# PENSION PLANS AS FINANCIAL SECURITY

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## INTRODUCTION:

Ageing population is the major challenge worldwide. Falling birth rate and slowing down in mortality rate has raised the concern about financial protection of ageing population. According to World Bank data (2018) age dependency ratio for India is 50%. Age dependency ratio is the ratio between dependents (less than 15 years and more than 64 years) to working age population. And there is an increase trend in old age dependency ratio every year from 1961 to 2011 (MOSPI 2016). As per the latest survey (2011),this ratio is 14.2%. The old age dependency ratio is the ratio of old age non-working who are dependent to working age group. The increase in dependency ratio indicates there is an increase trend of senior citizen population in near future. In 2050 India population aged over 60 would be 300 million (CRISIL report 2015).

The NSSO survey also revealed that 90 percent of economically independent person having one or more dependent in family. Factors like dependency ratio, number of dependents trigger for a concrete retirement plan for individual during working age. Financial security provides a universal safety against financial shocks. A person can work and earn for certain period. After that he will retire but his day to day expenses will continue. During work-life one give priority to different commitment such as children education marriage, building house etc.

Planning for retirement goes to the last place in the list of priority. Hence it is inevitable that every individual should think for a constant source of income after working life. Pension refers to a periodical payment to individual after retirement to till death. Pension is the life time income security for the retirees. In other word pension is a provision for protection during post retirement period.

### Meaning of Pension and pension plan

According to American dictionary pension is a sum of money paid regularly to a person who is retired. Pension as income is defined by Cambridge dictionary.

It say pension under Business English as “a regular income paid by a government or a financial organization to someone who no longer works, usually because of their age or health”. According to Oxford advanced learning dictionary, pension plan is a system where individual or the employer pay money regularly when he or she is employed.

## OBJECTIVES OF THE STUDY

1. To determine the characteristics of the socio – demographic variables of public and private sector employees.
2. To examine the financial literacy levels of the selected employee group
3. To examine the savings behavior of the selected employee group
4. To examine the retirement preparation of the selected employee group
5. To understand the retirement confidence levels of the selected employee group
6. To investigate the relationship between financial literacy and savings behavior of the selected employee group
7. To investigate the relationship between financial literacy and retirement preparation of the selected employee group
8. To investigate the impact of financial literacy levels on the retirement confidence levels of the selected group of employees.
9. To investigate the relationship between employee preparation for retirement and their retirement confidence levels.

## SCOPE OF THE STUDY

The scope of this study is to understand how individual is planning towards retirement. It will help to analyze the factors that influencing retirement income decision. The study also deals with qualitative factors such as perception towards risk, knowledge and awareness, willingness to invest of individual towards pension plan. The study also covers understanding the pension system across the globe. The study has also analyzed various pension schemes available to private sector employee.

### Present Pension system in India

Pension system in India is built on three pillars. A brief overview of pension system is explained below.

**Pillar-I**: Thispillarbasicallyincludesallthestateandcentralfundedpensionplans.Boththe Centre and also the state level, railways, defense and telecommunication services come under Pillar-I. During post pension sector reforms, as per new

pension scheme, all government employees joining service on or after January 1, 2004, come under New Pension System (NPS). That is a defined contribution plan. This will replace defined benefit plan.

**Pillar-II**: This generally includes a compulsory savings programmed at the utilization level that is either in private or in public managed. In other words, it's am and atory contribution from both employee and employer or only from employee. In India Provident Fund, considered to be common public pension fund.

**Pillar-III:** This pillar includes all types of voluntary savings, on the market to everybody as well as those wanting to supplement their Pillars I & II pension provisions. In India, thegeneralpublicProvidentFundthemefitsthedefinition.ThePPFthemewasintroduced by the govt. in 1968-69 to provide pension plan for employees from the informal sector.

In 2011-12 National Sample Survey Organization (NSSO) conducted a labor force survey on employment and unemployment. According to the survey 82.7% work forceareintounorganizedsector. In unorganized sector the reisno formal pension. According to a CRISIL report, in private sector only 8% are covered under retirement scheme and92% still remain uncovered. The pension schemes for private sector comes under illar

three. In Indiaunde rPillar three there are various pension products offered by various

institution. National pension scheme (non-Government employee), Public Provident fund, Unit link ed pension plan and annuities, Mutualfundpensionplans.

**Pension System – A Global Perspective**

Most of the countries are shifting from Defined benefit to defined contribution pension plan. Pension is categorized as Public pension and Occupational pension. Public pension scheme are basically financed through social security tax paid by employer and employee. Public pension scheme can be defined benefit scheme. The pension system of selected countries is highlighted below.

