Mirae Asset Knowledge Academy

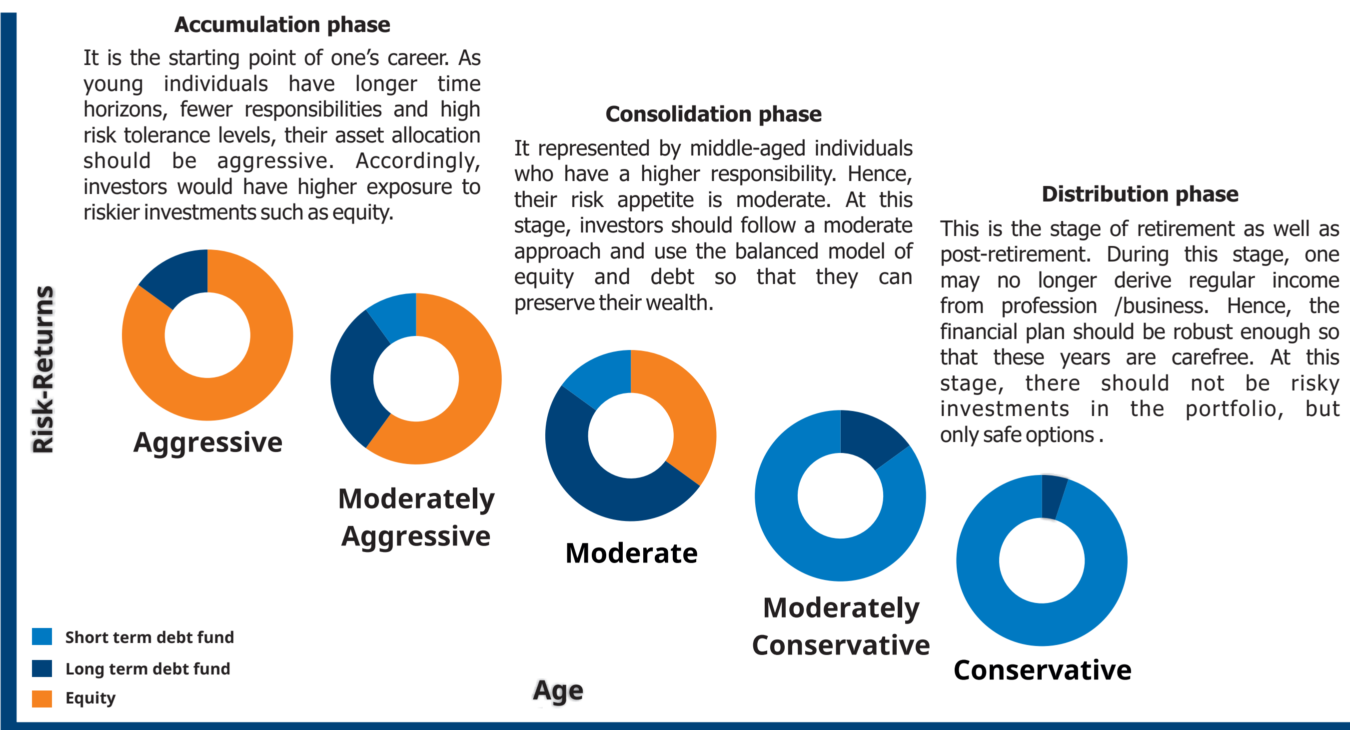
Profit from Knowledge

Plan For Your Golden Years With Mutual Funds

India is a young nation enjoying the gift of demographic dividend with its youth entering the workforce in large numbers. Young investors should have a high risk-taking appetite, but the asset allocation mix of our country is not in sync with the risk profile as bulk of household savings are put in banks' fixed deposits. Such a conservative approach is not prudent, especially for a long-term investment goal such as retirement planning.

Lifecycle-based investment – the ideal approach

The ideal approach for retirement planning is lifecycle-based investments viz., splitting retirement planning in three phase - accumulation, consolidation and distribution. As per lifecycle investing, asset allocation should be aggressive in the accumulation phase, moderate in the consolidate phase and conservative in the distribution phase. As the investor reaches retirement age, risk profile and asset allocation should change from aggressive (accumulation) to conservative (distribution).



