8 money mistakes to avoid in retirement

To safeguard your nest egg and enjoy a stress-free life after retiring, steer clear of these financial gaffes.

by **Yasmin Hussain**

Most people associate retirement with a slow, relaxed pace of life, pursuing passions and spending time with family, bereft of anxieties, financial or otherwise. Yet, many retirees wake up to a rude reality, when they find their corpus too small to sustain them through retirement, or a bulk of their savings wiped out by a single hospitalisation. Or, worse, investing in instruments that land them in a liquidity crunch, scrambling to meet their daily expenses.

Several seemingly small missteps, compounded over 20-25 years of retired life, can erode even a carefully built nest egg. The good news is that most of these pitfalls can be avoided with careful, timely planning. Go through these mistakes that can derail your finances in retirement, and find out how you can work your way around them.

MISTAKE 1

Not having a withdrawal plan

Overlooking this crucial step in retirement planning can lead to a financial crisis. Having a withdrawal strategy in place means calculating the optimum amount or percentage of retirement corpus to draw down each year so that it doesn't run dry. "An optimum withdrawal rate could be between 3-4% in the first year followed by inflation indexed withdrawal from second year onwards, depending on asset allocation and inflation rate," says Shilpa Bhaskar Gole, Prinipal Officer, Nerdybird Wealth Advisory.

Even a small variation in withdrawal amount can significantly alter the longevity of the corpus. For instance, if you have ₹2 crore growing at 8%, and you withdraw ₹1 lakh every month, the corpus will last 21 years, assuming 6% inflation. However, if you decide to increase this amount by just ₹50,000, the corpus will last only 13 years.

Without fixing a withdrawal rate, you risk overspending in the early years of retirement, leaving too little for healthcare and other exigencies. "If you link withdrawals to expenses, chances are these will be front-loaded, leading to lower capital and inadequate provisions for later years," says Dinesh Rohira, Founder & CEO, 5nance.com.

Investing smart for retirement

Mutual funds remain the most favoured by experts. The list goes from best to worst investments for retirement.

Product	Average Returns
Debt mutual funds	Market returns 1*
Balanced/Hybrid funds	Market returns 1
Equity mutual funds	Market returns 1
National Pension Scheme (NPS)	Market returns 1
Senior Citizen Savings Scheme (SCSS)	**8.2%** (Revised quarterly by government; taxable)
Public Provident Fund (PPF)	**7.1%** (tax-free, reviewed quarterly)
PM Vaya Vandana Yojana (PMVVY)	**7.4%** (reviewed annually; taxable)
Tax-free bonds	**5.5-6%** (tax-free)
Fixed Deposits (Bank/Post Office)	**6-7%** (Interest income taxed at slab rates)
Immediate/Life annuities	**5-6%** (taxable at slab rates)
Traditional endowment/Insurance plans	**4-5%** (taxable at slab rates)

*1-subject to market returns by equity and/or debt markets.

In the years immediately following retirement, continue to work or find alternative sources of income, so that you don't need to dip into the corpus and your investments can grow unhindered.

MISTAKE 2

Buying annuities

Annuities are often marketed as the perfect retirement product—guaranteed income for life, predictable payouts, and freedom from market risk. However, locking most of the corpus in an annuity can be a mistake.

The biggest drawback is inflexibility. Once you buy an annuity, the terms cannot be changed. Irrespective of the rise in expenses, medical emergencies or a surge in inflation, the payout from an annuity will remain unchanged. What seems adequate at 60 may feel insufficient at 75. Most annuities in India offer 5-6% returns, often lower than inflation, which means that the real value of income declines steadily.

Liquidity is another concern. Most annuities tie up a large part of the corpus, with little or no option for withdrawing the capital. This leaves the retirees without the ability to tap into their savings for emergencies or lifestyle needs. Also, annuities are tax-inefficient compared with other instruments.

A better approach is to opt for annuities along with other instruments that offer flexibility, liquidity and growth. While annuities could be earmarked for essential expenses like rent, utilities or groceries, the rest of the corpus could be spread across Senior Citizens' Savings Scheme, debts funds, or systematic withdrawal plans of mutual funds.

MISTAKE 3

Staying away from equities

Market volatility and fear of losing money make many retirees shun equities. While caution is advisable, avoiding equities completely is a mistake. This is because retirees often underestimate the corrosive impact of inflation on fixed-income investments. Over 20-25 years of retirement, inflation can halve the value of savings if the portfolio doesn't have a growth component.

According to Rohira, even those above 70 should hold 10-15% of their corpus in high-quality, dividend-yielding stocks. This ensures capital appreciation without excessive risk.

