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THE NEED OF HOLISTIC APPROACH FOR RETIREMENT PLANNING: A STUDY

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Abstract

To achieve financial freedom after retirement, one has to start planning its investment at an young age. Maintaining current lifestyle at the time of retirement is not possible without saving and proper planning. Due to the factors like inflation, changes in attitudes at young age, people tend to save less and spend more thereby fail to do proper financial planning for the Retirement. Then at the time of retirement they have to manage with little money and they are not in a position to maintain the same lifestyle. Therefore this research paper explains the need and importance of retirement planning, factors affecting retirement planning. It also explains necessity of expert's advice for retirement planning due to availability of different types of plans in the market and everyone has different need to fulfill.

Keywords

Financial freedom, Retirement planning, Retirement arranging, Inflation.

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Introduction

Planning our own investment is the process of developing a personal road-map for future financial wellbeing. Disposable income of an average Indian has increased drastically. The propensity to earn more has translated into splurging even more. Higher standard of living, change in attitudes, increase pay checks is driving consumption especially in young professional. It's a struggle to strike a balance between current spending and saving for the future. Only after we approach retirement we begin to look for avenues to make our money work for us. At this stage maintaining current lifestyle is difficult as money saved in banks yields returns that eventually get eaten up by inflation. Therefore it's important for every young professional to make it a habit to put aside a little every month to achieve their financial freedom after the retirement.

Need for the Study

The study deals with the financial problem faced post retirement. It explains how saving and proper investing at young age would help to achieve financial freedom post retirement. To invest wisely and select from different products available in the market for retirement planning one has to seek expert's advice and create balanced portfolio to suit post retirement needs.

Objectives

The main objective of this research paper is to study:

- The importance and need for retirement planning.
- Factors affecting retirement planning.
- Types of retirement plans available in the market.

Limitations

This paper arrangement to study need and factor affecting retirement planning. In this paper the researcher has generated the hopes to find their reply on how expert advice would lead to proper retirement planning. The data are secondary in nature. As such the data are taken from the secondary

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Sources the analysis is based on the rendered information from them. The suggestions rendered may not be extended to the similar cases.

Research Methodology

The research design which has been formed for this research article is descriptive research design. The nature of data which is collected and used for this research article is secondary. The relevant and required data are collected from secondary sources such as text books, national as well as international articles and dailies.

Definition

Retirement Planning is "the way toward deciding retirement wage objectives and the activities and choices important to accomplish those objectives. Retirement arranging incorporates distinguishing wellsprings of pay, assessing costs, actualizing a funds program and overseeing resources. Future money streams are assessed to figure out whether the retirement salary objective will be accomplished."[1]

In the least complex sense, retirement arranging is the arranging should have been monetarily free after retirement when one quits working or acquiring in all parts of life. There are different angles incorporated into this like way of life decisions as how to invest energy after retirement, where to live, when to totally stop working, and so forth. An all-encompassing methodology is expected to cover every one of the viewpoints after retirement.(http://www.investopedia.com/terms/r/retirement-planning.asp)

Retirement planning in India

The idea of retirement arranging has been advanced throughout the years. People now choose deliberate retirement at the early phases of life and seek after their side interests as calling and love their work whether they win same measure of wage out of it or not. In the year 2013, a study titled

HDFC Life Value Notes Life Freedom Index was led in 11 level 1 and level 2 urban areas to comprehend the present condition of money related arranging in urban India. The review uncovered that "shoppers are wary about the ampleness of their budgetary arrangements to meet their sought way of life all through their lifetime. Truth be told, just 13% of youth and ladies are to a great degree certain that they have sufficient retirement arranging set up. In spite of the fact that the astuteness speculator portion (45 years or more) scored better in the level of certainty, their rate remained at just 24%"

Importance of Retirement Planning

Lack of Social Security System in India

Research shows that most working people in India don't arrange their reserve funds towards retirement and trust that their present investment funds will be sufficient to deal with their post retirement needs. In an atomic family structure, bolster in the maturity is no longer simple and everybody must act naturally content in their retirement years. Also, there is no government managed savings framework in the nation. So it is vital for people to understand that through a methodical retirement arrange one can keep up their standard post-retirement way of life.

Increase in Life Expectancy

Retirement arranging has gotten to be among the most essential of a man's monetary contemplations, for a few reasons. At present normal existence of an Indian is around 66 years and is probably going to increment to 75 years in next 10 years. So the life will be a battle if retirement arranging has not been done ahead of time. There will be nobody to fare these well.

Inflation

Inflation is another vital calculation making arrangements for retirement. There are diverse sorts of swelling like wholesale inflation which is measured on the basis of Wholesale Price Index. (WPI)

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Retail swelling which is measured on the premise of Consumer Price Index (CPI) which is considered by the normal client for money related arranging as it gauged the effect of value rise.

Food Inflation which continues rising at whatever point there is shortage of nourishment grains because of deficiency in rainstorm downpours. Being Indian this element gets to be distinctly essential for money related arranging. Lifestyle Inflation thought about when as a man need to keep up same way of life even after retirement.

Education Inflation which influences budgetary arranging when one needs to pay cost of instruction of the kids after retirement. So when midpoints increment in cost of products and ventures happens over the timeframe, more cash is required to keep up a similar way of life after retirement.

