WALKING INTO THE SUNSET WITH ELAN

Retirement is a huge milestone. Proper planning for retirement is a very important part of one's life. Longer lifespans, higher cost of living, aspirational lifestyles, nuclear families as well as migration of the next generation for careers necessitate rigorous planning of retirement finances. The right decisions taken today, at the cusp of retirement will help us to lead content and stress free life.

<u>This article is intended to help those who are retiring immediately and will have reasonably good amount/corpus to invest in the form of PF payouts, Gratuity, etc</u>

On retirement all of us are likely to be faced with multiple demands on the money. Do not fall prey to any schemes, business plans that offer returns that are too god to be true. Remember the old adage:

<u>"If it sounds too good to be true, it probably is"</u>

Here are some pointers on where to put life's hard-earned savings and derive a regular flow of income from the capital.

<u>**Disclaimer:** This article is not intended as a replacement for professional financial advice. Its strongly recommended to consult a professional financial advisor before finalizing on investments. Data in the article is collated from various business news sources. This article uses data available as on July 2020. Interest rates, terms and conditions of various schemes may change without any prior notice. Please do due diligence before investing.</u>

Pradhan Mantri Vaya Vandana Yojana

The Pradhan Mantri Vaya Vandana Yojana, or PMVVY, is a social security scheme for senior citizens, implemented through the Life Insurance Corporation of India (LIC). This gives an assured minimum pension. LIC invests the corpus in the market and generates market-related returns. If such returns are lower than the guaranteed return, the differential is subsidised by the Union government. This Scheme has been extended till March 31, 2023.

The assured rate of return has been set at 7.4% for 2020-21. Thereafter, it will be reset every year. The minimum investment has been revised to ₹1,56,658 for an annually paid pension of ₹12,000 and ₹1,62,162 for getting a monthly pension of ₹1,000. The upper limit is ₹15 lakh of initial subscription.

The scheme also offers a death benefit in the form of return of purchase amount to the nominee. The minimum entry age for this scheme is 60 years, there is no maximum age limit. The maximum investment allowed per person is ₹15 lakh. The PMVVY scheme allows premature withdrawal only in the case of critical and terminal illness. However, only 98% of the purchase price is payable as surrender value in such a case. Loan facility is available against PMVVY after three policy years, up to 75% of the purchase price. There is no special tax benefit. You can buy a PMVVY pension from LIC. Policy term is 10 years.

Post Office Schemes

Senior Citizen Savings Scheme (SCSS) **-** The interest rate for Senior Citizen Savings Scheme (SCSS), since April 1, 2020, is 7.4%, paid out quarterly. Eligibility age is 60. A depositor may operate more than one account in individual capacity or jointly with spouse. There is an upper limit of ₹15 lakh in SCSS, and there is tax benefit under Section 80C of the Income Tax Act. Maturity period is 5 years. The account can be extended for a further period of three years within a year of maturity. If the senior citizen has the funds, he/she should avail of both, subject to the upper limit i.e. ₹15 lakh each.

Post Office Monthly Income Scheme (MIS) / National Savings Monthly Income Account - Returns 6.6% from April 1, 2020. In MIS, the upper limit is ₹4.5 lakh in a single account and ₹9 lakh in a joint account. Maturity period is 5 years

Kisan Vikas Patra (KVP) - From 01.04.2020, interest rate is 6.9 % compounded annually. Amount Invested doubles in 124 months (10 years & 4 months). In case of emergencies Certificate can be encashed after 2 & 1/2 years from the date of issue

National Savings Certificates (NSC) **-** From 01.04.2020, interest rates is 6.8 % compounded annually but payable at maturity (5 years). Ie; Rs 1000/- grows to Rs 1389.49 after 5 years

National Savings Time Deposit Account - From 01.04.2020, interest rates is 6.7 % for tenure of 5 years. Interest is payable annually but calculated quarterly.

Though post office schemes other than Senior Citizen Savings Scheme (SCSS), have lesser returns they are still attractive and relatively safer.

Bank deposit

This is a popular avenue as it is very simple and easy. The issue is, when interest rates are falling, fresh deposits are made at lower rates. Currently, deposits in State Bank of India for maturity of five to 10 years would fetch 5.4% and for senior citizens, it is 6.2%. There are banks that pay a higher interest rate, but the safety issue has to be kept in mind. Nationalised banks and leading private sector banks are safe but usually safer banks would pay a lower rate of return.

