

# 29th India Fellowship Seminar

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Current Annuity Products -how suitable they  
to provide a right income solution to retiring  
Indian population..?



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# Agenda



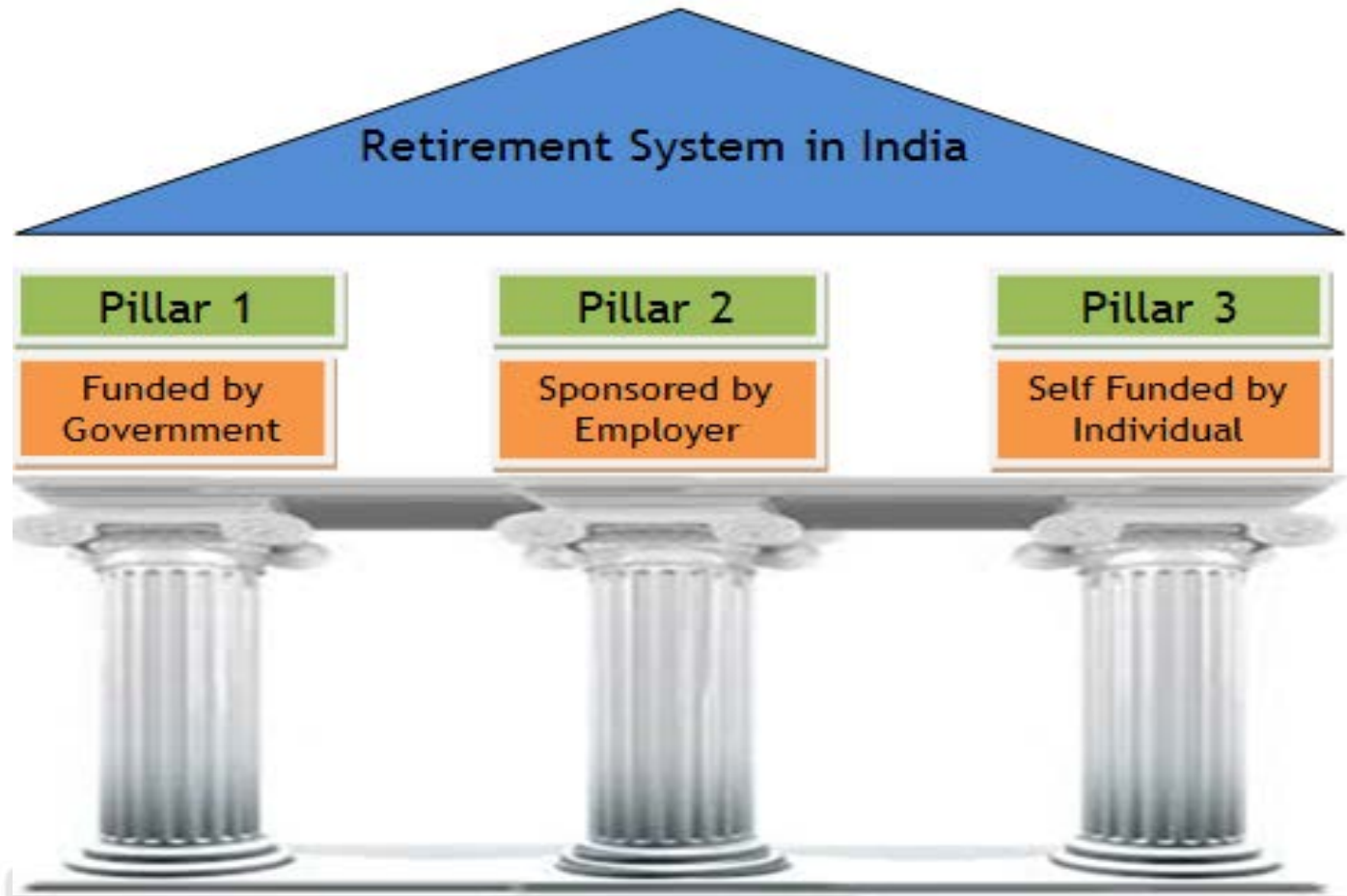
- Introduction
- Three Pillars of Retirement System
- Post retirement requirements
- Current Annuity Products
- Solution to retiring population
- Products Vs Needs
- Suggested Annuity products

# Introduction to Retirement systems



- ❖ Nuclear Family :
  - Elders are less likely to be supported by their children
  
- ❖ Population above 60 years expected to reach 180 million by 2030
  
- ❖ People expected to live longer:
  - Increasing gap between required and expected income due to inflation
  
- ❖ Inadequacy of expected income after retirement

# Introduction to retirement System



# Post Retirement Requirements



1. A stable cash flow to meet the reasonable standard of living.
2. Monthly income to take care of medical requirements (Regular)
3. The cash outflow may not be static
  - i. A lump sum required for medical treatment (One off event)
  - ii. A lump sum for travel and entertainment for few years. (Regular Interval)
4. A composite product needed.