Quality of Life

If not planned well for retirement, one cannot spend money on luxury or quality life but force to save and worry over resources, making money. Retirement gives lot of space and time which once can enjoy well only when proper financial planning is been done

Long-Term Care

People who work in public sector organization can only depend their employer for lifelong health care benefits. In fact the group insurance which one has also ceases when retire?

According to government data medical costs have risen 14% since 2010. Even without hospitalization there is high cost of maintenance of health like medicine, preventive check-ups and consultation. So there is need to build separate portfolio for medical expense.

Starting early helps save more

As we start early we can save more as there is little financial commitment at an early age. On the other hand, there is a power of compounding which can build good corpus at the time of retirement.

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Shortfall in Employer Funded Pension/Pension Funds

The business or government supported Pension Schemes are less inclined to manage the wage needs post retirement. The annuity that one may get from these plans won't be adequate to keep up the way of life. This is the reason numerous people overall supplement their state or boss financed retirement arranges with self-subsidizing i.e. annuity arranges.

Desire to remain contributor

The need to add to the family by giving and supporting the children or fabulous children at points of reference of their life stays even after retirement is unavoidable. Beginning a free wander is likewise a developing pattern. These can be satisfied just when one is monetarily independent.

Change of social structures

Notwithstanding family bolster, numerous retirees don't lean toward contingent upon the relatives or youngsters for meeting post retirement costs. Keeping up autonomous way of life is supportable just when sponsored with a monetary pad.

Retirement Plans

Retirement plans are also called as pension plans. Saving money is one aspect but its need to be invested in right pension plans which secure steady income for meeting will need post retirement.
So it's important to compare or weight different schemes and select the right one. How much to be contributed also depends upon individual's age and investment style.

- Young investors in their 20s and 30s can take more risk and can accept short term volatility that is can take risk of short term losses in stock market in exchange for long term growth
- Young Adults between the ages of 20 and 35 invest around 70 percent of their money in growth funds, maximizing long-term growth. The remaining money can be utilized in growth and income or balanced funds and in income or capital preservation funds.
- People in their mid-50s through mid-60s again need to lessen venture change, yet at the same time need to acknowledge development in their speculations. More accentuation is set on pay and capital

conservation as retirement develops closer. Leaving around 40 percent of put finances in development assets ought to keep up reserve development objectives, while putting the other 20 percent in development and salary or adjusted assets ought to help diminish unpredictability.

- Finally, for retired persons, investments need to maximize current income and grow only enough to outpace inflation. Little volatility in investment performance is desired, and income is more important as people are likely not actively earning any income on their own.

Therefore factors need to be considered before the planning are

- Current Age
- Retirement Age
- Expected monthly expenses
- Inflation parameters
- Returns on saving after retirement

There are different plans are retirement plans are available in the market like:

National Pension Scheme (NPS): This scheme has been introduced by the government for people looking to build up pension amount. Savings can be put in new pension schemes which will be invested in equity and debt market as per the preferences. Withdrawal allowed is 60% of the amount at retirement and rest 40% must be used to purchase annuity. The maturity amount is not tax free.

Employee's Provident Fund (EPF): As per this fund amount towards the contribution is deducted from the salary and employer also contributes towards the fund.

Public Provident Fund (PPF): In this fund, government pays fixed interest on the amount invested every year .The government pays fixed interest on the amount invested every year in PPF.

Deferred Annuity: It allows accumulating corpus through regular premium or single premium over a policy term.

Immediate Annuity: In this scheme money needs to be deposited in lump sum and pension starts instantly. Tax benefits can be enjoyed on the premium paid as per Indian Income Tax Rules.

With Cover and Without Cover Pension Plans: With Cover Pension Plans have life cover component. Normally deferred pension plans are with cover and immediate annuity plans are without cover.

Then there are others like Pension Funds by (PFRDA) Pension Fund Regulatory and Development Authority, Annuity Certain, Guaranteed Period Annuity, Life Annuity and so on. Likewise there are many plans available from insurance companies but not many expert will advise for them as they are incapable of beating inflation in the long run.

Findings, Conclusions and Suggestions

To conclude,

- It's important to start saving early to build a good corpus for retirement. To inculcate this habit one should first open investment accountand automate regular deposit directly from checking accounts. Slowly year after year the percentage of saving should be increased to achieve different financial goal and finally for retirement planning.
- There are many reasons why one should plan for retirement like uncertainty of social security and Pension benefits, unforeseen medical expenses, financial need of dependents, to maintain current lifestyle, to retire early, to relax and enjoy post retirement etc.
- As every person saves differently and has different needs and goals at the time of retirement, selection of right investment strategy wisely can help to achieve financial freedom at the time of retirement.
- As there are many products are available in the market for retirement and financial planning, selection of the product should be done as per his risk profile which beats inflation in long turn, maintains liquidity and gives tax free return. Therefore to make proper investment strategy and rebalance the portfolio from time to time expert's advice is needed.

Therefore to plan for retirement following points need to be considered.

- An independent and objective, certified financial planner or expert should be hired.
- One must check his own retirement saving options i.e. if any plan is offered by employer in case of employed person.

- Listing out retirement financial goals and finding realistic ways to reach them. Its also important to calculate the cost of lifestyle, today's and tomorrow's monthly expenses. It will tell how much money need to be saved in retirement fund.
- To get the clear picture where our saving currently stand, one need to evaluate current finances by accessing information of all assets, all accounts, current balances together.
- While mapping out retirement plan, one need to be objective and realistic and need to test the viability of retirement goals and plans.

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