1. CHAPTER: INTRODUCTION

1.1 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, firstly the lack of motivation to engage in financial planning, and secondly the increasing responsibility of the individuals for their financial situation in retirement phase. 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.
1.2 Background of the research

World population is increasingly growing older. The panorama of enjoying a retired life lasting 20 to 30 years is by now a reality (Twigg, 2013). In the 34 countries which make up the “The Organization for Economic Co-operation and Development” (OECD), a study showed that the average retired life presently lasts over 18 years (Twigg, 2013). By the middle of the twenty-first century, it is perfectly realistic to predict this will become the custom in all developed as well as developing countries across the world.

Figure 1.1 Population above 60 years in million

As shown above in figure 1.1, in the more developed countries, the population aged 60 years and more is projected to grow at 1.0 per cent annually prior to 2050 and 0.11 per cent annually from 2050 to 2100. Further it is estimated to grow by 45 per cent by the middle of this century, growing from 287 million in 2013 to 417 million in 2050 and to 440 million in 2100. On the other side, in the less developed countries, the population aged 60 years or more is presently growing at the fastest pace ever, 3.7 per cent annually in the period 2010-2015 and is projected to increase by 2.9 per cent annually before 2050 and 0.9 per cent annually from 2050 to 2100. These numbers are expected to rise from 554 million in 2013 to 1.6 billion in 2050 and to 2.5 billion in 2100 (United Nations, 2013).
In response to the changes seen in the population above 60 years of age in the developing as well as the developed countries, all the countries in the coming decades will need to develop new approaches to make sure that retirement incomes will be both sustainable and adequate. Against this backdrop, the roles of the government, the employers, the family and the individual are already being redefined; so is the conventional dependence witnessed on the ‘pension’ as the main source of retirement income in many developed countries, as the financial risks facing households turn out to be more intricate.

With life expectancy still on the rise, the need to save and plan for retirement is becoming ever more critical. (Williams, 2013) Retirement planning possibly will no longer consist of merely putting money aside every month. The outlook of retirement is anticipated instead to see a primary change in individual’s lifestyles with a mounting aspiration to combine work and leisure to help deal with the costs of longer life expectancy. Employment by now forms part of many individual’s retirement plans as huge gap is seen in numerous countries between state retirement ages (the age at which people become eligible for any social security entitlements) and the ‘effective’ retirement age (the age at which individuals essentially discontinue working). However, in current times we have seen an acknowledgement among those in their early 30s and 40s that working in retirement is, and may have to be, part of their formal retirement plans. (Twigg, 2013) With employment now being a part of a flexible retirement plan, it is clear that the labor market will need to acclimatize and health and long-term care policies need to be formulated aimed at promoting more active and healthy lifestyles among older workers.

The impact of the economic meltdown shows how shielding incomes and assets against unanticipated life events, like as of unemployment and ill-health, should play a primary role in protecting individuals’ ability to accumulate wealth for the long-term during their earning phase in life. Protecting family assets against the rising cost of a frail retirement, present an additional financial challenge. As the majority of people in developed countries can now expect to live into their 80s and beyond, many of those people will need added long-term care provided through the state, families or other private sources. Efforts to elevate awareness about the risks of retirement income shortfalls need to carry on.
1.3 Background of the research – Indian context

Nearly half of their present populations being under the age of 25 years, India has a huge demographic "dividend" which need to alter a few habits with immediate effect or it may be too late. India is on a path of becoming the most populous country in the world by 2028, overtaking China. By 2050, the Indian population above the age of 65 will surpass 200 million from about 80 million now, while the Indian population above 80 years of age will be at 43 million, next only to China (Sharma, 2012).

According to a survey by Hong Kong and Shanghai Banking Corporation (HSBC) titled, "The Future of Retirement--It's Time to Prepare," it is likely that by 2050 for the first time, India's elderly will equal the number of its children. Along with this, a study by the United Nations suggest that similar to the global trend of enhanced life expectancy and declining fertility rates, old-age dependency ratios will rise, mainly in developing countries like India.

This makes it quite evident that greater resources will be required to be set aside for the elderly population. “There is a significant requirement for retirement planning, both at the individual level and for the Indian population as a whole," says Canara HSBC OBC Life Insurance Company's appointed actuary Chirag Rathod. This needs increased awareness of the whole society about the necessity for appropriate retirement planning and the threat of outliving your savings. Given the sheer scale of this impending demographic shift, India's plan or the lack of one to take care of its elderly, deserves a closer look.
1.3.1 Changing trend in Median Age

The growing population dynamics in India arising out of the combined effect of declining fertility and growing longevity and subsequent shifting of the population age structure cannot be overlooked.

Figure 1.2 Trend for median in age (in years) for population of India

The figure 1.2 above put forth’s the trend in the median age (in years) of the population for the period from 1961 to 2026. Until recently, India, like the developing countries, had a population structure which was young with the median age hovering at around 20 years from 1961 to 1981, and rising marginally to 22.5 years in 2001. However, the projections suggest that the country is slowly but surely transitioning away from a young age structure with a steady rise in the median age to 31 years by 2026.

This median age will further increase beyond 2026. As a result, more percentage of population will be dependent on the young population. This is will also have adverse effects on the productivity of the nation.

Source: (Registrar General and Census Commissioner of India, 2006)
1.3.2 Index of ageing

The index of ageing is the shift in the balance between the younger and older population and is expressed as the number of people above 60 years for every 100 children below the age of 15 years.

