CHAPTER - 6

SUGGESTIONS & CONCLUSIONS
CHAPTER -6

SUGGESTIONS

A retirement plan is a guarantee that one will continue to earn a fulfilling income and enjoy a happy lifestyle, even when one is no longer operational.

Retirement Planning is the scientific approach to investment that has maximum potential to provide desired outcome. Simply stated, the entire idea of methodical investing can be summed up as starting early, knowing objectives, planning accordingly, doing it regularly, sticking to the plan and reviewing periodically.

The following are the Stepping Stones towards the Ladder of Retirement Planning:

Based on the present expenses a person should calculate how much money one needs to accumulate in the retirement kitty so that one can maintain the same lifestyle post retirement. Based on this amount the person needs to calculate how much one should start investing from today on a monthly basis to achieve the retirement goal. After implementing the plan and reviewing it regularly. A retirement plan should make use of investment products on which tax benefits are available so that the person can make use of the maximum tax benefits available.
Portfolio Modules for Retirement

The following are some of the portfolio modules suggested based on different life cycle stage as well as based on age.

Portfolio module at different stage of life cycle:

To most of us retirement is going for vacations, spending time with grand children, playing golf, visit to pilgrimage places or to some it may mean relaxing on a beach with nothing on mind etc. This is the rosy part of it. But the big question we need to ask ourselves is whether we have made enough provisions to enjoy that kind of lifestyle post retirement. Most of us fail to realize that retirement has a dark side also. Retirement along with it brings no income phase, rising cost of living (inflation) and soaring health care costs. Little bit of prudent and disciplined financial planning can ensure that one can leave aside all worries and enjoy retirement playing golf, a sport which is believed to be meant only for the higher class.

- The model is a sample portfolio which gives an idea to invest. It may vary according to the different objectives and situations of the individual.
- Retirement age is assumed to be 60.

The suggested portfolios or asset allocations depends on the age of the investor, income, existing portfolio, number of years to the retirement, risk tolerance, expected yields across asset classes, economic situation and investment opportunities. One must be able to assess and intertwine the micro and micro picture to arrive at the best form of portfolio for oneself.
Asset allocation according to Life Cycle Stages:

A person should consult a good financial planner to plan the investments for the retirement nest. The asset allocation (where investments should be made) depends on age, risk appetite, investment amount, return expected etc. The various asset classes that a person can invest in for retirement are equity mutual funds, fixed income securities, commodities, real estate etc. The various life cycle stages in a person's life are as follows:
Single: At this stage a person is single (unmarried) and at the early stage of the career. Expenses are limited as may not have too many liabilities. One can contribute a high proportion (80%) of surplus income in equities for long term capital appreciation and the remaining portion of surplus income (20%) in debt for any contingency requirements. Along with that one should buy a term insurance policy which covers the forward income of the working career.

Sample portfolio at the single (unmarried) Life Cycle Stage can be as below

<table>
<thead>
<tr>
<th>Asset Class Name</th>
<th>Percentage Allocation (approximately)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>80% of surplus income</td>
</tr>
<tr>
<td>Debt &amp; other contingency requirements</td>
<td>20% of remaining surplus income</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>
Figure: 6.1 Portfolio Single (unmarried) Life Cycle Stage
Life cycle stage- Single Income No Kids (SINK):

If the family contains only single income earning person or the spouse is not employed, then the asset allocation will be revised as after marriage the earning person has dependent. The asset allocation can be modified in the portions of equity and debt along with some contingency requirements. 60% of the surplus income can be invested in equity, 20% in debt instruments along with term cover with critical illness and accident death benefit riders, medical policy and PPF covering to the extent of remaining 20% of the surplus.

