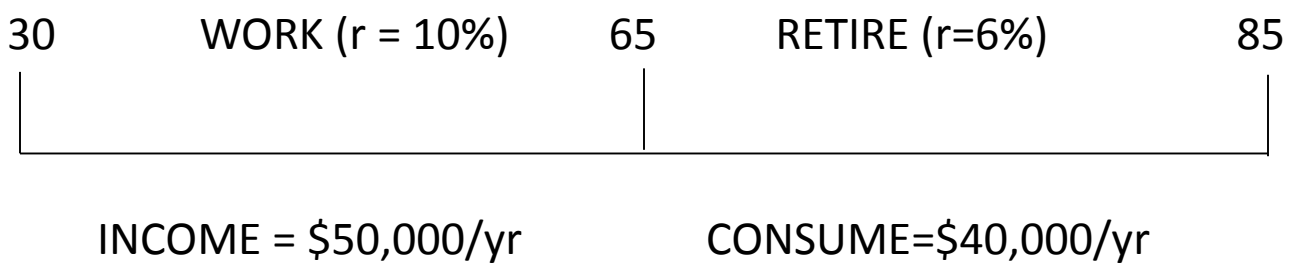
A Simple Retirement Scenario

Introduction to Investments
Prof S G Badrinath
Rates of Return – Review and More: Part 5



Q: How much to save each year ? Say S.

S * FV(ann) (35yrs, 10%) = 458797 = 40000 * PV(ann) (20yrs, 6%)

S = 1693/yr or 1693/50000 = 3.3% of income!

Q: TOO LITTLE?

SAY, inflation is 3% per year over the next 55 years.

What does $40,000 in year 85 buy?

[40000 / $\{(1.03)^{55}\}$]= 7870 of things in today's dollars.

Note that $40,000 is nominal and $7870 are REAL (or inflation-adjusted) dollars.

IIMB
तेजस्वि नावधीतमस्तु

Introduction to Investments
Prof S G Badrinath
Rates of Return – Review and More: Part 5

Issues

- Life expectancy
- Inflation Adjustment
- Redo in real terms?
- Other Savings
- Fidelity/Vanguard Software, moneycentral.com, quicken.com, Torrid-tech.com, esplanner.com, wealthwhen.com

IIMB
तेजस्वि नावधीतमस्तु

© All Rights Reserved.
This document has been authored by Prof S G Badrinath and is permitted for use only within the course “Introduction to Investments" delivered in the online course format by IIM Bangalore. No part of this document, including any logo, data, illustrations, pictures, scripts, may be reproduced, or stored in a retrieval system or transmitted in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – without the prior permission of the author.