The Financial Literates
Your Guide in Financial Journey

10 Big Lies That Skew Retirement Planning

10 BIG LIES

One has to be very cautious and meticulous while preparing a correct retirement plan to lead a financially comfortable retired life.

-Hemant B

Retirement planning has gained prime importance largely due to change in the lifestyle of people, increase in life expectancy, concept of nuclear families, and an urge to live independent retirement life without being financially dependent on children.

One has to be very cautious and meticulous while preparing a correct retirement plan to lead a financially comfortable retired life.

Over this, there are many lies/myths surrounding retirement planning which needs to be dispelled or it may hinder your progress in planning for retirement.

1. Too early to start saving:

Why be bothered when I am just starting my career, is what many think. It's a general myth that they can save later on in life for their retirement in their 40s.

People think that since salary is low at earlier stages, it would be better to contribute bigger amounts when the salary gets fatter.

Small savings at initial years of employment in life is more beneficial than saving large amount at later stage in life.

An SIP (systematic investment plan) in mutual fund of Rs 1000 for 35 years compounded at an annual rate of 15 percent can give approx Rs 1.45 Cr, where as Rs 10,000 for 10 years will give you only Rs 27.5 lakh amount earning a similar return.

2. Social security will take care of retirement needs:

During their careers, people generally don't bother about their retirement life as they think that social security benefits will take care of their retirement needs.

This is very common with people serving in government departments. But, social security benefits doesn't guarantee the same standard of living of a person in the post-retirement phase considering the inflation and the old structure of defined benefit plan.

3. Need less income after retirement:

It’s a myth that one will spend less money after retirement. It has been observed that people spend more money in the initial years of their retirement.

This is the time when they freak out, purchase what they have been longing and do things they had been postponing due to their hectic work style during their career.

They spend money on holidays, gifts and hobbies.

4. Medicare will cover all health expenses:

Medicare doesn’t cover all heath related expenses.

There are many costs which are not covered under medical insurance and the burden of these costs fall directly on the person.

Even medical insurance covers only a portion of doctor’s fees and treatment and not the entire treatment.

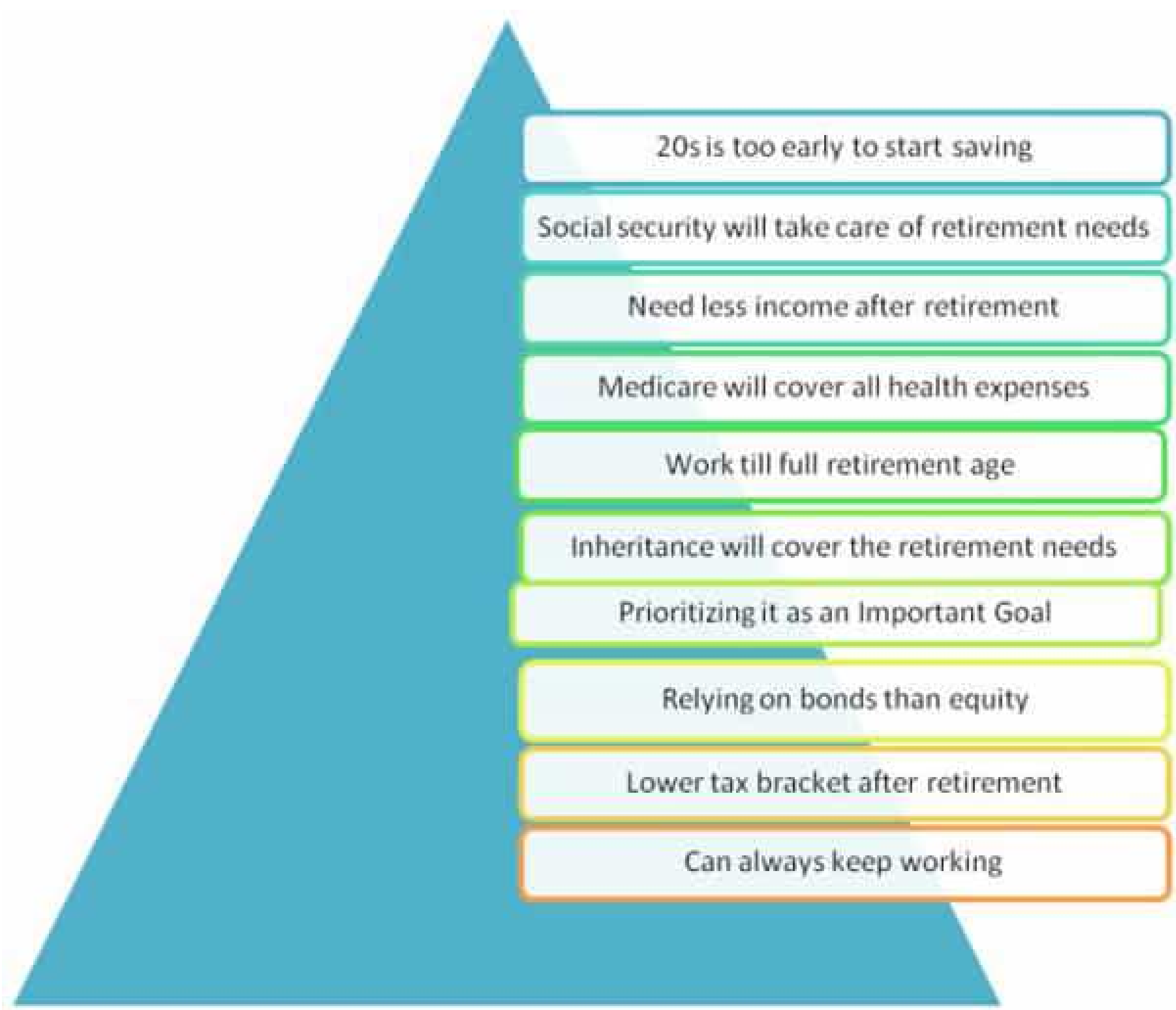
These costs are estimated to be huge and must be considered well while preparing a retirement plan.

