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ROLE OF INSURANCE TOWARDS EFFECTIVE RETIREMENT PLANNING – PROBLEMS AND PROSPECTS

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Abstract

A well-planned retirement is a result of an efficient and sound financial counseling taken at the right point of time and educating oneself on this aspect can be a tedious task. Financial Counseling play a crucial role in an effective retirement planning, further securing the future of retired individuals. This paper aims to review the nature of financial counseling and its relevance in retirement planning. This paper reviews the relation between financial counseling and retirement planning. This paper is a part of an ongoing research, hence a working paper. The paper aims to develop a model which is proposed for determining the client markets as well as the relevant factors for financial counseling. Distinctions in professional services provided and knowledge needed to develop the proposed model are also discussed in this paper. The paper concludes that some Co-relation exists between financial counselling and retirement planning, if taken at the right time. The paper also recommends that some overlap in the curriculum and certification requirements of financial counsellors be maintained. The study has been attempted to understand the relevance of insurance and pension plans towards achieving a secured retirement for individuals.

***Keywords**: Financial Counselling, Retirement Planning, Education, Senior Citizens*

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1. Introduction

India has population of 1.32 billion people with median age of 28 years and over sixty-five percent of the population is below the age of 35 years. Financial planning helps in matching the demand for funds with adequate supply of funds. Financial planning should be goal oriented and it should take care of an individuals' needs in the most crucial period of life – the time post

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retirement. As per RBI report (2016) on household finance, seventy-seven percent of Indians do not save for retirement. Therefore, financial planning for retirement should be essential part of financial planning during the working years. Money is considered to be the means to acquire goods and services, to take care of necessities of life and lead comfortable life throughout. As per the Indian norms for retirement, an individual has a work life of approximately 38 years (22 years to 60 years). The income earned during this period needs to be managed prudently to take care for current responsibilities as well as save to take care of golden years of retired life. In case financial planning for retirement is not done, many elderlies cannot afford to retire and need to consider extending their work life beyond the age of 60. As per a recent report on Global Human Capital, by World Economic Forum, only 12 percent of working age population is under pension program. So, a foregone conclusion is that individuals not covered by pension scheme, need to depend on their family members for the support. Hence, considering the needs of the uncertain future and visible uncertainty over the horizon, it is true to say that young working population of India will have to take care of their children needs as well as their parents' needs. When individuals start their careers, they feel it is too early to think about retirement and prefer to spend and save only for goal in immediate future. However, it might be too late to save for retirement. In India, several political, social and economic demographic factors are changing rapidly. Few examples of social changes are, shift from joint family system to nuclear family system, literacy levels are increasing, life expectancy is increasing, sixty-five percent of Indians are below the age of 35 years. Economic changes can be noticed in rapid digitization, introduction of Goods and Service Tax, foreign direct investment, intellectual property laws to name a few. Considering these demographic changes, if an individual does not do financial planning for retirement, it might result in real hardships in their old age. The Indian household finance landscape is distinctive through the near total absence of pension wealth as per the years of data available and identified through studies performed. Pension accounts and investment-linked life insurance products exist widely today, however, they are only used frequently by households located in a small group of states. Hence, in most other states, the contribution of pensions wealth to household wealth is negligible. There are low levels of insurance penetration (life and non-life) despite numerous sources of risk such as health shocks, and catastrophes such as pandemics and natural calamities, as well as high concentration of employment in the private sector. Hence, once needs to make an attempt to evaluate the implications of these features of Indian household balance sheets in response to the increasing risks and insecurities. An attempt is made to evaluate the size of any gains from counterfactual policies that households might pursue, and conclude that Indian households can potentially realise significant benefits from several changes to their investment habits. Indian households can benefit greatly by re-allocating assets towards financial markets and away from gold. Several studies done earlier have revealed that there is a strong lack of participation in the market for life insurance products, and this appears to be related to the self-perceived financial management skills of the household head. As in many other parts of the world, we also find that cognitive issues such as present bias are widely prevalent, and can lead to issues such as low pensions take-up.