Figure 1.3 Index of ageing

As shown in figure 1.3 above, in India, the index of ageing increased slowly between 1961 and 2001, but is projected to rise more rapidly in the following 25 years. In 2001, the index of ageing was 23.4 elderly persons for every 100 children but this number is expected to rise rapidly to 53 elderly persons for every 100 children by 2026, signifying an increasing pace of ageing in the coming decades.

Thus, being aware, that nuclear family structure in country is becoming weak, individuals will now need plan for their own retirement well being. Also the government which is already burdened with huge pension payments will have additional reasons to be worried.
The trends in index of ageing are also seen to be applicable to the trends in the distribution of the Indian population by three broad age groups.

Figure 1.4 Population by broad age groups India, 1961-2026

![Age group wise population chart](image)

**Source:** (Registrar General and Census Commissioner of India, 2006)

Figure 1.4 above shows the proportion of population aged 15-59 and 60 years and above is expected to rise, while that of the 14 and below age-group is expected to fall rapidly. While the age group of 15 to 59 years will stay the leading group up to the year 2026 as a consequence of fertility levels in earlier years, this trend appears to be plateauing. The projections by the UN population show that shortly after the year 2050, the population of the elderly in the country will surpass the number of children (United Nations, 2010). This tipping point is expected to take place in India just about five years ahead of the less developed regions as a whole.

One noticeable development among the older population as a result of improvements in health and life expectancy is the rising numbers of oldest old or the population above 80 years.
Table 1.1 Distribution of oldest among the old in India

<table>
<thead>
<tr>
<th>Age group</th>
<th>2001</th>
<th>2011</th>
<th>2021</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>60-64</td>
<td>2.5</td>
<td>2.6</td>
<td>3.6</td>
<td>4.05</td>
</tr>
<tr>
<td>65-69</td>
<td>2</td>
<td>2.05</td>
<td>2.65</td>
<td>3.2</td>
</tr>
<tr>
<td>70-74</td>
<td>1.55</td>
<td>1.6</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>75-79</td>
<td>0.5</td>
<td>1.1</td>
<td>1.25</td>
<td>1.45</td>
</tr>
<tr>
<td>80+</td>
<td>0.25</td>
<td>0.75</td>
<td>1.25</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: (Registrar General and Census Commissioner of India, 2006)

Figure 1.5 Distribution of oldest among the old in India

Source: (Registrar General and Census Commissioner of India, 2006)

The age wise distribution of the older population is presented in figure 1.5 above. The data illustrate that each age group within the elderly population is estimated to grow considerably over the next 15 years. While the number of older persons in general is rising, the increase among the oldest old of 80 years and above, who will have special needs for health and support is principally very sharp.

1.3.3 Increasing Old Age Dependency

Dependency ratio is defined as the ratio of the dependent population to that of the working age population. Dependency ratio is a key indicator of the economic burden carried by each working person. The young age dependency ratio reflects the dependency burden from children below 15 years of age. Similarly, old age
dependency is the ratio of persons aged 60 years and above to the working age population.

**Figure 1.6  Dependency ratio in India**

![Graph showing dependency ratio in India](image)

**Source:** (Registrar General and Census Commissioner of India, 2006)

As seen in figure 1.6, in 2001, the total dependency ratio (from both the young and the old age-groups) was considerably high (73 per cent) but is estimated to fall to 56 by 2026. The young age dependency ratio is normally much higher than the old age dependency ratio due to the young population age structure in India. While the young age dependency ratio is projected to fall by 25 percentage points to 36.3 by 2026, the old age dependency ratio shows a rising trend and is estimated to rise by about 7 percentage points through the same time.
Figure 1.7 India Population by age 1980-2050 (Million)

![India Population by age 1980-2050 (Million)](image)

**Source:** (Population Division of the Department of Economic and Social Affairs of the United Nation Secretariat, World Population Prospects)

Figure 1.7 above presents the comparative historical data and future projections on the dependency of the Indian population from year 1980 to 2050. It can be seen that the percentage of dependent population has slowly increased in period from 1980 to 2015. However, from the period 2015 to 2050 the percentage of dependent population is expected to increase at a higher rate. In 2050, India is likely to have 15% of the old population being dependent on the earning population.

Although, the transition from a young to an older age structure reflects a successful and pleasing outcome of health improvement, the rate of ageing and the size of the older population with varying needs and resources creates numerous challenges for policy makers. The percentage of elderly has risen and is projected to rise further, while the percentage of the young age-group is falling, making in a slow but sure shift to an older population structure in the country. Further, the shift from a young age structure is not homogeneous all over the country. A growing older population means the requirement for a higher quantity and quality of elderly services, provisions of income security and enhanced quality of life on the whole. The need for social pension payments and consequential financial outlays to meet the rising old age dependency and falling support base are more significant for policy consideration.
now and in the future. Further, older persons and their families will have to deal with challenges arising out of increased longevity (Antony, 2009).

1.4 Current Pension Systems in India

In India, the concept of old age security and old age income support system has a long tradition and dates back to the 3rd century B.C. According to Sukraniti, a king had to pay half of the wages for people having completed service of forty years (Ayanendu Sanyal, 2013). The evidence of practices of civil service pension is found from as early as in 1881, the time of the British colonial rule. At that time the retirement benefits were provided by the Royal Commission on Civil establishments. Additional provisions were made by the Government of India Acts of 1919 and 1935. Further a consolidation and expansion of these schemes were done to provide retirement benefits to the entire public sector working population. Several provident funds were also set up in the post-independence era, to enhance the coverage among the private sector workers.

India currently lacks a broad social security plan similar to the United States; however the policymakers have created some retirement-focused savings financial instruments.

