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A study on Retirement Planning of Middle Income Individuals in Indore City

By

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Abstract

One definition of retirement is leaving the workforce due to old age. Although the 7th earn commission has established a retirement age for government workers, private sector workers have no such need. The purpose of this research is to determine if and to what extent men and women in the labour force have similar levels of knowledge about the importance of planning for retirement and the various investment vehicles available to them, such as those from lease payments, investments in stocks and bonds, Social Security, 401(k)s, Pensions, PPFs, and insurance playouts.

Keywords: Retirement plan, Middle Income individuals, Govt. employees, Private sector, Investment in avenues, Source of Income, Retirement age.

Introduction

Retirement means leaving the workforce due to old age. According to the 7th pay commission, the retirement age for government employees in India varies from 58 to 65 years old, depending on the specific occupation. In the private sector, there is no mandatory retirement age. For government workers hired after 2004, pension payments were discontinued in favour of the Contributed Pension Scheme, in which employees contributed 10% of their income plus Dearness Allowance and the government matched the contribution dollar for dollar for Tier-I employees. The government does not provide Tier-II workers with a portion of their contribution. Monthly Employee Provident Funds (EPF) payments are another form of pension for private sector workers. L.M. Bhole A Employees' Provident Fund Acts of 1952 established the EPF scheme for manufacturing workers. Until 1958, government agencies were exempt from this law, but they are now required to comply. Employees' Provident Funds (EPFs), Employees' Pension Schemes (EPSs), and Public Provident Funds (PPFs) accounted for a small fraction of India's pension system's total coverage (PPF). The government has introduced new pension programmes including the National Pension Scheme (NPS) or the Atal Pension Yojana (APY) in recent years. Since middle-class people in Indore City have options for funding their retirement beyond what the government offers in the form of pension plans, this study examined those choices.

Conceptual Frame Work

Retirement Plan

Most people's primary financial objective in the workforce is saving for retirement. Having enough money to "Enjoy their retirement life and also to require care for their family" is often cited as one of the top motivations for contributing to a pension plan. At 25, when most people start working, retirement planning is at its simplest. The first step in any kind of planning is to take stock of one's own financial situation, including one's income, debts, and other obligations, and then to assess one's health and, if necessary, set aside funds to pay for any necessary medical care. This research looks at the ways that working people have invested their money, including purchasing a home to rent out, investing in a mutual fund, equity securities, a National Pension System (NPS), a personal savings plan (PPF), an APY, and insurance. After retirement, when most people no longer have a steady income, pension plans are a lifeline for maintaining one's standard of living. A pension plan allows you to save and invest your money so that you can retire with a steady stream of income from an annuity. According to the UN Population Division By 2050, global life expectancy is projected to rise from its current level around 65 years to close to 75 years. Life expectancy has improved as a result of improvements in healthcare and hygiene in India. This results in a greater total time spent in retirement. Consequently, retirement is becoming less viable due to increased living costs, inflation, and life expectancy. These days, it's more important than ever to plan ahead.

Rental Income

Those with more disposable income may choose to invest in a plot of land and build a primary residence, as well as an attached or detached apartment or home, to rent out and use the monthly rent payments or the lump sum of money received from the lease to fund future investments. Those who don't have much money borrow from a bank and use some of their savings to build a rental property.

Mutual Fund

Mutual funds provide access to the stock market for small investors who would otherwise be shut out of the capital markets. The investment portfolio is diversified to minimise exposure to any one market and maximise returns for investors (via dividends, capital appreciation, or both). A monthly instalment plan or a single, large investment is both possible. In 2017, the minimum investment in mutual funds will drop to Rs.500 per month, encouraging the average citizen to contribute on a regular basis through a strategy known as the Systematic Investment Plan. Mutual funds allow investors to spread their money across a large number of different securities, so spreading their portfolio's risk.

Equity Shares

There are two main drivers of stock market investment: In order to encourage dividend income and realise a capital gain upon sale. When cash is urgently required, equity shares are among the most important parts of a financial plan that can be quickly converted into cash. True owners of a corporation are its stockholders, who also take on the majority of the company's risk. Paying a dividend to stockholders is a legitimate use of corporate profits, but the dividend payout ratio is flexible. Ownership in equity shares could be transferred to another individual voluntarily or involuntarily.