2. LITERATURE REVIEW

Lusardi A. (2009) In United States of America, it was found that individuals who planned for their retirement had higher wealth after retirement, as compared to the individuals who did not do financial planning for retirement. The wealth also had impact on the financial market's performance. In the study author has evaluated the link between financial literacy and financial planning. Financial literacy leads to better financial planning for retirement. In US it was found that financial literacy was very low. The author has found out that with financial education, financial planning for retirement improved for the low-income group.

Krishna Moorthi et.al. (2012) made an effort to understand influence of demographic factors and psychological factors on retirement planning Behavior. The authors have considered three demographic factors namely - age, education and income. Besides these two psychological factors such as goal clarity, potential conflicts in retirement planning and attitude towards retirement are considered for the study. Primary data is collected from 300 respondents between the ages of 25 to 55 years. Statistical tools such as correlation, one-way ANOVA and regression used to analyse the data. The authors conclude the research paper by stating that demographic factors, education and income have significant influence on retirement behavior. Psychological factors namely goal clarity, attitude toward retirement and potential conflict in goals also has impact on the retirement behavior of the individual.

Fatemeh Kimiyaghalam, et.al (2017) The authors have studied financial retirement planning in Malaysia. The motivation for the study was a report by Employees Provident Fund (2015), government agency which manages savings for retirement. The report said that employees engaged in private sector do not have enough savings for retirement and therefore it compels individuals to work after retirement. The authors have considered two behavioural theories relevant for retirement financial planning. These theories are 'planned behavior' and 'time perspective theory'. Primary data is collected from 900 respondents and structural equation is used to analyse the data. The study revealed that individual's planned behavior and future orientation has direct relationship with retirement planning behavior

Yakoboski et.al (2002) revealed that long-term care insurance pays for services and supports to help policyholders who are unable to perform certain activities of daily living without assistance, such as bathing, eating, dressing and transferring from bed to chair. These policies also pay benefits when the insured requires supervision due to a cognitive impairment such as Alzheimer's disease. Since the likelihood of chronic illness or disability increases with age, private long-term care insurance traditionally has been sold as primarily a seniors' product. The study revealed that owners view their long-term care insurance coverage as an integral element of their retirement planning process. Long-term care insurance coverage is a retirement income security issue. Ninety-eight percent of individual policy owners say preparing for long-term care expenses is an important part of retirement planning, with 70% saying it is very important.

(Barsky and Juster, 1997) explored several aspects of planning, including subjective and objective measures of planning, supplemental plan participation and contribution levels, wealth accumulation, planned age at retirement, and plans for working after retirement from a career job in the public sector.

3. RESEARCH METHODOLOGY

3.1 Problem Statement

Over the years researchers have studied the various problems related to retirement planning and how various factors play a crucial role towards achieving the same. It has been observed that with effective and timely financial counselling, we can achieve better results for retirement planning. However, there is acute lacuna when it comes to understanding the role of insurance towards retirement planning. A country's health is determined by the level of security its population has, especially the old age groups, and hence, this study identifies this as an issue and attempts to explore this aspect further.

3.2 Objectives of the Study

The main objectives behind conducting this research are:

1. To study the insurance trend along with concurrent financial planning for selected sectors of the population.

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2. To identify the relation between insurance with retirement planning.
3. To analyse the impact of insurance towards retirement planning.
4. To suggest measures in order to achieve retirement planning.

3.3 Variables for the Study

There are 2 variables that have been identified for the purpose of this study, namely:

a. Insurance -Variable I (Independent Variable)
b. Retirement Planning – Variable II (Dependent Variable)

3.4 Need for the Study

The main purpose of doing this project was to know about the changes and variations of insurance towards the subsequent impact towards retirement planning. This helps us to know in detail, about awareness and availability of insurance for the time period selected, and study the impact of its change towards retirement planning.

3.5 Data Source

This research is purely analytical research based on Secondary data collected from the RBI Household Finance Report.

