A STUDY OF FINANCIAL PLANNING FOR RETIREMENT AMONGST WORKING WOMEN'S INDIVIDUAL

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ABSTRACT

Some retirement plans allow the participant to choose how funds are invested. Having to direct Investments may provide the participant with financial education. This paper finds that working women's covered by pension plans in which the employee chooses investments are significantly more apt to hold stock outside of their retirement plan. The effect of investment choice upon non-pension asset allocation is not explained by portfolio rebalancing or observable differences in income and saving preferences across households. This provides some evidence that the design of a pension plan may influence a women financial decisions outside of the pension plan, although unobserved heterogeneity in worker's preferences could also explain the result.

OBJECTIVE

- *To study the retirement planning behavior towards pension plan of working women's individuals*
- *To know the Pension's plan designed by Government and insurance companies.*
- *To study the impact of psychological variables in retirement planning behavior.*

Keywords:Retirement Planning, Pension Schemes, Stock Market ratio, ULPP Benefits.

I. INTRODUCTION

"By providing financial protection against the major 18th& 19th century risk of dying too soon, life insurance became the biggest financial industry of the century. Providing financial protection against the new risk of not dying too soon enough may well become the next century's major and most profitable financial industry" - Peter Drucker.

With the changing social and economic environment, making one's future secure by way of pension provides great relief to retired persons and helps them live a financially secure and dignified life after retirement. Meticulous financial planning adds to the quality of life in the years to come and if the person further provides for healthcare he can add years to his life.

Pension in India has traditionally based on financing through employer and employee participation. Majority of the population is not covered by any formal pension scheme, as the coverage in employee pension schemes has been restricted to the organized sector. The vast workforce in the unorganized sector is denied access to formal channels of old age economic support. It is estimated that about **8.2 percent** of Indian population has started

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their savings towards retirement. A very small segment of the population is covered under existing pension schemes. The bad news is that only **7.4 percent** of the working-age population is covered under a pension program.

India's much-vaunted demographic dividend has a weak spot — very few of the nation's workers are saving for retirement. **Sep 21, 2017.**That means approximately 92% of population still does not have access to any form of retirement planning and has to rely on their own earnings or traditional and informal methods of old age income security such as the joint family system. However, traditional shelter for old age is reducing day-by-day because of changing social patterns.

As per the Old Age Social and Income Security (OASIS) Project 3, the total population is expected to rise by 49% and the number of elderly (person aged 60 and above) is expected to increase by 107%. In other words, the percentage growth in the elderly population is more than double than that of the population as a whole. Both male and female population in India at age 60 today is expected to live beyond 75 years of age. Thus, an average person should have adequate resources to support approximately 15 years post retirement.

India has been among the enlightened nations which recognized the need for social security during old age quite early. The Provident Fund Act was introduced way back in 1925 for select public enterprises. We have the Employees Provident Fund and Miscellaneous Provisions Act (EPFMP) of 1952 which covers 177 industries today. From 1995, workers covered under the EPFMP Act, 1952 are also covered by the Employees' Pension Scheme.

Above 70% policyholders of pension products preferred security of money, retirement benefits, tax benefits and options of taking pension as most important while buying a pension policy.

The government introduced several amendments to the Employee Provident Fund recently for creating a safety net and avoiding duplication of accounts due to lack of portability. This means many workers had neither transferred their funds from previous accounts to new accounts, nor made withdrawal claims.

The amendments were listed below:

- The EPFO launched an online passbook facility for subscribers for greater transparency.
- The Employees' Provident Fund Organization is now planning to roll out a number portability system that would make the 'Aadhaar' card number a permanent EPF account number for an employee throughout his career.
- Portability - Besides curbing manipulation by unscrupulous companies, the move will eliminate the hassle of transferring funds to a new account number every time a person switches jobs and help accumulate EPF contributions for a longer time.

The EPFO also proposed and amended administrative reforms such as:

- Grievance redressal within 15 days.
- Settlement of claims within 10 days.
- Settlement of death claims within 3 days.

- Pension to be disbursed by last working day of the month and to be credited to pensioners' bank account by 3rd of every month.
- 100% conversion of pensioners' bank accounts to CORE banking account number.

Pension plans are serve as a means of financial stability and security after retirement. It is an insurance plan providing financial coverage for your old age and is sponsored by the company fund. In other words, a certain amount of your current income is transferred and stored for your future. This money is then given to the employee as the pension fund on retirement.

