ABSTRACT
on
“Study of Financial Planning for Retirement amongst individuals in select age group of 25 years to 45 years in Pune city”

1 INTRODUCTION

How is that people are motivated to go to a doctor but not motivated to go to a financial counselor” if individuals are ultimately responsible for their own financial health

(Bowditch, 2005)

The quote stated above touches on two central and divergent aspects of individual financial planning behavior for retirement. The lack of motivation to engage in financial planning, and the increasing responsibility of the individuals for his/her financial situation in retirement. These observations triggered the researcher’s interest in researching individual retirement specific financial behavior; encompassing both the perspectives an individual has on his financial situation in retirement and the specific financial planning actions the individual takes. The simultaneous investigation of these two aspects of individual retirement specific financial planning behavior is becoming increasingly important in academic world and in practical life as relevance of financial provision for retirement is rising for the individual, companies, policy-makers and for society as a whole

Background of the study

The world’s population is steadily growing older. The prospect of enjoying a retirement lasting 20 to 30 years is already a reality for many (Twigg, 2013). In the 34 countries which make up the OECD (The Organization for Economic Co-operation and Development), a study showed average retirement currently lasts over 18 years (Twigg, 2013). With life expectancy still on the increase, the need to save and plan for retirement is becoming ever more critical. (Williams, 2013) Retirement planning may no longer consist of simply putting money aside each month. The future of retirement is expected instead to see a fundamental change in people’s lifestyles with a growing
aspiration to combine work and leisure to help manage the costs of longer life expectancy.

With over 50% of its current population under 25 years of age, India's great demographic "dividend" needs to change a few habits immediately or it may be too late. India is on its way to becoming the most populous nation in the world by 2028, surpassing China. By 2050, the number of Indians above the age of 65 will cross 200 million from about 80 million currently, while the number of Indians above 80 years of age will be at 43 million, second only to China (Sharma, 2012).

According to a survey by HSBC titled, "The Future of Retirement--It's Time to Prepare," by 2050 India's elderly will equal the number of its children for the first time ever. Further, a United Nations study points out that, in line with the global trend of increased life expectancies and declining fertility rates, old-age dependency ratios will increase, particularly in developing countries like India.

**Statement of problem**

Retirement financial planning is affected by external factors like social and economic factors and also individualistic factors like financial awareness, financial literacy, saving habits, risk taking ability etc. The external factors are out of influence of the individual but the individual factors can be altered for better retired life. Hence it is important to understand the practices followed by the young Indians for retirement financial planning. And going a step ahead it is equally important to understand the factors influencing individuals take action towards investment for retirement planning. A strong intermediary channel bridges the gap between the individuals and financial institutions offering retirement products and services, the current role played by intermediaries needs to be scanned thoroughly. Along with this understanding the individuals’ awareness about available retirement planning and products and services can be provide guidance on future actions and course corrections.
2 CONCEPTUAL BACKGROUND AND LITERATURE REVIEW

Researcher has studied in details the concept of retirement by reviewing the earlier studies. Researcher has tried to achieve in depth understanding of various concepts related to retirement planning like financial planning process, evolution of financial planning, life of financial planning and financial life cycle based on financial objectives etc.

Researcher found numerous research studies pertaining to retirement financial planning. Lot of researchers studied various critical issues/factors affecting the well being during retirement. Bulk of research has taken place on financial literacy levels of individuals, calculation of income for retirement and social security benefits across the world. However there aren’t any studies analysing the practices followed by individuals for retirement planning.

3 OBJECTIVES AND HYPOTHESIS OF STUDY

The following are the objectives of the study:

a) To examine retirement planning practices followed by individuals in wealth creation stage.

b) To study the levels of awareness amongst the individuals in wealth creation stage with regard to financial planning for retirement, instruments for financial planning for retirement and about the institutions/intermediaries.

c) To study the role played by financial intermediaries especially the Certified Financial Planners (CFP) in influencing the decisions of individuals in regard to their financial planning for retirement.

d) To study the factors influencing individual’s action towards investment for retirement planning
Hypotheses

The following hypotheses have been framed for testing on the basis of available data.

a. The level of awareness about retirement planning product / services varies with gender, age, occupation, education of individuals in wealth creation stage.

b. The extent of retirement planning activities followed by individuals is associated to saving – spending attitude.

c. Funds allocation for retirement financial planning is associated with occupational and family factors.

4 RESEARCH METHODOLOGY

The nature of study is descriptive. Such methods of research were used for this study which will facilitate researcher to accurately portray phenomenon under the study. As this study is primarily focused on practices followed by individuals for retirement financial planning and Pune city being having a right mix of individuals required for the study, it was carried out in Pune city. Primary data was collected from individuals through a survey questionnaire.