The old age security system in India can be classified as follows-

1. Civil Service Schemes
2. Employee’s Provident Fund Organization Schemes (EPFO)
3. Occupational Pension Schemes
4. Public Provident Fund
5. National Old Age Pension Scheme
6. National Pension Scheme
7. Micro-pensions and Other Alternatives

1.4.1 Civil Service Pension Schemes

These schemes provide pension to Central and state government employees. The pension payment under these schemes is in form of a defined benefits plan and is related to final salary. The pension payments are made out of current revenues of respective central and state governments. In the last decade these schemes are changing from Direct Benefit (DB) scheme to a Direct Contribution (DC) scheme, for
the new entrants (New Pension System) whilst for the employees who joined the civil service prior to 2004 and armed forces continue to avail pension benefits based on old schemes.

1.4.2 Employee’s Provident Fund Organization Schemes (EPFO)

On November 15, 1951, the Employees’ Provident Fund (EPF) came into existence. It was replaced by the Employees’ Provident Funds Act, 1952. A tri-partite Board known as the Central Board of Trustees, Employees' Provident Fund manages the scheme. It consist of representatives of Government (both Central and State), employers and employees. The Board manages pension scheme, a contributory provident fund, and an insurance scheme for the workforce engaged in the organized sector in India. Based on the clients and the volume of financial transactions undertaken by it, it is one of the world’s largest organizations. The Board is assisted by the EPFO and operates following three schemes:-

a) Employees' Provident Fund Scheme (EPFS), 1952 which is a mandatory saving scheme for old age/ contingencies.

b) Employees' Pension Scheme (EPS), 1995 which provides pension to members, widows, widower, children, orphans, physically disabled members and dependent parents or nominee.

c) Employees' Deposit Linked Insurance Scheme (EDLIS), 1976 which makes provision for insurance benefits to beneficiaries of members who died in harness.

All the workers in the formal sector with monthly earnings of Rs.6,500 or less at firms with 20 or more members in defined industries are compulsorily covered by the EPFO.

The EPF has its own problems. The first and foremost is reach: Only the organized sector, formally employed segment of the working population is covered by EPF. There is a huge portion of the Indian population including entrepreneurs, agricultural labor force self-employed businessmen, and others work in the so-called "unorganized" sector. As per the PFRDA report, on March 31, 2013, a total of 7.43 lakhs establishments have been covered by EPFO with an enrollment of 887.62 lakhs
members. About 44 lakhs pensioners enrolled with EPFO are being paid monthly pension. (PFRDA Annual Report 2014).

In addition, although the government offered a high rate of interest in the early years of the plan, yields have since come down. And even though the EFP's automatic contributions implant investing discipline on workers, participants can withdraw their savings after leaving their current job in lieu of transferring their account to their next employer, in the process dealing a big blow to their retirement savings potential.

1.4.3 Occupational Pension Schemes

The civil servants have similar type of pension arrangements like the public sector enterprises. These systems are now undergoing a change and the majority of them have turn into contributory schemes. The private sector enterprises as well provide pensions and contribute in these types of schemes. However, the mode of payment of pensions varies from enterprise to enterprise. The enterprises occasionally manage the fund themselves and at times jointly with pension providing companies.

1.4.4 Public Provident Fund

In 1968, the Public Provident Fund (PPF) was initiated and its stands as a voluntary tax-advantaged direct contribution saving scheme using personalized accounts. This scheme is open to all citizens (excluding Non-Resident Indians) but as income tax benefits is used as key incentives for participants, mainly formal sector workers are attracted to the scheme, who pay income taxes. The minimum contribution and the maximum contribution is Rs 500/- per annum and Rs.1,50,000/- per annum respectively. Withdrawals are permitted from the sixth year and a subscriber is allowed to withdraw the entire fund at the expiry i.e. after period of fifteen years. It extends loan facilities from third financial year up to fifth financial year.

1.4.5 National Old Age Pension Scheme

In 1995, the Indira Gandhi National Old Age Pension Scheme (NOAPS) was launched for the population aged above 65 years and above, and below poverty line (BPL). It consists of pension amount of Rs. 200 per month from the central government with additional contribution by the state, according to the discretion of
the State Government. In 2011, the eligibility age was reduced to 60 years and the central governments contribution was increased to Rs. 500 per month for persons above 80 years.

1.4.6 National Pension Scheme (NPS)

From December 22, 2003, as step to move away from the defined benefit EPF, the Indian government established the National Pension Scheme (NPS) for all new recruits of central government (excluding armed forces) joining service on or after January 1, 2004. The NPS was established based on the Old Age Social and Income Security project (GOI, 2000), Report of the Working Group (GOI, 2001) and Report of the High Level Expert Group (GOI, 2002) commissioned by the Central Government. Further to these reports Pension Fund Regulatory and Development Authority (PFRDA) was set up in October 2003 and PFRDA bill was introduced in the parliament in 2005. On May 1, 2009, an extension of the NPS occurred when this scheme was extended to all citizens of India. This was an attempt to create a defined contribution plan along the lines of the 401(k) in the United States. The voluntary pillar was introduced on December 1, 2010. NPS-Lite was introduced in order to widen the coverage. These schemes are all contributory schemes with individual retirement accounts and do not provide a guarantee of pension. To encourage people from unorganized sector to open a pension account, government has started a new initiative, ‘swavalamban’, under which government contributes Rs. 1000 per annum for each NPS account in 2010-11 to 2012-13.

It is widely accepted that the NPS is a broad step in the right direction but still a few wrinkles need ironing. NPS is the cheapest financial product launched by government, setting a charge of just 0.0009% in management fees. Even though the low fees are great for investors, it's no wonder the government-appointed funds for running the NPS aren't especially motivated to promote wider adoption of the scheme.