National Pension Scheme

On October 10, 2003, the government of India formed the Pensions Fund Regulatory and Development Authority (PFRDA) to foster and regulate the growth of the country's pension sector. On January 1st, 2004, the NPS went into effect with the intention of guaranteeing retirement income for all or any citizens. The goal of the NPS is to get people in the routine of saving for their retirement and to implement pension changes. NPS was originally implemented for newly hired government employees (except armed forces). As of May 1st, 2009, all people, including those working in the unorganised sector, were eligible to receive NPS benefits. Moreover, with in Union Budget of 2010-11, the Central Government unveiled a co-contributory state pension called the "Swavalamban Scheme-External website," in which the government would contribute a total amount of Rs.1000 to each and every able to qualify NPS subscriber who gave between Rs.1,000 and Rs.12,000. The goal was to get those working in the informal economy to start their own retirement funds. Before the 2016–17 fiscal year, this plan could be implemented.

Public Provident Fund

The Finance Ministry in India introduced a tax-free savings plan in 1968 called the Public Provident Fund (PPF) Scheme, 1968. Any interest accrued within a PPF account is exempt from taxation. It is possible to write off contributions to a PPF account on your taxes. For this reason, the PPF Scheme is among the most important tax-saving tools in India. It was introduced to inspire savings across the board in India, and more specifically, to motivate people to save aside money for their old age. The current interest rate in FY 17-18 is 7.9%, and the minimum deposit is Rs.500 per year, this scheme was designed to inspire savers of all socioeconomic backgrounds.

Life Insurance Policy

Since 2000, private domestic and foreign corporations; a mixed sector of private and public sector units; an oligopoly of public sector companies have all had the opportunity to enter India's Life Insurance and General Insurance market, making it one of the fastest expanding sectors in the country (12 general insurance and 12 life insurance companies). In 1956, the government of India took over the operation of the life insurance industry. During that period, LIC bought up every independent life insurance firm that existed. To lay out a plan for the eventual privatisation of India's life insurance industry, the government created the RN Malhotra Committee in 1993. In 2000, the Insurance Regulatory and Development Authority (IRDA) began giving permits to independent life insurance firms. With the addition of new schemes like the LIC Pension Plan or other benefit plans, many people have been investing in LIC in order to guarantee themselves a steady income.

Atal Pension Yojana

An Atal Pension Scheme would give older Indians peace of mind while also encouraging the practise of saving and investing among the poor and middle class. The less fortunate in society stand to gain one of the scheme's greatest advantages. For just a period of five years, the Indian government has committed to contributing the greater of INR 1,000 annually or half of the user's payment. However, this benefit will only be available to those who do not appear to just be tax payers or who enrol in the scheme by December 31, 2015. The annuity payment at retirement has a guaranteed annual percentage yield (APY), and withdrawals are prohibited before retirement unless death or a specific circumstance applies. As a result of the initiative, workers in the unorganised sector would be able to receive social security benefits with the lowest possible monthly contributions. Workers in the private sector who don't have access to a pension plan can participate in this programme. At age 60, they'll choose between a fixed pension : INR 1,000, 2,000, 3,000, 4,000, or 5,000 per month. Retirement benefits are based on the individual's age and the pension amount. The Pension Funds Regulatory of India (PFRDA) is in charge of investing the money contributed to this scheme in line with guidelines set forth by the Government of India.

Need For the Study

It's important for workers to establish a pension plan during their working years so that they can retire comfortably, taking care of all their financial obligations the same way they did when they had a steady pay check coming in. The purpose of the research is to learn how well-educated working people are on the topic of current savings plans and how much of their income they have put away in those schemes as just a means of providing for their retirement.

Review of Literature

Anita and Pestonjee (2000) “Investment pattern and Decision making: The role of working women" found that there was no statistically significant variation in age, family size, family type, relationship status, education level, occupation, or yearly income among respondents. There are no statistically significant cultural or demographic trends in how professional women make decisions. In a nuclear family, men do not make choices about the household.

Gupta and Lepeng (2004) Using four interconnected models—health and wealth changes, accumulation and depletion, premium and cost for long-term care—has divided pension planning in two distinct phases: before and after retirement. Stochastic health events & asset returns were modelled using two-way branching models. He has said that one school of thought thinks insurance is bought for the foreseeable future, while another school of thought holds that coverage can be bought, dropped, and then bought again.