Research Methodology at a glance

<table>
<thead>
<tr>
<th>Survey of individuals</th>
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<tbody>
<tr>
<td>Population base</td>
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<tr>
<td>Sample population</td>
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<tr>
<td>Sample Size</td>
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<td>Sampling Method</td>
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<td>Research Instrument</td>
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Various sources like journals, government reports, PhD Thesis, books, magazines, and internet are explored to collect secondary data.
Researcher has set interpretation criterion for testing of hypothesis which is as follows:

**If p value is less than 0.05 - null hypothesis is rejected and alternate hypothesis is accepted.**

**If p value is greater than 0.05 - null hypothesis is accepted and alternate hypothesis is rejected.**

Various measures of central tendency (mean, mode, median) and measures of dispersion (standard deviation) are used appropriately. For measuring reliability of the instrument, researcher used Cronbach's Alpha Reliability test. Various statistical tests like Spearman Rank Correlation, T – test (Paired), one way ANOVA and Chi Square Test are also used.

Researcher took help of statistical package for the social science (SPSS) and Microsoft Excel to test the hypothesis and analyse the data.

5 ANALYSIS OF THE DATA & TESTING OF HYPOTHESES

The fourth chapter analyse the data obtained from individuals. The analysis is carried out under various headings.

- Sample Description
- Profiling of individuals
- Determining financial literacy, risk profile and retirement planning awareness of individuals
- Practices followed by investor’s & intermediary willingness towards building relationship with each other individuals for retirement financial planning
- Levels of awareness amongst the individuals in wealth creation stage with regard to financial planning for retirement, instruments for financial planning for retirement and about the institutions/Intermediaries.
- Role played by financial intermediaries especially the Certified Financial Planners (CFP) in influencing the decisions of individuals in regard to their financial planning for retirement
• Factors influencing individuals’ actions towards investment for retirement planning.

Testing of hypothesis

H1-The level of awareness about retirement planning product/services varies with gender, age, occupation, education of individuals in wealth creation stage

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<thead>
<tr>
<th>Hypothesis</th>
<th>Statistical Test</th>
<th>P value</th>
<th>Result</th>
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</thead>
<tbody>
<tr>
<td>H1\textsubscript{A}</td>
<td>One way ANOVA</td>
<td>0.000</td>
<td>Researcher hypothesis is accepted</td>
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<tr>
<td>H1\textsubscript{B}</td>
<td>One way ANOVA</td>
<td>0.004</td>
<td>Researcher hypothesis is accepted</td>
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<tr>
<td>H1\textsubscript{C}</td>
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<tr>
<td>H1\textsubscript{D}</td>
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<td>Researcher hypothesis is rejected</td>
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Thus hypothesis H1 is partially accepted.

H2- Extent of retirement planning activities followed by individuals is associated to saving–spending attitude

<table>
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<th>Hypothesis</th>
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<th>P value</th>
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</thead>
<tbody>
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<tr>
<td>H2\textsubscript{C}</td>
<td>One way ANOVA</td>
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<tr>
<td>H2\textsubscript{D}</td>
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<tr>
<td>H2\textsubscript{E}</td>
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<td>0.000</td>
<td>Researcher hypothesis is accepted</td>
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Thus hypothesis H2 is accepted.
H3- Funds allocation for retirement financial planning is associated with occupational and family factors

<table>
<thead>
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<th>Hypothesis</th>
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<tbody>
<tr>
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<td>Researcher hypothesis is accepted</td>
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<tr>
<td>H3_B</td>
<td>Chi-Square</td>
<td>0.000</td>
<td>Researcher hypothesis is accepted</td>
</tr>
<tr>
<td>H3_C</td>
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<td>Researcher hypothesis is accepted</td>
</tr>
<tr>
<td>H3_D</td>
<td>Chi-Square</td>
<td>0.000</td>
<td>Researcher hypothesis is accepted</td>
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</tbody>
</table>

Thus hypothesis H3 is accepted.

6 FINDINGS

- It is found that financial literacy for individuals in wealth creation stage is 6.11 on scale of 3 to 9.
- It is found that saving spending attitude for individuals in wealth creation stage is 22.1 on scale of 5 to 30. So these individuals are balanced on saving and spending attitude.
- It is found that individuals in wealth creation stage have a moderate risk profile with score of 5.73 on scale of 3 to 12.
- It is found that the top three objectives for the individuals in wealth creation stage are protection against medical emergency, ensuring comfortable retirement and provision for children’s education or marriage.
- It is found that 33 % of individuals in wealth creation stage always think about retirement, 60.9% sometimes think about retirement and 6.1 % never think about retirement. Male population thinks more about retirement planning than females. Thinking about retirement is influenced by age and income. Individuals with low income and age think less about retirement.
- Newspapers are playing a major role in talking about importance of retirement financial planning compared to financial planners, insurance agents and other channels.
- Individuals in wealth creation stage have desire to retire at 55.6 years of age. About 25% of the individuals even desire to retire at the age of 50 years.
• It is observed that 69% of the people invest in some or other form for retirement financial planning.

