- **What is a retirement plan?**

The human life cycle has three financial stages.

The first stage is childhood, when you earn nothing. This is when you build a foundation for the next stage, complete your education, and acquire new skills.

The second stage is the youth and adulthood stage, when your energy is at its peak, and your career kicks off. The focus is on generating wealth and saving enough for the last stage.

The final stage is old age or retired life, where you have a lot of wisdom but you don't work to earn a living, and hence you no longer have a source of earned income.

For most people, the only source of money at the final stage is passive income generated from the wealth and assets collected during the earlier stages of life. However, apart from wealth and assets, life insurance plays a vital role in ensuring a peaceful retired life.

The goal should be to retire as early as possible with as much income and wealth-generating assets, that can take care of your financial needs for rest of your life, without any compromises.

Just like a term insurance policies support the family of the insured after their demise or Health insurance protects the insured against health-related and medical expenses, Pension plans and annuities can support you with a regular income for golden years post retirement.

- **What is a pension plan? or What is a retirement plan?**

Pension Plan or Retirement Plan offered by a life insurance company is something that helps you build a fund through your earning years to ensure that you have a steady source of income after you retire.

So, when you plan for your retirement at an early stage in life - it is critical to explore the best pension plan in India.

You can also find Life Insurance plans that pay income for long term or even lifetime and hence may serve as a pseudo retirement plan.

Why is retirement planning important?

In today's ultra-stressful lifestyle, we hardly have time to plan for the future or even think about retirement.

Having said that, let's pause for a moment, take a look at our lifestyle, understand the current and possible future expenses, and then check the readiness.

If you are prepared great. If not, it's time to action so as to relieve ourselves of retirement worries.

The following are a few reasons why retirement planning is important:

A retirement plan is a **disciplined, affordable, and secure** way to save for retirement.

When you already have a retirement plan in place, you know that you will have a fixed and stable monthly income to take care of your needs post-retirement. When your future is taken care of, it leads to **reduced anxiety and better mental health**.

- **Financial independence** is one of the major reasons why retirement planning is important. A retirement plan will enable you to make decisions even after retirement, without worrying about depending on anyone else for finances.

How to plan for retirement?

Planned retirement involves a number of steps, such as:

- **Step 1**: **Decide When You Want to Retire**

Most people in India retire at 60 years of age, but it may vary from person to person. Note that years to retirement is also the time you have to plan for retirement.

For example, if you are 35 years old and you plan to retire at 55, then your years to retirement are = 55 – 35 = 20 years. This means you have only 20 years left to plan your retirement.

- **Step 2: Estimate Your Life Expectancy**

Life expectancy is an important factor to consider when determining your retirement age. It is the approximate number of years you are expected to live based on your age, medical condition, family history, and other demographic factors.

- **Step 3: Calculate Your Retirement Fund**

Retirement Fund is the amount you require post retirement to meet your expenses and continue with the same lifestyle and maybe pursue your other personal goals.

For this, first ascertain your annual expenses at present.

Then factor in inflation to calculate how much your present expenses will amount to at the time of retirement. This is referred to as the future value of money. This is the amount you will need every year to meet your post-retirement expenses.

For example, Mr. X is 32 years old. He wants to retire at the age of 60. Currently, he spends ₹ 75,000 every month for household and other expenses. In addition he spends ₹ 5 lakhs in a year for medical and travel expenses.
Pre and post retirement - he assumes household inflation is 7% per year; travel and medical expenses will increase by 10%; and his retirement fund will earn 6% per year after it is built post retirement.

To maintain his current standard of living, how much will he need when he retires assuming he wants to meet expenses from the earning from retirement fund?

Answer - Approximately 22 Crores to meet expenses at age 60.

Can this be achieved?
Absolutely. A trusted financial expert can help you determine your financial goal. To connect with a financial expert, fill in your details!

- **Step 4: Calculate the Future Value of Your Current Savings**

Saving a certain amount of money each year alongside paying all your expenses is crucial to building a retirement fund.

The best way to save for retirement is to designate a portion of your savings. You should keep this part of your savings sacred and shouldn't disturb it unless it's extremely critical.

In order to calculate this, you have to assume an expected rate of return on your investment. This is the rate at which your savings or investments will grow till you retire.

For example, if you can save Rs 100,000 per year for retirement and invest that amount in a financial instrument, which gives you a 7% rate of return annually. When you reach retirement age, say in 30 years, you will have a corpus of approximately Rs. 1 Crore.