Second, the mandatory requirement of purchasing an annuity upon reaching the retirement age goes against the scheme for the simple reason there aren't any annuity providers to speak of due to an under-developed annuities market in India, which further complicates the matter.
Table 1.2 below presents the details of the subscription the ambitious National Pension Scheme from the year 2009 to 2013. The number of members of NPS in the year 2013 stands at 65 lakhs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Government</th>
<th>State Government</th>
<th>All Citizen</th>
<th>Swavalamban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>2010</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>2011</td>
<td>8</td>
<td>6</td>
<td>0</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>2012</td>
<td>9</td>
<td>11</td>
<td>1</td>
<td>10</td>
<td>31</td>
</tr>
<tr>
<td>2013</td>
<td>11</td>
<td>16</td>
<td>2</td>
<td>18</td>
<td>48</td>
</tr>
<tr>
<td>2013</td>
<td>14</td>
<td>20</td>
<td>3</td>
<td>28</td>
<td>65</td>
</tr>
</tbody>
</table>

Source: (PFRDA Annual Report, 2013-14)

As seen in the figure 1.8 above, the rise in subscription for NPS over a period of 5 years is not very encouraging. The scheme covers less than 0.5 % of the entire population. Also the participation of the normal citizens is found to be very low. Researcher through his survey would like to explore the probable reasons for the low response for the very important scheme.
1.4.7 Micro-pensions and Other Alternatives

Micro-pensions are provided by microfinance institutions. In recent years Micro-pensions have gained considerable relevance in India with the development of MFI’s and NGO’s. Micro-pensions adhere to the needs of very specific individual groups or local communities in exchange of low contributions and low premium. In terms of coverage, one of the most successful example is Self-Employed Women’s Association (SEWA). In 2009, 50,000 self-employed women were enrolled in SEWA’s micro-pension scheme. Nevertheless, micro-pensions are targeted to specific groups and can certainly be regarded as a measure to reach certain economically disadvantaged groups but not the masses. Other alternatives are long-term saving options offered by banks, and pension schemes offered by insurance companies that provide the investor with a choice of funds.

After studying the various available pension schemes in the country, researcher tried to find the coverage of the pension network in the country. Table 1.3 below presents the coverage of the various available schemes in India.

<table>
<thead>
<tr>
<th>Scheme Name</th>
<th>Up to Year</th>
<th>Coverage (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPFO⁹</td>
<td>2011-12</td>
<td>85.5</td>
</tr>
<tr>
<td>Civil Servants⁸</td>
<td>2009-10</td>
<td>2.6</td>
</tr>
<tr>
<td>State Government⁹</td>
<td>2009-10</td>
<td>7.4</td>
</tr>
<tr>
<td>Local bodies⁹</td>
<td>2009-10</td>
<td>2.1</td>
</tr>
<tr>
<td>Central Government and Autonomous Bodies⁶</td>
<td>2009-10</td>
<td>3.5</td>
</tr>
<tr>
<td>State Government and Autonomous Bodies⁷</td>
<td>2009-10</td>
<td>2.4</td>
</tr>
<tr>
<td>Defence⁸</td>
<td>2012-13</td>
<td>1.3</td>
</tr>
<tr>
<td>PPF³</td>
<td>2009-10</td>
<td>1.0</td>
</tr>
<tr>
<td>NPS(excluding bcdef)⁴</td>
<td>2013-14</td>
<td>2.2</td>
</tr>
<tr>
<td>NOAPS¹</td>
<td>2004-05</td>
<td>2.2</td>
</tr>
<tr>
<td>Formal Sector coverage outside EPFO⁴</td>
<td>2009-10</td>
<td>5.0</td>
</tr>
<tr>
<td>Micro-pension and other Private pension¹</td>
<td>2011-12</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>117.1</strong></td>
</tr>
</tbody>
</table>

EPFO is the scheme which has highest number of subscribers and is around 72% which is followed by the state government pension schemes. On the whole only around 1% of the population is covered by some kind of pension scheme. Thus the coverage of pension schemes remains to be very low in the country.

In India there are multiple target segment oriented pensions schemes. However coverage of all the schemes still remains to an issue. For the private organized sector employees NPS can be a very good an additional option along with EPFO.

1.5 Need of the study

It has been largely discussed that India will enjoy the benefit of a ‘demographic dividend’ in the medium term, especially in comparison to other Asian countries like China and Japan. Over the next thirty years, India’s young population is projected to ring down the ‘dependency ratio’ i.e. higher proportion of working population which will result in increased average savings rate.

“By providing financial protection against the major 18th and 19th century risk of dying too soon, life insurance became the biggest financial industry of the century. Providing financial protection against the new risk of not dying soon enough may well become the next century’s major and most profitable financial industry…”

Peter Drucker

However, over the next few decades, India is also expected to face the same demographic challenges like its peers. The dependency ratio is likely to increase when the next generation of working population approaches retirement. And hence India is also likely to face the challenges of an ageing population. With the increasing life
expectancy, the retirement gap will further widen. The gap between the retirement age and average life expectancy is termed as retirement gap. The wider the retirement gap results in the higher the financial burden for the individual as well as the government (Fried, 2011).

