How to retire early? Start planning early

Early retirement is an alluring dream, but few are able to realise it as they start planning for it too late. To retire at 50, you cannot start planning when you are 40

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ISTOCK

With an increasing number of individuals earning salaries that can lead to significant savings, combined with the pressures of demanding professional commitments, many mid-career professionals are exploring early or partial retirement, say financial advisers. However, despite early retirement being a rising aspiration, the number of individuals who actually realise it, are very few. "Everyone is talking about it, but no one is actually able to do that," said Gaurav Mashruwala, a Secutities and Exchange Board of India (Sebi) registered investment adviser. "Many people are open to the idea of an early retirement at around 50-52 years of age.... Retiring at 40 is also an aspiration for many, though in most cases it remains just an aspiration," said Anil Rego, chief executive officer and founder of financial advisory firm Right Horizons. Quite a few serial entrepreneurs and people from top management have either opted to retire when they hit their 50s or opted to work in a semi-retirement mode, he said.

For some, early retirement is a means for following passions that were left unexplored. But for most, it is an escape from the taxing daily routine as well as the frustration of doing something that they do not want to do. But this mindset is fraught with dangers, said Mashruwala: "If early retirement is used to escape from something, then people should realise that circumstances

that gives enough time to plan and accumulate the corpus. Ideally, retirement age should be at least 15 years away, from when one starts to plan the retirement, he said. So, to retire at 50, you should have started planning when you were 35.

After squaring off any liabilities, one needs to check if the assets are enough for all the goals yet to be met for the family, including retirement. "The monthly or annual expenses need to be met from the accumulated corpus, hence it has to last

and the portfolio should be realigned with increased exposure towards debt mutual funds, debentures and fixed deposits on a step-up basis as you approach retirement, he said.

BEWARE OF UNCERTAINTIES

Savings alone may not be enough to sustain you for a retirement period of 20-30 years, unless these savings are routed into investments, Rohira said. "We suggest to start investing for

keep changing and soon they will be frustrated with something else."

In any case, by the time most people decide to retire early, they realise that don't have a corpus that can support their decision and end up continuing with their routine.

HOW TO PLAN RETIREMENT

Prakash Praharaj, founder, Max Secure Financial Planners, said that first you need see how far your financial goals—like education of children, owning a home and closure of loans—have been achieved. "Financial independence needs to be determined and later on post-retirement activities and hobbies need to be spotted," he said. A healthy corpus through savings is vital, which can be achieved only by planning in advance. "If people want to sustain their lifestyle, then they should target a minimum retirement corpus of 12-15 times their final annual income, assuming that they want to retire at 52," Rego said.

One can look to retire between 50-55 years, as till the person lives, which today is reasonably estimated at age 90, since modern medicine is helping us live longer," said Chitra Iyer, chief operating officer, HappynessFactory.in.

VITAL FINANCIAL INSTRUMENTS

The first and most important financial instrument to have is adequate insurance cover. "Though insurance may not have a direct financial impact on the retirement fund, it will act as buffer to handle any emergency," Rego said.

Next, decide the asset mix in which to invest your savings, to create the retirement corpus. "Often we are confused about the asset mix when it comes to planning for retirement and we go heavyweight on debt...one should remember that time is the crucial supporting factor in planning for early retirement. Here, equities scores here over debt in terms of building the portfolio," said Dinesh Rohira, founder and chief executive office, 5nance. To start with, one should set the highest allocation to equity—up to 80%— this goal at a steady pace and take a step-up approach by investing higher amounts with each passing year," he said.

Even while preparing for retirement, you could face challenges—such as medical emergencies—that may tempt you to liquidate savings. But remember, your money needs time to grow. Sticking to the plan and staying invested gives it that time. "There are a lot of situations beyond one's control, which have the potential to stray you from your plans.... Having a good adviser can help you tide over these and achieve your goals," Iyer said. Usually, most families start saving and investing much later in their earning lives. "This does not give investments the chance of earning good returns by benefitting from the power of compounding, which is necessary to accumulate a good corpus," Iyer said.

Once you start to prepare for early retirement, you will also have to prepare for the retired life as that too has many aspects apart from financial independence. But that is another story.