- **Step 5: Create an Ideal Portfolio with the Help of a Financial Planner**

Your standard allocation to each asset class should be determined by your age and the amount of risk you are willing to take. Investment portfolios should be diversified across a variety of asset classes.

- **Step 6: Start Saving/Investing Early to Retire Peacefully**

Start planning your retirement as soon as possible. As you have several years in your pocket, you can take advantage of the power of compounding.

For example, if you want to create a corpus of Rs. 1 Crore for retirement, assuming the rate of return is 7%, here is the amount of annual saving you need to achieve the target fund depending upon number of years to retirement when you start:

Avoid delaying retirement planning at all costs. In the worst case, you might have to rely on your children or family if you do not have enough funds by retirement. Therefore, begin early - start now.

- **Step 7: Keep Track of Your Plan and Review it Regularly**

You should monitor your retirement plan regularly (at least once a year) to make sure you are on track to meet your goals. The retirement plan must reflect any changes in income, expenses, retirement age, etc. Additionally, in a changing market, ensure that your retirement plan meets your investment objectives.

Pension plans offered by Life Insurance companies are often considered to be a reliable way to retirement planning.

How do pension plans work?

Pension plans are primarily designed to provide a steady income after retirement, as well as a fallback option if your savings fall short during emergencies. But how do pension plans work in India? Let's take a closer look:

To receive a certain amount of fund by retirement, you must pay premium(s). Your premiums are invested depending upon the plan chosen. You may get to choose a fund of your choice if you have chosen a ULIP pension. Once the pension plan reaches maturity, you will be able to receive the vesting benefits, which can be utilised in the following two ways:

Buy an annuity plan using the entire maturity value of your pension plan

You can withdraw a portion of your pension benefits and invest the remaining amount in an annuity plan.

If you choose a Life Insurance saving plan to create the retirement fund, you can get a third option, which is to decide at retirement about where to invest the maturity value to generate a regular income. You may also choose from the life insurance plans that pay you a regular income for life and this could be the fourth option.

Let’s Look at some examples:

Using Life Insurance Pension Plan and an Annuity for Retirement Planning

Mohit had purchased a Pension Plan from Future Generali India Life Insurance in December 2011, when he was 50 years old. His policy matures and the maturity value (or vesting value) is Rs. 15,00,000.

It is mandatory to use the maturity proceeds of pension plan to buy an annuity after commutation (withdrawal of part of the proceeds).

- **Scenario-1: Mohit uses entire maturity value of his pension plan to buy an annuity**

Mohit purchases Future Generali Saral Pension plan – Option 1: Life annuity with Return of 100% of Purchase price (ROP) using the maturity proceeds of Rs. 15 Lakh + applicable taxes

He will receive an annuity of Rs.75,262 every year as long as he survives.

Upon Mohit’s death, his nominees will receive Rs. 15 Lakh (Purchase Price, excluding Taxes).

- **Scenario-2: Mohit withdraws 1/3rd of the maturity proceeds of his Future Generali Saral Pension plan and uses the balance to buy an annuity**

Mohit withdraws Rs. 5 Lakh immediately

Mohit purchases Future Generali Saral Pension – Option 1: Life annuity with Return of 100% of Purchase price (ROP) using the balance maturity proceeds of Rs. 10 Lakh + applicable taxes

He will receive an annuity of Rs.50,175 every year as long as he survives.

Upon Mohit's death, his nominees will receive Rs. 10 Lakh (Purchase Price, excluding Taxes).

Lets look at a scenario when Life Insurance Saving Plans are used for retirement planning as an alternative:

Using Life Insurance Saving Plan for Retirement Planning

- **Scenario-1: Amit uses a life insurance saving plan to create fund for post-retirement years.**

He has not decided how the income should be generated post retirement.

Amit had purchased a Future Generali New Assured Wealth Plan when he was 40 years old. His policy matures when he is 60 years old, and the maturity value is Rs. 15,00,000.

Amit is free to decide where to invest this 15 Lakh to generate an income. He can buy an Annuity from a Life Insurance Company or income plans offered by other financial institutions including post office.

- **Scenario-2: Amit chooses a life insurance income plan that pays income for lifetime.**

Amit is a healthy 40-year old male and has purchased the Future Generali Lifetime Partner Plan – Option 1: Immediate Income. He has opted for an Annual Premium of Rs. 50,000 per year (excluding applicable taxes) for a Premium Payment Term of 10 years and

Annual Survival Benefit frequency. His Policy Term is 60 years and his Sum Assured is Rs. 2,53,485.

What Amit Pays? Premium Amount x Premium Paying Term = 50,000 x 10 = Rs. 5,00,000 plus applicable taxes

What Benefits Does Amit Get?