Baby boomers are the people born between the years 1946 and 1964 i.e. after the Second World War. These people age between 51 and 70 years as of 2016, so it important to understand their demographics. These people may have either retired or will be approaching retiring over next few years. Retirement planning is important for every generation; a person is never too old or too young to plan for retirement, however, researcher feels special discussion must be carried out about these people as this generation represents roughly 27 percent of the population. This set of people has progressed through the various phases of life cycle. The issues or challenges faced by these can be lessons to the coming generations. To understand the implications of these demographics on retirement researcher has considered the following findings in the study in the United States carried out by McKinsey Global Institute, Talkin About My Generation: The Economic Impact of Aging US Baby Boomers, 2008:

- It estimated that about two-thirds of baby boomers are unprepared for retirement.
- It also reported that the saving rates for baby boomers did not peak during prime earning years as they did in previous generations. Thus it indicated there is an overall lack of savings.
- An EBRI survey reported that 68 percent of all workers between the ages of 45 and 54 have less than $100,000 in total savings and investments (excluding value of residence). The same is true for 59 percent of all workers 55 years of age and older (Employee Benefit Research Institute (EBRI), 2009).
- EBRI survey also reported that a over 50 percent of all workers over age 45 have not calculated the amount required to be saved for retirement.

Certainly, there will be rise in the demand for products and services used by the retirees. This might lead to increase in prices of certain products and services which are basic necessity like the medical facilities. Considering the fact that many boomers have not calculated their retirement income needs, indicates a lack of awareness and
overall preparation to provide even a basic level of retirement income. Consequently, baby boomers need to focus intensely on planning for retirement.

Figure 1.9 presents the age group wise population during the baby boomer phase in the US. The percentage of population in the different age groups in the US during the baby boomer phase is used with view of understanding similar kind of phase in India.

**Figure 1.9 U.S. Population growth accounted by age groups 1950-2050**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>1950-2010</th>
<th>2010-2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Younger than 15</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>15 to 64</td>
<td>65%</td>
<td>37%</td>
</tr>
<tr>
<td>65 and older</td>
<td>22%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: (United Nations, 2013)

Considering the above figure 1.9 it is clear that the baby boomer phase did not coexist in Indian context from 1946 to 1964. Looking at table 1.4 below it can be said that probably currently India is in a similar baby boomer stage with the large segment of population being young and working. However when the current workforce is at stage of retirement or nearing retirement, it is very likely that India will face the similar issues as US is facing in recent times. India today can be compared to US with 10 year ahead of its baby boomer phase. The percentage of workforce in age 14-59 years was around 69% for US and compared to that of India to around 67%.
Table 1.4 Percentage of Population in selected age groups India 1991 to 2011

<table>
<thead>
<tr>
<th>Age group (years)</th>
<th>Census 1991</th>
<th>Census 2001</th>
<th>Census 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>12.2</td>
<td>10.7</td>
<td>9.3</td>
</tr>
<tr>
<td>5-9</td>
<td>13.3</td>
<td>12.5</td>
<td>10.5</td>
</tr>
<tr>
<td>10-14</td>
<td>11.8</td>
<td>12.1</td>
<td>11.0</td>
</tr>
<tr>
<td>15-59</td>
<td>55.4</td>
<td>56.9</td>
<td>67.3</td>
</tr>
<tr>
<td>60+</td>
<td>6.8</td>
<td>7.4</td>
<td>8.6</td>
</tr>
<tr>
<td>Age not stated</td>
<td>0.6</td>
<td>0.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: (Registrar General and Census Commissioner of India, 2006)

The survey results of McKinsey for the baby boomers can be a wakeup call for Indian workforce. If the similar situation exists in India too, we can proactively take actions for a big chunk of the population for their well-being in retirement. With this background the researcher understands that the current age group of 25-45 years is segment which is likely retire or have retired over next 25 to 35 years. This is set of the population who might be the first to face the issue due the change in demographics. So the researcher feels it is utmost important to understand the preparation of this segment for the retirement.

1.6 Critical Issues for Retirement Planning

After understanding that there is need of further study in the area of retirement planning, researcher felt, it to be the pre-requisite to understand on larger canvas the critical factors or issues that affect the well-being of an individual in retired life. Researcher then studied the various critical issues affecting or impacting retirement planning identified by various researchers all over the world including the developed countries. Then researcher has tried to understand relevance of these issues in Indian context.

1.6.1 Demographic factors Age, Education, Gender, Income and Retirement Age

Among the factors related to retirement planning plans, age, education level, gender, and household income are characterized as important demographic factors toward individual retirement preparation (Asian Social Science, 2016).
1.6.1.1 Age

Researcher has come across numerous studies and reports that have tried to examine the effect of retirement age on retirement planning and all the studies have shown that age to be associated to retirement planning. Richardson and Kilty has stated that age is an important and consistent factor driving human behavior with regards to retirement planning (Richardson & Kilty, 1989). Also, Lee and Law (2004) have suggested that individual’s motivation level for taking actions for retirement planning increase with increase in age and income. (Mohd Fitri Mansor1, 2015). This view is also supported by Montalto, Yuh and Hanna (Montalto & Hanna, 2000) who suggested that income and age are found to be correlated in influencing individual’s behavior towards planning for retirement.

1.6.1.2 Education Level

There is wide-range of studies on retirement planning considering the education level. Joo and Pauwels in the findings of their study suggested that education level is one of significant factors affecting preparation for retirement planning (Joo & Pauwels, 2002). Further according to their study, the sources of information will influence individual’s attitude, decisions and intention towards retirement planning and the information of education can also help individuals to explore more regarding their retirement planning. Also, DeVaney in his study stated that education levels can serve as a motivator or provide guidance to individuals for commencing their retirement planning activities. Furthermore, Joo & Pauwels suggested that individuals may experience and exhibit elevated confidence level in their retirement planning if they have superior education level. Individuals with higher education credentials tend to be more confident and perform better in their retirement planning as compared to people who had received lower levels of education. Thus it exhibits that education levels and confidence for retirement planning are found to be positively associated.