Sample portfolio at the SINK Life Cycle Stage can be as below

<table>
<thead>
<tr>
<th>Asset Class Name</th>
<th>Percentage Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>60%</td>
</tr>
<tr>
<td>Debt</td>
<td>20%</td>
</tr>
<tr>
<td>PPF</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>
Figure 6.2: Portfolio at SINK Life Cycle Stage

- PPF: 20%
- Debt: 20%
- Equity: 60%
Double Income No Kids (DINK): At this stage an individual is married. If the spouse is also earning, the surplus income increases. Such DINK (Double Income No Kids) couples can look at buying their own residential property on a home loan taking on a joint name if possible. The asset allocation can be revised where the equity portion can be reduced to accommodate real estate and some investment in gold. The debt portion can be maintained. An individual should review the retirement plan on an annual basis to make sure that one is not over exposed to any one asset class.

Sample portfolio at the DINK Life Cycle Stage can be as below

<table>
<thead>
<tr>
<th>Asset Class Name</th>
<th>Percentage Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>35%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>30%</td>
</tr>
<tr>
<td>Debt</td>
<td>20%</td>
</tr>
<tr>
<td>Gold</td>
<td>10%</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Please Note: This is a sample portfolio and individual portfolios are different for person to person.
Figure 6.3: Portfolio at DINK Life Cycle Stage

- Equity
- Real Estate
- Debt
- Gold
- Cash Balance

- Debt 20%
- Gold 10%
- Cash 5%
- Equity 35%
- Real Estate 30%
**Married with Kids:** At this stage an individual can start tilting the retirement portfolio in favor of debt instruments by gradually reducing the equity exposure as age goes on increasing. With increase in liabilities one should review the insurance cover to make sure that the insurance plan covers all the liabilities in case of untimely death.

Sample portfolio at the Married with Kids Life Cycle Stage can be as below

<table>
<thead>
<tr>
<th>Asset Class Name</th>
<th>Percentage Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>25%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>20%</td>
</tr>
<tr>
<td>Debt</td>
<td>20%</td>
</tr>
<tr>
<td>Gold</td>
<td>10%</td>
</tr>
<tr>
<td>Insurance &amp; Child plans</td>
<td>10%</td>
</tr>
<tr>
<td>Pension plan</td>
<td>10%</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Figure 6.4: Portfolio at Married with Kids Life Cycle Stage

- Equity
- Gold
- Cash Balance
- Real Estate
- Debt
- Insurance & Child plans
- Pension plan

- Cash Balance: 5%
- Equity: 25%
- Real Estate: 20%
- Debt: 20%
- Insurance & Child plans: 10%
- Pension plan: 10%
Old Age: At this stage beyond 50 years of age, one should start looking at clearing the liabilities like home loans and any other loans that a person might have taken. Maybe 5 years before retirement, the person should start winding down equity exposure in favor of fixed income securities which can give monthly income post retirement.

Sample portfolio at The Old Age Life Cycle Stage can be as below

<table>
<thead>
<tr>
<th>Asset Class Name</th>
<th>Percentage Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>10%</td>
</tr>
<tr>
<td>Fixed Income Securities</td>
<td>30%</td>
</tr>
<tr>
<td>Debt</td>
<td>15%</td>
</tr>
<tr>
<td>Mutual funds &amp; pension plans(MIP)</td>
<td>15%</td>
</tr>
<tr>
<td>Small Savings</td>
<td>15%</td>
</tr>
<tr>
<td>Insurance &amp; Medical plans</td>
<td>10%</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Figure 6.5: Portfolio at Old Age Life Cycle Stage

- Equities: 15%
- Debt: 15%
- Small Savings: 10%
- Cash Balance: 5%
- Fixed Income Securities: 30%
- Mutual funds & pension plans (MIP): 15%
- Insurance & Medical plans: 10%
- Debt: 15%

349
Post Retirement: At this stage, one should have maximum exposure to securities like Post Office Monthly Income Scheme (POMIS), Senior Citizen Savings Scheme (SCSS), Pension Plans and other Monthly Income Plans (MIP) which can give regular monthly income in the absence of the monthly salary income.