Amit starts getting a regular income right from year-1. The income is mix of Guaranteed Income and a cash bonus, as declared by the Company from time to time. The income keeps increasing as shown in the illustration below:

As per the current Bonus Rate (applicable as on 1 April 2022), the total survival benefit receivable by Amit will be Rs. 12,801, which is Guaranteed Income of Rs. 7,605 + Cash Bonus of Rs. 5,196.

By this way, Amit successfully secured his retirement. Just like Amit, if you are looking for lifelong support, the Future Generali Lifetime Partner Plan is an excellent choice.

How much do I need to save for retirement?

To determine the amount you need to save for retirement, the following factors should be considered:

Day-to-day Expenses – Your retirement fund should be adequate to generate an income that you will need to maintain your lifestyle even after retirement.

Events and Milestones During Retirement – Even after retirement, there may be financial responsibilities, such as taking care of the dependent partner’s expenses, child’s weddings, and more. Including these costs in a retirement plan is crucial.

Post-retirement Dreams – After retirement, you may have dreams you wish to fulfil, such as travelling, starting your own business, etc. In order to calculate the fund you would require after retirement, you need to include these costs.

Unforeseen Costs – When planning for retirement, be sure to set aside some money for any unexpected costs, such as medical expenses or financial emergencies.

Inflation – Prices will rise for goods and services and you will have to pay more to consume the same items at a later date.

For example, currently, at the age of 45 - your expenses amount to ₹ 6 lakh a year. In order to maintain the same lifestyle after retirement at the age of 60, you would need ₹14.38 lakh every year (taking 6% yearly inflation into account). It is therefore important to factor in inflation when calculating the amount you would need for retirement.

What are the benefits of pension plans?

Among the benefits you can get from pension plans are the following:

Continuity of Income – With a pension plan, you can obtain a fixed and steady income following retirement (deferred pension plan) or directly after investing (immediate annuity plan). As a result, you are financially independent after retirement.

Flexibility to Choose Vesting Age – Participant's vesting age, or the point at which they will begin receiving a pension, is known as the vesting age. Pension plans in India typically have a minimum vesting age of 40-50 years and a maximum age of 70 years. Depending on your chosen age range, you can begin earning a monthly pension at any time between the minimum and maximum limit.

Death Benefit – A pension plan may also provide a death benefit for the financial security of your family in the event of your death. In the event of your untimely death, the nominee will receive the death benefit or sum assured.

Flexible Premium Payment Terms – With retirement plans and pensions, you can also choose how long you want to pay premiums. Based on your financial goals, you can choose your premium payment term.

Tax Benefits – You may be eligible for tax benefits on the premium(s) you pay and benefit proceeds, according to the provisions of Income Tax laws. These benefits are subject to change as per the current tax laws. Please consult your tax advisor for more details.

6 Tips for Choosing the Right Retirement Plan

Do something today that your future self will thank you for.

- Sean Patrick Flanery

Retirement planning is one of those things that you must start today so that your future self will thank you for! The few who ignore it may regret it later in life. Moreover, with rising life expectancy and housing & healthcare costs, retirement planning should be a priority.

So, here are some tips to help you select suitable retirement account plans:

The Inflation Rate Should Be Lower than the Return on Investment (ROI)

Retirement planning may be viewed as a long-term monetary objective if the inflation rate is less than the ROI. Many consumers face the significant challenge of safeguarding the invested amount from capital loss caused by changing inflation rates while investing for the long term. It is because inflation can occasionally harm the value of your corpus and long-term investments. As a result, it is critical to remember that the overall ROI should ideally be higher than the inflation rate.

Look for Plans that Provide Regular Income

Upon retirement, you will no longer receive a regular income. This is when annuity plans come into play. It is a good idea to invest in retirement plans or annuity plans as they provide regular income after retirement or from the time you choose. Additionally, retirement plans provide financial security to your loved ones after your death.

You may also consider other Life Insurance plans that pay an income for long term or even whole of life.

Reduce Risks while Ensuring a Guaranteed Return

A person can take certain risks to diversify their wealth. Nevertheless, as you get older and closer to retirement, you should strive to reduce your risk and search for instruments that give you fully or at least partly guaranteed returns. Thereby, you can be sure that the benefits you receive will have higher probability to last for your entire lifetime.

Period of Vesting

Vesting age is the age from which you start getting income from your investment/retirement plan. Thus, if you wish to start receiving income from your retirement plan at the age of 55, choose a plan with a 55-year vesting age. If you plan to retire late, you may choose a plan with a higher vesting age.

