Pension Plans

Combining investment with life cover and pension

Many reasons why you should consider investing in pension plans. After all, it's all about post-retirement income planning – so you not only maintain your living standards but are also able to meet unexpected expenses. These are plans with life cover (death benefit) coupled with a modest return (by way of growth of units invested in the market), and are designed to offer a regular income after retirement. Also, these plans allow the policyholder to voluntarily choose the date (which is also known as 'vesting date') from when they would start receiving the pension. Since there is no shortage of insurers offering pension plans, you can choose from a bevy of options. The following report is an attempt to understand unit-linked pension plans in detail and also compares plans offered by various companies.

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Why should you invest in retirement pension plans? Let's consider the following points:

• Rise in life expectancy

With improved healthcare and availability of/accessibility to super-specialty hospitals, life expectancy has improved significantly, from 67.29 per cent (2012) to 69.09 per cent (2018). More people now expect financial support after their retirement. These plans offer excellent financial support for aged persons, especially those from unorganized sectors.

• Lack of adequate social security system in India

There is at present no social security in place for people in India who have no means of receiving any income after their working years are over. There is an absolute need for such pension plans in India.

• Rising health expenses

Pension plans provide additional financial support when medical expenses run high. This is especially true of plans that provide for maturity amount in lump sum or that provide for partial withdrawals. Before you choose a policy, make sure you go over the details of the policy so you know exactly what you will be getting from it.

• Ensures regular flow of income

These plans offer regular pension income that can be in addition to any other pension fund one may be receiving as an employee of an organization.

• Benefits under Income Tax Act

Under sections 80 (C), 10 (10A) and 10 (10D) of the Income Tax Act, there are exemptions on premium paid, commuted pension received and maturity lump-sum amounts received.

Quick Tips

- Start at an early age and choose a plan that assures you of a guaranteed pension for life (or at least up to 80–85 years of age).
- Pick a plan that suits your income.
- Choose a plan that levies least of charges (towards fund management, policy administration, premium allocation, investment guarantee, etc.) so as to ensure that the fund value/net asset value (NAV) is not eroded.
- You are better off with a plan that offers minimum premium payment so that default does not occur.
- Choose a plan that provides for partial withdrawal.
- Choose a plan that provides for maturity lump-sum benefit.

What You Need to Know

- Unit-linked life insurance plans are different from traditional insurance plans (endowment/participating) and are subject to different risk factors.
- Premiums paid in unit-linked life insurance plans are subject to investment risks associated with capital markets, and NAVs of the units may go up or down based on the performance of fund and factors influencing the capital market.
- The insured is responsible for his/her decision in joining the fund.
- The past performance of the fund is not indicative of future performance.
- There are associated risks and applicable charges, which one should find out from the insurance agent or the intermediary or the policy document issued by the insurer.
- The name of the unit-linked life insurance contract does not in any way indicate the quality of the contract, its future prospects, or returns.

Income Tax Benefits

Section 80C

Under Section 80C of Income Tax Act, 1961 (as amended up to date), the premiums paid each year are eligible for income tax deduction (subject to the ceiling of Rs 150,000 per each assessment year), along with other notified securities deduction from gross total income.

Section 10 (10A)

This tax exemption benefit is available on the commuted pension amount that is paid either on the vesting date or on maturity of the policy plan (under Clause 23 AAB).

Section 10 (10D)

Under this section, the maturity benefits you receive under the policy plan (maturity benefit of all premia paid + bonuses paid + any partial withdrawal paid, if any) qualify for income tax exemption as an eligible deduction from your total income.

We chose 10 pension plans based on consumer feedback, product structure and availability of full information in the public domain (including official websites and brochures). The parameters on which we have compared them include maximum and minimum vesting age, maximum and minimum policy term, minimum premium, maximum and minimum entry age, and charges for premium allocation, policy administration, fund management, investment guarantee, etc. We gave the highest weightage (15 points) to consumer feedback, which helped in determining product and service quality as well as the most important and beneficial variables. These variables have a direct bearing on the product structure.