II.AWARENESS

Awareness of pension plan increased with age, income and education. The occupation played an important role as it was observed that awareness among the service category of profession was much higher followed by `businessman' and other categories. Though the awareness level was good the yet the penetration level was too low.

III. WHY ARE PENSION PLANS NEEDED?

With age, we lose our potential to work and earn salary on a regular basis. The moment one feels that he cannot continue working on regular basis, or reaches a certain age, he prefers to retire. In such a situation, pension plans prove to be of great help as one can maintain and continue living the. To get maximum benefit and live a tension free life post retirement, one needs to plan early for a pension plan. While buying a pension plan, one needs to pay a huge sum of money. As the concept of joint family is on the decline in India, post retirement planning is must to have a tension-free and independent life. A successful financial back up plan for post-retirement life can solve most problems, if not all.

IV.WHAT IS PRE-RETIREMENT PLANNING?

The important things to remember about pre-retirement planning are:

- You can start planning even when you are 40 yrs. That way, your financial resources, investments and outcome can be planned.
- Health management: Since your health is most important, you should take care of your body, your diet and lifestyle. You should start avoiding stress and keep yourself physically and mentally active.
- Financial Management: If resources allow, you should begin to plan for a rainy day. Pensions, savings, income from property and investments should be properly planned by taking the advice of reliable consultants.

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V.WHAT CAN THE GOVERNMENT IN THE STATE AND THE CENTRE DO FOR THE RETIRED PEOPLE?

- The government should draw out schemes to tap the potential and experience of the retired seniors
- Retirement homes with proper nursing facilities and day-care centers should be established.
- Clubs for seniors should be set-up to promote interaction among the seniors.
- All hospitals should have separate lines and facilities for seniors to lessen the time spent waiting.
- Travel concessions should be increased.
- Income-Tax benefits and secure investment schemes should be made available.

VI.PENSION POLICIEIS DEFINED BY INSURANCE COMPANY

Insurance companies launch various kinds of policies to offer benefits as per the needs of customers. If you go for unit-linked policies, you can expect higher returns. This insurance plan is ideal for retirement planning as well.

Unit-linked policies offer many choices for investors. It is possible to opt for either 100% equity or a 100% debt fund. As per your risk profile, you can opt for a combination of equity and debt funds as well. If you choose a ULPP (Unit Linked Pension Plan), you can switch very easily. You will be able to change the fund profile at any time.

6.1 UNIT LINKED PENSION PLANS

These are market-linked pension products offered by life insurance companies. These plans are for those looking for long-term retirement plans or investment options. After September 1, 2010, they are supposed to provide a compulsory life or health cover and a minimum guarantee of 4.5 per cent. Earlier, pension plans did not always have an insurance element to it and were primarily an investment vehicle. Being a unit-linked plan, the minimum lock-in is five years. Before this, you cannot surrender the policy. After the September 2010 guidelines, insurers have not launched any such plan as they do not favor the minimum guarantee option. The insurance regulator plans to review norms for this product. It may, however, not compromise on the minimum guarantee.

With the introduction of regulatory changes, many ULPPs vanished from the market in 2011. As per the changes, the insurance companies were mandated to deliver guaranteed returns of 4.5% to customers. As insurers found it difficult to offer guaranteed returns, these plans were taken off the table.

In 2012, the Insurance Regulatory and Development Authority (IRDA) offered a reprieve to insurers who offered guaranteed returns for cases of early surrender. Hence, the companies were able to introduce these plans again. However, the insurance policy must protect the principal. Even though traditional pension plans are available in the market, the demand for unit-linked plans is very high.

6.1.1 Claim Settlement Ratio

The claim settlement ratio plays an important role in the selection of ULPP. The unit linked pension policy is an insurance policy which acts as an efficient source of retirement income. Unit-linked policies will give you the freedom to maximize your returns on investment. The nominee will receive the fund value in case of the death of the policyholder.

6.1.2 Switching

Individuals can change your investment decisions as per your convenience. Switching is nothing but moving from one fund to another fund. The switching can take place at any time. When individuals opt for a new fund, the premium will need to be redirected. The future premiums will be routed to the new fund.