Sample portfolio at Post Retirement Age Life Cycle Stage can be as below

Table 6.6: Portfolio at Post Retirement Age Life Cycle Stage

<table>
<thead>
<tr>
<th>Asset Class Name</th>
<th>Percentage Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>5%</td>
</tr>
<tr>
<td>POMIS</td>
<td>30%</td>
</tr>
<tr>
<td>Debt</td>
<td>10%</td>
</tr>
<tr>
<td>Mutual funds &amp; pension plans (MIP)</td>
<td>10%</td>
</tr>
<tr>
<td>Health care (Medical)</td>
<td>10%</td>
</tr>
<tr>
<td>Fixed Deposits</td>
<td>20%</td>
</tr>
<tr>
<td>Insurance</td>
<td>10%</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Figure 6.6: Portfolio at Post Retirement Age Life Cycle Stage

- Equity
- Debt
- Health care (Medical)
- Insurance
- POMIS
- Mutual funds & pension plans (MIP)
- Fixed Deposits
- Cash Balance

Health care (Medical) 10%
Mutual funds & pension plans (MIP) 10%
Fixed Deposits 20%
Insurance 10%
Cash Balance 5%
Equity 5%
POMIS 30%
Debt 10%
Portfolio module for the age of 20-35:

Age: 20-35

Retirement age: 60 (assumed)

Because of increased job offerings in various sectors like Retail, IT and BPO a 20 year graduate could easily get a starting salary of ₹ 8000 – ₹ 10000 per month. Declining loan rates and easier access to loans lowered the average age to own assets such as cars and house. The portfolio module for the age group 20-35 can be divided into two periods. The first one is when a person is single and the second one is the period after getting married.

When an individual is single (period when an individual is unmarried): at this period expenses tend to be in hot pursuit of increase in income. A common refrain of newly-earning individuals is that their incomes vanish in a jiffy.

First, make a provision by investing in liquid assets for managing risks. Options like savings-cum-fixed deposits account, consideration of the dividend re-investment option for income.

Secondly, going for covering insurable risks by taking life insurance policies with accident covers. Thirdly, investment in small savings for de-risking the use of instruments like the post office or small savings scheme option. One can determine a mix to the extent of 20-30% in options like PPF (public Provident Fund)

Fourthly, for tax saving purpose an individual can invest in a Systematic Investment Plan (SIP) of an Equity Linked Savings Scheme (ELSS) from a fund house with a good track record in such a scheme. Depending on the risk bearing capacity an individual can invest in an SIP of a diversified equity fund with a consistent performance track record.
Over a period, portfolio can be updated or revised by investing in funds like debt and balanced funds even in equities. The portion of equities can be considered to the extent of 70-80% of the investment. If an individual has a 15 year horizon one can expect 15-20% return on equities and around 10% on debt instruments. As over longer periods like a decade or more, the investments consistently provide higher returns than other asset classes despite volatility in short term returns. Sample portfolio can be as below.

Table 6.6: Portfolio module for the age of 20-35(unmarried)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity &amp; Debt instruments</td>
<td>Debt instruments, stocks, (long term with a 15 years of horizon) to the extent of 70-80%</td>
</tr>
<tr>
<td>SIP</td>
<td>ELSS (for tax saving purpose)</td>
</tr>
<tr>
<td>Small savings</td>
<td>PPF (20-30%)</td>
</tr>
<tr>
<td>Liquid Assets</td>
<td>Savings- Cum-Fixed Deposit Accounts</td>
</tr>
<tr>
<td>Insurance</td>
<td>Policies with Greater Accident Cover</td>
</tr>
</tbody>
</table>
Period after Marriage:

An individual may spend over expenses which can be classified as discretionary and non-discretionary expenses. Discretionary expenses are those which are spent on non-compulsory but vital chunks of daily living, entertainment, travel, leisure, and gifting. Non-discretionary expenses are mandatory payments like payments towards insurance premium, equated monthly installments of loans (EMI), house rent, telephone bill etc. so, an individual portfolio can continue with regular savings to the extent of 10% of the income. The percentage of savings depending upon the double-income family can be scaled up to 50% of total income. An increase amount in liquid investments can be made for making provisions for emergencies and also for maintaining liquidity. Insurance should be adequately by getting medical insurance followed by life insurance and also by insuring assets. Insurance coverage can be extended to children and dependants like aged parents. Portfolio should also consist of Provident Fund, Gratuity and Superannuation Funds for retirement benefits.

