

# Retirement Planning & Corpus Building

*A Practical, Step-by-Step Guide with Worked Examples for Two Individuals — X and Y*

By SubbuS, Retired Banker | June 2026

## 1. Why Retirement Planning Matters

Retirement is the one financial goal you cannot borrow for. A child's education can be funded with a loan, a house with a mortgage — but no bank lends money to live on after you stop earning. The day your salary stops, your savings must quietly take over the job of paying every monthly bill for the rest of your life. With **rising life expectancy** and **relentless inflation**, that “rest of your life” can easily stretch to 25 years or more.

This article walks through a complete retirement plan for two individuals. **X** served in a Government job and draws a monthly pension of **Rs.70,000**, revised periodically through Dearness Relief. **Y** retired from a private organisation with **no pension** at all. Both, however, receive the usual superannuation benefits — Provident Fund, Gratuity and Leave Encashment. We work out, in plain rupees, exactly how much corpus each needs at age 60, how little they need to save from age 25 to get there, how to step that saving up over time, and finally how the corpus should be deployed across asset classes on the day they retire.

## 2. The Common Assumptions

Every calculation in this article rests on the following shared assumptions. They are deliberately simple and transparent so that you can re-work the figures for your own situation.

Parameter	Assumption
Average inflation rate	<b>6% per annum</b>
Retirement age	<b>60 years</b>
Life expectancy (longevity)	<b>85 years</b>
Retirement span to be funded	<b>25 years (age 60 to 85)</b>
Saving / earning begins at	<b>Age 25 (35-year build-up)</b>
Pre-retirement return (Mutual Funds)	<b>12% per annum</b>
Post-retirement blended return	<b>8% per annum</b>
Monthly expense scenarios	<b>Rs.50,000 and Rs.1,00,000 (two cases each)</b>
X — Government pension	<b>Rs.70,000 p.m., rising with DA (~6% p.a.)</b>
Y — Pension	<b>Nil</b>

**A note on how we read the expenses**

The monthly expense figures (Rs.50,000 and Rs.1,00,000) are taken as the expense **at the age of 60** — i.e. on the retirement date itself. From age 60 onwards these expenses are then grown at 6% every year, because a retiree's cost of living keeps climbing even after the salary stops.

X's pension is similarly grown at about 6% a year, reflecting the **Dearness Relief (DR)** that Government pensioners receive — ordinarily revised twice a year, in line with the Consumer Price Index.

### 3. How the Corpus Is Calculated (the simple logic)

The corpus needed at 60 is simply the **money you must have on day one of retirement so that, after it keeps earning 8% a year, it can pay every year's expenses — which themselves rise 6% a year — right up to age 85.**

For X, who has a pension, we only need to fund the **shortfall** (expense minus pension). For Y, who has no pension, the corpus must fund the **entire** expense. In financial terms this is the **present value of an inflation-linked (growing) annuity** for 25 years, discounted at the 8% the corpus earns:

$$\text{Corpus} = \text{First-year shortfall} \times [ 1 - ((1.06 / 1.08)^{25}) ] \div (0.08 - 0.06), \text{ adjusted for start-of-year withdrawals}$$

### 4. Individual X — Government Servant with Pension

X retires at 60 with a pension of **Rs.70,000 per month (Rs.8,40,000 a year)**, which rises with DR. We examine two lifestyles.

#### Scenario X-1 : Monthly expense Rs.50,000

Annual expense at 60 = Rs.6,00,000. Annual pension = Rs.8,40,000. The pension **exceeds** the expense by **Rs.20,000 every month**. Since both pension and expenses grow at the same ~6%, this comfortable surplus continues for life.

Item	Amount
Annual expense at 60	Rs.6,00,000
Annual pension at 60	Rs.8,40,000
<b>Annual shortfall</b>	<b>NIL (surplus of Rs.2,40,000)</b>
<b>Corpus required for expenses</b>	<b>Rs. NIL</b>

X needs **no dedicated retirement corpus** to meet day-to-day expenses under this scenario — the pension does the whole job. The only prudent step is to set aside a **medical / contingency buffer of about Rs.25–Rs.50 lakh** for health emergencies and one-off needs, which his superannuation benefits comfortably cover.