6.1.3 Pre-mature Withdrawal

Pre-mature withdrawals are not permitted by the ULPP. Individuals will need to buy the annuity at the end of the maturity term. Especially since you will not be able to withdraw a portion of your fund during the initial 5 years of subscription. It is not possible to surrender the plan before the end of the lock-in period either.

If individuals fail to pay the regular premium for less than 3 years, your funds will be kept under suspension and the surrender charge will be deducted. The funds will be paid at the end of the third year. If individuals revive the policy, the funds will be paid at the end of the 2 years. These rules and regulations vary from one company to another.

6.1.4 Long-term Investment

The ULPPs are offered with a 5-year lock-in period. After the maturity of the policy, you will want to buy an annuity from the same insurance company.

6.2 PLANNING FOR ULPP

There are ULPPs for wealth creation, retirement, child education and health benefits. If individuals choose a policy for retirement, the amount will be deducted by the employer automatically. Individuals can also choose an SIP (Systematic Investment Plan) so that the monthly premium can be increased or decreased as per your convenience. Individuals can choose a ULPP which offers insurance coverage, market-linked returns and tax benefits. With a typical pension plan of 15 years or more, you can accumulate wealth efficiently. Individuals can invest in ULPPs online after comparing the best plans of reputed insurance companies.

6.3 CUSTOMER EXPECTATIONS

Customer expectations about the pension products on various factors were evaluated as given below:

• It was observed that `periodic information on pension account statements', `promptness in settlement' are `most important' expectations of the customers. The policy servicing is very much important for insurance companies to retain and repeat the customers.

• The `portability' option introduced by insurer reduced the hassle of accessing policy from one location only.
• It was also been observed that customer's expectations about information to be given by insurer before buying policy with regard to tax benefits, investment options, performance records of the funds were fulfilled.

VII.PENSION SCHEME

7.1 FACILITY FOR WOMEN'S

With SBI Life – Smart Women Advantage avail triple benefits of life cover, savings and Critical Illness (CI) benefit under a single, women-centric plan. With this three-fold advantage, spread your wings and soar high. This plan has numerous benefits, such as –

- Security –to protect your family in case of an eventuality
- Reliability –through comprehensive coverage
- Flexibility –to choose between two plans and coverage against pregnancy-related complications and child birth-related abnormalities

7.2 WOMAN ULIPS

7.2.1 HDFC Life Smart Woman Plan

- At the end of the policy term, you will receive higher of the fund value or assured benefit of 101% of all premiums paid including top-up premiums
- Premiums invested in a fund that allocates assets dynamically between equities and fixed income assets
- At vesting (on maturity), you have the opportunity to purchase an annuity from a range of options. You will get guaranteed[1] income for life for yourself and your spouse. You also have the option to commute up to 1/3rd of the benefit at vesting tax-free as per prevailing tax laws
- In the event of your demise during the policy term, your nominee will receive the death benefit
- Benefit from long term investing with Premium Allocation Rate of 102.5% from 11th year on-wards

[1] *The word "Guaranteed" and "Guarantee" mean that annuity payout is fixed once the policy has been purchased.*

Subject to provisions, as per Income Tax Act 1961. Tax benefits are subject to changes in tax laws.

7.2.2 Best LIC Plans for Women in 2017-18

Financial Planning process begins for both men and women at the same time. Money is fortunately gender neutral. Investment and savings are best done as soon as possible and it is never too late to start. Financial Planning is extremely important for the gender empowered woman who shoulders responsibility. This is why you should be aware of the best LIC plans for women in 2017.Being a woman, it can be problematic to stay with the market variations. Life Insurance Corporation is among the most trusted brands in India when looking for a

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Life Insurance Policy. Your money can never sink if invested in this brand. The Indian Government itself is the guarantor for LIC if it fails.

Table 1

Here are few of the handpicked LIC plans to invest in 2017: -					
Plan Name	Minimum Age	Maximum Age	Policy Term	Minimum Sum Assured	Maximum Sum Assured
Jeevan Bharathi – I	18 yrs.	55 yrs.	15 – 20 yrs.	Rs. 50,000/-	Rs. 25,00,000/-
Health Plus	18 yrs.	55 yrs.	N.A.	N.A.	N.A.
e-term	18 yrs.	60 yrs.	10 – 35 yrs.	Rs. 25,00,000/- –	No Limit
				Rs. 50,00,000/-	
New Jeevan Anand Plan	18 yrs.	50 yrs.	15 – 35 yrs.	N.A	No limit
Jeevan Lakshya	18 yrs.	50 yrs.	13 – 25 yrs.	Rs. 1,00,000/-	No limit
Bima Diamond Plan	14 yrs.	50 yrs.	16, 20 and 24 yrs.	Rs. 1,00,000/-	Rs. 5,00,000/-
Jeevan Pragati Plan	12 yrs.	45 yrs.	12 – 20 yrs.	Rs. 1,50,000/-	No limit