Today an average Indian likes to live to age of 75. A person should plan for a large retirement corpus after providing for living expenses and other goals like a house, a car and children’s education. An individual should start investment plan early in age especially in the growth investments, some equity exposure either by way of balanced and diversified growth funds or equity itself will definitely fetch higher returns as the long – term growth form equity tends to be far more than inflation. Equity exposure in Unit-Linked Pension products of life insurance companies where one can choose the percentage of contribution that would get invested in equities. An individual can invest in a house either by own funds or by taking up a loan. To be
prudent, it will be convenient to take up the repayment obligation to the extent of 45% of a take home pay with no other loan payment obligations. A double-income family can get benefit of applying loan jointly. Besides tax breaks, they can be entitled to a higher loan. For the purpose of children’s future a portfolio may consist of Endowment Plans, Unit Linked Plans, and Child Plans.

Table 6.7: Portfolio module for the age of 20-35(period after marriage)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid assets</td>
<td>Regular savings (10-50% if double income earning family)</td>
</tr>
<tr>
<td>Insurance</td>
<td>Medical, Life insurance which covers spouse, children and dependants</td>
</tr>
<tr>
<td>Equity Exposure in Unit Linked Plans</td>
<td>Balanced(debt&amp;equity), Diversified Growth Funds</td>
</tr>
<tr>
<td>House</td>
<td>Residential/commercial</td>
</tr>
<tr>
<td>Endowment Plans &amp; Child Plans</td>
<td>Traditional or Market Based</td>
</tr>
</tbody>
</table>

When a person is in the age group of 45-55, for them retirement might be less than a decade away. But the decade preceding retirement coincides with big-ticket expenses like children’s higher education and marriage. Most of the Indians do not save separately for all goals. They overdraw for these goals from retirement savings which adversely impacts retired lives.
Early investments in high-risk instruments like equity mutual funds and equities for growth are needed to preserve and gradually reduce risk exposure. The last decade of working life is crucial to ensure post retirement cash flows. Two important broad categories of financial needs to be considered at this stage are: regular income to meet living expenses and lump sums to meet capital requirements like house repairs or family functions.

One needs to decide when to retire depending on the accumulation of retirement funds. One can decide to go for full or part time post retirement if accumulation is not sufficient. Gradually one has to de risk the portfolio by reducing exposure to growth investments like equities and equity mutual funds to safer, fixed-income options like debt funds. In order to beat inflation one can have 20-25% of equity exposure still. Enhance liquidity for approaching goals. One can use a systematic withdrawal plan (SWP) from a mutual fund if regular funds are needed say every month. One can park funds from the corpus in reasonably liquid options like Bank FD’s or Liquid funds which is easily accessible. Last but not the least every one must have an emergency provision. One must ensure that they have wide medical insurance cover.

**New Investment plans:**

The following are some of the new investment plans suggested for investors for their long term investment plan. While investing, investors must choose their option or scheme only after due diligence and ascertaining the suitability of the scheme to their own risk and return preferences.

1. **Single Premium plans:**
Now days, single premium plans are considered as the ‘flavor of the season’. A single premium plan is a onetime investment plan where the objective is to invest the surplus funds, and where one is not keen to commit for regular premium payments over five of more years. It provides range of funds under ULIP platform like pure equity, debt, hybrid along with tax benefits.

The policy holder gets the benefits under these plans for the entire term of the policy even though premium is paid only once. For example: if a person takes the policy with tenure of 10 years, the person will continue to enjoy life cover for full 10 years though the premium is paid in the first year only.

Single premium plans are the best ‘wealth creation vehicles’. They give added advantage like proper diversification, Long Term Investments, Low risk with lesser volatility and tax benefits in the form of No Capital Gain Tax and Tax Free Dividend. These plans are very much suitable for those who are looking for wealth creation and 100% tax benefit.