#### Scenario X-2 : Monthly expense Rs.1,00,000

Annual expense at 60 = Rs.12,00,000. Pension covers Rs.8,40,000, leaving a **first-year gap of Rs.3,60,000 (Rs.30,000 a month)**. This gap grows at 6% every year and must be met from the corpus.

Item	Amount
Annual expense at 60	Rs.12,00,000
Annual pension at 60	Rs.8,40,000
First-year shortfall	Rs.3,60,000
Years to fund / inflation / return	25 yrs / 6% / 8%
<b>Corpus required at 60</b>	<b>≈ Rs.72.57 lakh</b>

## 5. Individual Y — Private Sector, No Pension

Y has **no pension**. The corpus must therefore fund the **entire** monthly expense for all 25 years. This is where disciplined investing becomes decisive.

### Scenario Y-1 : Monthly expense Rs.50,000

Item	Amount
Annual expense at 60	Rs.6,00,000
Pension	Nil
First-year amount to fund	Rs.6,00,000
Years / inflation / return	25 yrs / 6% / 8%
<b>Corpus required at 60</b>	<b>≈ Rs.1.21 crore</b>

### Scenario Y-2 : Monthly expense Rs.1,00,000

Item	Amount
Annual expense at 60	Rs.12,00,000
Pension	Nil
First-year amount to fund	Rs.12,00,000
Years / inflation / return	25 yrs / 6% / 8%
<b>Corpus required at 60</b>	<b>≈ Rs.2.42 crore</b>

## 6. Corpus Required — At a Glance

Person & Scenario	Monthly expense @60	Year-1 funding gap	Corpus required
X-1 (Govt, pension 70k)	Rs.50,000	Nil (surplus)	<b>NIL</b>
X-2 (Govt, pension 70k)	Rs.1,00,000	Rs.30,000 p.m.	<b>Rs.72.57 lakh</b>
Y-1 (Private, no pension)	Rs.50,000	Rs.50,000 p.m.	<b>Rs.1.21 crore</b>
Y-2 (Private, no pension)	Rs.1,00,000	Rs.1,00,000 p.m.	<b>Rs.2.42 crore</b>

**The pension advantage — in one line**

Notice how a Government pension transforms the picture: at a Rs.50,000 lifestyle X needs **nothing**, and even at Rs.1,00,000 he needs only **Rs.72.57 lakh** — against Y's **Rs.2.42 crore** for the very same lifestyle. A pension is, in effect, a ready-made corpus the State has built for you.

## 7. Going Backwards — How Much to Save from Age 25

Having fixed the target corpus, we now reverse the telescope. If both X and Y begin investing at **age 25**, they have **35 years** of compounding at **12% per annum** through good mutual funds. Over 35 years, every rupee invested early grows roughly **52 times** — which is why the required monthly saving looks astonishingly small. **This is the single most powerful lesson in this article: time, not amount, builds the corpus.**

The table below shows two ways to reach each target — a **Level SIP** (same amount every month for 35 years) and a **Step-up SIP** (start smaller, raise it 10% each year as income grows).

Target corpus	Amount	Level SIP (35 yrs)	Step-up SIP (start, +10%/yr)
X-1	NIL	Not required	Not required
X-2	Rs.72.57 L	<b>Rs.1,117 p.m.</b>	<b>Rs.459 p.m.</b>
Y-1	Rs.1.21 Cr	<b>Rs.1,862 p.m.</b>	<b>Rs.765 p.m.</b>
Y-2	Rs.2.42 Cr	<b>Rs.3,724 p.m.</b>	<b>Rs.1,529 p.m.</b>

### Why start early? A word of caution on these small numbers

These monthly figures are small **only because two things are true at once:** (a) the expense is pegged at its age-60 value, and (b) the money compounds for a full 35 years.

Delay matters enormously. If Y-2 starts at **35 instead of 25** (25 years left), the level SIP roughly **triples to about Rs.12,200 a month**. And if you prefer to think of Rs.1,00,000 as **today's** money rather than the age-60 figure, remember that 35 years of 6% inflation multiplies it **7.7 times** — the corpus and the SIP would scale up correspondingly. The mathematics rewards the early and punishes the late.

