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Retirement planning and social security concept in Indian context

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Abstract
The nature of retirement and its importance to people has undergone rapid changes. This study will be an attempt to analyse the retirement planning behaviour of the people and to determine the retirement objectives of the people and also the preference of the individuals to achieve those retirement planning objectives.

Keywords: retirement planning, preferences towards investment asset class, t-test

1. Introduction
Assuming yourself in retirement may be difficult. One can feel several years to start thinking to retire. Perhaps you think that you are at middle age and be aware of that retiring someday is too far, this is called procrastination. For a majority of people, retirement is not a concept. If that is the case people should look at it as monetary independence or economic liberty or financial security as one and the same thing. Increasing social awareness and the globalization of economies made people to think and look for financial independence. They want to be able to decide what they want to do and when to do. Every financial condition can be enhanced with appropriate scheduling. When it is the question of retirement planning, people should awake and start planning.
The primary requirement in retirement planning is to establish what is most important to you and your family. Take a look to your lifestyle in retirement, and compare it with your lifestyle you enjoy today. What you think about your retirement definitely earning money and investing money to support your desired lifestyle. This requires you to determine how much money you require to invest to achieve your financial independence. The investment avenues available for retirement planning have enlarged in recent years. In recent years the government of India has changed from defined benefit retirement plans to defined contribution retirement plans. With the changing societal and financial settings, building individual's future safe by mean of pension provides huge assistance to retired persons and supports them to live a financially secure and respected life after retirement. Careful financial planning enhances the value of life in the retirement years to and if the individual further provides for healthcare one can add years to his life.
Pension in India has conventionally financing through employer and employee contribution. Mass of the population is not covered by any official pension method. Approximately 12% of the working population in India is covered by some form of retirement benefit schemes. That means 88% of people still not having any access to any form of retirement benefit and has to depend on their own income or conventional and informal methods of old age income refuge such as the combined family system. (Source: Population density- www.censusindia.gov.in - 2011) The primary responsibility of providing the sustainable standard of living has shifted from government, employers and trade unions to individuals.
As an investor we are likely to make mistakes while choosing and deciding upon the investment alternatives available in market. The trustworthiness on literature, financial agent's advice, lack of knowledge, and prejudiced figures are the mistakes done by investors.

2. Review of Literature
Elder and Rudolph (1999) [1] planning activities are responsible for satisfaction even for those who goes for retirement decisions involuntarily (either because of health problems or forced employer mandate). Marriage, health, education level, whether the individual was forced to retire, and pre-retirement profession as well as the retirement planning have bearing on the level of the retirement satisfaction. Sample data was taken of 1,781 retired individuals from the first wave of the Health and Retirement Study (HRS). And an ordered probit model was applied to conclude.
Noone, J. H *et al*, (2009) [3] the study seeks relationship between preretirement planning and later-life well-being. The Health and Retirement Study (HRS), a prospective survey of American workers and retirees from 1992 to the 2010 was taken to establish relationship. Regression analysis was used and found that those who have planned for retirement in 1992 reported greater well-being in 2004.
Geetika Batra (2014) aims to study and analyze the investment options available to plan retirement for people. Majorly among them are how to plan savings and investment for retirement. This paper also examines the investment advice given through websites and self-directed pension plans.
Meena Chaturvedi (2015) [4] argued that Pension Policy in India has traditionally been based on financing through employer and employee participation. As an outcome the coverage has been restricted to the accounted workers and a majority of the workers in the informal sector has been denied access to formal channels of pension benefits.

3. Changing Social Paradigms and Importance of Pension Planning
India is witnessing a transformation in its households system from the joint family system to the nuclear family system. It is

primarily because of the increasing immigration of younger generations to distinguished places of the work which contract the old age monetary support. Moreover, the increased life expectancy and increased medicinal everyday expenditure during later age are away from the reach of a general common man. For this reason there is a vital need to revisit the existing formal and informal retirement benefit systems.
According to Old Age Social and Income Security (OASIS) Project, the totality population is likely to go up by 49% from 1991 to 2016, and the number of aged (person aged 60 and above) is likely to raise by 107%. In other words, the proportionate increase in the aged population is more than twofold than that of the population as a whole. Both male and female population in India at age 60 now is likely to live beyond 75 years of age. Thus, an average person should have adequate retirement income to support approximately 15 years post retirement.

4. Selected Components of India's Social Security System
With the objective of inclusive growth, government of India has initiated various schemes for social security which constitutes the Indian Social Security System. The following are the selected component of Indian Social Security System.

