HSBC Mutual Fund

Inflation: The silent threat that could undermine retirement planning

Most people plan for retirement by focusing on how much money they need to save. But what many forget to consider is how the value of money changes over time. Inflation slowly increases the cost of living and if your retirement plan does not keep up, your savings may not last long as you hoped.

Unlike a market crash, inflation doesn't create panic. It doesn't generate breaking news or spark urgent action. Instead, it works slowly and quietly eroding the value of your money over time.

The hidden cost of waiting

Let's say for example if you plan to retire in 30 years and estimate that you will need Rs 2 crore to live comfortably. That might sound like a large, safe number today - but here's the catch:

At an average annual inflation rate of 6%*, Rs 2 crore will only have the purchasing power of around Rs 31 lakh in today's terms.

Now consider your monthly expenses. If you spend Rs 50,000 a month today, 30 years from now you will need nearly Rs 2.9 lakh a month to maintain the same lifestyle.

Inflation, clearly, isn't just a number - it's a force that can shrink your retirement dreams if you are not proactively planning for it.

Why inflation can be riskier than market volatility?

Market downturns are dramatic and often trigger action. Inflation, on the other hand, is stealthy and easy to ignore.

Over a 25 to 30 year of retirement, inflation can eat away at a significant portion of your purchasing power, especially when most traditional retirement assets don't keep pace with rising prices.

One area of concern is healthcare. It often inflates faster than the overall economy. Without inflation-adjusted planning, healthcare could become your biggest and most unpredictable expense in retirement.

Rethinking the role of safety and growth

Many retirees are taught to avoid risk by shifting entirely to debt instruments. But in a high-inflation environment, this strategy may backfire. While these instruments may offer some protection in nominal terms, they often underdeliver real returns - meaning your money grows slower than inflation.

The better approach? A goal-based investment strategy that accounts for time horizon and risk capacity:

Short-term (0–3 years): Can focus on capital preservation with low to medium-risk debt instruments.

Medium-term (3–5 years): Can consider balanced or hybrid funds for a mix of protection and moderate growth.

Long-term (5+ years): Can allocate meaningfully to equity and aim for inflation-beating returns over long run.

Future-Proofing your retirement plan

A resilient retirement plan must be flexible, dynamic and reviewed regularly. Here are five principles to guide you:

Consulting a certified financial planner

Retirement planning is no longer about setting a single target corpus. It’s about ongoing adaptability. An experienced financial advisor just do not allocate assets - they help clients prepare for a future that’s unpredictable.

Rebalance portfolio annually

Financial markets change. So should your allocations. Rebalancing helps maintain risk-return alignment.

Include potential growth assets

Don’t shy away from equity. With proper diversification, it can help your portfolio stay ahead of inflation over long run.

Plan for rising healthcare costs

Invest in comprehensive health insurance and set aside a medical reserve fund for later years.

Stay financially educated

Understanding how inflation impacts different asset classes empowers you to make smarter decisions, especially as retirement nears.

Conclusion

By making inflation a central part of your retirement planning strategy, you give yourself a significant advantage: Clarity, Control and Confidence.

Because retirement should be about living fully - not budgeting fearfully.

Happy Investing and Stay Invested.

***Source:** Crisil, Past performance may or may not be sustained in future and is not a guarantee of any future returns. Inflation represented average of monthly inflation of industrial workers declared since Mar 1993 till Mar 2025. Please consult your financial advisor for any investment decisions.