### How the step-up works in practice

A **step-up SIP** mirrors real life — your income rises every year, so your investment should too. The idea is simple:

- Begin at age 25 with the modest starting amount shown above.
- Increase the monthly SIP by **10% every year** (or at least in line with your salary hike / annual increment).
- Channel every windfall — bonus, increment, arrears — partly into the SIP rather than into lifestyle.
- Never pause the SIP during market falls; those are precisely the months your fixed amount buys the most units.

A step-up plan lets you **start with less than half** the level amount, because the bulk of the heavy lifting is shifted to your higher-earning later years — yet you still land on the same corpus.

## 8. The Role of PF, Gratuity & Leave Encashment

Both X and Y receive statutory **superannuation benefits** that arrive as a lump sum at retirement and form a ready part of the corpus. Taking illustrative figures for a long career:

Benefit (illustrative)	Lump sum at 60
Provident Fund (EPF / PPF / NPS) accumulation	Rs.40,00,000
Gratuity (tax-free up to Rs.20 lakh)	Rs.20,00,000
Leave Encashment (exempt up to Rs.25 lakh, non-govt)	Rs.15,00,000
<b>Total superannuation lump</b>	<b>≈ Rs.75,00,000</b>

This lump sum directly reduces what the personal SIP must build. Applying it to the corpus targets:

Case	Gross corpus	Less: super lump	Net to fund by SIP
X-2	Rs.72.57 L	Rs.75.00 L	<b>Fully covered</b>
Y-1	Rs.1.21 Cr	Rs.75.00 L	<b>Rs.45.95 L</b>
Y-2	Rs.2.42 Cr	Rs.75.00 L	<b>Rs.1.67 Cr</b>

On the **net** figures, the required Level SIP from age 25 falls further: **Y-1 to about Rs.707 a month, and Y-2 to about Rs.2,570 a month** (step-up versions: roughly Rs.291 and Rs.1,055). For X-2, the superannuation benefits **alone** essentially fund the entire corpus — leaving X virtually self-sufficient.

Two caveats: keep PF / PPF / NPS **fully invested and untouched** till 60, and do not raid them for a car, education or weddings — the present exercise assumes all such goals are funded separately, exactly as you intended.

## 9. Taxation Snapshot — FY 2026-27 (Latest)

Good planning is always after-tax planning. Here is where the rules stand for FY 2026-27 under the **New Tax Regime**, which is now the default.

### Income tax — New Regime

Income up to **Rs.12,00,000** of taxable income attracts **zero tax** (via the Section 87A rebate). For salaried persons and **pensioners**, the **Rs.75,000 standard deduction** lifts the tax-free ceiling to **Rs.12,75,000 per year**. X's pension of about Rs.8.4 lakh therefore attracts **no income tax** at all.

Income slab (Rs.)	Rate	
0 - 4,00,000	Nil	
4,00,001 - 8,00,000	5%	
8,00,001 - 12,00,000	10%	
12,00,001 - 16,00,000	15%	
16,00,001 - 20,00,000	20%	
20,00,001 - 24,00,000	25%	
Above 24,00,000	30%	

### Capital gains & deposit income

Instrument	Tax treatment (FY 2026-27)
Equity / Equity MF — LTCG (held > 12 months)	12.5% on gains above Rs.1,25,000 per year (first Rs.1.25 lakh exempt)
Equity / Equity MF — STCG (held ≤ 12 months)	20%
Debt Mutual Funds (bought on/after 1 Apr 2023)	Taxed at your slab rate, irrespective of holding period
Bank Fixed Deposits	Interest taxed at slab; senior-citizen rates ~7.0–7.75% p.a. (June 2026)
Senior Citizens' Savings Scheme (SCSS)	Attractive quarterly-payout option for retirees; interest taxable at slab

A practical takeaway for retirees: by drawing income largely as **equity LTCG** (12.5%, with Rs.1.25 lakh exempt every year) and keeping total taxable income within Rs.12.75 lakh, both X and Y can often live **almost tax-free** in retirement. Senior citizens also enjoy a Rs.50,000 interest deduction under Section 80TTB if they opt for the old regime.

