

V. VAIDYANATHAN

AWARENESS, GUIDANCE KEY TO RETIREMENT PLANNING

IDFC First Bank has seen remarkable success in 2023, riding on impressive financial performance, with deposits growing at 40% thanks to customer-friendly banking initiatives and tools. In an exclusive interview with **Suchetana Ray**, editor, *Outlook Business*, and **Nidhi Sinha**, editor, *Outlook Money*, **V. Vaidyanathan**, managing director and chief executive officer of IDFC First Bank, speaks about the importance of retirement planning early in life, the emotions of those concerned and the tools for retirement planning which can provide financial security and peace of mind

Considering the rising life expectancy and the need for a larger corpus post-retirement, what are your broad thoughts on this matter?

Firstly, I appreciate *Outlook* for initiating this 40After40 Retirement Expo series. It is very timely, especially considering the increasing life expectancy. The average life span, once around 50 or 60 [years], has now reached 70 and is projected to rise to 74 by 2030 and 78 by 2040, which is not distant at all, just 16 years away. This underscores the significance of your question. If [retirement is] not planned, people can find themselves in a difficult spot.

We are witnessing rapid societal transformations in India and globally moving from traditional large families to nuclear setups and evolving family dynamics. How does this shifting landscape impact retirement planning strategies?

Because of shifts in technology and change in economic conditions, life can be uncertain for the next generation themselves. So, we never know, the next generation may have their own financial and life issues to deal with. Or with increasing global mobility, the next generation, despite best intentions, may not be able to be physically present to help. Also, culture may

change over time. This can leave many individuals more financially and mentally vulnerable in their retirement years.

So, how hard can it get?

When I consider the elderly individuals we encounter daily, including our own parents, you can see for yourselves. Compared to their prime years, now they feel lonely; they sometimes feel they are not relevant in the family due to their health issues. Imagine, to add to this, if they have financial issues. To save early and to invest in retirement plans can help [reduce] stress and give security in old age.

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Given the vulnerability highlighted by factors like increasing life expectancy, how would you advise individuals, particularly our readers, to approach retirement planning effectively?

Absolutely, when considering retirement planning, it is crucial to factor in the uncertainties of inflation alongside the inevitabilities of death and taxes. Inflation significantly impacts the lifestyle one can maintain post-retirement, often requiring a larger corpus than anticipated. So, people have to start early, as inflation compounds over time. Additionally, the requirement of retirement planning is different for various income segments, as the implications

differ for the upper-, middle- and lower-income classes.

This leads us to our next query, focusing on the diverse economic strata. While we have the high-income group and the middle-income group, there is also the lower-income group, a demographic you have studied extensively. How does their financial status influence retirement planning, particularly concerning the vulnerable segments within this group?

The retirement planning may vary across all socioeconomic segments. I worry less for the upper-income segment. They have investments in

in his late 40s or early 50s. I was wondering to myself, 'God, how is this guy ever going to save enough? How hard his retirement will be.' Such people reach retirement age with little in the bank. How are they going to survive in their old age?

Assuming we successfully raise awareness about retirement planning, the stark reality remains: many in the lower-income bracket earn meagre wages. Is there any viable solution to address this issue effectively?

They have a hard life, as I said earlier. Here, raising awareness or providing education is not sufficient; concrete policy measures are necessary. Measures like social security contribution-based pensions are coming up and awareness needs to go up. We should not be relying on future governments to fund pension schemes. Contributions need to start, with a small contributions from the individual and some from the government, from today's budget. It will build a sustainable pool for the future. There are government schemes for this.

What about the middle class? Do you engage with them?

I talk to that segment too all the time. If the lower-income segment lives by the day, the middle class lives by the month. Their expenses keep increasing with income all their life, for children's education, paying EMI, higher education, car, home and so on. It leaves little room for savings. The only good news I see is that for many middle-class people, their next generation is better educated and better off financially, so they can hopefully support their parents. But as I said earlier, the next gen are themselves beating to the beats of a volatile workplace. Life can be difficult without planning,

equities, bonds, wealth managers, etc. Hopefully, they will probably be fine, though they too should be careful. Time is a strange thing, fortunes change. But in the context of retirement planning, I think more for the middle class and the lower-income bracket.

Can you expand for the lower-income segment? What are their issues in this context?

The lower-income individuals have the most issues. Picture a lift operator or a restaurant waiter. Just this afternoon, I was coming from Nariman Point and stopped by at a small local Punjabi restaurant. Since I was coming for this interview, I asked the waiter his income. He said, 'Rs 20,000 including tips'. He was

with mounting expenses and a life to live.

I find a paradox in your discussion about the middle class. They need to strike a balance between investing in their children's future and securing their own retirement. How do they do it?

Well, they have to balance. Often, it is not inability. It is lack of awareness, or lack of discipline. If they are educated about this issue, and if they are given good tools to simulate their requirement at retirement, and guidance to invest, they can do it. It is a hard life, but they can get somewhere if we support and guide them.

So that really brings us to what we can do about it.

We need to increase awareness, and the second issue is tools.

When we talk about creating awareness, where do you see banks like yours playing a role?

Banks hold a position of trust in people's lives. This trust imposes a significant responsibility on banks to guide their customers wisely. We have given a dedicated section for retirement solutions on our app, where customers can access tools like retirement calculators. These calculators help with a goal for retirement. For a given wish amount for retirement, we calculate the inflation-adjusted amount x years from now. Then we give investment options and suggest which MFs [mutual funds] they should invest in, debt or equity funds etc. India has



Photo: Sunil Khandre

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so many MFs, it guides them, the choice to invest or not, and in which fund, is entirely the customer's.

In the domain of personal finance, retirement planning often receives less attention. However, considering banks are among the most trusted institutions where people deposit their hard-earned money, what do you believe should be the foremost responsibility of banks in India regarding retirement planning? After all, the trust people place in banks is significant, and it is vital to address this aspect.

Yes, I agree. Upon reflection on

doing this interview, I feel we should make the page on retirement more prominent, it is somewhere inside the app. We will make the goal planning tool more discoverable and we will improve it further keeping that this is such an important thing for people.

Investment is crucial. While you might opt for a random figure, it may not align with your actual requirements. How does one choose how much?

Absolutely, and to help you grasp this better, let me offer a benchmark figure and the rationale behind it. Consider someone earning, say, Rs 12 lakh per year at the time of retirement, say Rs 1 lakh a month. If we aim for a retirement corpus equivalent to 10 times this annual income, it is around Rs 1.2 crore. Assuming a conservative interest rate of 6% to 7%, the interest earned would

be approximately Rs 8 lakh. Considering that post-retirement you will probably spend about 70% of your working life spends, you will need about 10x annual income in your corpus to retain a similar lifestyle.

Cash flows basically will smoothen up once you have that kind of income. Lastly, retirement planning is crucial, especially for vulnerable groups, for the middle class and those without pensions. In a growing country, inflation is almost as certain as death and taxes. We aim to raise awareness and offer essential tools through this program at IDFC First Bank. We will create more awareness and provide digital tools for people to use it. 