3.6 Data Collection Method

The data related to Insurance and Retirement Planning for this research paper was collected from various sources, some of which are government database and are reliable for our study like rbi.org.in, and the official websites of the financial institutions taken for this study and from other additional sources.

3.7 Research Design

The research design deployed for the purpose of this study is **Longitudinal Correlation Design.** The study intends to observe the collected data without trying to influence any of the variables involved for the time period selected. The design is selected to establish a real sequence of the events and to derive the results while maintaining the quantum of accuracy.

3.5 Data Analysis

This paper is based on an analytical research, whereby the variables considered are Insurance and Retirement Planning. In order to understand the relation between these two variables, hypothesis testing has been performed to study the relation between the variables selected for the purpose of this study and to check the viability of the data collected, as follows:

Hypothesis:

H0 (Null Hypothesis) - There is no correlation between Insurance & Retirement Planning

H1(Alternate hypothesis) - There is a correlation between Insurance and Retirement Planning

If hypothesis H0 is proven through data analysis, then no further testing is needed. However, if the results derived out of the data analysis proves H1 to be valid and accepted, then further simple hypothesis is needed to understand the relation between the variables as follows:

H2 – There is a positive correlation between Insurance & Retirement Planning

H3 - There is a negative correlation between Insurance & Retirement Planning

For analysing the relation between the variables, Pearson's correlation coefficient has been used, whereby, we have initially distributed the table. On the basis on the calculations done, Pearson's Correlation has been used to derive the results.

