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I love my epics and I have many stories to narrate but this is one of my favorites. In the Indian epic, the Mahabharata, there is a story of the time when the five Pandava brothers had been exiled to the forest for 12 years. As forest dwellers they had to be continuously on the move. In one of their journeys, they found themselves without water for an extended period of time. Tired and thirsty, they decided to take a break. The eldest of the five brothers, Yudhishtira asked the youngest brother Nakula to search around and see whether he could find some water. All the Pandavas had always accepted the eldest brother's word without question and so Nakula did not ask why he was the one who had to run around in search of water when the others just sat around waiting for him! He dutifully went out and searched for water and after a long search found himself staring at a pond of clean cool water.

He cupped his hand and was about to drink the water when he heard a voice ring out, asking him to stop. The "Voice" said that he was the owner of the pond and that he would be willing to let Nakula drink the water only if Nakula could answer his questions. I imagine that at that point Nakula got riled up and asked the "Voice" whatever was the version of the "How dare you? Do you know who I am?" statement in those days. These kind of statements don't usually end well especially when faced with a stronger adversary. Nakula ignored the "Voice" and decided to go ahead and drink from the pond. The moment the water touched his lips, he dropped dead.

When Nakula did not come back for a long time, Yudhishtira sent Sahadeva to search for him. Sahadeva also wound up at the same pond. He saw Nakula lying there dead but the lure of the water was too strong. He was about to quench his thirst when he heard the "Voice". Again the "Voice" asked Sahadeva to desist from drinking from the pond until he answered all the questions asked of him.

Despite the warning and unmindful of the fate that befell Nakula, Sahadeva proceeded to ignore the "Voice", drank from the pond and dropped dead. As time went by, Yudhishtira got worried and sent Arjuna to check on his brothers. When Arjuna did not return, he sent Bhīma and finally when Bhīma did not return, he had no choice but to actually go and search for his brothers himself.

Eventually, his meanderings took him to the scene of the crime- the pond with the crystal clear and cool thirst quenching water. The scene that he saw shook him to the core. His brothers who were strong enough to vanquish any human foe, lay unmoving but with no apparent injuries on their bodies. Beset with grief, he lamented on their fates. Finally, he got up to quench his thirst and then worry about how to salvage the situation.



As he approached the pond, the “Voice” again asked him to stop. It told him that he cannot drink the water until he answered all of its questions. The Voice also warned Yudhishtira of the fate that was in store for him if he ignored the warnings and drank the water. The Voice said that he had said the same thing to his brothers but they had ignored his warnings despite seeing the fate that befell others who had reached the pond before them. Yudhishtira was different. Being a patient and a wise man, he agreed to the conditions of the Voice. He bowed before the Voice and said that he was willing to answer the questions that the Voice wanted to ask. It is then that the Voice asked him “Kim Aascharyam”? What is surprising? The answer that Yudhishtira gave was a classic. “Everybody sees people dying regularly around them and yet they live as if death will never visit them. That is the most surprising thing in this world”, he said – which of course was the right answer. The Voice, pleased with this reply and by Yudhishtira's overall demeanor, proceeded to revive the Pandava brothers. The Pandavas then proceeded to spend their time in exile, demanded their share of the empire at the end of their exile period and when denied that share went on to fight the devastating war of Kurukshetra which led to unimaginable deaths and horrors on both sides. (As an aside, one wonders, if Yudhishtira was not so wise the Pandavas would not have been revived and maybe the war would have been avoided)

This story asked what was the most surprising thing and Yudhishtira gives his answer about people living as if they will never die despite knowing that death visits every single thing that is born. Despite the certainty of death people live as if they alone will live forever. But this problem is not with respect to death alone. This bias is now called “Optimism bias” Optimism bias (also known as unrealistic or comparative optimism) is a cognitive bias that causes a person to believe that they are at a lesser risk of experiencing a negative event compared to others. Optimism bias is quite common and transcends gender, race, nationality and age.