At the same time, do not go overboard with equities. Gole from NerdyBird points out that high exposure to equity at the start of retirement can lead to a 'sequence of returns risk', wherein an early bear market, combined with withdrawals, can deplete the portfolio prematurely. The solution is to keep 5-7 years' worth of expenses in safe debt instruments, while allowing the equity portion to grow.

MISTAKE 4

Relying solely on a medical buffer

Rising medical expenses and healthcare costs pose one of the biggest threats to retirement savings. Medical inflation in India is pegged at 12-14% and health conditions typically deteriorate after retirement. Yet, many retirees are either inadequately insured or drop the coverage when premiums rise, relying only on their cash reserves. This is a mistake because without sufficient insurance, even a single hospitalisation can wipe out savings.

Rohit Shah, Founder & CEO at GYR Financial Planners, explains that a major illness could quickly exceed the cash reserves. Even if health insurance is bought in later years at a high premium, it covers a large part of the hospitalisation expenses, which can run into lakhs for a simple procedure or surgery. A good strategy is to supplement insurance with a medical buffer. While a small basic plan, combined with a bigger super top-up plan, proves cost-effective, the buffer can take care of out-of-pocket medical expenses.

Another common error is dependence on corporate health plans during working years without the purchase of an independent individual policy. A policy bought after retirement is not only expensive but also open to rejection due to the high probability of medical conditions. If you don't immediately migrate from the employer's group plan to an individual policy, the gap period could expose you to high financial risk.

MISTAKE 5

Ignoring estate planning

Many retirees shy away from estate planning, assuming it is only for the wealthy. Not writing a will or nominating beneficiaries in financial products and failing to consolidate assets and records can create confusion and disputes later on.

"Nominations are administrative steps that ease the process of transmission or transfer of assets, and simplify death claims for movable assets," says Rajat Dutta, Founder & Initiator, Inheritance Needs Services. "Nominees, being mere custodians, represent the interests of the legal heirs or successors. Actual ownership is determined through probate in the case of a will, or via a succession certificate in the case of intestate demise." Families face severe legal challenges even when nominations are in place. Estate planning isn't just about the distribution of assets; it ensures a smooth transition and minimises conflicts and stress for the loved ones. Avoiding it could result in financial losses and undo a lifetime of prudent money management.

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MISTAKE 6

Illiquid assets

For many Indians, investing in property is the default retirement plan. While house ownership provides security, locking too much wealth in real estate poses a risk. Being an illiquid asset, property can't be sold or converted into cash instantly during emergencies. Not to mention the maintenance costs, taxes and legal hassles it entails.

Some retirees continue to hold multiple properties in the hope of capital appreciation, but this often leads to under-diversification and poor cash flow. "If day-to-day expenses or healthcare needs begin to outpace the income, a reverse mortgage can provide a steady stream of funds without the sale of property," advises Shah. This ensures financial independence while occupying the house.

A reverse mortgage is a loan, typically for people above 60, that lets them convert the value of their house into cash while still living in it. Instead of the borrower paying the bank, the bank pays the homeowner in regular instalments or a lump sum. The loan, along with the interest, is settled after the owner passes away or permanently moves out, usually by selling the house.

MISTAKE 7

Investing in tax-inefficient instruments

To protect and preserve their capital, retirees invest in safe debt instruments like fixed deposits.

"However, fixed deposits come with a hidden cost—taxation. The interest income from FDs is taxed each year at slab rates, which can shave off a significant portion of the returns for the retirees in higher tax brackets," according to Gole.

Over the long term, this steady outflow depletes the corpus that is meant to sustain them through retirement. A better idea is to use fixed-income products that are structured more tax-efficiently. One option is the deep discount bonds as the gains from these are treated as long-term capital gains (LTCG) if held for more than a year. Deep discount bonds are sold at a much lower price than face value without regular interest payments. The buyers profit from the difference between purchase price and face value.

At present, LTCG on such bonds is taxed at 12.5%, far lower than the slab rates. This difference can leave the retirees with thousands more in post-tax income.

MISTAKE 8

Holding debt in retirement

Entering retirement with unpaid home loans, personal loans or credit card dues is an absolute no-no. Without a steady income to service the debt, you would have to dip into your retirement corpus, which would not only cut into your living expenses but also leave you with a shortfall for the remaining years.

"High-interest loans, in particular, can force seniors to liquidate long-term investments prematurely. Besides, servicing EMIs on shrinking income streams can also cause undue stress," says Shah.

The smarter approach is to prepay loans and clear liabilities before retiring so that the savings are used only for living expenses and goals. Even partial prepayments can reduce the tenure and interest burden significantly.

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