which happens due to underestimating retirement needs and goals.
- The do not earn enough or spend more than they should
- The market risk pushes them to be conservative with investments which in some instances does not even match inflation
- Wrong choice of investments with a tendency to save in low assured return instruments than equity.

What immediate action do you recommend?

Once we are able to identify the problem, we start addressing the most crucial problem depending on one's life stage and make some generic suggestions such as:

- Reduced expectations: Instead of an elaborate retirement, they should consider a conservative life in retirement
- Reducing expenses: Discretionary expenses can be curtailed and checked, this should be spelt out clearly to the client
- Saving aggressively: Reducing expenses gives room to savings, which can be diverted to better earning investments
- Review investment portfolio: Clients tend to have asset-class bias, which should be spread out and diversified to mitigate risks and increase returns.

How do you help clients cope emotionally to such situations?

It is really tough to handle such a situation, a way out is to make sure that the client does not panic with the tough recommendations and suggestions. We share details of some other clients who are better after undergoing some hard financial changes for a better and longer retirement. We also focus on helping clients see value in cutting corners now than get into a state which can be traumatic.

How I helped my client

Last year a prospective client in his late 40s came in very confidently with the plan of retiring as soon as possible. When we analysed his finances to plan his retirement, he realised how skewed his investments were. He had 90 per cent of his investment in real estate which was being serviced with loans. In effect his cash flows were negative as he was dipping into existing resources to service his current lifestyle and loan commitments.

FOCAL POINT

- Basic liquidity ratio: 1 Month
- Expanded Liquidity Ratio: 4 Months
- Liquid Asset Coverage Ratio: Less than 2.5%
- Solvency Ratio: Close to 13%

Once these ratios and their impact were explained the client realised the financial impact of the situation and the fact that he would not be able to take an early retirement. We suggested he reduce his discretionary expenses. Next, we let out one of his properties to get cash flows into the black. We also converted the endowment insurance plans to their paid up value. Both these efforts resulted in better cash flows, but it was not enough.

We then worked out the benefits of selling one of the real estate properties, which brought down his debt by 75 per cent. We then suggested him the option of adjusting a lifestyle much lower than what he was used to if he still desired to retire early or delay his retirement by three years to manage what he was hoping for. He agreed to postpone his retirement, which will help him achieve all his other financial plans as well.