For representation purpose only; asset allocation differs from case to case

Make retirement planning holistic via mutual funds

With a plethora of options in the mutual fund space, a portfolio suitable for each phase can be created in sync with investors' risk-return profile. For instance, equity mutual funds have returned over 21% p.a. in the past 15 years ended April 28, 2017 compared with market benchmark Nifty 50's 15%. It means Rs 1 lakh invested would have grown to around Rs 18 lakh during the period. In the debt space, mutual funds have different offerings for different needs. For instance, for liquid investments there are money market funds, for regular income there are accrual funds and for capital appreciation there are funds that do duration and credit play. Investors in debt funds also get benefits of indexation (which helps in lowering tax liability and improving post-tax performance) for a holding period of more than three years.

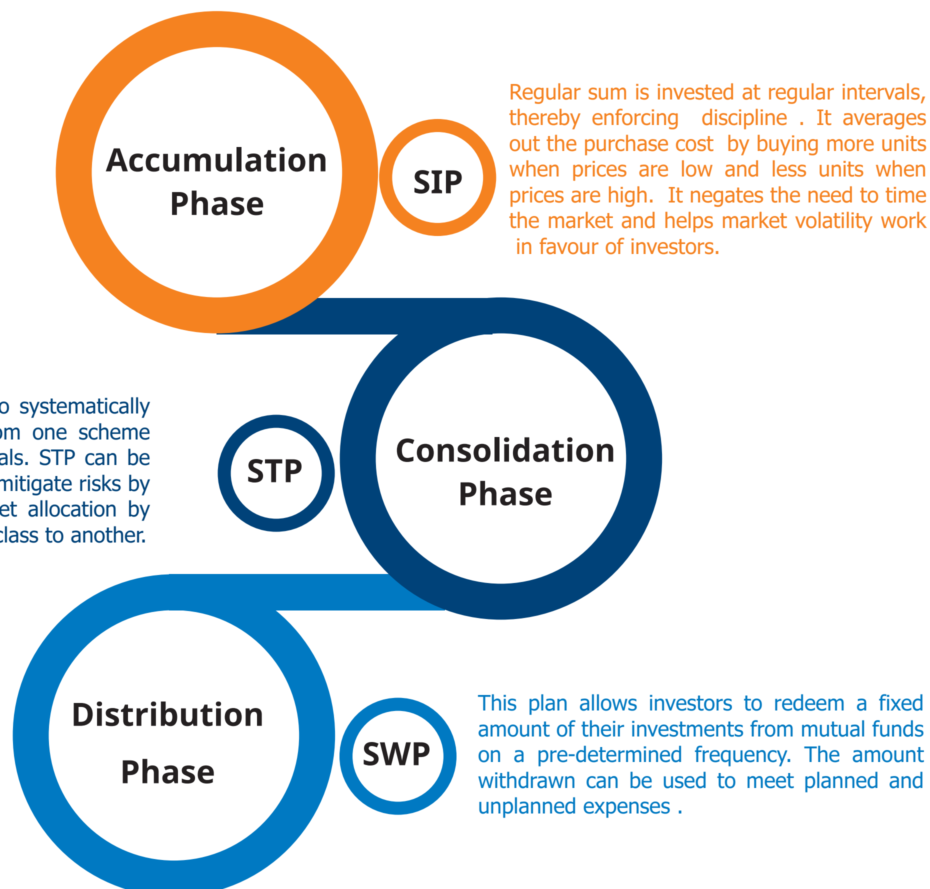
Table 1 - Performance of mutual fund categories across periods

Category	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years
CRISIL – AMFI Equity Fund Performance Index	9.00	26.64	19.43	17.80	12.58	21.24
CRISIL – AMFI Hybrid Fund Performance Index	6.68	21.00	15.89	14.06	12.11	14.54
CRISIL – AMFI Debt Fund Performance Index	3.17	9.51	9.70	8.96	8.52	7.66
CRISIL – AMFI Money Market Fund Performance Index	3.42	7.47	8.21	8.58	7.94	7.21
Benchmark						
Nifty 50	7.71	18.56	11.22	12.29	8.57	15.30
CRISIL Balanced Fund – Aggressive Index	6.01	15.74	11.39	11.54	9.10	12.57
CRISIL Composite Bond Fund Index	2.64	10.12	10.99	9.28	8.02	7.07
CRISIL Gilt Index	1.93	9.96	11.44	9.73	8.43	7.69
CRISIL Short Term Bond Fund Index	3.40	8.71	9.18	9.05	8.31	7.28
CRISIL Liquid Fund Index	3.30	7.07	7.99	8.32	7.58	6.81