Take care that you put multiple FD's instead of a single amount. This will help you to cash the smaller units in case of emergencies.

Deposit Insurance and Credit Guarantee Corporation (DICGC) which is a wholly owned subsidiary of the RBI insures all bank deposits, such as savings, fixed, current and recurring deposit for up to the limit of Rs 5 lakh per bank. If the total of all the deposits held by an individual in a single bank exceeds Rs 5 lakh, then he will be able to get only Rs 5 lakh inclusive of principal and interest amount if the bank goes bankrupt. DICGC covers depositors of all commercial banks and foreign banks operating in India, state, central and urban co-operative banks, local area banks and regional rural banks provided the bank has bought the cover from DICGC

So it's recommended to place not more than 4 lacs (to account for upcoming interest income) in a single bank. While selecting PSU banks, please remember that the following banks will be merged and will be designated as a single entity. So far there is no clarity from DICGC on how the 5 lakh rupees cap will be enforced among the lead bank and the merging banks. To be on the safer side it's advised to split as per the list given below:

- Bank of Baroda (the anchor bank) -Vijaya Bank and Dena Bank (amalgamating banks)
- Punjab National Bank (PNB-the anchor bank) United Bank of India (UBI) and Oriental Bank of Commerce (OBC) are amalgamating banks
- Allahabad Bank and Indian Bank
- Union Bank of India (the anchor bank) - Andhra Bank and Corporation Bank (amalgamating banks)
- Canara Bank (the anchor bank) and Syndicate Bank (amalgamating bank)

The following banks are under the Govt radar to be privatised:

- Bank of India
- Central Bank of India
- Indian Overseas Bank
- UCO Bank
- Bank of Maharashtra
- Punjab & Sind Bank

Regarding Pvt Banks, take time and read through their financial statements, asset quality reviews before depositing money with them. Many big firms had moved their deposits from Yes Bank months before the crisis was reported by the mainstream media.

While Co-operative banks do offer higher interest rates on deposits, it's advised to proceed with utmost caution. The PMC bank issue where depositors are still running from pillar to post should be a reminder.

Public Provident Fund

PPF is not viewed as a normal investment avenue for someone who is about to retire since its tenure is long at 15 year investment. However, the factors that need to be considered are:

- Life expectancy is increasing over time. Senior Citizens leading an active lifestyle well beyond their 80's is becoming the norm than the exception
- Interest rate is usually on the higher side compared with the prevailing rate regime, currently it is 7.1%
- Section 80C benefit for contribution up to ₹1.5 lakh per year. You can also withdraw from the PPF as per rules.
- PPF is an EEE (Exempt Exempt Exempt) type investment. I.e. maturity amount is not taxable**.**

Considering the increase in life expectancy, a lump amount that accrues to us at 75 years is a huge advantage. Also unlike other schemes,

Remember to deposit amount in PPF amount before the fifth of every month as Interest becomes payable for that month if the deposit is made. If possible Schedule FD's to mature for 1.5 lakhs (Current PPF limit) on April of every year and deposit it in PPF to earn maximum interest.

RBI Bonds

The government cut has rates on most of its small savings schemes, including the Public Provident Fund (PPF), Senior Citizen Savings Scheme (SCSS) and post office fixed deposits (FDs). PPF and SCSS saw their interest rates move from 7.9% and 8.6% in January-March to 7.1% and 7.4%, respectively, in April-June 2020, respectively. Post office FDs saw interest rates move to the 5.5-6.7% range; banks are also offering similar rates on FDs. In this scenario, the Government of India Savings (Taxable) Bonds, also known as RBI bonds, are attractive. Interest on the bonds is payable semi-annually on 1st Jan and 1st July every year. The coupon on 1st January 2021 shall be paid at 7.15%. The Interest rate for next half-year will be reset every six months, the first reset being on January 01, 2021. There is no option to pay interest on cumulative basis. They carry almost no credit risk. The RBI bonds do have a place in the portfolio, particularly for someone who wants a fixed return. The lack of an upper limit for investment in the instrument and virtually risk-free return make them particularly attractive

Bonds shall be repayable on the expiration of 7 (Seven) years from the date of issue. Premature redemption shall be allowed for specified categories of senior citizens. Bonds will be issued only in the electronic form and held at the credit of the holder in an account called Bond Ledger Account (BLA), opened with the Receiving Office. Applications for the Bonds in the form of Bond Ledger Account will be received in the designated branches of SBI, Nationalised banks, IDBI Bank Ltd, Axis Bank Ltd, HDFC Bank Ltd and ICICI Bank Ltd.