**Pension system in USA**

In USA, Public pension scheme is based on Pay as you Go Plan. This is financed by social security. There are occupational plan in private sector. These plans are basically defined contributory in nature. The most widespread type of DC plan is the 401(k) plan. 401(k) plans enable employees and employers to make tax-deferred contributions from their salaries towards pension plan. Most 401(k) plans provide retiring employees with multiple distribution options for receiving plan account balances. Lump-sum payments, installment payments for a fixed number of months and annuities are the mode of payments option available under these schemes.

**Pension System in Japan**

In Japan, Public pension is the National Pension System. In this case employer and employee contribute towards pension funds. The National Pension System was introduced in 1959 and is mandatory for all residents between 20 and 59 years of age. Contributions to the National Pension System are deducted from contributions for the employment-related portion of the public pension. As mentioned, mandatory pension system, self-employed also have to contribute JPY 13,860 monthly towards pension. The system receives substantial subsidies of currently one-third of payments from the Japanese government. Other aspect of public pension is employee pension insurance, government pension investment funds. Private sector employees are covered by Employee Pension Insurance, which was introduced in1944. Apart from this, Japan also has occupational pension scheme, corporate pension scheme. They have scheme like tax qualified pension scheme that target for the employee of smaller companies with 15 or more employees. The public pension system of Japan and Norway is quite similar. The other category of pension system is occupational pension.

**Pension system in Denmark**

The 'folk pension' is a universal pension for Denmark. It is Pay-as–you-go (PAYG) plan and basically financed by general budget revenues. The general retirement age in Denmark is 67. Denmark also has occupational pension scheme. One of the popular occupational schemes is ATP. In Denmark, all wage-earners with more than nine hours of paid work per week should contribute towards ATP to complement the national scheme. Other pension schemes in Denmark are voluntary occupational pension scheme, pension fund, group insurance scheme and Bank scheme. These schemes are basically defined contributory in nature. In various countries; pension schemes are offered in the form of pension funds, life cycle funds, and superannuation funds.

**Pension System in UK**

Pension system in UK basically comprises of state pension and pension credit. The state pension has two tiers. First, the flat-rate basic pension and earning related additional pension. There is work place pension scheme i.e similar to occupational pension scheme. UK Government has introduced automatic enrollment to workplace pension scheme. To facilitate automatic enrollment, UK Government has established the National Employment Saving Trust (NEST). It is trusting based occupation pension scheme. All employees are accessible to low-cost pension scheme. Pension Credit, is a tax-free weekly benefit for people who are living on low income level. Pension Credit is an income related benefit and is not based on National Insurance contributions. There are two elements to the Pension Credit. Firstly, the Guarantee Credit, which ensures a minimum level of income by providing financial help for people who have reached the qualifying age. The second one is Savings Credit, which is availed as extra amount for people aged 65 or above. UK pension system has introduced private pension as a predominant player in defined contributory pension system OECD (2017)

**Pension systemin Australia**

Australian pension system has three components i.e Age pension, Superannuation guarantee and Voluntary superannuation. Age pension is payable from 65 for both man and women. Super annuation guarantee was introduced in 1992. Under this scheme, it is mandatory for employer to contribute towards employee's superannuation fund. The superannuation fund can be operated by employer, industry associations and or financial institutions. Low to middle-income earners who make personal after-tax (nonconcessional) contributions to their superannuation fund may be eligible for the Government to make a matching 50 per cent co-contribution, up to a maximum of AUD 500 in 2015-16 OECD (2017).

**Pension System in Norway**

Norway pension system is available in two forms i.e. income pension and guarantee pension. In Income pension each year between age 13 to 75, person will increase their pension entitlements in line with wage growth. Guarantee pension is for those people who have no pension or small income pension. Basically a pension scheme in Norway is defined contributory in nature. But if any case employer is giving defined benefit, then benefits must be at least the same level as the expected benefits under the mandatory 2% contribution. Norway also has voluntary private pension. Norway Pension model is one of the finest pension models.

| Country | Similarities | Uniqueness |
|---|---|---|
| USA | Public pensionandOccupationalPension | Category wise pension plan 401K,403(b), 457 |
| Japan | | Employee Pension Insurance andGovernmentPensionInvestmentFund |
| Denmark | | ATPContribution,Voluntary |
| UK | | Self-administered pension funds,stakeholderpension |
| Norway | | GroupinsuranceContract |
| Sweden | | PYGO, premium pension ,Guaranteedpension |
| Australia | | DB, DB in Occupational pension,Retirementinsavingaccount |

*Figure1-1SimilaritiesandUniquenessinPensionSystemofselectedcountries*

**CONCLUSSION**

The research gap revealed that from various sections there is a need for study related to retirement planning. In this study only private sector employee and their planning towards pension are evaluated. Similar type research needs to be conducted for other sector like professional, business professional. This research has also not considered micro pension system. Another angle to the limitation of the study is performance evaluation of existing pension plan. As pension plan are unique and not very old to Indian context, at present there is not much scope to performance evaluation of pension schemes.

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