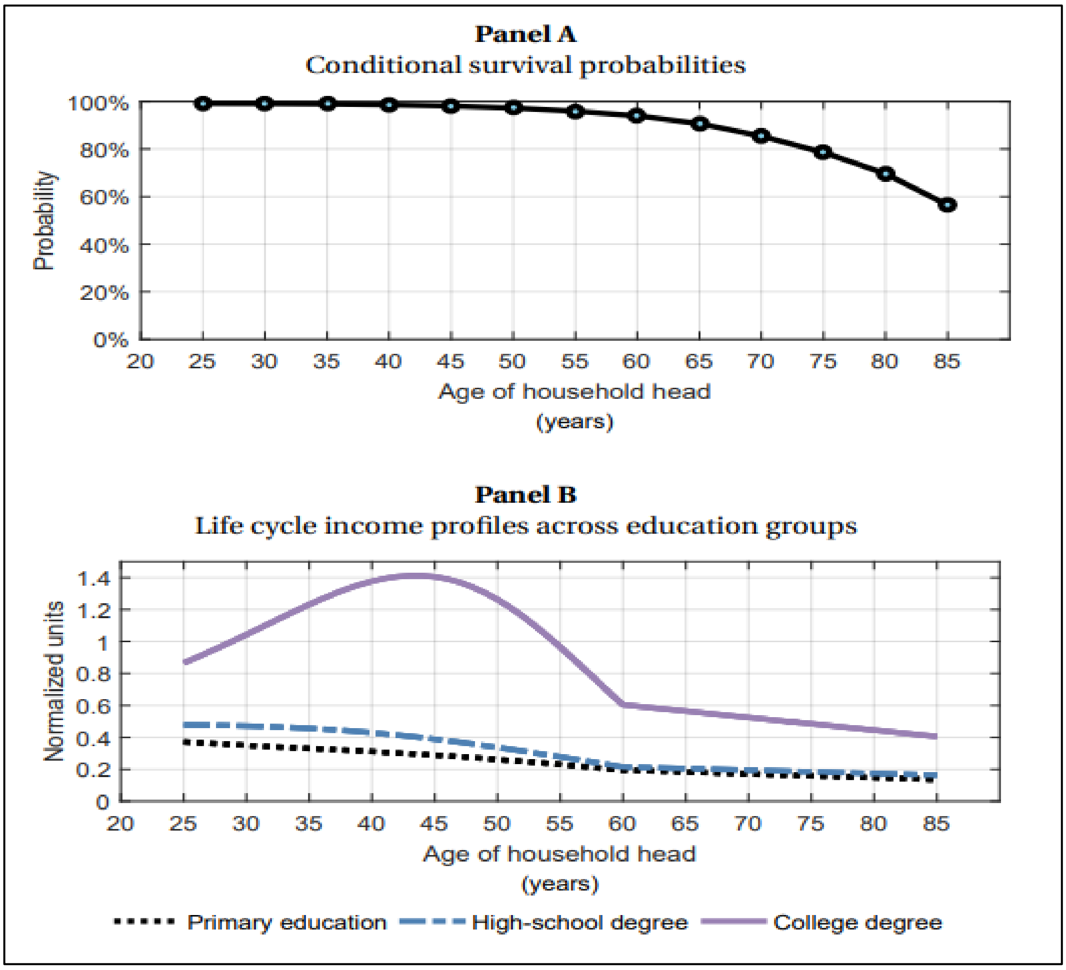

Table 1.1: 3 year-wise Life Cycle Income Profiles

This figure reports the life cycle profiles of the parameters used to calibrate the household portfolio choice model for India. Panel A shows the evolution of survival probabilities for each age years, conditional on survival until the previous age year. Panel B shows the evolution of average family income profiles by education groups. The profiles are constructed by fitting a

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third-degree polynomial through the coefficients on the age dummies in a cross-sectional regression of family income on ages. Income after 70 is the median income of households whose heads are over 70. The profiles are smoothed through linear interpolation to ensure continuity of the model functions. For easier interpretation, we normalize the absolute values by dividing through the average yearly income level in the population. The data comes from the second wave of the India Human Development Survey, 2015.

