Analyse Your Portfolio At Pre-Retirement Stage

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Retirement planning is one of the most important goals for every investor and hence should be given its due in the investment process. However, not everyone plans for this important goal properly and adequately. While some err by either not planning for retirement or by delaying the process of building a retirement portfolio, others plan but rely mainly on traditional investment options such as fixed deposits (FDs), small savings schemes and Employees Provident Fund (EPF). This often results in a shortfall during the retirement phase.

Needless to say, it is vital to have a plan in place and build a portfolio that has the potential to keep you ahead of inflation. It is equally important not to withdraw amounts during the corpus-building process. While at times it may be necessary to do so, making it a habit can negatively affect your post-retirement life. While investing early, having the right asset allocation and following a disciplined approach are important and it is equally important to analyse the approach to investing and reassess the portfolio at the pre-retirement stage i.e. 8 to 10 years before retirement.

That's because most investors can be expected to have taken care of other important long-term goals like children's education and buying a house by the time they reach this stage. Moreover, these are usually the best years in terms of capacity to save and invest as compared to earlier years. One thing that must be avoided during this stage is to take a new loan as it can disrupt your investment process. There may not be enough time to repay the loan and that can scuttle your investment process for retirement. If you are already repaying an existing loan, try to repay it as early as possible.

Of course, the ability to do so will depend upon the quantum of loan and surplus available.
To get the best out of investments at this stage, the key is to have the right asset allocation. Considering the time on hand before one needs to start generating regular income, equities must still be an integral part of the portfolio. The proportion of allocation to different asset classes holds the key from a risk and reward point of view. Asset allocation and the options chosen to invest in these asset classes determine the level of liquidity, income generation and tax efficiency of returns.

Mutual funds provide several options that allow you to generate tax-efficient regular income and make your money grow at a healthy rate. A systematic withdrawal plan (SWP) can be a smart strategy to achieve both these objectives.

Many investors tend to invest heavily in real estate to generate regular income post-retirement. There are pitfalls to this strategy as it can make you compromise in terms of liquidity, and quantum of income due to low rental yields as well as post-tax returns. Besides, managing regulatory and operational affairs relating to real estate can be quite cumbersome, especially if the property owned is not in the city of your residence. On the other hand, financial assets in the right mix have the potential to do better than real estate on all these counts.

Considering that you may require money at different stages of the post-retirement period and need to generate higher regular income, investing in financial assets like equity and debt through an efficient investment vehicle like mutual funds can be a much better option. Mutual funds provide several options that allow you to generate tax-efficient regular income and make your money grow at a healthy rate. A systematic withdrawal plan (SWP) can be a smart strategy to achieve both these objectives. Remember, tax efficiency of returns can make a huge difference to what you get to keep and hence it should be an integral part of your investment journey.