

The Sandwich Generation's Mistakes

By AK Rao Personal Finance Advisory



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Personal Finance Advisory

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THE SANDWICH GENERATION MISTAKES

Balancing kids, parents and retirement is not easy. Avoid these common financial mistakes and secure your family's future.

MID-CAREER FINANCIAL CHECKLIST

- Lean Portfolio Test
- Insurance Check
- Room Rent Check
- Retirement Guardrail
- 5-Year Cash Test
- Parents' Safety Net

6 FINANCIAL MISTAKES MID-CAREER PROFESSIONALS SHOULD AVOID

- 1. DIVERSIFICATION TRAP**
Too many funds. Same stocks. Messy portfolio. False safety.
- 2. BUYING "ALL-IN-ONE" PLANS**
Insurance and investment together means low returns and high charges. Keep them separate.
- 3. IGNORING HEALTH INSURANCE ROOM RENT CAPS**
Exceed the limit, and insurer may pay only a fraction of the bill.
- 4. DRAINING RETIREMENT TO PAY FOR DEGREES**
Education loan is available. Retirement loan is not.
- 5. OVER-INVESTING IN REAL ESTATE**
Low liquidity can derail your short-term financial goals.
- 6. IGNORING PARENTS' TRUE MEDICAL COSTS**
Rising healthcare costs can drain your savings if you're unprepared.

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Someone asked me recently: "If you had to list down the top financial mistakes people make, what would they be?"

I certainly do not want to generalize this across all age groups and income levels. A 25-year-old starting their first job faces entirely different choices than someone nearing retirement. Instead, let's look at a very specific group:

Professionals between the ages of 40 and 55, typically leading an upper-middle-class lifestyle while managing the financial responsibilities of raising children and caring for aging parents — often referred to as the “sandwich generation.”

At this stage of life, their salary is likely at its peak. But so are their expenses—from their children’s higher education to taking care of aging parents. With retirement getting closer, they have very little time to recover from big mistakes.

Based on years of looking at real portfolios, here are the most critical financial mistakes I see this group make.

1. Diversification trap

Most professionals have 15, 20, or even 25 different mutual funds in their portfolio, thinking they are being incredibly safe and well diversified.

What they don't realize is that these funds usually buy the exact same stocks. If you own five different general equity funds, they are likely all investing in the same top banking and IT companies.

This isn't safety. It is just making your portfolio messy.

True safety depends on how your investments in your portfolio move together:

- **Positive Correlation** : Holding multiple funds that largely invest in the same set of stocks does not truly diversify your portfolio. If that sector or group of companies performs poorly, all your investments are likely to decline together.
- **Negative or Low Correlation** : Real diversification comes from investing in assets that behave differently under various market conditions, for example, equities and gold. When one asset

struggles, the other may remain stable or even perform well, helping reduce overall risk.

The Fix: You do not need a bloated portfolio. In fact, buying just two index funds that do not overlap is more than enough to grow your wealth safely without making your life complicated.

2. Spending Retirement Money for Kids's education

It is deeply embedded in our cultural DNA to give our children the best possible start in life.

A big mistake professional in their late 40s or early 50s make is draining their retirement corpus or stopping their retirement SIPs to fund expensive foreign degrees or premium private college fees for their children.

The Reality Check

By the time your children finish college, you might be 53 or 55. You only have a few working years left. Building a large retirement fund from scratch in just 5 years is almost impossible.

Remember:

- Your child can get an education loan.
- You won't get a retirement loan.

The Fix: Keep your retirement savings safe. If there is a shortfall in college funds, take an education loan. Sharing this responsibility actually teaches children financial discipline early in life.

3. The Hidden Danger: Health Insurance Room Rent Caps

Many people think that if their office policy covers up to ₹6,000 a day for a hospital room, and they pick a room that costs ₹10,000, they will just pay the ₹4,000 difference out of their pocket.

This is completely wrong. Hospitals change their entire bill—including doctor fees, surgery costs, and nursing charges, based on the room you choose. Because you picked a room above your limit, the insurance company will slash your entire bill proportionally.

Since your allowed room was ₹6,000 and you picked a ₹10,000 room, you went over the limit by a specific ratio. As a result, the insurer will only pay 60% of your total hospital bill, leaving you to pay the remaining 40% of the whole bill yourself.

The Fix: Check your company policy today. If it has these caps, look into buying a personal Super Top-Up health insurance policy with zero room rent caps to protect your savings.

4. Buying "All-in-One" Plans

Insurance companies are great at selling a story. They design complicated products: like Endowment plans, Money-Back policies, and ULIPs, that promise to protect your life and grow your money at the same time.

Imagine an insurance package where you pay ₹50,000 every year to get a life cover of ₹5 Lakh.

If you split these two goals up, look at what you can get instead:

1. Pure Term Insurance: You buy a plain, simple term plan. For a tiny fraction of that ₹50,000, you can get a ₹1 Crore life cover.
2. Pure Equity Mutual Fund: You invest the rest of your money into a clean mutual fund.

By separating them, you get 20 times more life cover and your investment grow faster. Why? Because mutual funds have simple, low fees. These "all-in-one" insurance plans often hide heavy charges that eat away at your returns.

Agents often pitch a deal like this to professionals looking for safe income:

"Invest ₹1 Lakh every year for 10 years. From the second year, you get ₹25,000 every year for 10 years. Then, from the 11th year onwards, you get ₹1,17,856 every year for the next 10 years!"

Sounds amazing, right? But if you calculate the actual annual return (ROI) on this exact math, it comes out to ONLY 3.11%!

Keep your insurance separate, and keep your investments pure.

5. Real Estate

When professionals earn well in their 40s, they often buy extra properties, plots of land, or expensive investment schemes (like Portfolio Management Services), believing it is the ultimate way to build wealth.

If most of your wealth is locked up in land or a second house, you cannot sell a piece of a wall to pay a bill. Real estate can take months or years to sell for a fair price, forcing people to sell at a loss when they are in a hurry.

The Fix: For goals that are coming up in the next 3 to 5 years, keep your money in places where you can withdraw it in a couple of days, like mutual funds or fixed deposits.

6. Ignoring Parents' True Medical Costs

Many professionals assume their aging parents are medically secure because they have a small senior-citizen health policy or a government pension.

However, hospital costs are rising drastically every year. A major medical emergency for an elderly parent in a big city hospital can easily cost ₹15 Lakh to ₹20 Lakh.

The Impact

If your parents' insurance is too low, you will naturally step in to pay the bills. That money will come directly out of your personal savings, completely derailing your own goals and plans.

The Fix: Sit down and look at your parents' current health insurance. If they cannot get a larger policy due to age or illnesses, start building a separate Emergency Medical Fund specifically for them, or see if your office allows you to add them to your corporate plan with a higher limit.

Summary Checklist for Mid-Career Professionals

Take this weekend to check your finances against these six points:

- The Lean Portfolio Test: Have I trimmed my mutual funds down to just a select few ?
- The Insurance Check: Am I keeping insurance and investment separate?

- The Room Rent Check: Have I checked my office health policy for room caps?
- The Retirement Guardrail: Am I prioritizing my retirement savings so I don't leave myself financially stranded after the kids graduate?
- The 5-Year Cash Test: Is the money needed for big family events over the next 3 to 5 years easily accessible, rather than locked up in real estate?
- The Parents' Safety Net: Have I made sure there is a clear financial plan or a dedicated fund for my parents' healthcare needs?

If this resonates, let's talk.