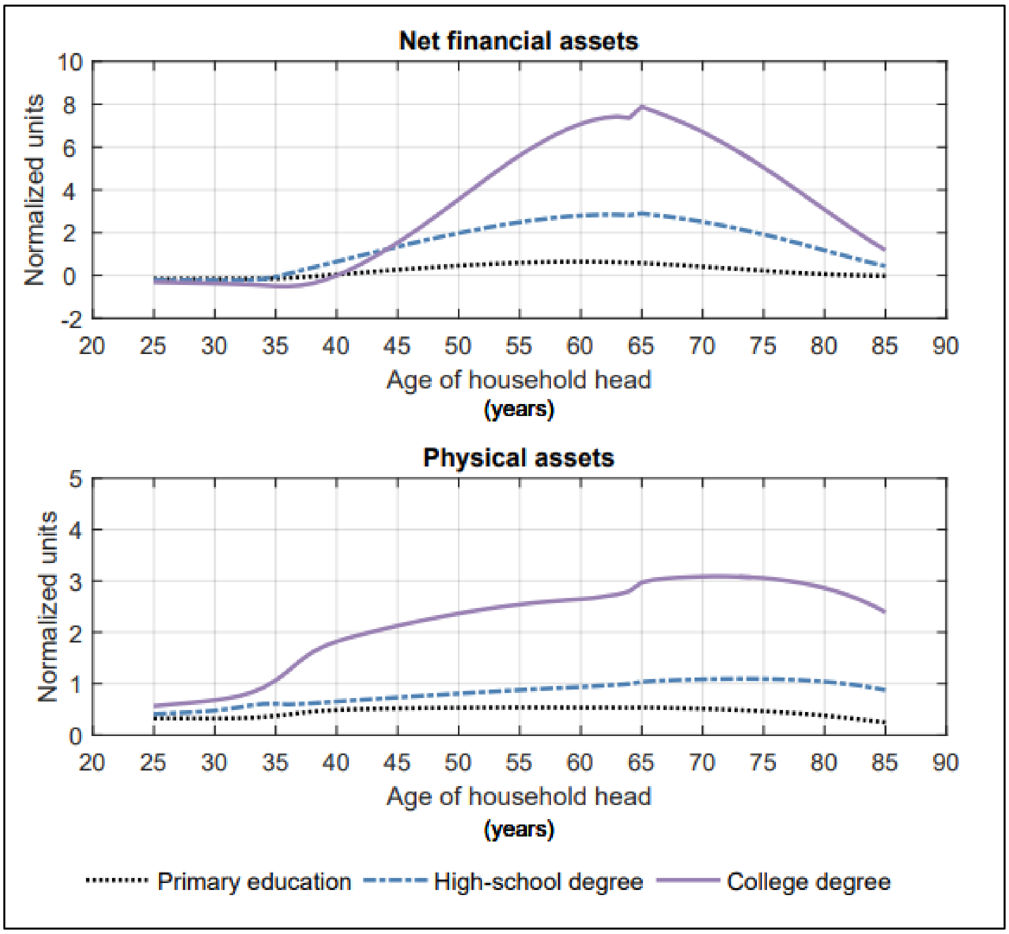

Table 1.2: Financial Assets and Physical Assets

We construct and solve a portfolio choice life cycle model of optimal household behaviour. In each period, households receive labour income and decide optimally on how to allocate their available resources across a set of consumption goods, financial assets and durable goods, such as houses and gold. We calibrate the model with income life cycle profiles for the Indian economy, for three education groups (below primary school, primary or secondary school degree, and college degree), survival probabilities, and market parameters characterizing the

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constraints and market conditions that Indian households face. We simulate N=50,000 life cycle profiles. In the figure below, we report average holdings of financial assets and durable goods, for each age-education group. For easier interpretation, we normalize the absolute values by dividing through with the average yearly income level in the population.

