



INVESTING AFTER THE UNIFORM: A CONCEPTUAL STUDY ON MUTUAL FUNDS IN THE POST-RETIREMENT PORTFOLIO OF MILITARY PERSONNEL

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Cite This Article: D. Mythili & Biju E K, "Investing After the Uniform: A Conceptual Study on Mutual Funds in the Post-Retirement Portfolio of Military Personnel", International Journal of Multidisciplinary Research and Modern Education, Volume 12, Issue 1, January - June, Page Number 47-49, 2026.

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Type of Review: Peer Reviewed as per [C|O|P|E] Guidance.

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DOI: <https://doi.org/10.5281/zenodo.19488073>

Abstract:

Indian Army personnel face unique financial challenges due to frequent transfers, remote postings, and operational duties, which limit access to financial institutions and professional advice. Irregular exposure to financial literacy, high dependence on government benefits, and risk-averse saving habits affect investment diversification. Limited family involvement in financial decisions during service often leads to post-retirement adjustment difficulties. Pensionary benefits provide stability but may not meet rising healthcare and lifestyle expenses. Post-retirement, many veterans struggle with reinvestment decisions, inflation impact, and adapting to civilian financial systems. These factors collectively influence their saving patterns, financial planning, and long-term investment strategies.

Key Words: Investment, Financial Literacy, Post Retirement, Risk

Introduction:

The retirement of military personnel affects the intertemporal budget constraint by reducing or setting to zero their labor income and stretching their period of consumption to several decades. In the context of the doctoral presentation "Financial Planning and Investment Strategies among Retired Indian Army Personnel," salient constraints include early retirement, inaccessibility to diversified investment portfolios, pension constraints, and low financial literacy levels. In this context, the problem of retirement planning can be characterized as a portfolio choice under uncertainty with a steady income base in the form of pension payments and a series of expenditure shocks in medical and family needs.

The allocative decision in this context is: should retired military personnel allocate resources to mutual funds? The economically relevant answer to this question will depend on the investment horizon and risk tolerance of the individual.

Retirement Finance as an Allocation Problem:

While in service, Army personnel have a considerable reliance on family networks in managing finances, they also have a definite uncertainty of adapting to life after service, and the low level of investment decision-making in investment portfolios. These factors affect the information set and the cost of acquiring financial literacy, which in turn affects the efficiency of the portfolio.

The scope of this problem increases with unpredictable income flows in the post-retirement period, low financial literacy about investment instruments, and the necessity of sustaining income in the post-retirement period. Economically speaking, this requires the existence of a portfolio that can generate a stream of consumption while maintaining its purchasing power in the face of inflationary pressures. In the standard model of the life cycle theory, the optimization of consumption and saving aims to smooth the marginal utility of consumption while considering wealth effects. In this model, inflation is particularly important because it affects the real purchasing power of nominal cash flows generated by fixed income assets with nominal interest rates that do not increase proportionately with inflation.

The early retirement stretches the investment horizon. This extended period makes the real rate of return on wealth accumulation particularly important because pension payments can only support a fraction of desired consumption and because medical expenditures increase with age.

Mutual Funds as Financial Intermediation:

A mutual fund is an investment vehicle that collects funds from a large number of investors to invest in a diversified range of securities. It reduces the transactional costs faced by small investors and provides the benefits of diversification in the form of a single financial product, with security selection and portfolio management done by professionals. In the context of India, mutual funds include equity funds, debt funds, and mixed funds, which facilitate Systematic Investment Plans (SIPs) and Systematic Withdrawal Plans (SWPs), which are relevant to income planning. From the perspective of economic theory, the service provided by mutual funds can be stated as follows:

- Diversification and minimization of idiosyncratic risks by creating a diversified portfolio.
- Reduction in per unit transactional and information costs by pooling funds.
- Liquidity transformation, which depends on the design of the product.

Such a service can shape the feasible set for retirees. The welfare benefits will be contingent upon the costs associated with the service. Such costs may include fees as well as behavioral and informational factors that may be relevant.

Risk, Return, and Inflation Exposure:

Risk capacity and liquidity constraints shape the portfolio allocation. The underlying concept for the presentation assumes that the perception of risk, trust in financial organizations, as well as access to information technology, acts as intermediary variables that shape the relationship between financial instruments and the distribution of return as perceived by the retiree.

Nominal volatility tends to be lower for debt instruments. The major risks for debt instruments come from inflation and changes in interest rates. Equity instruments have higher short-run nominal volatility. In addition, they have higher anticipated long-run nominal as well as real return in most samples. For retirees with a long horizon, there may be benefits in having some exposure to equity in order to build up wealth as well as to reduce the risk of very low consumption in old ages. The costs come in the form of market downturns.

One major constraint is the presence of sequencing risk, which happens when the individual has to withdraw from the portfolio during the early years when the market is expected to go down. The mechanical effect of compounding with withdrawals indicates that the retirement portfolio will have to include a liquidity component and that the risk will have to be matched with the withdrawals.

Financial Literacy and Decision Quality:

Financial literacy will help avoid financial problems in the future. Avoiding low income due to errors in management, so that if there is financial knowledge and financial literacy it can help individuals in managing personal financial planning and individuals can maximize the time value of money and the benefits that individuals get will be even greater and will improve their quality of life. (Widya Ayu Lestari, S.M., Dr. Ade Banani, MMS., Dr. Rio Dhani Laksana, SE., M.Sc., 2020). The gap identified within the population on literacy, points to a scenario where the targeted demographic has a low, medium or high level of financial literacy and directly proportional to willingness to risk taking.

Low Financial Literacy: Most investors (approximately 70-percent) are interested in safe investments, like fixed deposits, savings accounts, and gold, with only 30-percent investing in risky investments. This shows the high-risk aversion as they have very little financial literacy and do not trust themselves to operate complex tools.

