

### **Case study: Retiree**

Mr. Tarun Malhotra (65 years)

Ms. Anuradha (60 years)

### **Present assets**

- Cash in bank: Rs. 18 lakh
- Fixed deposits: Rs. 21 lakh
- Own house: Rs. 80 lakh
- Post office schemes: Rs. 4 lakh
- Plots of land in Delhi: Rs. 18 lakh
- PE fund: Rs. 12 lakh
- Equity mutual funds: Rs. 1 lakh

### **Milestones**

The couple is looking to use their existing holdings to have a comfortable retired life. Their lifestyle spend is Rs. 35,000 per month. They are evaluating the option of spending on 2-3 foreign vacations in next 5 years each costing Rs. 3 lakh.

They are also keen on bequeathing their wealth to their two granddaughters in equal share.

### **Retirement planning and portfolio building**

- The income requirement of Rs. 4.2 lakh per year in the current year requires Rs. 90 lakh when budgeted for inflation in the next 20-25 years.
- The existing assets add up to Rs. 74 lakh excluding the primary residence. This is unlikely to be sufficient when considered for the income requirement. The options for the couple include the following
  - reduce the income required per month to Rs. 30,000/-
  - take out a reverse mortgage on their primary residence after next 8-10 years
- The current portfolio allocation is grossly inappropriate for retirement planning. Following issues exist.
  - As much as Rs. 30 lakh out of the total investible assets of Rs. 74 lakh are in illiquid holdings and are not generating any income. This needs to be converted into income generating assets such as commercial property or monthly income plans

- The private equity allocation is too aggressive for this portfolio. It should be reallocated to direct equities and debt at the first possible exit from the PE fund.
- As noted above, the land holdings should be converted into commercial property or a rental yield based REIT.
- At an aggregate level the portfolio needs to have two components
  - Income generating portion which at 8% can generate Rs. 35,000 per month in the present year. This amounts to Rs. 45 lakh.
  - Inflation linked portion which keeps adding to the income generating portion every year an amount sufficient to increase its returns to the inflation adjusted value of Rs. 35,000/- in that year

#### **Risk management**

- The couple should take senior citizen's health insurance and critical illness cover. There is no need to take any life insurance. They should also insure their property.
- A crucial risk that the couple should watch out for over the next few years is the longevity risk i.e. the likelihood that their lifespan is longer than the time for which their assets last. This may be important especially in the years in which the inflation linked portion of their portfolio has negative or very low returns.

#### **Milestones**

- The couple will find it difficult to go for their foreign vacations unless they are ready to reverse mortgage their property in the near future.
- They should prepare a will to effectively transfer their assets to their granddaughters.