Antolin (2010), found that people are less likely to have faith on funded pension systems as a whole and defined contribution pension plans in particular as a result of the current financial and economic crisis. The purpose of this research was to provide strategies for maximising the benefits of defined contribution (DC) pension plans after retirement. He draws the conclusion that a range of actions, such as increasing contributions, extending the contribution period by delaying retirement, and establishing default alternatives, is required for DC pension systems to reliably provide retirees with appropriate income in old age. life-cycle techniques, risk management throughout the pay-out phase, and inflation-indexed life annuities are all examples of more conservative investing approaches.

Krishna Moorthy (2012) Studied Working Malaysians' Retirement Planning Behavior. He found that factors including age, education level, and income all have a role in predicting how people in the labour force will approach retirement. His research has consequences for working people, who should start saving for retirement as soon as possible so that they will have a solid financial foundation in their golden years.

Pereira T et al., (2016) Made a Examining the dental community's retirement savings within Navi Mumbai, India. It was discovered through a thorough questionnaire study that numerous seasoned dentists recommended that their junior colleagues begin investing at a young age. Start your retirement planning early to ensure a comfortable retirement. The doctor suggests that patients obtain "financial check-ups occasionally at least once a year just like medical check-ups." This research will help dentists assess their present retirement savings and seek out ways to increase them to the next level so they may retire with peace of mind. Based on our analysis of the dentist's income and assets, we can confidently say that dentists have adequate funds set aside for their retirement.

Shailesh Singh, et al., (2017) has started researching how people feel about retirement preparation. He found that there is an influence of economic advice on saving for retirement objectives, but that the majority of people are still investing based their own beliefs, which is less than optimal. When asked if retirement planning is important for people of all income levels, ages, and professions, he discovered that the vast majority of respondents said yes.

Research Methodology

Research Methodology is presented as under:

Objectives of the Study

1. To analyse their early pension plan by investing in variety of schemes after setting off their expenditures to have a secured after retirement life.
2. To examine that investment done in avenues is because of non-eligibility to receive pension.
3. To examine the habit of saving a sum on a monthly basis.

Sampling Design

Universe of the study

Working individuals of all sectors (public and private) within Indore.

Sampling unit

This study was carried out basically in three divisions of Indore. The research was carried out considering Indore North (38 respondents), Indore South (24 respondents) and Indore West (38 respondents). Working individuals includes all kinds of sector like IT, Professionals, Businessmen, govt. employees and private employees in Indore city.

Sample Technique

Simple random sampling technique

Sample Size

Data were collected from 100 respondents in Indore.

Methods of Data Collection

The data was collected by circulating questionnaires to the target sample of working individuals of all type of sector within Indore location. Secondary data was collected through websites, newspaper reports, books and trade journal.

Research Tools

We used Kruskal Wallis Test to test the relation between demographic data and investment behaviour.

Mann-Whitney U Test was applied to analyse the relation between investment in avenues and marital status. Mean rank had been used to find out the level of investment pattern between married and unmarried working individuals. Frequency analysis had been used to rank the amount kept set aside as savings on a monthly basis.

Hypothesis

In order to reach the objectives following Null Hypotheses are proposed

Ho1: There is no association between demographic factors and investment pattern.
Ho2: There is no association between investment done in avenues and marital status.

Limitations

1. The data had been collected randomly from all working sectors where the study was not confined to find out which sector of people are more aware in planning their retirement life.
2. A convenience sample of this study was selected from Indore city.
3. The sample size is limited to 100.
4. Respondent's biasness could not be ruled out in questionnaire method.

Analysis

Table 1 *Inferential Analysis between Demographic Factor and Investment pattern in various saving schemes*