RETIREMENT PENSION PLANS (UNIT-LINKED):

CV Weightage (Criteria) Points: 100	Retirement Pension Plans (Unit-Linked)	Canara HSBC OBC	IDBI Federal
		Smart LifeLong	Wealth Gain
5	Entry age – minimum (in years)	7 (5)	5 (5)
5	Entry age – maximum (in years)	65 (3)	60 (1)
5	Minimum premium (yearly, in Rs)	25000 (3)	30000 (2)
5	Minimum policy term (in years)	10 (5)	10 (5)
5	Maximum policy term (in years)	99 - (entry age) (5)	20 (2)
2	Minimum vesting (maturity) age for payment (in years)	10 (2)	18 (2)
3	Maximum vesting (maturity) age for payment (in years)	99 (3)	74 (1)
5	Premium allocation charge – maximum (on 1st premium, yearly, in %)	8.40 (1)	3 (2)
10	Policy administration charge (monthly, in %) – maximum	0.05 (7)	0.25 (7)
5	Fund management charge – maximum (yearly, in %)	1.35 (2)	1.35 (2)
5	Investment guarantee charge – maximum (yearly, in %)	NS (0)	NS (0)
5	Mortality charge	Yes (1)	Yes (1)
3	Investment fund options	7 (3)	8 (3)
2	Guaranteed/Loyalty addition benefit	Yes (2)	Yes (2)
10	Maturity/Annuity benefit	M (10)	M (10)
10	Partial withdrawal facility	Yes (10)	Yes (10)
15	Customer Feedback	9	5
Total		**71**	**60**

Notes:

a) *Information given here has been sourced from websites, brochures and customer care.*

b) *Premium is dependent upon individual age, health profile, benefits opted for, and period of insurance.*

c) *We have selected for this study retirement pension plans that are unit-linked and non-participating.*

d) *We have not selected endowment and non-linked retirement pension plans for this study.*

e) *NS – not specified*

f) *A – annuity, M – maturity*

CV RECOMMENDATIONS

Best Buy

Canara HSBC OBC Life Insurance (Smart Lifelong)

Good Buy

IDBI Federal Life Insurance (Wealth Gain)

Fair Buy

HDFC Life Insurance (Click 2 Retire)

A COMPARATIVE CHART

	HDFC Life	Bajaj Allianz Life	SBI Life	Edelweiss Tokio	Max Life	Aditya Birla Sun Life	ICICI Prudential	Reliance Life
	Click 2 Retire	Retire Rich	Retire Smart	Easy Pension	Forever Young Pension	Empower Pension	Easy Retirement	Smart Pension
	18 (5)	30 (2)	30 (2)	18 (5)	30 (2)	25 (2)	35 (1)	18 (5)
	65 (3)	73 (5)	70 (5)	75 (5)	65 (3)	70 (5)	70 (5)	65 (3)
	24000 (3)	15000 (5)	24000 (3)	15000 (5)	25000 (3)	18000 (4)	48000 (1)	20000 (4)
	10 (5)	7 (5)	10 (5)	10 (5)	10 (5)	5 (5)	10 (5)	15 (2)
	35 (3)	30 (3)	35 (3)	67 (5)	45 (4)	30 (3)	30 (3)	30 (3)
	45 (1)	37 (2)	40 (1)	45 (1)	50 (0)	30 (2)	45 (1)	45 (1)
	75 (1)	80 (3)	80 (3)	85 (3)	75 (1)	80 (3)	80 (3)	75 (1)
	Nil (5)	8.50 (1)	5.75 (1)	3.00 (2)	2.00 (2)	6.00 (1)	3.00 (2)	8.00 (1)
	Nil (10)	1.70 (4)	Yes (1)	2.50 (2)	0.36 (7)	5.00 (2)	0.25 (7)	Yes (1)
	1.35 (2)	1.25 (5)	1.35 (2)	1.35 (2)	1.25 (5)	1.35 (2)	1.35 (2)	1.35 (2)
	0.50 (1)	0.25 (5)	0.25 (5)	0.35 (3)	NS (0)	0.25 (5)	NS (0)	NS (0)
	Nil (5)	Yes (1)	Nil (5)	Yes (1)	Yes (1)	NS (0)	NS (0)	Yes (1)
	3 (2)	1 (1)	3 (2)	2 (2)	2 (2)	2 (2)	2 (2)	1 (1)
	No (0)	Yes (2)	Yes (2)	Yes (2)	Yes (2)	Yes (2)	No (0)	Yes (2)
	A (5)	A (5)	A (5)	A (5)	A (5)	A (5)	A (5)	A (5)
	NS (0)	NS (0)	NS (0)	NS (0)	No (1)	NS (0)	No (1)	NS (0)
	7	6	8	5	5	4	5	4
	58	**55**	**53**	**53**	**48**	**47**	**43**	**36**