4.1 Employees' Provident Fund Organization (EPFO)
The Employees' Provident Fund Organization was started at 1952. EPF comprises two schemes: (i) A Defined Contribution (EPF Scheme) and (ii) and A Defined Benefit EPS (Employees' Pension Scheme). In Defined Contribution Employee and Employer both contributes towards the objective of retirement income. Defined Benefit do not comprise the contribution of employee.

4.2 Civil Service Pensions
Government Provident Fund and Gratuities are paid to the employees at the time of retirement.

4.3 New Pension Scheme (NPS)
To improve government civil service pension system, NPS was introduced in January 2004 a defined contribution scheme with certain mandatory and voluntary contributions. The design of NPS architecture is similar to international pension system. In 2009 NPS made open to all citizens of India. Under NPS, pension is paid at the age of 60 and partial withdrawal is not permitted before the age of 60.

4.4 Pension Plans of Public Sector Enterprises
The pension design for public sector enterprises varies widely. Generally these are Defined benefits such as pension after retirement as per predetermined formula and gratuities.

4.5 Occupational Pension Plans
These plans have made under the purview of PFRDA.

4.6 Voluntary tax-advantaged schemes
This includes voluntary tax-advantaged schemes, Such as ELSS and PPF. Since the total number of tax payers in India is very low, these schemes are made to tempt the tax payer.

4.7 Schemes for the unorganized sectors
These schemes are essentially meant for social assistance and social pension schemes. Recently government has launched ATAL PENSION YOJNA for this purpose only. Micro pensions schemes, such as self-helped groups which work towards the social welfares. The Social assistance and social pension schemes—such as the Old Age Pension (OAP) scheme, financed jointly by the Centre and the states, are also there for unorganized sector.

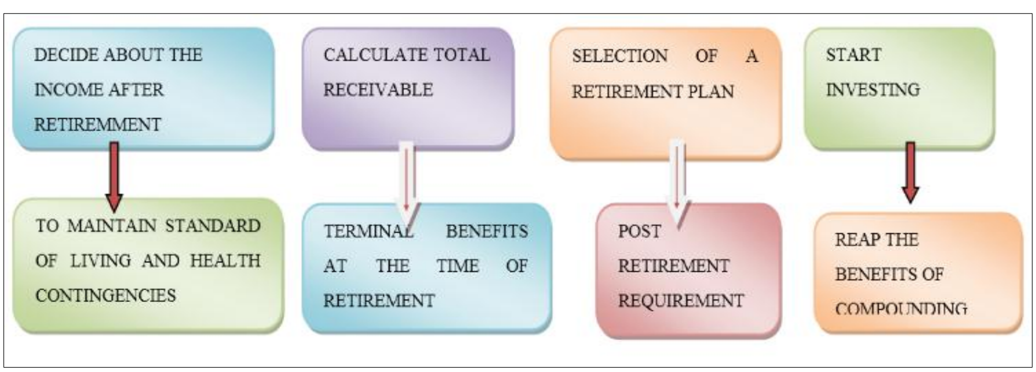
5. Retirement Planning Process
People can plan for retirement even before the age of retirement when they have to survive for their life style without depending on their salary. One can define their retirement goals and can start retirement savings before considering actual retirement. There are four simple steps to arrive at an ideal retirement plan.

Step 1 : one has to decide how much income is required to live comfortably in your post-retirement years. Don't forget to take into account aspects like increased health care costs, payments and contingencies for family.

Step 2 : then calculate the sum to be received in lump sum (terminal benefits) on retirement time.

Step 3 : Select the apt retirement plan that enables you to cater your post-retirement requirements. Preferably, choose the right investment avenues, which can provide you with potentially greater returns in the future.

Step 4 : Start investing early employment age so that you have time on your side and can enjoy the power of compounding.



Source: Authors visualisation

Fig 1: Retirement Planning Process

Retirement in life is one of the milestones. To lead a same standard in life after retirement won't be possible without planning. Expectancy of long life after retirement is obviously good news, but it makes retirement very expensive too. So it is very important to do proper planning ahead and be financially prepared at the time of retirement age.

Retirement planning means catering money or assets for the purpose of deriving some income for older age. This has to be catered before reaching retirement age. Bearing in mind, to make decisions that will be most effective to realize your future financial goals, based on your current personal financial situation.

6. Asset Classes for Investment

6.1 Direct Equity Investments

A share or stock is a certificate issued by a company, which gives its holder to be one of the owners of the company. A share is allotted by a company or can be bought from the secondary capital of stock market. The company's stock price depends upon the future prospects of the company. It depends upon the demand and supply of the stocks in the stock market. Stock prices are reflection of market news about the company. Public limited companies are required to publish their financial statement regular basis. Market opinion and perceptions of investors can affect share price.