Source:https://www.policyx.com/blogs/best-lic-plans-for-women-in-2017

7.3LAUNCHING ATAL PENSION YOJANA (APY) FROM JUNE 1, 2015

To encourage workers in the unorganized sector to voluntarily save for their retirement, the government of India will be launching a new scheme, called Atal Pension Yojana (APY), from 1st June, 2015. This scheme will replace the UPA government's Swavalamban Yojana – NPS Lite and will be administered by the Pension Fund Regulatory and Development Authority (PFRDA). The benefits of this scheme in terms of fixed pension will be guaranteed by the government and the government will also make contribution to these accounts on behalf of its subscribers.Under this scheme, a subscriber would receive a minimum fixed pension of Rs. 1,000 per month and in multiples of Rs. 1,000 per month thereafter, up to a maximum of Rs. 5,000 per month, depending on the subscriber's contribution, which itself would vary on the age of joining this scheme. The minimum age of joining this scheme is 18 years and maximum age is 40 years. Pension payment will start at the age of 60 years. Therefore, minimum period of contribution by the subscriber under APY would be 20 years or more. **Government Funding –** Indian Government would provide (i) fixed pension guarantee for the subscribers; (ii) would co-contribute 50% of the subscriber contribution or Rs. 1,000 per annum, whichever is lower, to eligible subscribers; and (iii) would also reimburse the promotional and development activities including incentive to the contribution collection agencies to encourage.

7.3.1 Atal Pension Yojana – Contribution Period, Contribution Levels, Fixed Monthly Pension and Return of Corpus to the Nominees of Subscribers

Table 2

Age of Joining Atal Pension Yojana	Years of Contribution	Monthly Contribution for Rs. 1000 Pension	Monthly Contribution for Rs. 2000 Pension	Monthly Contribution for Rs. 3000 Pension	Monthly Contribution for Rs. 4000 Pension	Monthly Contribution for Rs. 5000 Pension
18	42	42	84	126	168	210
19	41	46	92	138	183	228
20	40	50	100	150	198	248
21	39	54	108	162	215	269
22	38	59	117	177	234	292
23	37	64	127	192	254	318
24	36	70	139	208	277	346
25	35	76	151	226	301	376
26	34	82	164	246	327	409
27	33	90	178	268	356	446
28	32	97	194	292	388	485
29	31	106	212	318	423	529
30	30	116	231	347	462	577
31	29	126	252	379	504	630
32	28	138	276	414	551	689
33	27	151	302	453	602	752
34	26	165	330	495	659	824
35	25	181	362	543	722	902
36	24	198	396	594	792	990
37	23	218	436	654	870	1087
38	22	240	480	720	957	1196
39	21	264	528	792	1054	1318
40	20	291	582	873	1164	1454
Corpus at the age of 60 years payable to the nominee of the subscriber		Rs. 1.7 lakh	Rs. 3.4 lakh	Rs. 5.1 lakh	Rs. 6.8 lakh	Rs. 8.5 lakh
Internal Rate of Return (IRR)		0.66% p.m.	0.66% p.m.	0.66% p.m.	0.66% p.m.	0.66% p.m.
Post-Retirement Rate of Return		0.59% p.m.	0.59% p.m.	0.59% p.m.	0.59% p.m.	0.59% p.m.

Source: pfrda.org.in

VIII.SHARE MARKET OF PENSION PLANS

Stock markets are hitting new highs and pension plans have now earned positive returns in six straight years. But while this is good news, it's worth pausing a moment to note that by some measures the current stock market is as expensive as it has ever been. Past returns are no guarantee of future results, but pension plans should be concernedthat one of the strongest and longest bull markets has not been sufficient to restore plan funding. The graphs below help provide some historical perspective:

8.1. Pension plans didn't always take risks on stocks or private investments. The first graph, from the Pew Charitable Trusts, shows the rise in pension risk-taking. Starting in the 1970s and accelerating in the 1980s and 90s, pension plans invested higher and higher percentages of their assets in stocks (equity) and other alternative investments. This bet works well during bull markets but leaves pension plan funding levels much more vulnerable to bear market declines. On the positive side, it led pension plans to be fully funded by the end of the dot-com bubble but subsequently led them to crash twice in the last 15 years. But there is a steep downside--pension plans are more dependent on strong investment returns than ever before.

