KUMBLE Investment & Financial Advisors

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Retirement Security Or Retirement Disaster for Indian Middle Class Family

Time Tested strategy of compounding steadily is the path to financial security and decent corpus for retirement. India today has emerged as a bright spot in global economic scenario and is on the verge overtaking European countries and USA in terms of compounded returns and the reason is Indian stock market delivering better returns on a Global scale.

India is now close to America in wealth creation by way of stock market returns making it a preferred destination for International Investors. The financial transformation in the Indian investors has resulted in more money channelized in stock market as well as in the Mutual funds. D-mat accounts have tripled in the last 3 years. The mutual fund AUM is now almost 50lakh crore from nearly 8lakh crore in 2013 which is almost 6 times in the last 10years and expected go to 1lakh crore by 2028. The BSE index is now expected to move to 1,25,000 by 2028. Even though in India per capital income is not as other developed countries massive inflow is coming into the financial system by contribution from stock market NPS, Mutual fund, Life Insurance etc which has tripled in the last 10years, resulting in the stock market Index moving by 3 times BSE index in 2013 was 23,500 and in 2013 December almost 70,000. This inflow of fund in to the financial system has reduced the cost of capital with the government bonds now giving yield of 7 to 7.5% from 9 to 10% a decade ago.

The inflow in to the financial system as changed the capital market with stage setting now for a new Era of financial opportunities and growth. Despite this explosive growth in the financial system nearly 6 to 7 crore individuals or families or not saving enough or not having a proper financial planning for retirement.

For example a middle aged individual of 45 years with both Husband and wife working or husband working with annual income 25 to 30lakh now which is currently enough to take care of family needs, housing loan and Children education without much financial savings or investments and aiming to work up to 60 years with another 15 years of productive income earning opportunity.

On retirement at the age of 60 and hoping to leave for 20 more years till age of 80 assuming 9 to 10% tax free returns with a inflation of 5 to 6% every year, the family would require atleast 35lakhs of financial corpus every year and lump sum corpus of nearly 5crores. To achieve this corpus of 5cr at the end of 60th year you have to invest a lump sum of nearly 1.5cr at an average returns of 12% per annum for the next 16years or an SIP of Rs.1 lakh per month for the next 15years. Hence every middle class family will have to plan post retirement with the combination of tax free pension every year along with life cover possible as well as substantial investment in Mutual Fund which give a compounding return of more than 10 to 12% p.a. This can be achieved with the combination of lump sum in mutual fund or SIP in Mutual fund and tax free pension plan. Finally concluding the path to financial security and decent corpus for retirement is achievable with financial discipline with the guidance and support of qualified financial consultant or advisor.

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