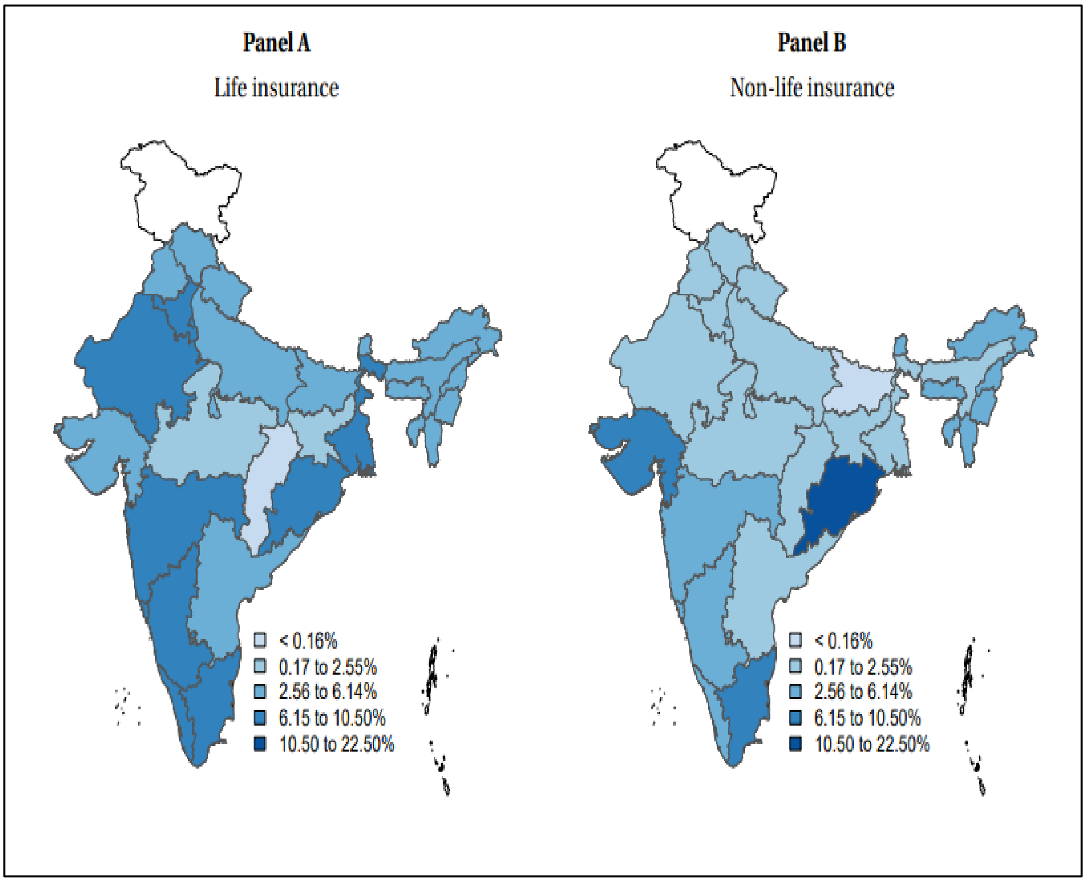

Figure 1.1: Pie Chart of Net Profits for selected banks

Source: RBI Annual Reports of household income

This figure reports the percentages of respondents in the Financial Inclusion Insights Survey (2015) who have life insurance (Panel A), and those who have other non-life insurance policies (Panel B). For life insurance (Panel A), Chhattisgarh has the lowest (2.15%) and Karnataka and Tamil Nadu have the highest participation rates (22.51% and 17.10%, respectively). For non-life insurance (agricultural, medical and accident), Panel B shows that Odisha, Tamil Nadu and Kerala have the highest participation rates (22.17%, 15.28% and 14.90%, respectively), while in Jharkhand, Bihar, Himachal Pradesh and Uttar Pradesh the participation rates are less than 1%.

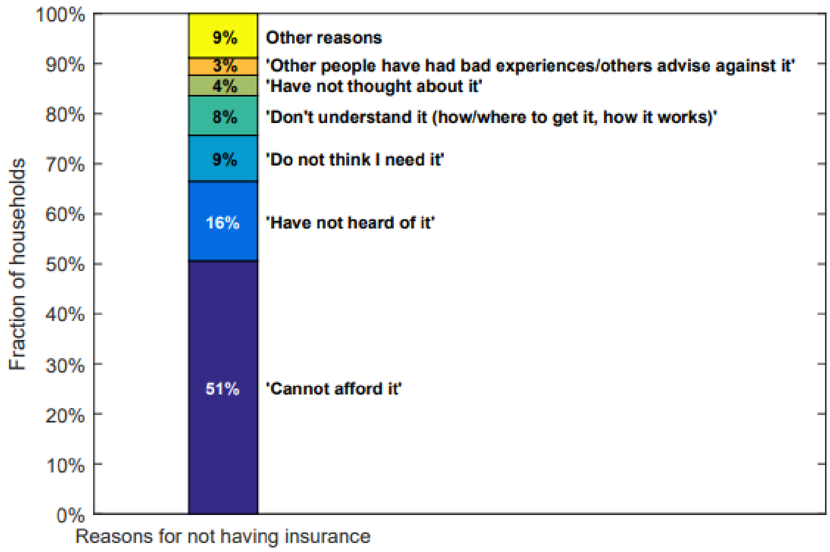

Figure 1.2: Statistics of non-participation in insurance market

This figure reports distribution of survey responses to the question 'There are different reasons for people not having [insurance] products. Why don't you have it?'. Multiple responses are accepted. The question is only asked to those respondents who answered 'Yes' to the question 'Have you ever heard of insurance?'. Nevertheless, we have also added the responses of not having heard of insurance in the plot below, to provide a more complete picture. The source of the data is the FinScope Survey (2015). We use population weights, as reported in the survey.