Single premium plans are also called ‘preferred instruments of tax saving’ because there are tax benefits under 80c and section 10(10D) and thus these provide 100% Tax benefit.

Some of the advantages of the single premium plans are:

1. Payment of premium only once and reap benefits for life time.

2. These plans are a unique mix of equity and debt market complimenting the risk appetite.
3. Life cover providing protection against any uncertainties, optional riders are also available like critical illness and accidental disability benefits.

4. Liquidity through partial withdrawals.

5. Minimum NAV Guarantee plans available guarantees a safer and enhanced corpus at the time of maturity.

6. Tax benefits under section 80 C and 10 (10D).

Some of the popular single premium plans are:

Kotak Single Invest Advantage, HDFC Pro Growth Maximiser, AEGON, Religare Assure Plus,
MetLife’s Met Smart One

Suitability:

This single premium plan is suitable to various individuals like – persons who are just retired with a lump sum of gratuity. The individuals who have irregular income like business men. When a business person earns huge amount of profits, part of profits can be invested in single premium. Individuals who have inherited property from their ancestors, and individuals who earned huge returns from other investments.

2. Capital Protection Oriented Funds (CPOF):

Risk and Return go hand in hand. Low risk invariably means comparably lower returns. This is a universal truth. One cannot detach risk from return. Efforts to detach the two have failed horribly
as seen most recently in 2008. When one opts for safety, is losing out on potentially higher growth.

The biggest challenge for an investor today is to get investment returns beat inflation without taking the risk of losing out on capital. It is all the more daunting in the current scenario when inflation is so high that it has started affecting both equities and debt. Research shows that when inflation increases above a certain level, it starts affecting both equities and debt.

An investor needs a investment solution that can possibly give double digit returns with safety of capital. Monthly income plans or MIP’s could have a good option, but they are also vulnerable to interest rate risk. There is a need a product that can benefit from the prevailing high yields at the shorter period with the scope of capital appreciation.

A recent innovation by the mutual fund industry called “Capital Protection Oriented Funds” (CPOF). Capital Protection Oriented Funds is a close – ended product that invests in a portfolio of debt market and equities.

To insulation from Interest Rate Risk, investments in the debt portfolio are made in high grade debt papers maturing on or before the date of maturity of the scheme. Debt papers are thus held till maturity eliminating the risk of mark to market losses due to interest rate movements. This is particularly attractive in the current scenario when short term rates are in double digits. To protect capital, the principal invested in debt papers is such that the amount available at the time of maturity at the given coupon rates which is equal or more than the original amount invested in the scheme.
For example, out of ₹ 100 invested in the scheme, the fund may invest around ₹ 75-85 or even more in debt papers carrying coupon so that the amount received from this investment at the time of maturity of the scheme is at least ₹ 100. As the debt part is invested in very high quality papers which are AAA rated, the credit risk is low and the chances of capital loss are almost negligible.

To provide growth the remaining amount is invested in equity market instruments (total investment amount less amount invested in debt). This enables the scheme to give inflation beating returns. Since CPOFs are typically 3 or 5 years products, investments in equities have a higher probability of giving high double digit returns over a period. This adds an extra percentage of returns of the portfolio which enable an investor to beat inflation comfortably.

Post tax returns are more comparatively as the time period of investment is 3 or 5 years. Any gains on the capital protection oriented funds are charged to tax as long term capital gains. As per the current tax laws capital gains are charged to tax at a special rate at 10-20%.

For example, a five year close-ended CPOF scheme where in ₹100 is invested today and assuming that it yields on 5 year AAA rated debt papers at 9.5% p.a. The fund has two options. Option-1 out of the ₹ 100 received; invest ₹ 70 in debt and ₹30 in equities. Option-2 out of ₹ 100 received; invest ₹ 85 in debt and ₹ 15 in equities. The returns from the scheme assuming the inflation rate at 6% p.a. for the next five years and the returns under the various assumptions are likely to be around 9-10% post tax returns for the option 1 and around 9-9.5% post tax returns for the option-2.
It is clear from the above that due to their portfolio structure, asset allocation, close-ended nature and investment horizon, capital protection oriented funds may provide attractive inflation beating returns on a post tax basis with safety of capital. This is particularly attractive if compared to the post tax returns provided by bank deposits.