A Suitable Annuity Option

You should select an annuity option that is the best for you. For example, you can choose a life annuity that pays a guaranteed amount of annuity as long as you live but nothing is payable to your survivors after you OR you can choose a life annuity with return of purchase price, that pays a guaranteed amount of annuity as long as you live and returns the fund back to your nominees after you. The later would have a little lower annuity rate.

You also have an option to secure your spouse by choosing joint life annuity option, which pays as long as at least one of you and your spouse is surviving.

Commitment

No one's ever achieved financial fitness with a January resolution that's abandoned by February. – Suze Orman

It can be tough to choose a retirement plan, and even harder to stick to it. However, if you want to accomplish your goal, you must stick to the plan you bought. Do not break the plan before it is mature. Watch it grow until it eventually pays you out the money you need to retire.

Conclusion

Planning for retirement is a crucial step towards ensuring a peaceful life and is the best gift you can give yourself at any stage. Depending on someone for your retirement may be a risky proposition. **Retirement planning** only requires allocating appropriate amount of money out of the total earnings you earn in your adult stage to secure your old age. Your contribution will be lower if you start early.

Ramesh, 50, does not have many years left to retire. He has been diligently planning for his retirement, saving a part of his income and investing in various savings schemes and financial instruments. On the advice of a friend, he had invested in an equity fund, but the returns have been dismal for a long time. Additionally, a sustained inflationary economic environment may affect the real returns from his investments. Market and inflation risks to retirement plans are common and can be managed efficiently.

Market Risks

Nearly all financial products are prone to market risks. You can have exposure to the equity markets through mutual funds or government-backed savings schemes like the National Pension Scheme. Though funds invest in bonds and fixed-income instruments also, equity markets are the most turbulent. Equity-linked schemes tend to perform better in the long run, but you should not be solely dependent on equity markets. The key to managing market risks is to diversify your portfolio. If you have invested in equities to have a substantial sum after retirement, balance the risk with investments in relatively stable debt .

Inflation Risks

The risks associated with price rise can never be ignored when planning for retirement. Inflation is the rate at which prices of products and services rise in a country. One should always look for the real rate of return when investing for retirement. When you deduct the inflation rate form returns, you get the real rate of return, which provides a clearer picture. For instance, if you are receiving 7 percent from a savings scheme, and the inflation rate is 5 percent, then you are actually earning just 2 percent on your investments. If the withdrawal is taxable, the returns may diminish further, turning the real return negative in the long run.

Health Risks

With the rise in pollution, health ailments in the country are rising. Simultaneously, the cost of healthcare is also rising, creating a dangerous predicament for retirees. Most people avoid purchasing health insurance when they are young. Delaying could prove to be costly. As the age increases, the chances of health problems rises and so do health insurance premiums. A health insurance policy bought at a young age will cost substantially less than one taken at an advanced age. People tend to rely on group health insurance policies provided by employers. But that may rob you of certain accumulated benefits like waiver of waiting period as employers keep changing the insurer. To avoid spending from the retirement corpus for a costly hospitalisation, buy individual health insurance at the earliest.

Inadequate Insurance

The family of an earning individual is the biggest sufferer in the case of his/her tragic death. People often fail to plan for unforeseen circumstances like death. Having adequate life insurance can help in allaying the difficulties to an extent. The quantum of the required cover confuses many people. The thumb rule is to have a life insurance policy equal to at least ten times the annual salary. It is also important to take into account existing liabilities like a home or car loan and plan accordingly. Having life insurance after retirement gains greater importance as your children may be dependent on you for a few years even after your retirement. Future Generali Care Plus term plan can provide you with a cover of Rs 1 crore starting at just Rs 618 per month[1]. You can buy the policy online and save on monthly premiums.

Tax Obligations

While planning for retirement, many people fail to plan for the tax obligations that may arise from the current investments. A heavy tax burden has the potential to derail your retirement planning as it may make a serious dent to your monthly income or the retirement corpus. To manage tax obligations, you should plan carefully and invest in tax-efficient instruments like various life insurance products.

Conclusion

Having a clear idea of your post-retirement expenses and liabilities can help you plan efficiently for retirement. Map your potential post-retirement expenses and add inflation, which will give you an accurate estimate for retirement planning. Retirement plans may have various planned and unplanned risks, but active planning can help you avoid and manage them.