5. Work until full retirement age:

People believe that they will work until full retirement age which is 60/65 in most cases.

But one cannot be certain that one will be able to work until the age of 65. It has been observed in many cases that one has to unwillingly take an early retirement due to some untoward circumstances like health issues or changes is working environment.

Thus one should start saving for their retirement from the initial years and must not rely on the savings of the last years of employment.



6. Inheritance will cover the retirement needs:

Calculative Indian minds should not forget at least this!

If one is likely to inherit some fortune in future, it doesn’t mean that one should not bother about the retirement needs.

It can be likely that the inheritance could be used for paying off the debts or building assets for future generation.

7. Prioritizing it as an Important Goal:

The greatest challenge faced in retirement planning is that it is never given prime priority.

When one prioritise his or her desires, retirement planning never finds the first place and one keeps postponing or putting it off until other desires are met.

8. Rely on Debt than Equity:

It's a myth that one should invest in debt/bonds/FDs which are safe investments for retirement and should keep away from stocks.

While planning retirement for a 30-year period, one can invest in stocks either directly or through equity mutual funds which are professionally managed.

Inflation can erode the returns of your investment in bonds.

Also if you are planning for 25 years plus, equity is best in terms of returns.

9. Lower tax bracket after retirement:

It is not necessary that income after retirement will fall in lower tax bracket.

It may be possible that income clubbed together from all the sources (like from pension, rental income, interest, capital gains and income from other investments) can raise an individual to a higher tax bracket.

10. Can always keep working:

A person may want to keep working even after retirement, either part-time or full time.

But it may not be possible for all.

Thus few of these myths related to retirement planning can obstruct us in building a correct and suitable plan to fulfill the needs of our post-retirement life stage.

A true financial planner tries his effort best to eradicate and educate these myths.

One needs to understand the implications and should take advice from a professional for building a successful Retirement Plan.

Retirement is an important phase of life and retirement planning should not be neglected.

A healthy mind fit body and a proper retirement plan will help you look forward to a happy retirement phase.

You can be in charge of your retired life and add value to it instead of just allowing life to drift by.

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