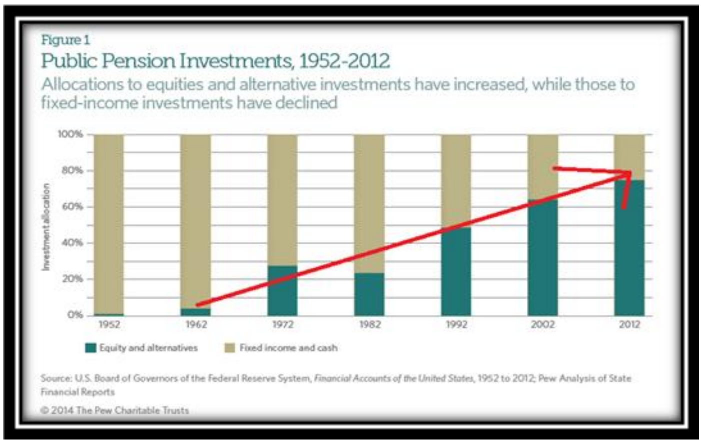

Fig 1: Pension Plan investment 1952-2012

8.2. Pension funds have not rebounded from recent stock market crashes. The most recent data on large state and local public pension plans from the Public Fund Survey, a compendium of data on large state and local pension systems, suggests that pension plan funding levels are closely linked to stock market returns. After the aggregate funded ratio topped 100 percent in the early 2000s after the dot-com boom, benefit increases and two economic recessions caused a strong reversion.

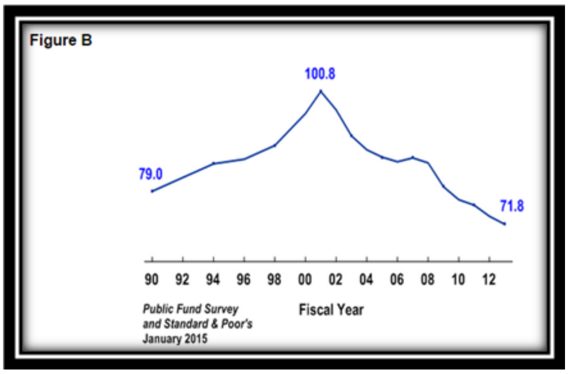

Fig 2: Public Fund Survey January 2015

At a time when bank fixed deposits rates are falling, the government increased the age limit for joining the National Pension System (NPS). This small savings scheme is open for Indian citizens as well as for the non-resident

Indians (NRIs).The maximum age of joining the savings scheme under NPS-Private Sector (All Citizen and Corporate Model) is now increased to 65 years from the existing 60, a release from the Ministry of Finance stated. Any subscriber "between the age of 60-65 years can also join NPS and continue up to the age of 70 years," it added. The choice of pension fund and investment option to remain same for subscribers joining after or before the age of 60 years.

IX.CONCLUSION

This paper studies whether the design of pension plans, in this case who directs the investment of contributions, has an impact on the employee's finances. Specifically, for women those who are dependent and make decisions regarding pension plan investments. I study that women covered by pension plans in which they have investment choice are significantly more apt to hold stock outside of their retirement plan. According to my study direct investments may provide the participant with education that influences financial decisions. However, caution must be exercised when interpreting why there is a correlation between choice and stock ownership, because it is impossible to definitively establish the causality of this relationship. The study revealed that the awareness level of savings for retirement needs to be increased. The sustainable market increases the coverage of the pension products. Building an educational foundation about retirement planning for the future is one of the important steps for pension market development.

The customer expectations and perceptions about the pension products are absolutely matching with the supply of existing pension products. Some of the responses will be of immense help to the insurer for designing a more suitable product as per customer's needs. The rapid growth of pension market in India will widen and deepen the capital market and, as a result, will help in boosting economic growth of India. Pension fund investment, being the long term investment, is beneficial to capital markets, bond markets, mortgage markets, infrastructure development and housing development.

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