Importance of a Retirement Plan in India

Having a considerable amount of money to draw from assumes greater significance for the following reasons:

No Government Support

The need for a retirement plan hinges on a crucial reason: the lack of social security and pension systems in India. It is the single most significant reason necessitating the need for a retirement plan. Unlike the U.S. or the U.K., the elderly or unemployed are not guaranteed a minimum monthly income in India, nor does the state sponsor the post-retirement years of the citizens.

The establishments that were formerly covered by pension have also come under the 'Defined Contribution' system. Not everyone gets retirement benefits like pensions or gratuities on superannuation, and for those who receive them, the amount is insufficient to cover all expenses.

All these facts indicate that when your earning age comes to a close, the government will not support you. You are on your own. The lack of social security and pension systems in India leads to a void that must be filled.

Soaring Healthcare Costs

The post-retirement age is when your visits to the healthcare provider likely increase. A major chunk of your savings goes towards meeting these expenses. Further, healthcare costs are on the rise, like all other expenses. More critically, they are not uniform. Your savings can be depleted by a single major illness. Even in countries with social security systems, citizens cover healthcare expenses to make provision for emergencies. So, since India does not have this system, it is all the more essential to opt for a retirement plan.

Rising Inflation

Inflation is on the rise, diminishing the value of money. Coupled with increased life expectancy due to advancements in medicine and technology, we will require additional income. It can be possible only if we have retirement funds in place, backed by a high-performing retirement plan.

Maintaining a Comfortable Lifestyle

Financial independence is one of the most crucial reasons why a retirement plan is important. You are accustomed to a certain lifestyle and standard of living during your work life. You cannot let go of all those comforts in your old age, and therefore, need to ensure you enjoy the same lifestyle once your post-retirement life begins. It is also the time to take up hobbies and interests you wanted to pursue but could not due to your responsibilities. A retirement plan will enable you to make decisions without worrying about depending on anyone for finances.

Conclusion

If there is one reason you must plan on your own for your retired life, it is **the lack of social security and pension system in India;** hence, **a retirement plan** is the only way to ensure a comfortable lifestyle post-retirement.

Dual Retirement – Your One and Only Safety Net after 60

Dual retirement involves two people planning for their retirement. Even if they do not retire at the same time, they can enjoy dual benefits of two different insurance plans. If you and your spouse have the same life goals and objectives after retirement, a dual retirement plan can help you live a comfortable life.

With India's average life span reaching 80-85 years, saving for retirement has taken on a different meaning. While the earlier generations were only required to manage their money until the age of 70, the present generation is required to prepare finances for at least 20-25 years beyond retirement.

Let's take a look at some numbers:

Michael retired in 1998, at a time when the age of retirement was 60 years and the average lifespan was 70 years. Mr. D resigned in 2018, when the age of retirement was also set at 60, but the average lifespan has averaged 80 years. This is 10 years longer than it used to be 20 years ago.

Mr. D now has 20 years of a non-earning life ahead of him. When Mr. Z retires in 2038, the age of retirement will most likely remain at 60 years, although the average life span will be about 90 years. Mr. G would then have 25-30 years of non-earning opportunities ahead of him.

These examples may seem disconcerting but not for everyone. If you and your spouse haven’t begun to plan for your retirement yet, it is essential that you do not waste any more time.

Increasing average lifespans and what it means for retirement

When the retirement age of 60 was established, an Indian's average lifespan was 67-70 years. The average lifespan grows by 5 years every 10 years as a result of new medical technology that is efficient in prolonging life. Without an appropriate financial preparation, you will have insufficient cash to spend your retirement years in luxury.

Do you believe your current retirement entitlements and assets will be sufficient to support you for the next 20-25 years with similar life and pleasures as you have now?

Making dual retirement work for you

Preparation for the very first retirement at the age of 60 is vital but planning for a second retirement at the age of 70-75 is equally essential. EPF and other assets will not last for 20–25 years, and relying on others (including family) in retirement should be avoided.

That's why it is crucial to plan with your spouse ahead of time for a security net. Various market strategies enable you to invest money methodically for a certain time and maturity when you are nearing 70. Let us look at some real-world instances (numbers from major proposals):

Krishna, 40, chooses a contributing investment plan and continues contributing Rs 8,000 per month till he reaches the age of 50. When he reaches the age of 70, he will receive INR 39,87,272 with an 8% return on investment. Not only that, if he dies during the insurance period, his family would just get INR 8,39,179 in death benefits.

Krishna’s wife Gauri, 45, selects a participant saving plus security plan and begins spending Rs 10,000 per month for 18 years. She will earn INR 55, 92,847 when she reaches the age of 75. Her nominations would amount to approximately 14, 26,200 if she dies prematurely.