• The percentage of male population investing for retirement planning is on a higher side. Amongst the four age groups under study, three age groups 31-35 years, 36-40 years and 41-45 years have higher percentage of respondents investing for retirement planning where as in the age group 25-30 years the percentage of respondents not investing for retirement planning is higher. In education and income groups, individuals with higher income and higher education do better than the individuals with lower income and education.

• It is found that major of the individuals in wealth creation stage is starting for investment early in their life. However, the group that fare the best is professional and postgraduates. These results are also in line with investing for retirement behavior where professionals and graduates are seen to investing for retirement.

• In regards to allocation of investable surplus for retirement planning, female score slightly better than males. Amongst the age group individuals with higher age are able to allocate more funds for retirement planning. Professionals are seen to do better than graduates and undergraduate and higher income groups doing better than the lower income groups.

• The highest preference by individuals is for equity mutual funds followed by public provident fund and national pension scheme. Based on the demographic profile individuals in wealth creation stage, public provident fund is looked upon as the most preferred investment instrument for investment for retirement planning followed by equity mutual funds.

• The investment option preference of the individuals is well in line with the risk profile and financial literacy of the individuals. However the concern here is there not much preference for national pension scheme as retirement planning product.

• The average risk coverage by the individuals is very low. This is surprising as this is not in line with risk profile of the individuals. The individuals in wealth creation stage have a moderate risk profile but are taking much more risks than their risk appetite. Also in the financial objectives, protection against medical emergency is rated as highest priority but this risk is not covered by the individuals. So although individuals are thinking on this objective the execution is still questionable.
• Only 38% of the individuals planning for retirement are comfortable with the retirement planning practices followed by them. One fourth of the individuals are not at all secure about their retirement planning practices and 38% are unsure whether the practices they are following are sufficient to have a comfortable retirement.

• Individuals in wealth creation stage are adequately aware about the eligibility for enrolling to NPS i.e. they are aware that non-government employee or employees who are not formally covered by any pension scheme can invest in NPS.

• There respondent fare just above average for the distribution coverage of the national pension scheme.

• It is found that the individuals in wealth creation stage are highly unaware about the most important feature of the scheme i.e. the lowest cost for fund management which is 0.0009 percent.

• Regarding awareness on regulators it is found the awareness on mutual funds, insurance and fixed deposits is more and for NPS it is very low.

• The awareness on individuals in wealth creation stage about basics of pension is critically low.

• On the front of investment, individuals are cost conscious. They are aware about the high cost product. However on contrary they are not aware about the low cost product which is NPS. Even on a widely promoted product like mutual fund the awareness is above average.

• The average score for the entire individuals in wealth creation stage on the scale of 12 to 36 is found to be 27.16

• The awareness level for retirement planning is found to be higher in the males as compared to the females. Across the various age groups the awareness level is found to be lowest in the age group 25-30 years. Post thirties there is a jump in the awareness levels of the individuals and difference in awareness levels is relatively lower. On comparison of awareness levels across the various occupations the highest level of awareness is found in the professionals.

• The formal channel i.e. financial intermediary, whose core responsibility is to provide advice or influence financial decisions, is not the most preferred options by the individuals, instead, family and friends influence to a greater extent.
• Only about one fourth of the individuals investing for retirement financial planning avail professional advice. Out of those availing profession advices, 50% individuals utilize services of certified financial planners.

• The intermediaries play a limited role in the retirement financial planning process. Intermediaries are not able to succeed in their core activity of triggering the need for retirement planning. Also they fail to create confidence about the retirement planning they carried out.

• Financial intermediaries fail in the most important activity triggering the need of retirement financial planning amongst the individuals.

7 SUGGESTIONS

It is found that financial literacy, awareness about retirement products, role played by intermediaries in retirement financial planning, popularity of NPS needs to be improved in the immediate future. That’s the reason; researcher would like to suggest some initiatives towards improvement of these areas here. The suggestions would be aimed at following

1. Improving awareness of individuals
2. National Pension Scheme
3. Policy changes by Government
4. Intermediaries
5. Responsibilities of employers

Improving awareness of individuals

• Embed basics of investing and financial planning like present value, future value, returns risks right from the higher secondary school curriculum.