6.2 Combination of Equity & Debt

For retirement planning one should take advantage of both the equities and the fixed income instruments. Fixed income plans includes-Employees Provident Fund, PPF, Bank Fixed Deposits, other debt instruments, Gold etc.

Equity includes direct stock investments with the help of brokers/trading members or investment in equity schemes of mutual funds. Real estate can also be included in this category of equity investment as returns from it match with returns on equities.

Investors should follow a very simple strategy of asset allocation, i.e., Age=Debt Investment and remaining amount in equity. Suppose a person has planned for all other financial goals except retirement planning. In this case he is 35 years old and he has 25 years remaining for his retirement. He has good amount of surplus available every month with him. Since the time is horizon is 25 years, he can invest the entire monthly surplus for the first 15 years through Systematic Investment Plans in very high-performing equity schemes. After 15 years he may shift his portfolio to balanced asset allocation and when close to retirement to debt instruments. The most important thing to keep in mind is that some exposure has to remain in equity to give growth to the portfolio, as equity has the prowess to beat inflation.

6.3 Public Provident Fund

Public Provident Fund is among the most popular small saving schemes. Investors can withdraw their money only after five years after the first financial year of the first deposit. PPF does provide accumulation of interest and principal over a 15 year period and gives the lump sum amount (Principal + Interest) on maturity.

6.4 Bank Fixed Deposits

In a Bank fixed deposit (FD) an investor deposit a lump sum of money for a fixed period of time from 15 days to five years and above, on a fixed rate of return. Investor gets a Principal + Interest at the maturity of the deposit. Bank fixed deposits (FD) are traditional saving scheme open to an average investor. Fixed deposits also give a higher rate of interest than a savings bank account. The facilities vary from bank to bank.

6.5 Company Fixed Deposits

Company fixed deposit is another deposit scheme placed before the investors with a fixed term carrying a set rate of interest. Company fixed deposits generally offers, 2-3 per cent higher than bank deposit interest rate. Bank FDs are considered secured investment as banks are backed by government support. Whereas company fixed deposits are not secured.

6.6 National Savings Certificate

NSCs issued by Department of Post, Government of India and are available at all post office counters in the country. It is a long term safe savings option for the investor. The scheme combines growth in money with reduction in tax liability as per the provisions of the Income Tax Act, 1961. The duration of a NSC scheme is five years. It provides tax benefits as per the rule of the Government of India.

6.7 Kisan Vikas Patra (KVP)

The Kisan Vikas Patra are available at all head post offices and other authorized post offices throughout India. The KVPs are measured as the most safe investment tool, as it has the backing of the Government of India. The principal is assured and it is deemed to be a safe avenue for investing your money.

6.8 Employees' Provident Fund (EPF)

The EPF is a mandatory programme that provides retirement benefits to employees through effective management savings. EPF is governed under the Employees Provident Fund Act, 1956.

6.9 Mutual Funds

A mutual fund is a trust that pools and canalise the savings of the large number of investors of a particular mutual fund scheme. The wonderful advantage of mutual fund is that any investor with very few hundreds of rupees can start their investment with mutual fund scheme. The investment in mutual fund gives you the number of units according to the proportion of the investment in the particular scheme that has a defined investment objective and strategy.

6.10 Life Insurance

LI is a contract between insurer and the insured for payment of a sum of money to the person on the event of loss. Generally, it is a long term contract. Although the life insurance policy is to cover the risk, some has the characteristics of an investment. The annual bonus and the market link policies accumulate the annual returns.

Preferences Shares:

Preference shareholders have the privilege over the equity Shares holders they have the preferential rights over dividend and repayment of capital on the time of winding up of the company. The preference shareholders will get a fixed rate of dividend and some time it is convertible in to equities after some stipulated years.

6.11 Bonds
Bonds refer to debt instruments bearing interest on maturity. In simple terms, organizations may borrow funds by issuing debt securities named bonds, having a fixed maturity period (more than one year) and pay a specified rate of interest (coupon rate) on the principal amount to the holders. Bonds have a maturity period of more than one year which differentiates it from other debt securities like commercial papers, treasury bills and other money market instruments.

