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CLASS: IX-X FINANCIAL LITERACY

RETIREMENT AS A FINANCIAL GOAL

Retirement: It is a stage in the life cycle of an individual when one stops being an active part of the productive/ working population on account of advanced age.

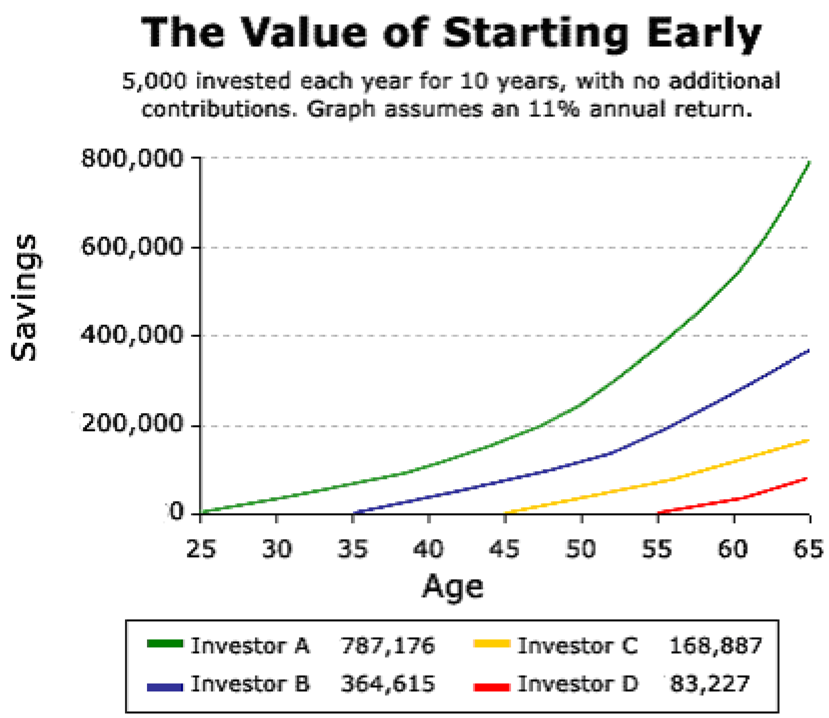
Every individual aspires to lead a life of dignity and financial independence even after one retires. However, one needs to plan for the same. In fact, one of the most important reason to save during one's working years is to provide for a financially independent and dignified post retirement life.

Retirement planning: Planning for the purpose of achieving financial independence after retirement.

Pension: Regular income to the individual after retirement.

Retirement planning requires:

1. To determine how much annual income will be needed in each year after retirement.
2. To determine how much must be accumulated in retirement savings in order to fund the expenditure during retired years.
3. To determine how much must be contributed to retirement savings in each remaining working years in order to accumulate the required amount determined in step #2.



TYPE OF PENSION PLANS

Defined Benefit (DB)

Defined Benefit Pension plan is one in which a specified monthly benefit (payment) is available on retirement. It is predetermined by a formula based on the employee's earning history, tenure of service and age, e.g. 50% of last pay drawn is paid as pension to central government employees (pre 01.01.2004).

Defined Contribution (DC)

Defined Contribution Pension plan in which the pension amount is dependent upon the aggregated retirement corpus which in turn is determined by the amount of individual contribution. Individual contributes for her/his own pension & parallely contribution can also come from employer/Central or State Government in addition to individual contribution. The amount of contribution is predetermined.

Two phases of retirement :

Accumulation phase - This period begins when you enter the workforce and begin setting aside funds for later years of your life, and ends when you actually retire.Basically, if you're still working, you're still in the accumulation phase, building wealth to get you through retirement. It is during this time that you're building wealth and resources to provide an income source for your post retirement.

Distribution phase - When you actually retire and start collecting money from the retirement income sources you set up during the accumulation phase of your life, you can be said to have entered the distribution phase.

