How to plan your retirement in 3 simple steps

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The second phase of retirement planning is tougher than first phase.
Also very less is written about this phase. This is the phase when we
survive on our financial capital.

Individuals have two forms of capital, human capital and financial
capital. Many of us who work to generate income are human capital.
Second form of capital is financial capital. Financial capital is our
savings and investment.

How to plan for your retirement?
We start our career as human capital. Over a period of time we save/
invest and create financial capital. When we retire we only have
financial capital. We remain human capital as long as we keep working.
Moment we cease to work we become dependent on our financial capital

In most cases our human capital is stronger than our financial
capital. If you are currently earning Rs 3 lakh per annum, you will
require at least Rs 37.5 lakh worth of capital to generate income
equivalent to your salary at 8.00% return. Also your salary will keep
pace with inflation, while your returns from financial capital may or
may not beat inflation.

The reason second phase of retirement is more difficult to plan is
because, during this phase

We are dependent on our financial capital
There will not be any kind of addition to already created capital
Financial needs are unique and dispersed
During retirement we require liquidity to meet contingencies. We also
require regular income to meet routine expenses and we also want our
capital to grow at a rate, which is equal to or preferably higher than
inflation.

All the three needs of, liquidity, regular income and growth are like three legs of a tripod. All three are needed for the tripod to stand. Unfortunately all are in opposite direction to each other.

If we place our entire retirement corpus into savings bank account, we will have liquidity. However, there will not be any growth. If entire retirement corpus is in stock than there is growth but income may not be regular. On the other hand if we invest all funds into post−office monthly income scheme/senior citizen saving scheme than there is regular income but liquidity will be at a cost of interest/penalty.

Why FMPs are more lucrative than Bank FDs?
For our retirement tripod to stand, we need all three legs to stand in bal