**Suitability:**

CPOF are one of the best options for conservative as well as moderate long term investors who are looking for both low risk as well as inflation beating post-tax returns from an investment option. A number of fund houses are launched or planning to launch such schemes. These schemes are available for retail investor with low ticket size, where one can take up small investments in it. One should invest only that portion in these funds which are needed in short span of time as these funds lack liquidity because of lock-in money for the term of the scheme.

3. **The New Pension System (NPS):**

The NPS is regulated by the Pension Fund Regulatory & Development Authority (PFRDA). Government employees were automatic subscribers to a defined benefit scheme of pension until the year 2003, where the government was single-handedly contributing towards the pension funds for its employees. But the onerous pension obligations for the government prompted a rethink of this scheme.

The government moved to a defined contribution based pension system in 2004. Under the new scheme, the employees were required to make a contribution at par with the employer (10% of basic pay plus DA) to the pension fund. In 2008, a path breaking change took place when
government allowed the pension kitty to be managed by the private pension fund managers. Under NPS it will be the top mutual fund houses and insurance managers manage the money. PFRDA has authorized six fund managers – LIC Pension Fund, SBI Pension Fund, UTI Retirement Benefit Pension Fund, IDFC Pension Fund Management, ICICI Prudential Pension Fund, Kotak Mahindra Pension Fund and Reliance Capital Pension Fund to manage pension funds.

The choice of asset allocation and the fund manage from this list is left to the investor. **This new pension system was opened to the general public, non-government employees, in May 2009. Anyone in the age between 18-55 years can now subscribe to NPS.**

All the mandatory contribution of government employees go into the tier I account of NPS. This mandatory contribution is 85% invested in debt schemes and 15% in equity. For any investment that is over and above the mandated contribution, the employee can decide the asset allocation and the type of account i.e., tier I and tier II. However an individual should compulsorily have an active tier I account to open a tier II account. The minimum amount of contribution under tier I account is ₹ 500 a month. A tier II account can be opened with a minimum contribution of ₹ 1000 (regular contributions not mandatory).

A NPS subscriber is given two options to choose. Active choice and Auto choice. In active choice, the investor can decide how much of his/her money should go into asset class – E-equity(to a maximum of 50%), asset class ‘G’ – government securities and asset class ‘C’ – Other fixed income options( which includes liquid mutual funds, corporate bonds, credit rated
infrastructure bonds etc.) In auto choice option investments are made in a life cycle fund. Depending on the age, the investors' money will go into a pre-defined portfolio mix. Between 18-35 years, portfolio will be 50% in equity, 30% in fixed income options and 20% in government securities. As the individual ages, the equity exposure is reduced terminating at 10% at the age of 55. Investments in the tier I account can be withdrawn by the investor when attains the age of 60. At the time of withdrawal, it is compulsory that the individual converts at least 40% of the accumulated fund into an annuity (the remaining can be withdrawn as a lump-sum).

NPS have an added tax benefits. The contribution to NPS is exempt form tax. At the vesting age, the amount is commuted (subject to some restrictions) is tax exempt. However, the pension amount that is received from an annuity scheme is taxable under the normal tax slab of the individual. In the recent budget the government has further incentivized NPS subscribes with employer’s contribution to NPS removed from the ₹ 1 lakh limit under section 80CCE. But Tier II account is not eligible for tax benefits under the income tax act it is considered similar to a normal savings account.

Suitability:

NPS is suitable for persons who are looking for a low cost investment avenue to build one's retirement corpus. In terms of the fee, other pension products in the market charge around 1 % fee for managing funds. Whereas fee is around 0.0009 % per Annum under NPS. The structure of NPS looks user friendly. As now it is open to general public and non-government employees any individual looking for pension in future can think of investing in NPS.
Other suggestions:

- Most investors tend to have multiple financial goals such as retirement, children's education, medical exigency Coverage etc. Investors could be at different stages of achieving their financial goals. For investors who are on plan as far as achieving financial goals are concerned, it would be prudent to prepay the loans who are running significant gaps on their investment targets against financial goals, they may be forced to get more aggressive and invest in higher yielding securities like equities to try to get closer to their financial goals.