What are not available under these plans?

- Loans
- Rebates on premium (Section 41 of Insurance Act, 1938)

What are available?

- Nomination is allowed (under Section 39 of Insurance Act, 1938, as amended up to date)
- Assignment and transfer of policy is allowed (under Section 38 of Insurance Act, 1938, as amended up to date)

Know These Terms

Suicide clause

If suicide takes place within 12 months from the date of issuance of the policy, repayment is made to the nominee/legal heirs up to the fund value as on the date of his/her death.

Vesting benefit

It is the age at which you choose to start receiving pension the pension regularly from your policy plan in spite of the plan term being longer.

Loyalty addition benefit

This benefit is available on meeting two conditions:

a) the life insured is alive on the date of his/her being found eligible to receive this benefit, and

b) all due premiums have been paid up to date without any default

This benefit is usually given for continuing the policy plan till its maturity and is paid by means of a certain percentage of the sum insured at prescribed intervals starting from a minimum prescribed period. It represents a portion of any monetary surpluses of the insurance company after valuation, which is shared with policyholders.

Investment guarantee charge

This is a charge levied by most of the insurance companies for rendering the service of guaranteeing returns (say 110 per cent or 105 per cent) on the total premium paid by you. It is a charge levied as a percentage on the NAV value. This amount is charged only when the policy is in force.

Policy administration charge

This is a charge levied on monthly basis from your fund value/by redeeming against accumulated units for the service rendered. Most insurance companies charge this fee; only the rates vary.

Fund management charge

This is a charge that insurance companies levy on daily basis. It is charged to you as a percentage of fund value on yearly rests. This charge is for providing the services of the fund manager who will manage your portfolio in allocating your money into various funds as per market forces. This is charged before arriving at the NAV of your investment and that can change daily, albeit marginally, subject to market play. All insurance companies levy this charge.

Premium allocation charge

This is the charge collected from the premium that you deposit and is deducted on yearly basis. This enables the company to invest the balance of the premium in units so that you can get better returns (subject to market conditions).

Annuity

It is the regular monthly pension payable to you after you cross the vesting age.

Accumulation period

This is the period when you pay premiums to accumulate funds for retirement.

Sum assured

This is the amount that the nominee receives in the event of death of the insured during the accumulation period.

Participating plans

These plans give a share of the insurer's profit to policyholders. This share is not fixed and depends on the financial performance of the company.

Life Insurance for Senior Citizens

Most senior citizens would have paid off their debts by the time of retirement. By then, their children tend to be established too. So, you may wonder whether a retiree needs to continue with a life insurance plan at all. If you too have been considering what to do, look at your current financial scenario. You must continue with the life insurance plan if:

You still have a debt

Whether it is an unpaid home loan or a business loan, you need to pay off any kind of ongoing debt. Suppose you discontinue your life plan and something happens to you, your aged spouse or children may then have to take the responsibility of paying off the debt.

You have dependents

Are your parents still living with you? Do you have a partner or a child to support? Then you must carry on with your life plan even after you retire.

You wish to leave behind a legacy

If you have children and want to leave behind a legacy for them, a life insurance policy makes sense. This way, should anything happen to you, your nominees will be entitled to a large pay-out. However, if you don't have dependents or children, a life insurance policy would not be the best option.

If you do not have any such liabilities, you can reconsider continuing your life insurance plan after retirement.

Courtesy: https://www.tomorrowmakers.com/articles/health-insurance/insurance-for-senior-citizens-is-it-worth-it