There are many reasons why planning for retirement is important like any other goals:

1. **Increase in life expectancy:** Our generation will live longer than previous ones due to improved medical and healthcare, implying the need to gather enough funds that can sustain longer life. This also implies that the healthcare needs and expenses are likely to haunt us.
2. **Shortfall in Employer Funded Pension/Pension Funds :** The employer or government funded pension schemes are less likely to sustain the income needs post retirement. This is the reason many individuals supplement their state or employer funded retirement plans with self-funding- i.e. pension plans.
3. **Change of social structures:** In spite of family support, many retirees don't prefer depending on the relatives or children for meeting post retirement expenses. Maintaining independent lifestyle is sustainable only when backed with a financial cushion.
4. **Lack of social security system:** There is no social security system in our country. Hence one has to plan to build the entire corpus to help meet the regular income or any contingency post retirement.
5. **Rest and relaxation:** After fulfilling all your responsibilities, you may want to build a retirement corpus to go on holidays, to pursue a hobby etc.

Pension Fund Regulatory and Development Authority(PFRDA)

PFRDA was established by Government of India on 10th October 2003, PFRDA to act as a regulator for the pension sector.The mandate of PFRDA is development and regulation of pension sector in India.

Functions of Pension Fund Regulatory and Development Authority

- Promote pension scheme in the country by fostering mandatory as well as voluntary pension schemes in order to serve the old age income needs of retired personnel

- National Pension System, both tier 1 and tier 2 are under the purview of PFRDA and are dictated by the same
- PFRDA performs the function of appointing various intermediate agencies like Pension Fund Managers, Central Record Keeping Agency (CRA) etc.
- Educating the general public and stakeholders about the importance of pension.
- Training of intermediaries that perform the task of popularizing and educating people about the importance of pension.
- Addressing grievances related to various pension schemes in the country.
- Addressing and resolving disputes between various intermediaries.

Powers of PFRDA

The Ordinance has empowered the PFRDA to regulate the New Pension System (NPS), as amended by the Central Government from time to time. The PFRDA would also prescribe guidelines on the number of players, prudential norms, investment criteria and capital requirement of pension fund managers.

Besides framing regulations/guidelines and prescribing disclosure standards, the PFRDA has also been empowered to curb fraudulent and unfair practices in pension funds and protect the interests of the subscribers to the schemes of pension funds. All appeals against the orders and decisions of PFRDA would lie with the Securities and Appellate Tribunal.

The New Pension System (NPS)

The New Pension System is changed to National Pension System. NPS is made available to all Citizen of India w.e.f 1.5.2009 on a voluntary basis and 16 Lakh State Government employees from 22 States are covered under National Pension System (NPS).

FEATURES AND ARCHITECTURE OF THE NATIONAL PENSION SYSTEM

1. The National Pension System is based on defined contributions. Subscriber can open NPS account through POP or Aggregator. NPS tier-1 Account is non withdrawal account and there will be seamless transfer of accumulations in case of change of employment and/or location. It will also offer a basket of investment choices and Fund managers.
2. NPS is mandatory for new recruits in the Central Government service (except the armed forces). The monthly contribution would be 10 percent of the salary and DA to be paid by the employee and matched by the Central Government.
3. National Securities Depository Service Limited (NSDL) has been appointed as the Central record keeping agency (CRA) under NPS .The recordkeeping, administration and customer service functions for all subscribers of the NPS shall be centralized and performed by the CRA.
4. Pension Fund Managers (PFMs) are appointed by PFRDA to manage the retirement savings of subscribers.
5. Annuity Service Providers (ASPs) are appointed by PFRDA for delivering a regular monthly pension to the subscriber for the rest of his/her life post retirement.
6. Individuals exit at attainting the age of 60 years from the NPS. At exit, the individual is required to invest minimum 40 percent of pension wealth to purchase a pension from ASP. The individual would receive a lump-sum of the remaining pension wealth, which she would be free to utilize in any manner; individuals have the facility to invest more

than the minimum prescribed 40% for receiving higher pension. Individuals would have the flexibility to leave the NPS prior to age 60. However, in this case, the mandatory annuitisation would be 80% of the pension wealth.

SwavalambanYojana is launched by Government of India on 26.09.2010 to support individuals in the unorganized sector in achieving old age security. Any citizen of India, belonging to the unorganized sector, is eligible to open a NPS account subject to the following conditions:

- Subscriber should be between 18 — 60 years of age.
- Subscriber should not be covered under any social security scheme.

Government of India will contribute Rs 1000 per annum to all eligible NPS Swavalamban accounts where the subscriber deposits a minimum of Rs 1000 to maximum Rs. 12000/- per annum. The incentive is presently available till 2016-17 and around 16 Lakh subscribers are covered under this scheme till 2012-13.

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