All you need to know about retirement plans

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Financial planning is a tricky task even for those who have awareness about this field compared to others. However, it can have a significant impact on the lifestyles of individuals if not planned carefully.

It can become complicated if the income protection to loved ones is not kept in mind in case of an unfortunate event, and saving for a specific goal in the future such as children's education or marriage and providing income for meeting the cost of living after retirement.

Even when one has picked out the specific goal for which they need to plan, the complication does not end there as the number of product options available in the market for meeting each such objective is mind-boggling.

Let us take the example of retirement planning. Everyone would want to ensure that lifestyle is not compromised post-retirement and have the means to continue enjoying life to the fullest in their golden years.

However, this requires careful planning while choosing the right product.

In this article, let us understand some of the product options available in the life insurance space to provide income during retirement years and help maintain the same lifestyle that one had in their working/ employment years.

There are two aspects to retirement planning. The first aspect is how much and ways to save during working years so that one has a sufficient corpus at retirement to provide the replacement for working years income.

The second aspect is how to use the corpus to create the income that can sustain one throughout their retirement years.

The first aspect can be met by pension plans that allow one to save in a structured manner throughout their working life to create the necessary corpus at retirement. This need can also be met by other savings products such as endowment plans, etc. However, pension plans provide additional features such as flexibility to defer retirement age and, in turn, the ability to change the time point at which one would want their corpus of savings which is a flexibility that the other products may not provide. Hence the same needs to be kept in mind while deciding which accumulation product to choose. All of these products can be on the traditional or market-linked platform, and the choice will depend upon the risk appetite of the individual purchasing them.

The yearly premium depends upon the estimation of the corpus that one might need at retirement, which, in turn, will depend upon the amount of income that one thinks they will need during their post-retirement years. A good starting point would be the current income that one has and then projecting it into the future basis a reasonable rate of inflation.

While one can remove certain expenses from this projection that they are currently incurring, but may not incur post-retirement, such as the children's education costs. One also need to allow for additional expenses that one is likely to incur in the post-retirement years, such as higher healthcare costs.

The second aspect can be covered best by annuities which convert the retirement corpus into an income stream for as long as the individual is alive. These come either on a stand-alone basis or the more popular version, whereby the purchase price is returned upon the death of an individual. Further, some variants come in this product category, such as joint-life annuity, whereby the income continues for the surviving spouse at the same or reduced level. Annuity, wherein income increases yearly at a fixed or variable rate etc. The specific variant which one would want to purchase will depend upon the financial situation and one's personal preferences.

Finally, some products combine both these aspects into a single plan. For example, income products come both under traditional and linked platforms and can be considered appropriate. One key advantage of these products is that the returns will be tax-free at an overall level compared to purchasing the combination of an accumulation plan and an annuity plan, where the returns on the former will be tax-free. But the income under the latter is taxable as per income tax rules.

Overall, the customers need to critically look at the above factors to choose the right product.

It is also the responsibility of insurers to draw attention to these factors so that they are better informed to make choices in line with their need to enjoy the same lifestyle in their golden years as they did during their working lives.

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