Four factors exist that cause a person to be optimistically biased: their desired end state, their cognitive mechanisms, the information they have about themselves versus others, and overall mood. The optimistic bias is seen in a number of situations. For example: people believing that they are less at risk of being a crime victim, smokers believing that they are less likely to contract lung cancer or disease than other smokers, traders who think they are less exposed to losses in the markets or investors who think they can make more money than others by picking individual stocks despite having little knowledge or little access to knowledge of the working of the companies that they invest in.

Although the optimism bias occurs for both positive events, such as believing oneself to be more likely to be financially successful than others, and negative events, such as being less likely to have a drinking problem, there is more research and evidence suggesting that the bias is stronger for negative events. Different consequences result from this bias positive events often lead to feelings of wellbeing and self-esteem, while negative events lead to consequences



involving more risk, such as engaging in risky behaviors and not taking precautionary measures for safety.

In other words, optimism bias leads to people overestimating the positive outcomes of events and underestimating the risk that they are taking. While all that is fine, you might be wondering on how it applies to personal finance? Let me assure you that this Optimism Bias has a direct consequence on our personal finances. It has an impact on areas of our insurance, be it life or medical or general insurance. It also has a direct impact on investments and retirement and this is the area that I will emphasize on.

The bias will lead most of us to overestimate our ability to finance our retirement life and seriously underestimate our needs post retirement. Despite seeing a lot of people around us who have underfunded their retirement, we will assume that we are unlikely to fall prey to this malaise possibly due to the Optimism bias.

Unlike other countries, retirement life in India has to be almost completely self-funded. The previous generation could depend on children to finance their retirement. The basic social contract was that parents will fund their children's education and will look after the children in their childhood and youth. Once that is done, the children would look after their parents in their old age. Most often, the parents spent their entire incomes in educating the children to the exclusion of everything else and never created any wealth for themselves.

The current generation has to however, both fund their child's education and their parents old age requirements while simultaneously somehow saving and investing enough for their own post retirement life. Given these imperatives, it is more than likely that optimism bias comes into play and we end up seriously overestimating our current investment abilities while simultaneously underestimating our requirements post retirement.

This is a double whammy from which it is almost impossible to recover if it is not caught in time. Just as an example, let's say our expenses, including one time annual expenses on holidays etc. are say `1 lac a month. Let's also say that we are 50 years old and have another 10 years before we retire. At the average inflation rate of the last 10 years, it is safe to say that we will need `2 lac per month once we retire. Assuming around 10% per annum in equities, we will need a corpus of `2.4 crore at the age of 60 to get us an annuity of `2 lac per month.

To reach this corpus, we will need an investment of `80 lac currently. This `80 lac can become `2.4 crore in 10 years assuming a return of 10% per annum. If we have `80 lac today at 50, then we could assume that our retirement is taken care of.



There is however, a serious flaw in this. We could have underestimated our need of `2 lac per month post retirement. For one, it does not take into account inflation post retirement. For another, it does not take into account the possibility of one time and large medical expenses beyond the cover of any medical insurance. If for example, we assume that our monthly requirements will go up by just 5% per annum and that we will live for 30 years post retirement then corpus required on retirement goes up to close to 4 crore. This completely turns our minimum requirement today on its head. Instead of `80 lac, it means we will need `1.3 crore today.

If we think that this calculation gives us a clear understanding of what we need for retirement then it is possibly wrong. After all this too there is no factor of safety built into this calculation. For example, it could turn out that equity returns are lower than our calculation. Even if we only require a factor of safety of 2, then the minimum investment we need today for retirement after 10 years turns out to be ` 2.6 crore.

The point of all this is not to give you exact numbers of how much we require to retire in 10 years. The point is to say how it is incredibly easy to overestimate our abilities and underestimate what we require at the time of retirement.

It is so very important that all of us have this conversation with our advisor. Like we go to a doctor for our physical health, it makes sense to have this conversation with a trusted advisor or financial planner. Someone you can trust with details of your finances. Someone who can suggest ways to get to your goals whatever they are.