- With the equity markets being unstable and volatile globally and domestically, investment can be spread over three asset classes, equity, fixed income and debt/commodities. In equities one can rotate from small and medium to large cap defensive stocks. As volatile markets will give opportunities for investing one must have sufficient cash funds ready. Domestically one can choose sectors aligned with rural income and financial inclusion. And globally IT and Pharmacy sectors are good investments at this point of time. Commodities like gold and silver add significant efficiency to one's portfolio.

- During the times of turmoil and unstable markets, investment can be spread over different asset classes. If Volatility is low one can buy protection by hedging. Commodities add
significant efficiency to the portfolio. In India, Gold-ETF's is a good option. Globally investing in copper, silver and platinum. Experts say that gold clearly benefits in a crisis. One should know how to invest in metals which are skewed to the dollar index.

- The funds invested in New Pension System, are portable between employers, fund managers, city and the various options. Returns currently are tax free at about 11.5% achieved in the last two years (as on Jan 2011) with a 50% equity component. So one can include this as one of the asset class in a portfolio for the purpose of retirement planning.

- Though fixed income returns have also become higher over the recent period, fixed income instruments have never worked well as inflation hedges. So fixed income oriented strategy is inappropriate. Equity as an asset class tends to be very volatile over short periods of time. However the returns over longer time frames tend to even out. In spite of all the volatility we have seen over the past ten years returns on the BSE Sensex are still in excess of 15% per annum. When a person is planning to invest in equities the approach is advised to be the long term.

- Use the periods of extreme pessimism to enhance your tactical exposure to equities. If there are names of stocks and mutual funds that one would not be comfortable with if the market correct further, pull out of them before a panic sell and hold the high quality names in the portfolio. One should analyze and keep a regular track of the portfolio to have steady expected returns.

- With global economies still in the grip of uncertainty, Gold continues as a present option for investment. The yellow metal which has always held an inverse relationship with
dollar has moved along with dollar in the recent period. The demand for gold has been traditionally driven by jewellery consumption. But that seems to be changing with investment demand for gold now driven by a range of products such as Gold Exchange Traded Funds (GTFs). Global Gold Funds have given highest return around 21% in the current year. Investors are suggested to look for Funds of Fund Schemes (FOFs) for the good returns. DSP Blackrock World and Reliance Gold Savings Fund are the examples of FOF. DSP Blackrock World has given around 27-29% appreciation in NAV to their fund holders. For the investment purpose, GTFs can be considered as the better option than investing in a physical gold.

- An investor must look for the new avenues for investment. From the analysis it was clear that majority of the investors though investing, preferring to invest in traditional avenues like Fixed deposits, Post Office Savings, PPF. It is advised to look for other avenues along with the above ones like investing in Mutual funds, ETFs, Equities. These investment avenues also assure good returns when invested wisely.

- For the investors who are looking for tax saving schemes, ELSS (Equity Link Savings Scheme) is one of the best options. ELSS is a kind of mutual funds like diversified equity funds with tax benefits. It is just like other tax-saving instruments like NSC and PPF. The main advantage with ELSS is lock in period is only 3 years while for NSC it is 6 years and for PPF it is 15 years. As per income tax act 80c investment up to ₹ 100000 are eligible for deduction from the gross total income hence reducing the taxable income. For example, if the total annual income is ₹ 300000 and one invests ₹ 100000 in ELSS then
taxable income will become ₹ 200000. Best way to invest in ELSS is through Systematic Investment Plan (SIP) with SIP one can invest a small amount every month for a specific time period. With SIP an investor can take advantage of fluctuations in the stock market.