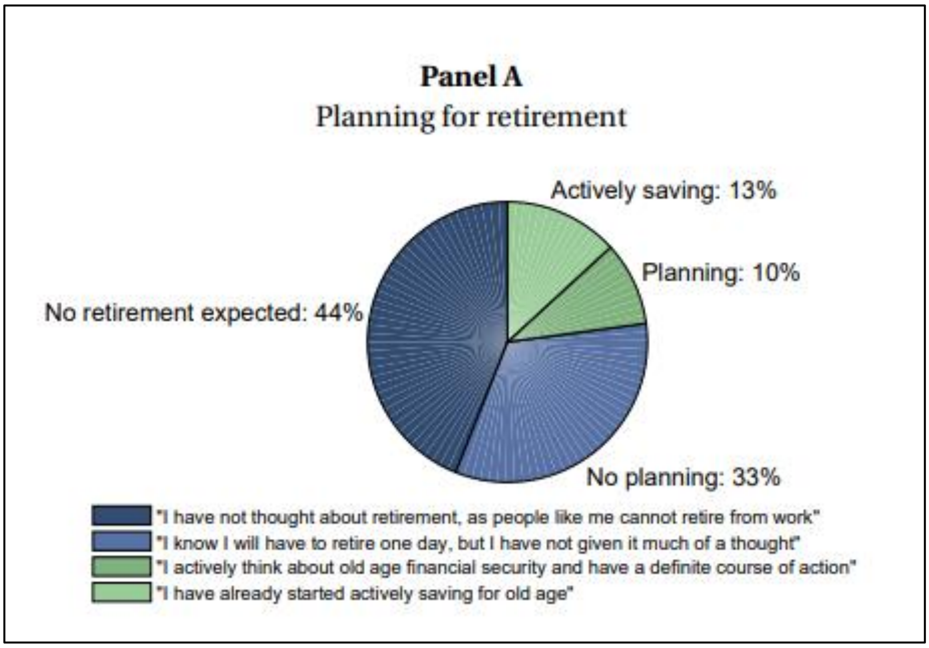

Table 1.3: Retirement Planning Scenario Statistics

As per Table 1.3, it is clear that over 77% of the population is either not aware about planning or has no expectations about retirement. This shows a huge gap as well as an urgent need to spread awareness about financial planning to citizens. Furthermore, to understand the relevance of insurance towards retirement, a detailed statistical analysis is reflected through the secondary data collected, as follows:

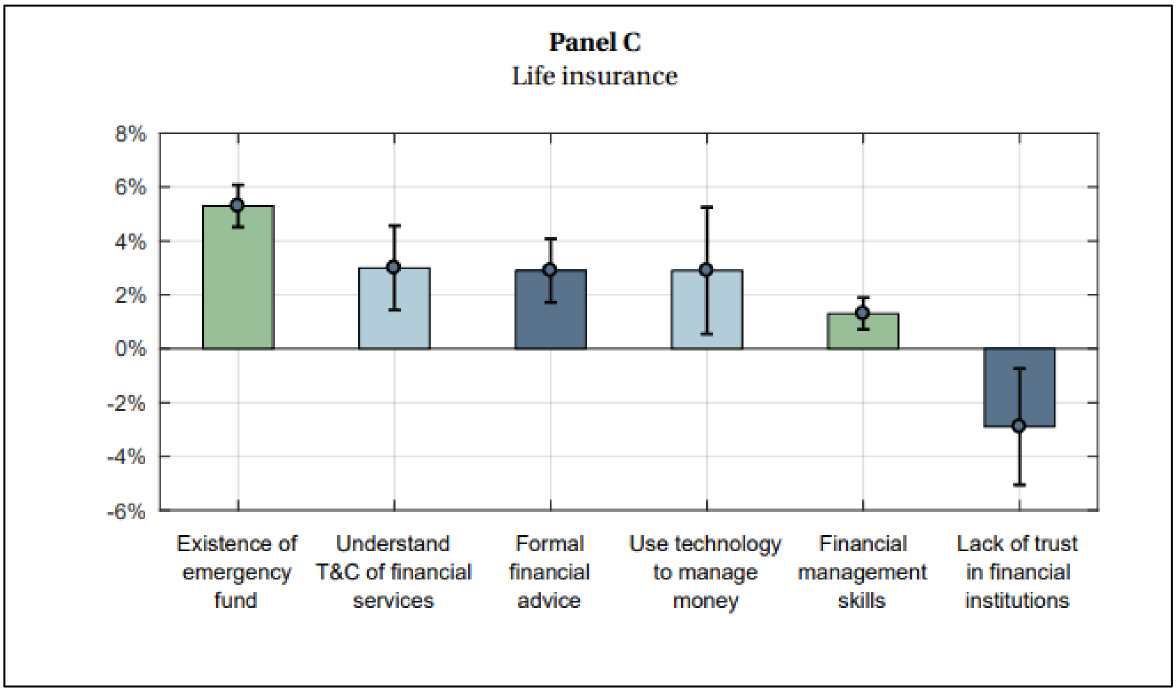

Table 1.4: Life Insurance reasons for non-acceptance

From Table 1.3 and 1.4, it was clearly observed that the overall retirement planning ratio in India is considerably low, and the low coverage of Insurance seems to compliment the situation. The arranged data arrangement aims to establish the relation between the variables as presumed in the Hypothesis.

Figure 1.2 denotes the reasons behind not having insurance. From the above table, after running Pearson's Correlation for factor individually, the results derived were on a similar trend. Out of the various factors that affect retirement planning, Insurance seems to have a direct and a strong positive correlation. Considering the low retirement planning ratio, it is clear that low coverage of insurance acts as a barrier to achieve the same. All the reasons for Insurance have been graded on an impact score of less than 10%. The variables establish a Correlation score of **0.71457.**

4. FINDINGS & OBSERVATIONS

On the basis of application of the research tools, the findings from the testing are as follows:

- Table 1.2 and 1.3 analyzed the year-wise correlation between Variable I and Variable II. The results derived were strongly denoting a Positive correlation between the variables, with the correlation staying constant, considering the data being selected was for a fixed time and not on a year-wise basis. This denotes that the propensity of the variables may be reducing year-on-year basis, if the independent variable changes in future. To elaborate this, with every increase in the awareness about Insurance, the insecurities about retirement planning are expected to reduce subsequently.
- Table 1.4 analyzed the reason-wise impact behind the independent variable. The results derived were strongly denoting a positive correlation with the dependent variables. Except for lack of trust in financial institutions (which reflected a negative score), the overall analysis denoted low insurance awareness and coverage, further providing basis for our analysis that with every increase in Insurance penetration, there is a possible increase in the retirement planning initiatives.
- To further cement the findings and hypothesis testing, an overall analysis between Variable I and II has been performed to establish the relation between the variables. Further, Pearson's Correlation has been applied for the overall data collected to the selected variables to understand their relation as per Table 1.3 and 1.4.
- The results derived do not derive ZERO as a Correlation at any stage, and hence we can **reject the Null Hypothesis (H0)** for this study and the **Alternate Hypothesis (H1) can be accepted**. Also, considering the acceptance of H1, it was further necessary to understand the year-wise, bank-wise and overall relation between the selected variables.
- After applying Pearson's Correlation in all the selected time-frames, it was identified that the results derived were as follows: **Correlation of 0.71457.**

  Hence, it is to be considered that there is a relatively strong POSITIVE CORRELATION between Insurance awareness and resulting impact on retirement planning.
- As the overall results achieved are strongly denoting a Positive Correlation between Variable I and II, it is clear that Hypothesis H3 do not stand valid and hence have been rejected. Hypothesis H2 have been proven through this study, and it can be concluded that

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there is a POSITIVE Correlation between Insurance awareness in Financial Counselling and Retirement Planning.

5. CONCLUSION

This study evaluated the awareness of Insurance in financial counselling and its impact on the consequent retirement planning. This paper has examined the determinants of the low retirement planning in India. It has been observed that as the awareness of insurance and its coverage is low, the subsequent impact is observed in the dependent variable. Due to a low practice of financial counselling, it is necessary to develop a sound strategy and the measures to enhance all the elements of financial counselling, to ensure that retirement planning improves in India. The need to finance adequate consumption during retirement is therefore a looming issue, and when combined with the low penetration of insurance, households appear particularly vulnerable to adverse shocks later in life. The problem of retirement planning should be taken seriously or else this issue will lead to major shocks for retiring generation and in turn impact the growth of the economy of our country.

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