Serial No	Hypothesis	Data Analysis Technique	F-value	Result
1	There is no association between age and investment behavior.	Kruskal Wallis Test	0.103	p = 0.103 > 0.05 (Null Hypothesis is accepted)
2	There is no association between gender and investment behavior.	Kruskal Wallis Test	0.624	p = 0.624 > 0.05 (Null Hypothesis is accepted)
3	There is no association between occupation and investment behavior.	Kruskal Wallis Test	0.154	p = 0.154 > 0.05 (Null Hypothesis is accepted)
4	There is no association between years of service and investment behavior.	Kruskal Wallis Test	0.126	p = 0.126> 0.05 (Null Hypothesis is accepted)
5	There is no association between monthly income and investment behavior.	Kruskal Wallis Test	0.007	p = 0.007 < 0.05 (Null Hypothesis is rejected)
6	There is no association between area of location and investment behavior.	Kruskal Wallis Test	0.280	p = 0.280 > 0.05 (Null Hypothesis is accepted)
7	There is no association between marital status and investment behavior.	Kruskal Wallis Test	0.187	p = 0.187 > 0.05 (Null Hypothesis is accepted)
8	There is no association between family size and investment behavior.	Kruskal Wallis Test	0.142	p = 0.142 > 0.05 (Null Hypothesis is accepted)

Source: *Primary data compiled by the scholar*
**values significant at 5%*

Interpretation

Table 1 displays the findings of a Kruskal Wallis test looking at how various demographic variables and investment behaviour are related. When controlling for variables such as age, gender, length of service, industry, marital status, number of children, and geographical region, the F-value for each of these characteristics is greater than 0.05, indicating that they have no correlation with investing behaviour. We obtain these numbers at a 5% level of significance. At the 5% significance level, when evaluating the demographic variable of monthly income, the F-value of 0.007 indicates that the Null hypothesis should be rejected. As a result, the way you invest your money each month is related to your salary. The importance of financial resources in making any kind of investment is thus made abundantly obvious when contrasted to other socioeconomic aspects. Therefore, each working person makes plans and investments in one of the available options based on his or her monthly income.

Table 2 – *Analysis of Investment in avenues and Marital Status*

Hypothesis	Data Analysis Technique	F Value	Result
There is no association between investment done in avenues and marital status.	Mann-Whitney U Test	0.187	P = 0.187> 0.05(Null Hypothesis is rejected)

Source: *Primary data compiled by the scholar*
**values significant at 5%*

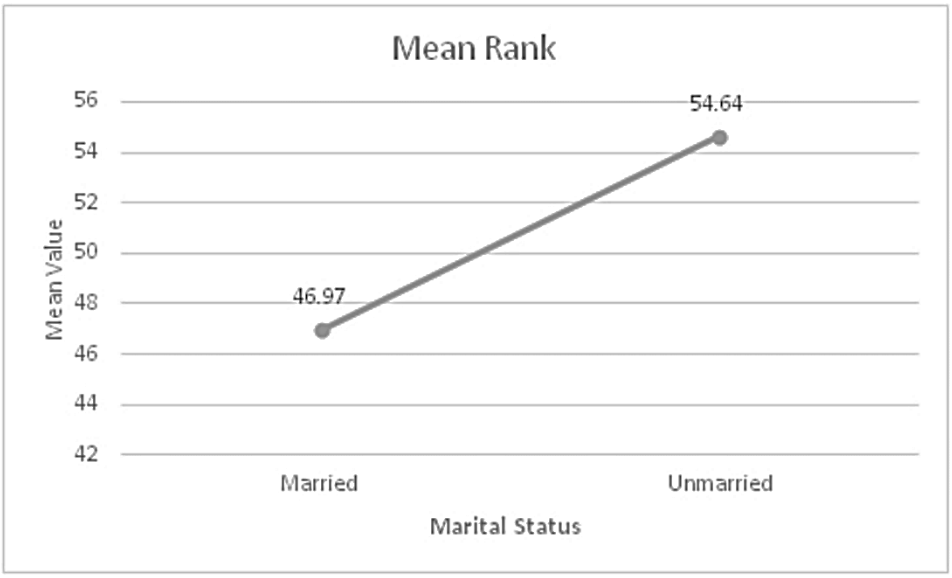

Chart 1-*Mean R Source: Primary data compiled by the scholar*

Interpretation

The absence of a connection between investment in channels and married status was tested using the Mann Whitney U Test, as shown in Table 2. According to the results, the null hypothesis has been accepted because the F-value, 0.187, is greater than.05. Therefore, the amount of money put into avenues has no bearing on whether or not a person is married. Based on the data in chart1, working-age couples have a higher rate of investment in various channels (46.97%) than singles (54.64%). After taking care of their immediate financial needs such as rent or mortgage payments, car payments, utility bills, and groceries married couples often put money aside for their future retirement. Since single people don't have as many long-term commitments as married people do, they tend to live in the moment, with little in the way of savings.