- The book of wisdom says “when the sea is rough drop the anchor or makes a dash for the protected waters of the coast”. Retail investors are like tiny vessels on high seas. Their position becomes extremely precautions and highly vulnerable once the waters become extremely disturbed. Stock markets across the world have been going through an extremely rough patch in the recent past. There are two new developments which are going to have far reaching impact on the stock markets. Investors are advised to give a more serious consideration to these new factors as they go about formulating their strategies for investment in equity. There is likelihood of returns going down under the impact of higher wages and higher capital costs. Since inflation is likely to remain high and higher interest rates seem to the order of the day at least in the near future, one should be in line with the earnings growth for investing in equities.

- Among the equity fund schemes of mutual funds, based on the performance evaluation investors are suggested to consider of investing in Fidelity, JM and Franklin Templeton.

- In the category of Balanced fund schemes of mutual funds, considering annual returns, risk factors and performance evaluation an investors are suggested to consider of investing in Reliance regular savings balanced, Birla sun life 95, HDFC Balance.
• Among the MIP schemes of mutual funds, based on the performance evaluation investors are suggested to consider investing in HSBC MIP (savings), ICICI Pru Income, JM MIP, Reliance MIP and FT India MIP.

• As much as 75% of the working population and 55% of the retired respondents in India cited life insurance as their primary tool for accumulating retirement funds. Hence the trust and dependence of Indians on the life insurance companies for accumulation of funds is obvious. In India, life insurance companies not only offer pension plans but also help to create regular retirement income by offering large choice of plans. It is important that investment prospects of pension plans must be thoroughly evaluated and compared before selecting a pension plan.

• Investing in equities involves identifying fundamentally sound stocks that are trading at a lesser than fair value or intrinsic value. One has to identify undervalued stocks in the market based on fundamental analysis techniques and has to review the greatest growth potential and dividends. Investors should look at companies that have corrected significantly and are available at cheaper valuations. One should lookout for companies with experienced management, good track record of financial performance, less debt on balance sheet, well diversified revenues in terms of products, regions, higher return ratios etc.

• In India we have very few active investors around 2 lakh out of a population of 125 crores giving a ratio of 0.016% of active investors to total population despite the fact that the market cap has grown by 28% CAGR in the last nine years. Equity has always given
better returns provided one follows a sensible approach. There is a greater need to
educate people about the ways to invest in equity market to create better standards of
living for themselves and for their families.
Conclusions:

Wealth creation is a lifelong affair. For a happy retired life, one have to change the money management style from being accumulator to a harvester by reinvesting the money earned so that it grows along with the age. Managing retirement finances is all about managing four factors: Investment risk, Mortality risk, Liquidity and Tax impact.

Risk and Return go hand in hand. Low risk invariably means comparably lower returns. This is a universal truth. One cannot detach risk from return. Efforts to detach the two have failed horribly as seen most recently in 2008. When one opts for safety, is losing out on potentially higher growth.

The biggest challenge for an investor today is to get investment returns beat inflation without taking the risk of losing out on capital. It is all the more daunting in the current scenario when inflation is so high that it has started affecting both equities and debt. Research shows that when inflation increases above a certain level, it starts affecting both equities and debt.

An investor needs an investment solution that can possibly give double digit returns with safety of capital. An investor should invest in a product that can benefit from the prevailing high yields at the shorter period with the scope of capital appreciation.

One of the strong tool for retirement planning is to invest in those financial instruments that guarantees a safe, tax free and steady income when a person retire.
Most young people today think of retirement as a distant reality. However it is important to plan for one’s post retirement life. To retain the same financial independence and to maintain a comfortable standard of living even when a person no longer earning, one should have long term retirement planning. One of the strong tools for retirement planning is to invest in those financial instruments that guarantees a safe, tax free and steady income when a person retire, throughout the life.

Retirement Planning is an ongoing, life long process that takes decades of commitment in order to receive the final payoff. The idea of accumulating hundreds of thousands of rupees in a retirement nest egg certainly can seem intimidating. With a few basic calculations and commitment to a feasible plan, it’s not difficult to achieve.

The results of the study support that mutual funds are better managed and safer vehicles for retirement planning.