1.6.1.3 Gender

Along with age and education level influencing on retirement planning, gender difference is also a major predictor in retirement planning studies. As per Lusardi and Mitchell “Men are found to be better prepared and ready for their retirement planning
as compared to women”. (Lusardi, A., & Mitchell, O., 2008). In addition, women are found to be less prepared of their retirement planning due to lack of adequate financial resources than men. Quite a lot of earlier findings discovered that individuals regardless of gender, individuals who possess higher financial literacy and money tend to be more tolerant to risk. Also there studies which suggest that gender difference does not have any effect on to the decision making on retirement and the likelihood of both genders’ behavior seeking professional services for retirement are the same.

1.6.1.4 Income

Another demographic variable that is often studied in regards to retirement planning is income level. It is certainly an important parameter. The simple reason for importance of income is that individual’s must possess enough wealth or money sources in order to plan for retirement (Richardson, V., & Kilty, K. M., 1989). According to Ruhm, every individual’s preparation is different from another individual. Understanding the requirements of money during retirement age is a difficult task. Also the attitude to seek professional services for retirement planning are influenced and controlled by income factor. It has been statistical found that people with higher income have higher motivational level to seek professionals help in regards to investment decision, but the people from lower income group having less income are unlikely to seek professional services for retirement planning. Due to this reason, income is considered highly associated to the retirement planning (Richardson & Kilty, 1989).

The above discussion raises a question in the mind of researcher, that in what way does these demographic factors age, education, gender, income and occupation affect the various practices followed by individuals for retirement planning. Also all the above researchers have studied all these factors separately so what will be the collective effect of these factors on retirement financial planning.

1.6.2 The Three-Legged Stool

In developed countries like the United States, financial needs during retirement are met from three primary sources, often referred to as the legs of a ‘three-legged stool’.
The sources are Social Security benefits, employer-sponsored pension benefits, and personal savings. In the United States, the observers have rightly focused considerable attention on the impending depletion of the Social Security Trust Funds. But less well known, yet also vitally important, are the precarious deficiencies in projected retirement assets in the form of employer-sponsored pensions and personal savings for a large segment of current workers. Shortfalls are forecast for all three legs of the retirement stool, making the financial prospects for many future retirees shakier than secure (Befort, 2007).

In the Indian context the situation is scary, the non-existent social security and majority of workforce lacking employer provided retirement benefits, the three legged stool practically has only one leg. Thus for majority of the people in the country,
retirement is a highly shaky affair with lot of onus on individual for his/her retirement.

The above discussion emphasizes that every individual must take timely actions and plan for retirement. Even then the majority of the people in India do not have a comprehensive plan for retirement. Researcher is fervent to understand the factors which enhances willingness or makes an individual inert towards retirement planning.

1.6.3 Need for Education and Advisors

As per the Urban Institute paper on retirement planning, in the United States from 1979 to 2006, the percentage of non-government employees subscribing a defined benefits pension plan declined from 39 percent to 20 percent. On the contrary, during that same time, the percentage of private-sector employees participating subscribing in a defined contribution plan improved from 15 percent to 43 percent. This reveals that over last three decades employers have been transferring the investment risk associated with retirement planning to employees. Unfortunately, this transference of responsibility has left many workers to manage their retirement portfolios with little or no education about retirement planning and investments. This presents a huge opportunity for the professional in financial services to provide education on retirement planning and enhancing financial literacy.

Even in India the government has moved away from defined benefits scheme to a defined contribution scheme for pension (National Pension Scheme). This schemes provides a choice to the individual to select a specific portfolio of investments amongst the available options provided by the scheme. However the NPS has not gained the subscription and popularity that was expected. On the other side in India, the insurance sector has demonstrated an impressive growth from 2001 to 2011.

For last two decades, insurance has been projected as a retirement planning instrument. The insurance business in the country is mainly driven by the insurance agents. Table 1.5 below presents the growth in insurance premium in India from 2001 to 2013. There has been consistent growth in the insurance premiums till 2011. It is often said that “Insurance is sold and not brought”. So it will be important to study the
various channels of collection of insurance premium to understand the role of intermediaries.

**Table 1.5 Total Life Insurance Premium collected during 2001- 2012**

<table>
<thead>
<tr>
<th>Sr No.</th>
<th>Year</th>
<th>Premium of life insurance industry (Rupees in crore)</th>
<th>Percentage of change over previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>34898.47</td>
<td>---</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>50094.46</td>
<td>43.54</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>55747.55</td>
<td>11.28</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>66534.75</td>
<td>19.56</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>82854.80</td>
<td>24.31</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>105875.76</td>
<td>27.78</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>156075.84</td>
<td>47.41</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>201351.41</td>
<td>29.01</td>
</tr>
<tr>
<td>9</td>
<td>2008-09</td>
<td>221785.47</td>
<td>10.15</td>
</tr>
<tr>
<td>10</td>
<td>2009-10</td>
<td>265447.00</td>
<td>19.69</td>
</tr>
<tr>
<td>11</td>
<td>2010-11</td>
<td>291638.64</td>
<td>9.87</td>
</tr>
<tr>
<td>12</td>
<td>2011-12</td>
<td>287072.00</td>
<td>Negative 1.57</td>
</tr>
</tbody>
</table>

**Source:** (IRDA Annual Report, 2012-13)

**Figure 1.12 Distribution channel wise premium**

![Channel split by premium of industry (%)](image)