Returns below one year are absolute and over one year are annualised; returns as of April 28, 2017. CRISIL – AMFI Equity Fund Performance Index consist of mutual fund schemes from diversified equity, large cap equity and small and mid-cap equity categories. CRISIL – AMFI Hybrid Fund Performance Index consists of mutual fund schemes from Monthly Income Plan (MIP) and Balanced fund categories. CRISIL – AMFI Debt Fund Performance Index consist of mutual fund schemes from Income, Gilt and short term debt categories. CRISIL – AMFI Money Market Fund Performance Index consist of mutual fund schemes from liquid and ultra short fund categories.

Incorporate systematic features in retirement planning

In order to achieve the retirement goal seamlessly, investors can strategically use the systematic features of mutual funds. To meet the retirement goal, investors may start systematic investment plan (SIP) in equity funds in the accumulation phase to kick start the power of compounding, then use systematic transfer plan (STP) from equity to debt funds to preserve wealth and finally use systematic withdrawal plan (SWP) to enjoy the retirement kitty.

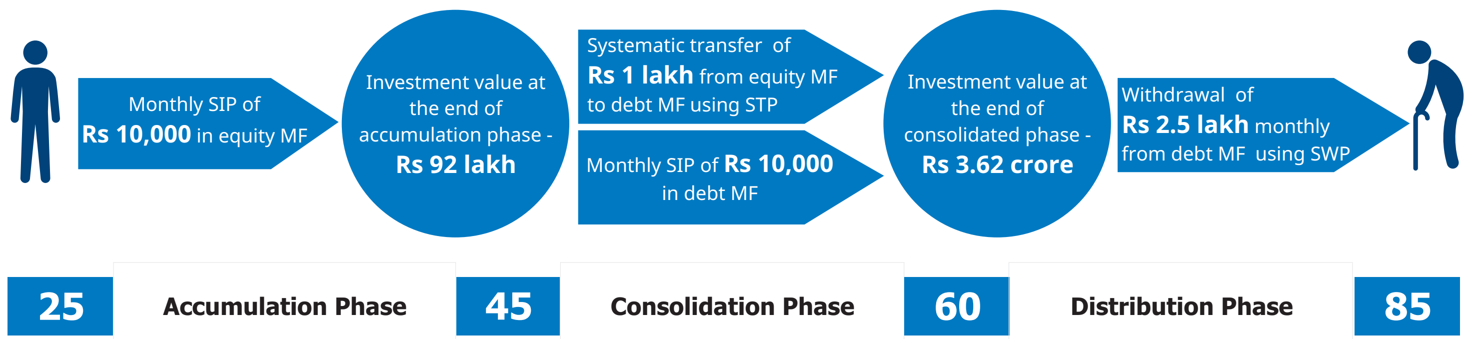


Case Study

A hypothetical case study shows how an investor can strategically use SIP, STP and SWP to build a sizeable retirement corpus.
A 25-year-old investor wants to build an ample retirement corpus till the age of 60 so that he can maintain his current lifestyle after retirement too. His key requirement is to get inflow of Rs 2.50 lakh post retirement, which is derived from his current expenses of Rs 30,000 after taking into account inflation of 6%.

Goal Assumptions

- Monthly income of Rs 2.50 lakh post retirement
- Equity and debt investment grows at 12% and 7%, respectively
- Equity exposure is systematically reduced to zero and portfolio becomes 100% debt by the age of 60 via STP



Mutual funds offer the best platform for retirement planning. You can allocate your corpus across various asset classes and opt for systematic features to make the process simple and seamless so that investors can enjoy their sunset years without a cloud of worries.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully