Module III (Exam 2) - Retirement Planning and Employee Benefits (RPEB)

Course Description: This module would cover the knowledge of basic strategies towards achievement of objectives of a client of his/her post-retirement financial and other needs and ways to systematically build the required corpus. The knowledge and skills of exploring and constructing various retirement solutions such as income flow from a purchased annuity and/or a fixed asset as well as of retirement products available or devised/customized would be tested. For clients who are employees of an organization – government, quasi-government or private, the superannuation benefits eligible and their assimilation in retirement strategy would be required for a prospective CFP professional. The emphasis would also be on the process of wealth creation and its protection and liquidity aspects in the approaching years to retirement and in the post-retirement period.

Learning Objectives: At the end of this module, a student should be able to:

1. Understand the importance of retirement planning as a necessary objective in view of increasing longevity, inflation and changing social structure, governmental stance.
2. Enable the client to appreciate retirement goal and demonstrate the ability to evaluate client's financial situation pre and post-retirement.
3. Determine appropriate retirement strategy for the client, account for superannuation benefits and assets to be utilized for income post-retirement.
4. Determine the tax implication of annuity or stream of income post-retirement and the legal structure for encashment or bequeathing of assets.
5. Implement the retirement solution in consultation with the client to achieve the objective of post-retirement income stream, monitoring progress periodically.

Pattern of Question Bank RPEB module – 80% in Exam 2											
		Section-I		Section -II		Section -III		Section -IV		Section -V	
		No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks
Marks Category	1	10	10	3	3	3	3	4	4	8	8
	2	4	8	2	4	2	4	2	4	2	4
	3	0	0	5	15	5	15	2	6	0	0
	4	0	0	1	4	4	16	3	12	0	0
Total		**14**	**18**	**11**	**26**	**14**	**38**	**11**	**26**	**10**	**12**

Section I: Employee Benefits and Superannuation Benefits

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2'
Total weight to Exam 2	12%
Nature of Test Items	10 items: 1 mark each 4 items : 2 marks each

Sub-parts	Testing and Difficulty grade
1.1. Employee Benefits	'Grade 1'
Detailed Topics	
1.1.1. Salary and Bonus 1.1.2. Reimbursement of expenses- Medical, etc. 1.1.3. Health benefits 1.1.4. Group insurance 1.1.5. Other allowances- Leave Travel Allowance (LTA), Transport Allowance, etc. 1.1.6. Loan facility- Concessional loans	
1.2. Superannuation Benefits and Schemes	'Grade 1 & 2'
Detailed Topics	
1.2.1. Gratuity provisions 1.2.2. Group Superannuation Schemes-Trust funds, Private fund managers and Insurance companies 1.2.3. Benefits - on retirement, Voluntary retirement and Death 1.2.4. Tax benefits to employer and employee 1.2.5. Leave Encashment- Tax free limits	
1.3. Defined Benefit Plans and Limitation	'Grade 1 & 2'
Detailed Topics	
1.3.1. Characteristics of Defined Benefit plans 1.3.2. Workmen Compensation Scheme 1.3.3. Employees Deposit Linked Insurance Scheme 1.3.4. Applicability and withdrawal norms of Defined Benefit plans 1.3.5. Taxability of Defined Benefit plans	
1.4. Defined Contribution Plans	'Grade 1'
Detailed Topics	
1.4.1. Characteristics of Defined Contribution plans 1.4.2. Employees Provident Fund- Types, EPF rules, modes of operation and investment norms 1.4.3. Employees Pension Scheme- Features, funding of scheme, EPS Rules 1.4.4. Employees State Insurance 1.4.5. Central Government Employees Group Insurance Scheme 1.4.6. Applicability and withdrawal norms of Defined Contribution plans 1.4.7. Taxability of Defined Contribution plans	

Section II: Life Cycle Analysis, Retirement Needs and Factors in Planning

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skills: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 2	17.33%
Nature of Test Items	3 items : 1 mark each 2 items : 2 marks each 5 items : 3 marks each 1 item : 4 marks

Sub-parts	Testing and Difficulty grade
2.1. Introduction to Retirement Planning	'Grade 1, 2 & 3'
Detailed Topics	
2.1.1. Significance of Retirement Planning 2.1.2. Purpose and need of Retirement Planning 2.1.3. Role of Financial Planner in Retirement Planning 2.1.4. Importance of starting early *'Grade 3'*	
2.2. Analysis of Client's Life Cycle	'Grade 1,2 & 3'
Detailed Topics	
2.2.1. Early earning stage and Established earning stage 2.2.2. Stability and Visibility of Earnings 2.2.3. Pre-retirement phase (Accumulation) and Post-retirement phase (Distribution) 2.2.4. Life expectancy vs. Retirement age 2.2.5. Early retirement vs. Delaying retirement *'Grade 3'* 2.2.6. Post-retirement activities and goals 2.2.7. Risk of living longer than expected *'Grade 3'*	
2.3. Factors Considered in Retirement Planning	'Grade 1,2,3 & 4'
Detailed Topics	
2.3.1. Nature of income- Salaried, Business or Self-employed 2.3.2. Standard of living 2.3.3. Time horizon 2.3.4. Inflation rate- Accumulation and Distribution stages *'Grade 3&4'* 2.3.5. Profile of Assets sustainable till retirement *'Grade 3&4'* 2.3.6. Income generation potential of fixed assets 2.3.7. Liquidity aspects of fixed and other assets 2.3.8. Profile of financial and other liabilities near retirement age	
2.4. Analysis of Client's Retirement Needs	'Grade 2,3 & 4'
Detailed Topics	
2.4.1. Determine financial objectives on Retirement *'Grade 2'* 2.4.2. Estimate household expenses on Retirement 2.4.3. Corpus estimated for funding post-retirement needs *'Grade 4'* 2.4.4. Alternative arrangements for supplementing retirement corpus 2.4.5. Consider the cost of escalation of medical expenses in post-retirement 2.4.6. Charitable activities and social work	

2.5. Wealth Creation- Factors and Principles	'Grade 2,3 & 4'
Detailed Topics	
2.5.1. Income and savings ratio 2.5.2. Allocation of savings to asset classes *'Grade 4'* 2.5.3. Consistency in savings and monitoring 2.5.4. Taking strategic advantage of opportunities in various Asset Classes 2.5.5. Overall effective yield and tax aspects *'Grade 3'* 2.5.6. Wealth protection and Erosion of wealth *'Grade 3'*	

Section III: Creation and Sustenance of Retirement Fund- Risk Profiling, Strategies Adopted and Modified through Life Stages

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skills: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 2	25.33%
Nature of Test Items	3 items : 1 mark each 2 items : 2 marks each 5 items : 3 marks each 4 items : 4 marks each

Sub-parts	**Testing and Difficulty grade**
3.1. Retirement Planning Process	'Grade 1,2,3 & 4'
Detailed Topics	
3.1.1. Ascertain client's current primary household expenses 3.1.2. Estimate average expected inflation rate pre and post-retirement 3.1.3. Estimate client's expenses post-retirement *'Grade 3'* 3.1.4. Ascertain client's income from fixed assets/other sources post-retirement *'Grade 3'* 3.1.5. Estimate client couple's life expectancy 3.1.6. Estimate basic corpus accommodating client's other special purposes *'Grade 3&4'* 3.1.7. Earmark client's non-liquid/non-consumption assets and their future value 3.1.8. Estimate Net Corpus to be accumulated *'Grade 3&4'* 3.1.9. Ascertain client's current sources of income and saving potential 3.1.10. Prioritize investible surplus in various financial goals including retirement 3.1.11. Ascertain risk profile of client and changes with life stages 3.1.12. Ascertain risk capacity as per age and asset profile *'Grade 3&4'* 3.1.13. Ascertain client's Asset Allocation to create retirement corpus *'Grade 3&4'* 3.1.14. Optimize rate of return from the chosen Asset Classes *'Grade 3&4'*	
3.2. Pre-retirement Strategies	'Grade 2,3 & 4'
Detailed Topics	
3.2.1. Step increase in investible funds with asset allocation maintained *'Grade 3&4'* 3.2.2. Alter allocation strategically to capitalize on asset classes anomalies *'Grade 3&4'* 3.2.3. Alter allocation of corpus in classes through life stages to retirement *'Grade 3&4'* 3.2.4. Provision for contingency fund creation close to retirement 3.2.5. Rebalance accumulated funds periodically in line with defined Asset Allocation 3.2.6. Shift part corpus a suitably to Small Savings Schemes transitioning to retirement 3.2.7. Hunt for a suitable annuity product to transfer fund near retirement	
3.3. Post-retirement Strategies	'Grade 2,3 & 4'
Detailed Topics	
3.3.1. Allocate corpus to annuity/other products for regular income stream *'Grade 3&4'* 3.3.2. Provide for Reverse Mortgage facility to offset a lower accumulated corpus 3.3.3. Retrenchment of expenses, if any 3.3.4. Choice of annuities – Life vs. Certain *'Grade 3&4'* 3.3.5. Government sponsored regular income schemes- Senior Citizens Savings Scheme, Post Office Monthly Income Scheme 3.3.6. Appropriate asset allocation for income generation *'Grade 3&4'* 3.3.7. Manage contingency funds and supplement them	

Section IV: Provident Fund and Pension Schemes

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skills: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 2	17.33%
Nature of Test Items	4 items : 1 mark each 2 items : 2 marks each 2 items : 3 marks each 3 items : 4 marks each

Sub-parts	**Testing and Difficulty grade**
4.1. Public Provident Fund	'Grade 1,3 & 4'
Detailed Topics	
4.1.1. Features of Public Provident Fund (PPF) scheme 4.1.2. Applicability and subscription norms of PPF scheme 4.1.3. Loan and withdrawal facility in PPF scheme *'Grade 3&4'* 4.1.4. PPF - Systematic accumulation for meeting retirement needs *'Grade 3&4'* 4.1.5. Tax advantage of PPF scheme	
4.2. New Pension System (NPS)	'Grade 1 & 2'
Detailed Topics	
4.2.1. Features of New Pension System (NPS) 4.2.2. Applicability and subscription norms 4.2.3. Accounts and schemes available under NPS 4.2.4. Investment approaches in NPS - Active and Auto choices 4.2.5. Tax benefits under NPS 4.2.6. Withdrawals norms and other benefits *'Grade 3&4'* 4.2.7. Functions of Pension Funds managers and NPS Trust	
4.3. Pension Plans from Mutual Funds and Insurance Companies	'Grade 1,2,3 & 4'
Detailed Topics	
4.3.1. Pension plans from insurance companies including Unit Linked Pension Plans	
4.3.2. Pension plans from Mutual Funds - Systematic investment/withdrawal *'Grade 3&4'* 4.3.3. Immediate annuities vs. Deferred annuities *'Grade 3&4'* 4.3.4. Annuities- Period certain, Life certain and Life with period certain *'Grade 3&4'* 4.3.5. Taxation of annuities- On subscriptions and receipts	
4.4. Reverse Mortgage to Supplement Post-retirement Expenses	'Grade 1&2'
Detailed Topics	
4.4.1 Features of Reverse Mortgage 4.4.2 Lump sum withdrawal *'Grade 3&4'* 4.4.3 Reclaiming property in Reverse Mortgage arrangement	

Section V: Pension Sector Reforms and Regulatory Framework of Retirement Solutions: 8%

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical testing clarity of concepts: 'Grade 2'
Total weight to Exam 2	8%
Nature of Test Items	8 items: 1 mark each 2 items: 2 marks each

Sub-parts	**Testing and Difficulty grade**
5.1. Pension Sector Reforms	'Grade 1'
Detailed Topics	
5.1.1. Demographic trends and coverage of population 5.1.2. Mandatory contributory system 5.1.3. Institutional Framework 5.1.4. Investment architecture 5.1.5. Operational processes, products and distribution 5.1.6. State Governments, Autonomous Bodies and Un-organized Sector 5.1.7. The Project of OASIS Report	
5.2. Regulatory Framework of Retirement Solutions	'Grade 1 & 2'
Detailed Topics	
5.2.1. Payment of Gratuity Act- 1972 5.2.2. Workmen's Compensation Act- 1923 5.2.3. Provident Fund and Miscellaneous Provisions Act- 1952 5.2.4. Provident Funds Act- 1925 5.2.5. Employee's Deposit Linked Insurance Scheme- 1976 5.2.6. Employee's Pension Scheme-1995 5.2.7. Pension Fund Regulatory and Development Authority (PFRDA) 2003 5.2.8. New Pension System (PFRDA)	

Chapter -1 Retirement Planning

Content makes poor men rich. Discontent makes rich men poor.

—Benjamin Franklin

1.1 Introduction to Retirement Planning

Retirement is a comparatively modern concept and the perception of it has changed over the years. Initially retirement was viewed as a period of rest between work and death. Then it came to be seen as a reward for a long working life, in other words a slightly longer period of rest between work and dying. Finally it has come to be seen as a period of **leisure**. Going forward it will be seen as an **opportunity to do new and exciting things**, things that you can only dream about doing when you are working.

Having sufficient means to ensure an enjoyable and financially comfortable retirement depends on careful planning begun long before you retire. Unfortunately, planning for a goal that is years away often gets sidetracked by more immediate financial goals and demands, such as buying a home or paying college costs. There's also a constant temptation to avoid making the often tough decisions necessary to fund retirement.

Recent statistics suggest that most Americans—especially those in the Baby Boom generation—aren't saving adequately for retirement, and many aren't saving at all. This is true even for affluent professionals at the height of their earning power. Unfortunately, the danger of following a "live for today" philosophy may be that you'll arrive at retirement with too few resources to meet your needs adequately. Same philosophy is observed in India too.

When should you begin planning for retirement? Although it's never too soon or too late to plan for retirement, one possible guideline is the "20/20 Rule": To plan for 20 years of retirement, start accumulating funds no later than 20 years before your retirement begins. The earlier you start the less money you'll have to put away over time and the less investment risk you'll have to take.

Let's say that you've formulated a specific financial goal for retirement: You want to have Rs.50,000 available after taxes to spend each year. Assuming that this sum stays constant, there are only three variables affecting how you accumulate the funds to generate your retirement income. Those variables are:

- The money you can invest to accumulate your retirement funds
- The time you have between now and retirement to "put your money to work"
- The rate of return that you can obtain on your money

It's not difficult to discern how these three variables interact. To the extent that you start earlier rather than later, you need less money to invest and you don't need as high a rate of return. If you wait to start funding retirement until later, you'll need to invest more money to accumulate the same retirement fund, and you'll need a higher rate of return on your investment. A late start puts far more constraints on you—and heightens the level of risk you must take—compared to what you face by making an early start.

Given the realities of this situation, you would do well to start earlier than 20 years before you intend to retire. Starting in your late 20s or early 30s wouldn't be unreasonable, and getting an early start gives you a genuine advantage from the compounding of dividends and interest.

Realistically speaking, however, you may not begin funding your retirement in earnest until your late 30s or early 40s. Launching a career, buying a house, or paying for the many expenses of raising a family may end up using all the discretionary income that you can generate. The result: You may not start serious retirement savings until middle age. That's not ideal, but midlife retirement planning doesn't necessarily mean that you won't be able to retire on your timetable. However, a midlife start may complicate the task of meeting your wealth accumulation goals.

To put the situation bluntly: ***Don't assume that retirement is a stage of life that will simply take care of itself.*** This is especially important given the increasing likelihood that Social Security will not pay the current benefit level to those who retire after 2020. Having a relatively comfortable retirement instead of one subject to substantial (even severe) financial constraints will almost certainly require careful planning, thoughtful choices among investment options, and constant vigilance over the long term.

Consider the following issues and how they will affect your situation:

- Your retirement expenses may be far higher than you imagine.
- You may have to fund more of your retirement nest egg on your own (i.e., with less corporate or government help) than you assume.
- Investment returns may be lower—or at least less consistent—than you project.
- Inflation and taxes may take a more substantial toll on your investments than you anticipate.

Here are the steps you should take as you plan for retirement:

- Step 1: Establish your goals.
- Step 2: Estimate your retirement expenses.
- Step 3: Decide if you can afford to retire.
- Step 4: Choose where to live.
- Step 5: Address health care and other insurance issues.

Talking About Retirement, The secrets of successful retirement planning by LIN ASHURST
THE QUESTIONS I ASKED When I was interviewing people for the book I wanted to encourage them to explore their feelings about retirement and to find out how prepared they were for this life-changing event. The following are the questions I asked. Going through the questions and answering them yourself should give you some clue as to how ready you are to cope with the challenges retirement poses and the opportunities it offers. **Retirement planning – exploring retirement opportunities** 1. What plans have you made for the transitional period into retirement? What opportunities and/or problems do you think you might encounter?

2. What financial and practical plans, if any, are you making for your retirement? If none, do you plan to do so in the future and what are they likely to be?
3. What excites you about retirement?
4. What fears and concerns do you have about retirement?
5. What ambitions do you want to fulfill in retirement?
6. What, if any, specific goals will you set yourself in retirement?
7. What do you see as the biggest advantage of being retired?
8. What do you see as your greatest challenges in retirement?
9. How important will it be to you where and how you live in retirement?
10. How will you motivate yourself in retirement?
11. How will you keep mentally active?
12. How will you keep physically active?
13. How will you safeguard your health?
14. Have you ever encountered ageism? If so, when and how did you deal with it?
15. How has your appetite for risk, in all areas of your life, changed as you've got older? How do you see this change continuing in retirement?
16. How will you provide for yourself financially in retirement?
17. How will you provide for yourself spiritually in retirement?
18. How do you currently give, in terms of time and other nonfinancial resources, to your family, your local community, wider society and the world? How do you see this developing/changing in retirement?
19. What losses, in the broadest sense of the word, do you see yourself having to cope with in retirement?
20. What do you see as the benefits and challenges of partnership and friendship relationships in retirement and how do you plan to deal with them?
21. What plans will you make for the later period in retirement when you may be less able to look after yourself?
22. How do you think you will live your life differently in retirement?
23. What would need to have happened in your retirement for you to consider it a success?
24. Do you have a particular retiree role model? If so, who and why? What could you learn from them?

1.2 What is Retirement Planning?

- It is the process of ensuring sufficient financial resources to the retired person so that he/she can enjoy the desired lifestyle during the retirement years
- Retirement planning is the **thought** and **commitment** that you put into providing for income and a satisfactory lifestyle for your later years after you leave the work force