**Source:** (IRDA Annual Report, 2012-13)
The major channels for distribution for the life insurance in India is the individual agency channel, corporate agencies, banks, broking houses and online. However the agency channel is most dominant in the insurance industry with 90% of the total premium collected is from the agency channel. This trend is majorly due to the LIC’s business model which collects around 98% premium from this channel. On the other side the private sector insurers are more balanced in terms of business sourced from different channels, with agencies contributing 47%, banks contributing 33%, corporate agents 9%, brokers 5% and direct sales 6%. (IRDA Annual Report, 2012-13)

As seen in the previous section that individuals have an onus for retirement planning. However due to varying levels of financial literacy, individuals will need a support from intermediaries to hold their hands on this difficult journey. In India with the agency channel being the strongest in distribution of investment products, researcher is keen to understand the degree of influence intermediaries make in retirement financial planning decisions taken by individuals.

1.6.4 Financial literacy

Decisions related to retirement planning decisions are steadily becoming multifaceted, and elderly people are required to make vital financial choices. Developing plans for retirement which can maximize well-being during retirement is based upon their awareness of financial markets and financial calculations, understanding of their employer’s retirement benefits, social security benefits, and medical benefits. Possibly the most vital decision a person needs to make is to determine economic well-being in retirement is the optimal retirement age. Making appropriate choices, however, requires higher level of financial literacy. As per Lusardi “On account of lack of financial literacy individuals do not engage in retirement planning”. (Lusardi, 2008). Various surveys in the U.S. population have demonstrated very low levels of financial literacy.

In India, according to Harsha Jariwala (2013) in her research on financial literacy in Gujrat, India put forward that “Since last decade, the Indian economy has witnessed a number of structural and fundamental changes in the financial markets. While Indian economy is on a growth path, there is a strong realization amongst the players in
financial markets that for this growth in Indian economy to be sustainable, a corresponding deepening of financial sector must precede. This is possible only when the financial literacy amongst individuals and households increases. Indian policymakers have understood that financial literacy as an essential life skill. (Jariwala, 2013).

Financial literacy around the world is found to be low as measured by various studies including the OECD survey study carried out across 13 countries. In India, the levels of financial literacy are poor even by the low global standards, according to some studies such as the VISA International Financial Literacy Barometer 2012 (Sobhesh Agarwalla; Samir Barua; Joshy Jacob; Jayanth R. Varma, June 2012).

1.6.5 Life Expectancy

“Forecasters, regardless of the techniques they use, have consistently underestimated how long people will live.”

International Monetary Fund (IMF), 2012

It is found to be difficult to predict the number of years of retirement. This is an experience of individuals who have to plan their own retirement as well as by governments and financial institutions who model pension and entitlement program expenses. The financial impacts of this are very large. For the anticipated average life span increase of 3 years by 2050, the ‘cost of ageing’ would increase by 50% as per the predictions of the International Monetary Fund (IMF, 2012). There is not much data on individuals thinking about longevity or the reasons about the choice for selection of a particular estimation for their own lifespan. How long an individual will live is an important in context of longevity risk in retirement planning. The longevity data used for planning activities tends to underestimate life expectancy. Commonly used planning tools fail to provide help to the individual either by being too simplistic or by failing to provide the requirements with regards to customization.
Table 1.6 Longevity Trends 1970-2050 (in years)

<table>
<thead>
<tr>
<th>Change in life expectancy at birth</th>
<th>Observed</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1970-2010</td>
<td>Increase per year</td>
</tr>
<tr>
<td>United States and Canada</td>
<td>8.2</td>
<td>0.20</td>
</tr>
<tr>
<td>Advanced Europe</td>
<td>8.6</td>
<td>0.21</td>
</tr>
<tr>
<td>Emerging Europe</td>
<td>1.1</td>
<td>0.03</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>10.8</td>
<td>0.27</td>
</tr>
<tr>
<td>Japan</td>
<td>10.8</td>
<td>0.27</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Changes in life expectancy at age 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States and Canada</td>
</tr>
<tr>
<td>Advanced Europe</td>
</tr>
<tr>
<td>Emerging Europe</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
</tr>
<tr>
<td>Japan</td>
</tr>
</tbody>
</table>

Source: (Retirement Planning in the age of longevity conference proceedings, May 9-11, 2012)

Table 1.6 above, provides the details of increase in longevity across the most developed countries in the world. The rate of increase is expected to rise till 2050. As seen earlier the life expectancy being underestimated by various institutes, the actual figures are likely to be higher than this figures posing more complexity to the problem.

As per the projections of the technical group of population projections, life expectancy in India is also on rise in line with trends in the other part of the world. Figure 1.13 below shows that in period from 2001 to 2025 life expectancy in India is projected to rise by around 6 years for both male and females. This means that the individuals will now need to plan for additional 6 years of retirement which is an uphill task.
Figure 1.13  Projected Values of Expectation Of Life at Birth 2001-2025

![Projected Values of Expectation Of Life at Birth 2001-2025](image)


Without any doubt life expectancy is a critical factor for retirement planning. However, this being a global phenomenon which is affected mainly by the external factors than the individual’s intrinsic factors. Also it will be difficult for individuals to predict their own life expectancy; hence researcher is not planning to take up this factor in the research design.

1.7 Statement of research problem

Earning money is one of the prime motives of every individual’s life. Money is a vital necessity of life. However, there is only specific phase in life during which he earns money i.e. from around 25 years to 60 years. In the childhood phase the individual is dependent on his parents and the retirement phase the individual is dependent on the results of his decisions related to retirement planning during the final phase of life. Everyone is set to retire at some point of time in his life.