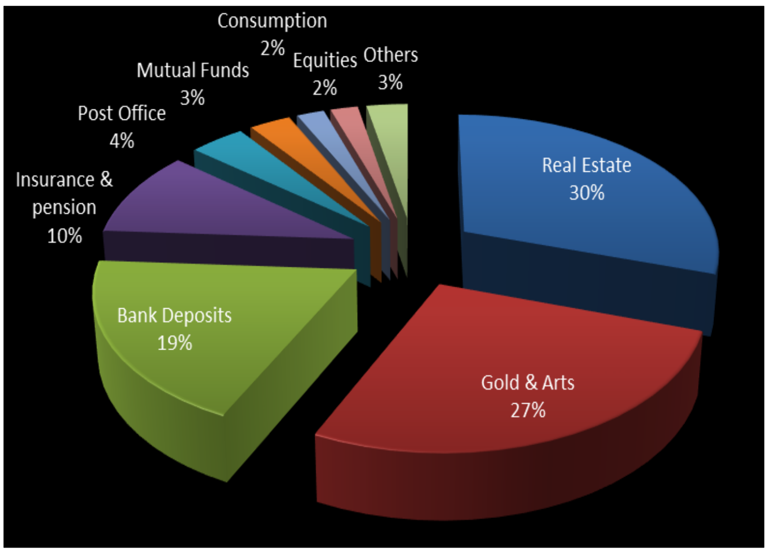
6.12 Money market instrument
Money market is a market for short term fund requirement. The short term generally means a period up to one year and the term also denotes any financial asset which may be quickly converted into money with minimum transaction cost. Money Market Instruments where Investors can invest are Treasury bills, Certificate of Deposit, Commercial Paper, Repurchase Options (Repo), Money Market Mutual Funds (MMMFs).

6.13 Derivative Instruments
Derivative investment products are derived from the value of an underlying asset, market index or reference rate. The underlying asset can be equity stocks, foreign exchange, commodities or any other asset class. Derivatives are of four types, (1) Forward (2) Futures (3) Options and (4) Swaps. From the point of view of investors and portfolio managers, futures and options are the two most common financial derivatives. They are used for hedging and speculation.

6.14 Real Estate Investment
Real estate investments include land and house property investment. It is not an exaggeration to say that real estate offer a return on investment which is superior to any other avenues such as company deposits or other investments on a long term basis. Now-a-days people are more inclined towards investments in real estate for the following reasons:

- Real estate ensures high capital appreciation as compared against gold and silver particularly in the urban area.
- Loans are available on liberal terms for purchase of land site and construction of houses.
- Ownership of a house gives an investor a secured feeling and enhances his/her status in the society.
- Real Estate Investment is now treated as a major case of capital budgeting on the basis of the income it may generate and the associated risk adjustments.

The real estate sector of India is more liquid as compared to other countries of the world; the following graph represents the standing of real estate as an investment asset for a common urban household in India. This graph reflects that the majority of population invest in the Real Estate that is 30%, 27% are invested in Gold & Arts, 19% invested in Bank Deposits, 10% are invested in Insurance & Pension then the percentage is lower than 5% in the rest of the avenues viz., Mutual Funds, Post Office, Consumption, Equities and others.



Source: RBI, National Council for Applied Economic Research

Fig 2: Segmentation of Investment by Households in India

Commercial real estate sector is in boom in India. After year 2000, Indian real estate business has taken an expansion and is expected to grow from the current USD 14 billion to a USD 102 billion in the next 10 years. This growth can be attributed to favourable demographics, increasing purchasing power, existence of customer friendly banks & housing finance companies, professionalism in real estate and favourable reforms initiated by the government to attract global investors.

6.15 Gold Investment
In recent years it has been found that the investment in Gold is high as in the past. It is highly appreciated by the investors due to its liquidity in nature and also when any emergency occurs, it may be sold out. Gold is recognized as a pious in the traditions and deeply rooted in the Indian culture. Time to time companies provide offers and schemes to attract their customers and provide a smooth platform to purchase the Gold. Due to the emergence of online shopping it is easier for customers that they order the products at home without any tension and enjoy their shopping. With the pace of time, its value is increasing day by day and especially women are more willing to purchase the Gold as for their future investment, safety and security. The most surprising thing is that even the people fear to put on the Gold Jewellery for being theft or other happenings, but the purchasing power is increasing. Indian women put their Gold investment in the lockers and enjoy its

presence. Festivals are special occasion for purchasing the Gold. As in the Shastras, it is mentioned that on Diwali, purchasing the Gold means to cash prosperity and happiness. In the past even the mode of payment in trade was Gold. The journey of Gold from the past to the modern era is romantic and passionate.

6.16 Debt Investments

When investors invest their money for a certain period of time, then they receive the said amount after a certain period of time along with the interest rate. In this investment avenue, trust plays an important role in determining the mechanisms. Debt instruments are means for you to lend money to companies (large and small), banks and the government to earn a suitable return in the form of Interest.