Medium Financial Literacy: The moderately knowledgeable investor is more balanced, as they place about half of their portfolio in safe investments and half in risky investments. This shows increasing consciousness on diversification of portfolios and readiness to venture in the field of returns-driven investments.

High Financial Literacy: Financial literate investors show that they tend to take high risk (approximately 70 percent) over low risk (30 percent) assets. This group is also confident in risk assessment, more knowledge of the market dynamics and can diversify effectively to accumulate in the long-term. (Srivastava, S, 2025).

Financial literacy, from an economic viewpoint, represents one of the determinants of decision quality for portfolios under conditions of uncertainty and the ability of individuals to make informed decisions regarding fees, risks, and the overall suitability of the portfolios. It also represents one of the determinants of bargaining power within the retail financial market, hence reducing the risk of mis-selling. The marginal benefit of resource allocation within mutual funds is directly proportional to the overall level of financial literacy and the presence of reliable advisory services, as well as the availability of low-cost financial products.

Pension as Baseline Income and Implications on Portfolio Allocation:

For pensioners of Armed Forces, policies and welfare programs of the government, such as the One Rank One Pension (OROP) is very significant towards ensuring their financial safety in the considering the Prev inflationary trend and anticipated future risks. ¹In terms of the life cycle theory, pension income serves as an annuity that provides a revenue stream to the retiree. This affects the optimal portfolio in two main ways: first, pension income reduces the requirement to sell risky assets to support basic living needs, and second, pension income does not sufficiently hedge against health expenditures and inflation risks in all regimes. Hence, there is a requirement to maintain liquidity in the face of adverse risks and to preserve purchasing power in the face of inflation. This can be done in three steps: (i) establishing a liquidity fund to support expenditure risks, (ii) creating an income fund to support planned expenditures, and (iii) creating a wealth fund to support long-term wealth preservation. In all cases, mutual funds can be used as investment options. The nature of mutual funds to be used should depend on the investment horizon and the risks involved which varies person to person.

Fraud Risk, Market Structure, and Regulation:

The subject matter scope determines the level of protection that retirees are afforded against fraud and the level of structure that is implemented in the process. In economic terms, the level of fraud risk that exists in the market is a market failure that stems from information asymmetry and the lack of consumer protection. In terms of mutual funds, there are disclosure and supervisory regulations that minimize information asymmetry as compared to unregulated investment schemes. However, economic regulation does not necessarily minimize price risks in the market. In this context, there is a clear implication that, ceteris paribus in terms of risk preference, investment in regulated investment vehicles can minimize expected loss due to fraud and misrepresentation. However, there is the issue of suitability risk that is subject to the nature of the investment and the level of understanding of the holder.

Allocation Principles Consistent with the Study Framework:

In India, most of people including all age groups invest in real estate, bank fixed deposits and gold when it comes to retirement planning. People are still reluctant to take a chance and devote their capital into instruments like direct equities or mutual funds. As mentioned earlier inconsistency towards regular returns restrict their willingness to risk taking, and prefer to safe allocation in multiple directions. An economically consistent set of principles for allocation can be considered as based on the following:

- Liquidity constraint: Hold assets sufficient to meet expected future short-run shocks.
- Consumption planning: Match planned withdrawals with low-variance products in the short run.
- Risk management: Manage drawdown risk when planned withdrawals are likely in the short-run.

- Lifecycle strategies: ¹Lifecycle funds offered by retirement plan providers allocate aggressively to risky asset classes when young, gradually switching to more conservative asset classes as they grow older and approach retirement. (Basu, A. K., & Drew, M. E. (2009). Portfolio size effect in retirement accounts)

Conditions Under Which Mutual Fund Allocation Is Constrained:

Mutual funds can be the foundation of retirement plan. A mutual fund is one of the few investment avenues that can beat inflation. One must make mutual funds the centerpiece of his retirement planning. Mutual funds are a better option due to Diversification, Flexibility, Tax Efficiency, and Transparency that they offer. (Mantri, P., Chhajer, P., Mehta, V., Gandhi, V., 2022). Mutual funds can provide solutions for allocation. Mutual funds can be used for growth allocation, consumption planning, and risk management. Mutual funds can be used for growth allocation, where equity index mutual funds and diversified equity funds can be used. Mutual funds can be used for consumption planning, where debt mutual funds can be used. Mutual funds can be used for risk management, where hybrid mutual funds can be used. However, the critical allocation decision is the allocation of wealth between asset classes, conditional on pension income and expenditure risk.

The conditions under which mutual fund allocation is constrained include retirees with binding liquidity constraints, risk constraints, and high probabilities of forced redemption. These conditions are based on the focus of the study on life after service, which inherently involves risks. When there are liquidity constraints, risk constraints, and high probabilities of forced redemption, the economically optimal portfolio allocation increases allocation to assets that are liquid and have low variance and decreases allocation to assets with high short-run price variance. Another constraining condition is the information and technology constraint. When information and technology are limited, as captured in the model through the mediating variables, there is an increased probability of error in selecting financial services. ¹In the case of pensioners, the optimal policy should be simple, focused on low-cost products, along with counseling.

Conclusion:

Mutual funds can be included in the retirement portfolios of military personnel as a diversification tool, to minimize costs, and to provide market access to their funds. In this case, the doctoral framework implies that the constraints to the inclusion of mutual funds in the retirement portfolios of military personnel include early retirement, low exposure to diversified investment options, and low financial literacy. In economic terms, this implies that there are information costs, risk perception, and efficiency in the selection of portfolios. In this case, the allocation of mutual funds to the retirement portfolios of military personnel with long time horizons and a stable baseline income from pensions can help in preserving real wealth and in smoothing their consumption.

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