

# THE HINDU Business Line

## Where to invest your retirement money

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Build a regular income generating portfolio.

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Are you retiring from work any time soon? While you can look forward to a surfeit of money from provident fund, superannuation and gratuity, it is important that you give a thought to where you will invest it.

If you have no pension or other source of monthly income, you will need to first build a regular income-generating portfolio with your retirement money.

Here are some options. You can use up to 70-80 per cent of your retirement funds to build this portfolio.

### Regular returns

If you have reached the age of 60, then the Post Office Senior Citizen's Income Scheme, remains your best bet, both in terms of safety and fixed returns. The added tax benefit also helps reduce your cash outflows.

With an interest rate of 9.3 per cent, this option will help you beat inflation, given the tax benefits. You can invest up to Rs 15 lakh in the scheme and withdraw interest every quarter.

Tax-free bonds that will be issued by Government companies this year is another option.

Make the best use of them if the rates are 8 per cent or above.

Remember, while you will not get any Section 80C tax benefits, your interest income is tax free. That matters a lot, especially if you are in the higher tax bracket.

The post office monthly income scheme can also form part of the fixed-return portfolio.

But with an interest rate of 8.5 per cent now, it is suitable only if you are in the 10 per cent tax bracket, or your overall income is less than the taxable limit. A good 40-50 per cent of your income portfolio can be safely parked in the above avenues.

The next chunk of say 30 per cent of your income-generating portfolio can be invested in bank fixed deposits that offer attractive rates. Stick to deposits with a 3-5 year maturity. They offer higher rates than longer tenure deposits. You can roll them over again.

Ensure that you restrict your exposure to small co-operative banks to Rs 1 lakh; that's the maximum amount backed by insurance.

Bank deposits also provide some liquidity. In case of emergency, you can always withdraw the deposit prematurely for a small penalty.

If you have a large corpus and the Senior Citizen scheme's limit is too less for you, then increase your investment in

bank deposits.

## Higher risk

Fixed deposits, debentures and bonds floated by companies fall in the higher risk category. This option is not for the faint-hearted as there is a risk of irregular interest payment.

You may even lose the principal if the company goes bust.

To mitigate this risk, you can stick to top-rated companies.

That means you need to look for ratings of AAA or AA+, given by credit rating agencies. Avoid the unrated ones.

You can also reduce the tenure of bearing this risk by locking in for a period of not over three years at a time.

But with bonds, you may have to enter for a longer period.

Here again, you still have an option (in most cases) of redemption mid-tenure. If such an option is available, go for it.

Restrict your investments in this avenue to 10-15 per cent of your income portfolio.

And remember with bonds or debentures, it is risky to exit before maturity, unless you are aware of bond price movements.

## Liquidity and returns

The more savvy ones can also consider parking up to 10 per cent of the income portfolio in mutual funds.

While these are not strictly income-generating investments, debt-oriented funds such as HDFC MIP Long Term or Canara Robeco MIP do declare dividends that can perk your portfolio returns. Note that these funds do not promise dividends.

Unlike interest income from deposits, the dividends here are tax-free in your hand. These funds will also provide liquidity.

You can, in your later years, also systematically withdraw the sum (called systematic withdrawal plan), thus providing you with some monthly income. Put down at least 5 per cent of your retirement proceeds in liquid funds.

If that's a hassle put them in a savings account of a bank that pays reasonable interest. Interest on savings account up to Rs 10,000 is now tax free.

## Build wealth

The above options can account for 80 per cent of your retirement funds. The remaining fund can be used to build wealth.

The NSC is a good option, especially if you want to save tax. Large-cap equity funds, balanced funds and fixed maturity plans of mutual funds can also form part of this.

If you are a pensioner, you can go for the above options, with some modification. Keep your income-generating portfolio to a maximum of 60 per cent. Invest 20-25 per cent in equity and balanced funds through SIP and the rest in debt funds and fixed maturity plans.

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