Before investing the money, investors have more queries to seek the answers

- Amount of investing
- Time (term) for which it needs to borrow and the maturity date
- Security of the money
- Interest rate that it would offer to the investor
- The periodicity of the interest payment (annual, semi-annual, quarterly or monthly).

6.17 Indian Depository Receipts (IDR)

If a foreign company wants to raise fund through Indian Stock Market, then IDR is the option to Indian Investor to invest in a foreign company's equity. Standard Chartered Bank is an example if IDR where Indian investors have invested in equity of Standard Chartered Bank through IDR.

7. Empirical Analysis

The respondents in the study were asked to mark their preference for a particular asset class used for investment in retirement planning. The asset classes included traditional retirement planning avenues such as EPF and PPF while it also included novel means such as Atal Pension Yojna and Equity Investments for Retirement planning. The questions asked were to be responded on a five-point Likert's scale starting from Strongly Disagree to Strongly Agree.

The study performed z-test to determine the overall preference of the respondents towards the asset class. Comparison of mean for statistically significant asset classes is performed to rank the asset classes in ascending order of their preference amongst respondents.

Table 1: One sample t-test for preferences

One-Sample Test (test value =3)						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Pension Funds Annuity	17.717	1143	.000	.52885	.4703	.5874
Bank FD	9.705	1143	.000	.32692	.2608	.3930
Gold Jwel	7.459	1143	.000	.25962	.1913	.3279
House Rental Income	33.667	1143	.000	.97115	.9146	1.0278
Equity	7.246	1143	.000	.25000	.1823	.3177
Atal Pension	-2.230	1143	.026	-.07692	-.1446	-.0093
NPS	5.714	1143	.000	.18269	.1200	.2454
NSC KVP POST office Deposits	7.598	1143	.000	.24038	.1783	.3025
PPF	15.756	1143	.000	.52885	.4630	.5947
EPF	14.888	1143	.000	.48077	.4174	.5441

z-test is performed to analyse statistically the significance in preferences of respondents towards asset classes. The test is found to be significant for all the asset classes at alpha=0.01. It is however concluded that the respondents do not prefer Atal Pension Yojna as an investment preference for achieving retirement planning objectives. The finding has policy implications on part of government to analyse further the causes why the scheme has not been able to find substantial number of takers in the recent past.

The ranking of the preferences of the respondents based on mean response analysis is presented below

Table 2

Investment Class	Mean Response	Rank	Preference
House Rental Income	3.9712	01	HIGH
Pension Funds Annuity	3.5288	02	
PPF	3.5288	03	
EPF	3.4808	04	
Bank FD	3.3269	05	
Gold Jwel	3.2596	06	MEDIUM
Equity	3.2500	07	
NSC KVP POST office Deposits	3.2404	08	
NPS	3.1827	09	LOW

- House Rental Income is considered the top most preferred choice by respondents in achieving their retirement objectives post retirement. Rental income provides a twin benefit to the investor. First it assures inflation adjusted fixed income from rent being received and secondly the real estate property is the fixed asset upon which the investor may rely in case of any untoward incident. Also real estate can be passed over to the next generations.
- Pension fund annuity, PPF and EPF are ranked next respectively by the respondents. These are traditionally accepted and popular pension/retirement related investment asset classes.
- Bank FD is ranked fifth most preferred asset class due to the obvious advantages of medium returns and higher liquidity to the investor. Bank FDs also enjoy the benefit of investor perception of being a very safe asset class.
- Gold/Gold Jewellery is ranked sixth amongst other asset classes. Investment in gold has been a traditional Indian method to save money. The method has religious and societal significance and acceptance in Indian context.
- Equity investments are ranked at seventh position well above NSC and NPS schemes. This is a clear indication of the shift in investor perception towards pension related investments. The relative higher ranking of equity may be attributed to the comparatively younger and high risk-appetite investors.
- The NPS has received the last rank in respondent's preferences. A clear policy indication that despite of it being mandatory for Government/Quasi Government/Autonomous bodies the scheme lacks somewhere. Further studies may be conducted to analyse the impediments in NPS becoming a popular pension related investment scheme.

8. Conclusion

Precisely in the context of India as there is no as such social security system as western countries do have. Also central and state government pension funds indicated to change their defined benefit (DB) plan into a defined contribution (DC) plan. This shift paved the way to retirement planning thus people should decide how to allocate their savings to obtain the desired retirement state. It is concluded that the respondents do not prefer Atal Pension Yojna as an investment preference for achieving retirement planning objectives. The finding has policy implications on part of government to analyse further the causes why the scheme has not been able to find substantial number of takers in the recent past.

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