For most of the individual’s hope that the amount they are saving should be adequate, while some think that it is too difficult to predict whether their savings are sufficient or not (FSA, 2002). Willmore found that “Individuals’ fail to understand their pension predictions, or they considered to be irrelevant sighting retirement is still a long way off”. Willmore estimated that nearly 85 percent of the households in the world and 90
percent of its working-age population are devoid of any formal plans for retirement income in order to secure their old age income security (Willmore, 2007).

To have a comfortable retirement in the future, it requires individuals to sacrifice some comforts today. The main objective that is important for retirement planning is having a sustainable income flow and not having the stock of wealth (Bodie, Z, 2003). The most critical shortcoming of self-retirement planning is that it transfers the various retirement-planning risks like shortfalls in saving, incorrect choices of investment instruments, outliving savings to individuals who are untrained to handle these risks and often do not have the time, orientation or ways to manage them.

“Retirement planning is the most important financial goal for people in the 30-55 year age group, ahead of other goals like buying a house, education of children and marriage”

The above concept is supported by the results of the pan India “Retirement Survey” conducted by Reliance Capital Asset Management (RCAM), a part of Reliance Capital in collaboration with IMRB International, one of India’s largest research agencies.

In current time there is a lot of economic movements which on a large extent impact the way people save, spend, handle risks and invest to protect their living standards in their retirement years (McNeil & Hunter, 2014). Globalization and rising urbanization elevate concerns regarding the future abilities of traditional family systems of support to provide for the increasing elderly population. Westernization due to the process of globalization will lead to an erosion of family support. With greater advancements in medical field, life expectancy of Indians has improved.

Realistically about one of the great achievements of the modern society is the increasing life expectancy. But this increase in life expectancy imposes considerable economic consequences for the individuals and country. Individuals are more likely to outlive their working years. With this increase in the number of years spent in retirement higher are the requirements for retirement income (Peglow, 2010). The financial sustainability of the social security systems in the country may get imperiled due to longer time spent in retirement.
The combined effect of increasing life expectancy and young population of India while looking around 30 years ahead may bring some factors which will be worry some. This thought is also echoed by Himanshu Vyapak, Deputy Chief Executive Officer, RCAM.

*Shri Himanshu Vyapak said “India is a young country with the median age of its population under 30 years. We have around 100 million people today above the age of 60 years, which is expected to triple to 300 million by 2050. This will pose a huge economic challenge for the country, if we do not plan for providing right retirement options today. With this study, we have made an attempt to understand the mindset of the consumer towards retirement planning.”*

S. Raman Whole Time Member of Securities and Exchange Board of India on 22nd May 2014 has raised a similar point while speaking on Retirement Planning Issues and Challenges in the Indian Context at IFIE /IOSCO Global Investor Education Conference, Washington DC.

“Well, having a developed financial market with various products to ensure income for retirement and saving from young for retirement may look to be a simple solution and theoretical. However this is not something which can be achieved in a short time. Also individual awareness about this possible problem is a key factor. Lack of effort and commitment on the part of employers and perception that retirement planning is merely restricted to long term savings and insurance products is major reason for slow growth in Pension sector in India “

On the backdrop of increasing life expectancy, changing population and family structure, insufficient coverage of pensions schemes, financial planning for retirement has become an important aspect of everyone's life. Retirement financial planning is a dynamic process and 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 beyond the 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 that influence individuals towards taking actions for financial planning for
retirement. 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.

1.8 About Pune city

Researcher intended to carry out the above research problem in Pune city based on following rationale.

- Pune city is one of the major city in India with population exceeding 32 lakhs, as per 2011 census.
- Pune city has corporate offices of several companies from diverse fields like IT, media, automobile ancillary and consultancy, etc.
- Pune has offices of all the major of the financial institutions, wealth management companies, asset management companies and insurance companies.
- Pune city has rich cultural values and the people from almost all of states in India reside here, this will offer a good mix of population to source the appropriate sample.
- People here possess more time in comparison to metro cities to spend on investment planning related decisions. This factor allows / supports researcher to study retirement financial planning amongst individual in wealth creation stage.
- Above features make Pune city suitable for the study.

1.9 Significance of the Study

The study will help to bring out the practices followed by the individuals for retirement financial planning based on the various demographic factors. In most of the earlier studies, these factors were studied in isolation; this will study the combination of impact of all these factors. Research will also focus on the key concepts which are very important and have significant influence on retirement planning. The study is proactive assessment of the problem which is round the corner. The findings in the study can serve as guide rails for policy makers, individuals and financial institutions.
The most important aspect about the study is that it is relevant to every individual as everyone will retire at some point of time.

1.10 Chapter scheme

Research comprises of seven chapters in all. Chapter I will sketch out introduction, background of the study, overview of research problem, research questions and its significance. Chapter II will focus on the conceptual background and will review literature to comprehend the existing research carried out in this field. In Chapter III, researcher will present research methods and detailed research methodology. Analysis of data and testing of hypotheses will be presented in Chapter IV and Chapter V respectively. Chapter VI will summarize the major findings and will present suggestions. Post conclusion, this chapter will also discuss further scope of research.

Conclusion

The study so far has helped the researcher to understand the current landscape for financial planning for retirement on global and India level. It has also blown the researcher with various research questions which he needs a detailed study and help formulation of the research problem. Further study of areas around the key concepts, critical issues around the research problem should serve as guide rails to the researcher. In the subsequent part of the study, researcher plans to develop understanding on the key concepts and review the literature in the areas of study.