Table 3: *Frequency analysis of amount kept set aside as savings on a monthly basis*

Serial No	Monthly savings	Frequency	Rank
1	500-2500	33	1
2	2501-7500	20	2
3	7501-9500	8	4
4	Above 10,000	20	2
5	No such habit	19	3

Source: *Primary data compiled by the scholar*

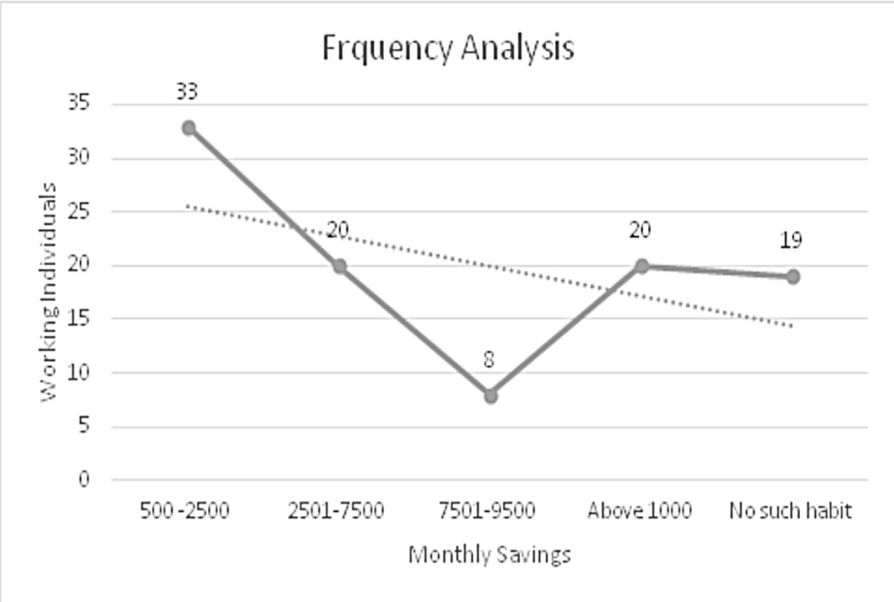

Chart 2 -*Frequency analysis of amount kept set aside as savings on a monthly basis*
Source: *Primary data compiled by the scholar*

Interpretation

The majority of respondents regularly set aside between 500 and 2500 Indian rupees ($10 and $70) each month, as seen in the accompanying table and chart. Twenty percent of respondents save between Rs. 2501 and Rs.7500, and another twenty save more than Rs.100,000. The data also showed that 1 in 5 people have never saved more than Rs.500 in their lives. The cause could be the high cost of living, which includes things like rent, food, transportation, and medical care, as well as the many other outlays that people must make every month.

Suggestions that could be considered by every individual to plan out for their initial and small investment in any avenues to develop their savings habit and for their after-retirement life as well are as follows

1. The moment when people begin to work, each individual needs to analyze and verify all ways are there to save a sum for future needs, so that each of them can frame an investment pattern at an early stage to grow up the amount.

2. Make sure that while investing diversify the risk by separating the whole savings into bids like Rs500 towards PPF, Mutual fund, and in Equity, etc.
3. Before investing in any plan an individual should calculate the lump sum amount receivable after the duration of the scheme, on this basis an investment plan can be framed out.
4. Working individuals must analyze their financial strength and financial threats or gaps so as to have a clear goal for pension planning and it should be achievable and attainable.
5. Working individuals should have a positive attitude to retirement planning and sound financial planning in the absence of pension benefits to achieve sufficient retirement income and relaxation. The attitude of working individuals toward retirement planning also plays a significant role in retirement planning behavior.

Conclusion

There are more people in the world, and as families get bigger, more people have fewer resources to put toward saving for the future. The purpose of this research is to learn how well-informed working people are about the need for saving and investing for retirement, and which investment vehicles they prefer. With the exception of monthly income, the results of this study show that demographic characteristics have little bearing on investment behavior. A person's marital status has no bearing on their level of avenue investment. Compared to their single counterparts, married workers are more likely to make large investments in advance of retirement. Another finding from the study is that while the vast majority of respondents regularly set aside between 500 and 2,500 rupees in a savings account, 19 percent never set aside any money at all, citing the high cost of living, mounting debt, and rising living costs as reasons.

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