• Instead of having multiple agencies and regulators donning the role of investor educator (Present regulators are creating awareness not the knowledge) researcher would like to suggest a central government agency which will plan, implement and coordinate investor education initiatives throughout the country.

• Government agencies can even consider incentivizing employers to educate their employees about financial services, investments as such.
Changes in National Pension Scheme

National Pension Scheme was considered to be similar to the 401(K) plan in United States. However there is no sufficient awareness about the scheme, so following efforts to popularize the scheme must be taken up. Also certain changes in structure of needs to be discussed

- Television, social media, and print media must be used create awareness about NPS.
- Employers and individuals in privite sector must be incentivized to open NPS account inline with current practice of opening EPF account.
- Changes in NPS structure from a perspective of individual taxation, like making it from a Exempt- Exempt- Tax to an Exempt-Exempt-Exempt scheme similar to PPF and insurance.
- Changes in withdrawal structure to permit pre-mature withdrawal in case of emergency situations needs to be taken up. Currently pre-mature withdrawal is not possible. Although pre-mature withdrawal may look like defeating the purpose of the scheme , however, to increase the popularity there must added flexibility in the current scheme.
- The investment model of NPS can be changed to a hybrid model with a component of insurance along with the retirement benefits. This can help to make the scheme more attractive and also will serve dual purpose for individuals.

Policy changes by Government

- Government of India must take immediate steps towards development of an annuity market in India like promoting the retail investments in debt market.Currently individuals have limited access to debt market as result there is an underdeveloped retail debt market in India and it inturn is not helping to grow the annuity market in India.
- A drive on national level to drive National Pension Scheme on lines of Jan Dhan Yojana is required to increase the subscriber based in NPS.
- Fund management under NPS must be re-looked. Current multiple asset management companies model is good to in order to ensure better performance on
returns owing to the competition but due to distribution of corpus advantage of economies of scale is being missed.

- Intermediary channel for distribution of NPS must be incentivized and also must be mandated to push the scheme.
- Re-look at the reverse mortgage product regulations and some mandatory lending by banks in this product to be made mandatory.

**Intermediaries**

- Intermediaries should focus on increasing awareness of the prospective customers towards retirement planning rather just focusing on selling of financial products.
- Intermediaries should impose strict actions on their channel partners and staff to prevent mis-selling of financial products.
- Reverse mortagage as an important financial product must be suggested by intermediaries as current awareness of individuals in this area is very low.

**Responsibilities of Employers**

- For the individuals employed in organised sector, employers make small contribution towards NPS, making a part of company provided retirement plan.
- Activities to increase awareness about financial planning for retirement must be made a part of staff-welfare activities.
- As per findings, it has been observed that individuals in age group 25 to 30 years think less about retirement, so employers should include a training or awareness program for employees in the age group of 25 to 30 years.
8 CONCLUSION

One big reality of life is retirement, and planning for retirement is still a nascent concept in India. Although it is thought about and talked about all over, but the actions for retirement planning are still not focused by individuals. Retirement planning is very dynamic process and is affected by numerous factors. Individuals need to keep an eye of the social, economic and political factors along with his requirements while planning for retirement. It is that demographic factors affect all the areas of retirement planning. The most important thing to realize before it’s too late is that everyone himself has an onus to plan for his retirement. The social security measures, employer benefits and family support are unreliable.

The entire world is attracted by the financial markets in India. However the participation of common man in markets is very low. Also it is thought to sentiment driven and maturity of the market has been questioned on numerous occasions. One major concern from retirement planning perspective is the underdeveloped pension market in India. The annuity options are very limited and individuals lack faith in them. The governments key initiative of National Pension Scheme is not seen picking up pace to the desired level. No doubt two most important feature of NPS, the withdrawals and taxation need to be reformed as soon as possible.

The Indian values are helping individuals to be in better state as far as savings is concerned. The habit of saving is certainly exists amongst the Indians but channelization of these saving to earn decent returns and this saving achieving long terms financial objectives of individuals in the need of the day. For this the intermediaries needs to put up their hands and create awareness and focus on more solution selling than product selling.
9 SCOPE FOR FUTURE RESEARCH

The goals and objectives of this study were decided and studied accordingly. Since in-depth studies in these areas have long-term socio-economic dimensions and repercussions, the scope of the investigations can be further expanded as follows:

- A detailed similar analytical/comparative study can be taken up for the age group 45 years to 60 years of age.
- The work has been restricted to the geographical corners of Pune city only. A comparative study of equivalent cases across various cities in the country can be taken up.
- The further research is also possible by employing new research methods like mystery audit to understand the knowledge levels of intermediaries, to address ethical issues of selling insurance products as retirement planning products.
- An analytical study of National Pension Scheme as retirement planning solution.