## 10. Deploying the Corpus at 60 — Asset Allocation

At 60, the goal of investing shifts from **growing** wealth to **protecting and drawing** it — while still staying ahead of inflation. The right answer balances four needs: **safety of capital, regular income, liquidity, and a measure of growth** to beat 6% inflation over a 25-year retirement.

### The guiding principles

- **Safety of capital:** the bulk of the corpus sits in high-quality debt — SCSS, RBI Floating Rate Bonds, bank FDs and high-grade debt funds — so that money you will spend in the next 7–10 years can never be hurt by a market crash.
- **Beating inflation:** a measured equity allocation (index funds, large-cap and balanced-advantage funds) is the only engine that reliably outpaces 6% inflation over 25 years. Without it, the corpus quietly loses purchasing power.
- **Liquidity:** keep 1–2 years of expenses in a liquid fund or sweep-in FD so you never have to sell an asset at the wrong time for an emergency.
- **Gold:** a 10% allocation (Gold ETFs / Sovereign Gold Bonds) acts as a hedge and a diversifier when both equity and debt wobble.
- **The bucket strategy:** mentally split the corpus into a near-term bucket (cash/FD), a medium-term bucket (debt), and a long-term bucket (equity+gold), refilling the first from the third every few years.

### A suggested allocation — and the rupee split

A balanced, retiree-appropriate mix is roughly **30% Equity, 55% Debt/Fixed-income, 10% Gold and 5% Liquid**. Applied to each funded corpus:

Asset class	%	X-2 (73 L)	Y-1 (1.21 Cr)	Y-2 (2.42 Cr)
Equity (index / large-cap / BAF)	30%	Rs.21.8 L	Rs.36.3 L	Rs.72.6 L
Debt (SCSS, RBI FRB, FD, debt MF)	55%	Rs.39.9 L	Rs.66.5 L	Rs.1.33 Cr
Gold (SGB / Gold ETF)	10%	Rs.7.3 L	Rs.12.1 L	Rs.24.2 L
Liquid (liquid fund / sweep FD)	5%	Rs.3.6 L	Rs.6.0 L	Rs.12.1 L
<b>Total</b>	<b>100%</b>	<b>Rs.72.6 L</b>	<b>Rs.1.21 Cr</b>	<b>Rs.2.42 Cr</b>

For **X-1**, whose pension covers all expenses, the same philosophy applies to the medical/contingency buffer — keep it largely in FDs and a liquid fund, with a small equity sleeve for long-term growth.

As the years pass, **glide the equity portion down** gradually (a common rule: equity %  $\approx$  100 minus age), moving money into the income buckets so the later years are progressively safer.

## 11. Key Takeaways

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- **A pension is gold:** X needs far less corpus than Y for an identical lifestyle — and at Rs.50,000 a month, needs none at all.
  - **Start at 25:** 35 years of 12% compounding turns a few hundred rupees a month into crores. Starting late multiplies the burden several times over.
  - **Step up every year:** raising your SIP 10% annually lets you begin small and still hit the target.
  - **Use your statutory benefits wisely:** PF, Gratuity and Leave Encashment can fund a large slice of the corpus — if left untouched till 60.
  - **Invest, then protect:** grow aggressively before 60, then shift to a safety-first, income-oriented, inflation-aware allocation.
  - **Plan after-tax:** within Rs.12.75 lakh of income and using the equity LTCG exemption, retirement income can be made almost tax-free.
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### Disclaimer

*This article is intended purely for general information and educational purposes. The calculations are illustrative and based on the stated assumptions (6% inflation, 12% pre-retirement and 8% post-retirement returns, retirement at 60 and longevity of 85); actual returns, inflation, tax laws and personal circumstances will vary and may differ materially from those assumed here. Mutual fund and market investments are subject to market risks — please read all scheme-related documents carefully. Nothing herein constitutes investment, tax or legal advice, or a recommendation to buy or sell any security or product. Tax provisions referred to relate to FY 2026-27 under the New Tax Regime and are subject to change. Readers are strongly advised to consult a SEBI-registered investment adviser and a qualified tax professional before acting on any part of this article. The author accepts no liability for any loss arising from the use of this information.*

**Prepared by SubbuS, a Retired Banker.**