# Current Annuity Products

## 1. Accumulation Phased:

- NPS, Insurance Products such as ULIP and Deferred Annuities and Mutual fund pension plans.
- Available under Group and Individual plans
- Atal Pension Yojana

## 2. Annuity Based products:

- Immediate Annuities by Insurance companies
- Government subsidized - Pradhan Mantri Vaya Vandana Yojana



# Current Annuity Products - contd



## ❖ Unit Linked Pension Plans and Deferred Annuities:

- Offered by Insurance Companies
- Classified into
  - Accumulation
  - Deferred Annuity
- Accumulation products provide a corpus on maturity
- Guaranteed Deferred annuity rates

## ❖ Immediate Annuities:

- provide a regular income for life or for a certain period
- Guaranteed income

# Current Annuity Products - contd



- ❖ Examples of Annuity Options:
  1. Annuity with a uniform rate payable for life.
  2. Annuity payable for a guaranteed period and thereafter for life
  3. Annuity payable for life with return of corpus on death of the annuitant
  4. Joint life annuity with 50% or 100% of spouse annuity payable for life.
  5. Joint life annuity with 100% of spouse annuity with return of purchase price.
  6. Increasing annuity @3%



# Current Annuity Products - contd



- ❖ Pradhan Mantri Vaya Vandana Yojana (PMVVY)
  - ❖ Government subsidized scheme
  - ❖ Exclusively designed for senior citizens aged 60 years or above.
  - ❖ Temporary Annuity for 10 years
  - ❖ Assured return of 8% p.a.
  - ❖ Return of Purchase Price on Death or on Maturity.
  - ❖ Maximum Investment Rs. 15 lacs
  - ❖ No GST.

# Current Annuity Products - contd



## Atal Pension Yojana (APY)

- ❖ Government-initiated pension scheme
- ❖ Unorganized sector workers
- ❖ Guaranteed minimum pension from age 60
- ❖ Joint life annuity with
  - 100% spouse pension
  - Return of corpus on death of the spouse
- ❖ Death Benefit:
  - Return of accumulated contributions OR
  - Continue till vesting period & receive pension

# Current Annuity Products - contd



## Atal Pension Yojana (APY)

- ❖ Monthly contribution based on targeted monthly pension
- ❖ Targeted monthly pension: Rs 1000/2000/3000/4000 or Rs 5000.

Pension	Age 20	Age 30	Age 39
1000	50	116	264
2000	100	231	528
3000	150	347	792
4000	148	462	1054
5000	198	577	1318

# Annuities Vs Accumulation



	Annuity products	Accumulation Based products
Guarantees	Guaranteed income for life	Depends on nature of investments
Flexibility	Inflexible	Highly flexible
Control of Assets	No control of assets	Full control of assets
Withdrawal	Not allowed	Allowed
Risks	Longevity and Investment risks passed to Insurance Company	Longevity and investment risk borne by member

# Solution to Retiring people



## Annuity for Life

Higher Annuity among options	Annuity Payments cease on death	Suitable for those with no dependants/liabilities and no need to worry about financial security of their spouse/nominees
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## Annuity for life with Return of Purchase Price

Income security to the self, spouse and the nominee	Lowest annuity payments among all the options	Suitable for those who wish to leave lump sum their dependents
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# Solution to retiring Population

## Annuity Options



### Joint Life Annuity with 100% spouse annuity:

Regular stream of Income to the annuitant and then his spouse on his death	Lower annuity than Life option and higher than ROC option	Suitable for those who want regular income for his/her life and his spouse life
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### Joint Life last survivor with ROC:

Regular stream of Income to the annuitant and then his spouse on his death	Lower annuity than Life option and higher than ROC option	Suitable for those who want regular income for himself, then his spouse and then lump sum to his nominee.
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# Solution to retiring Population Annuity Options



Annuity certain for Fixed period (5-10-15) and thereafter for life

Regular stream of Income to the annuitant and then to spouse if annuitant dies before the fixed period	Lower annuity than life option	Suitable for those who want regular income for life for self and spouse for a guaranteed period
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Increasing annuity @3%

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Regular stream of Income to the annuitant with fixed increase each year	Lower annuity than life option	Suitable for those who want regular increasing income for life and manage inflationary increases
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## Pros and Cons of Immediate Annuities

- ✓ Offers a sense of security
- ✓ Reinvestment risk Eliminated
- ✓ No investment cap
- ✓ Security and Stability to retirees
  
- × No access to capital
- × Lower rate of return
- × Do not fight inflation
- × Premature withdrawal not allowed



## Challenges in the Market

- ❖ Conflicting priorities : Difficulty in balancing long term needs and other priorities
- ❖ Lack of product awareness:
- ❖ Distrust of financial institutions
- ❖ Failure to communicate:
  - Struggle to reach those who need financial advice and planning and
  - they do not integrate consumer needs
- ❖ Non-Availability of appropriate long term assets for pension funds' investments

# Suggested Annuity products



- Income Draw down
- Annuity with Medical Cover
- Reverse Mortgage
- Indexed Annuity
- Personalised annuity to take care of special needs

# Income Draw-down

- No loss to member
- Based on the individual estimate
- Support for longevity estimate
- Annuity to be purchased after some time
- Example

# Annuity with Medical Cover

- Meets requirement of old people
- Combination of life and non-life product

# Reverse Mortgage

- Meets current requirements for nuclear family
- No loss of house
- House gets monetized

# Indexed Annuity

- Inflation is taken care of
- Difficult to estimate inflation
- May be priced based on index linked bond