PGIM
India Mutual Fund

Peaceful Retirement continued*

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Dear Investors and Partners,

In an era defined by hustle & bustle, the pursuit of a peaceful retirement is one of the most important goals. The journey to that goal is as much a state of mind as it is a financial milestone.

Saving for retirement is a long-term journey, which can have with many ups and downs, emotionally and financially.

Assuming you start earning at the age of 25 and live till 95. You have a 70-year investment journey. During this period, you will see markets correct by varying degrees. Some corrections could be as sharp as 40%, other corrections might be in the range of 5-20%. It is during this time you will need help with sticking to your investment journey and not disturb the continuity in long term compounding.

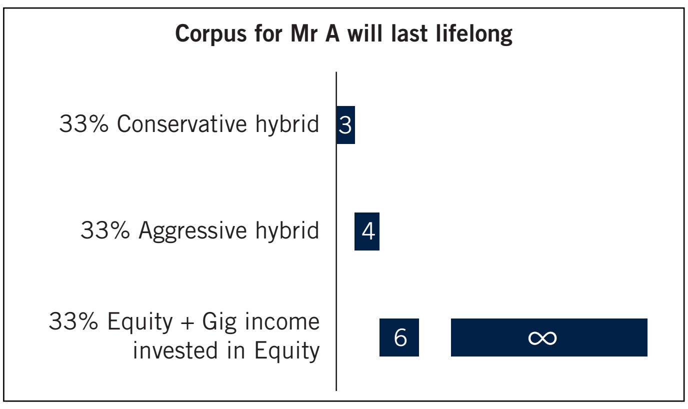
But in case need be, I can share a significant strategy which can be used to temporarily help manage a dip into your retirement corpus. We all are well versed with the concept of an emergency fund, usually 6-12 months of your expenses, saved for a rainy day. Let's extend the concept to retirement savings, that one can use during the withdrawal phase of their retirement.

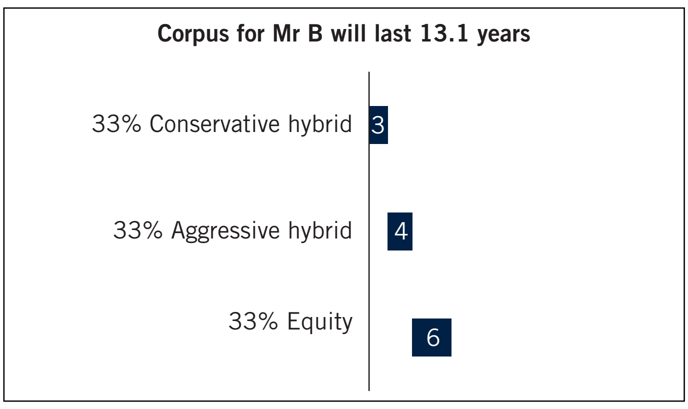
Even retirement practitioners recommend investors to build a Retirement Emergency Fund equal to 14-18 months of your monthly expense. It helps you to ride out any high market volatility event beyond your comfort zone. At such junctures, you can stop withdrawing from your portfolio and instead withdraw from the emergency fund allowing your core portfolio to recover over time. This could help your corpus last longer relative to withdrawing from your investment corpus during sharp downturns, riding the bear phase smoothly – continuing to compound your corpus.

The remaining corpus can be invested in Hybrid Funds which will help you create annuity and beat inflation over long run. Thus, a Retirement Emergency Fund helps you instill that discipline.

However, if you don't have this Retirement Emergency Fund you can still sustain your corpus longer if you supplement it with a secondary income. In my previous letter, we discussed how spreading your corpus into three different buckets can help you earn inflation-adjusted amount even if you live beyond 100 years *(Access the December 2023 CEO Letter here)*. Using the same three bucket strategy of deployment and withdrawal (namely Conservative Hybrid, Aggressive Hybrid & Equities), you can sustain your corpus for longer even with a smaller corpus. Let me take explain this with an example here:

Suppose A has a retirement corpus of Rs 25 lakh while B has 50 lakhs, both are 50 years of age. They both withdraw 1% monthly (25k & 50k). The corpus of A sustains for infinity while B's corpus lasts for 13 years. Why? A has a gig income of just 15,000 per month for a period of 13 years, which if he invests in the 3rd basket of Equity fund, helps to make his corpus last lifelong.





Returns assumed at 8.6% for Conservative hybrid (25% Equity: 75% Debt), 11.5% for Aggressive hybrid (75% Equity: 25% Debt), and 12.9% for Equities (Benchmark: 10-year GSec, Equity NIFTY, mean of 10 years 'rolling returns between June 1, 2013 to May 30, 2023.

The recent Retirement Readiness Survey 2023 conducted by PGIM India Mutual fund also reveals that Indians are seeking various ways to add to their income by monetizing their passion and acquiring new skills to fuel their aspirations post-retirement. *(Access the Retirement Survey here)*

This insight makes a lot of sense and seems practical as well as useful. As people are living longer, the prospect of an extended retirement poses significant challenges. The risk of longevity highlights the necessity for individuals to remain mentally and physically occupied well into their retirement years. Engaging in activities that one enjoys and monetizing it not only adds purpose to life, but also offers numerous health benefits. It helps one engage in mentally stimulating activities like learning new skills, volunteering, or pursuing hobbies keeping the mind sharp and ward off cognitive decline. Similarly, staying physically active through activities such as walking, gardening, or yoga not only maintains physical health but also enhances overall well-being. Monetising hobbies can help build a retirement corpus both before and after retirement. By turning passions into income streams, individuals can supplement their savings and bolster financial security.

Embracing purposeful occupation in retirement not only mitigates the financial strain of longer lifespans but also enriches one's quality of life, fostering a sense of fulfillment and satisfaction in the golden years.

Summing up, two ways to be better prepared for retirement.

One-having an emergency fund to ride the market corrections and not disturb the compounding in equities. Two-having a supplementary source of income which not only helps to engage yourself meaningfully (physically & mentally), but you also helps to make your corpus last longer and gives you financial stability.

Combining both the strategies as mentioned above may be even better. A good advisor can help you draw up a customized withdrawal plan for your retirement.

Stay safe & happy investing.

**Access the December 2023 CEO Letter here*