Disadvantages of RBI Bonds:

- Interest on the Bonds will be taxable under the Income-tax Act, 1961 as amended from time to time and as applicable according to the relevant tax status of the Bond holder.
- The bonds have a term of seven years and cannot be sold before that time period in the secondary market
- Loans cannot be availed from banks and NBFCs against these bonds

Excess amount after investing in Bank FD (after ensuring bank wise cap of 5 lacs) can be parked in RBI bonds.

Annuity policies

If you are not receiving any kind of pension from your employer, Annuity Schemes can be a good alternative. It is like a substitute for your salary after retiring, as it serves well as one component of your income bolstered by an owned residence, investment income and so on.

Annuity policies are offered in India by life insurance companies, and there are quite a few options from which you can pick your preferred mix. The premium you pay (purchase price), gets you a pension (annuity) from a date of your choice, called the vesting date. You can pick your retirement date or any other date to be your vesting date, and the premium paying period would normally be until that date. Just as you can choose the frequency of your premium payment — monthly, quarterly, semi-annual or annual — you can choose the frequency of your annuity payout also. This is called 'Deferred Annuity' and works well for those putting by a periodic premium amount through their working years to get an annuity on retirement.

For immediate annuity payments, we can also make a one-time lump sum premium payment and opt for 'Immediate Annuity' schemes. This is suitable if you are just about to retire and will get a lump sum retirement benefit like a gratuity, your Employee Provident Fund commutation amount or Public Provident Fund account proceeds.

When it comes to options on the length and scope of annuity payments, you have a plethora of choices. The simplest is annuity for life. This means that the annuity payment will go on for the lifetime of the annuitant, and no more benefits will be available from the policy. You can also choose various combinations and options such as annuity certain for 10 years, or 15 or 20 years and for life after that, annuity for life and return of purchase price to nominee, annuity for life and then to a second annuitant for life and so on. Its recommended to take annuity for full life period and choose your spouse as a second annuitant for life.

Simply put, the insurance company pays the purchaser a fixed amount monthly, and after demise it will pay the amount monthly to spouse/nominee (the person chosen as 2nd annuitant).

These options have to be finalised when you begin the policy and the amount you will get under each option reflects both the future value of your premium investment as well as the risk coverage that the annuity policy offers. An annuity for life could well extend to 30 or 40 years after vesting age and that risk of living too long is what the premium is meant for. Given today's realities of longevity, it is a risk you should cover well.

Select an insurance company with strong fundamentals as we are looking at tenure of at least 20 years (Including the period of payout to nominee)

Equity/ Mutual Fund/ NPS/Bonds

Tax Free PSU Bonds - Tax-free bonds are debt instruments through which Public Sector Undertakings (PSUs) like NHAI, NTPC, REC in India raised money (through Public Offers that came in between FY12 and FY16). These were issued for a long-term maturity of around 10, 15 or 20 years. As the name suggests, the interest earned in these bonds is tax free in the hands of investors and hence does not add to their overall tax liability.

Such tax free-bonds are currently available at yields of 5.6-5.7%, and are an interesting investment option especially for investors falling in the 30% or higher income tax bracket as the pre-tax yield for these investors on these bonds will work out to ~8.1-9.8% (depending on Slab and Surcharge applicable). This is higher than other debt option currently available in the market, including bank fixed deposits, RBI Bonds etc. The investor also gets the added benefit of lower risk as the issuers are PSU companies.

The government in FY 2015 did the last primary issuance of tax-free-16 and no subsequent fresh issues have hit the market since then. Therefore, this effectively leaves the investors with the option of buying these bonds from the secondary market only – hence are available on NSE/BSE for trading. A retail investor having an existing trading /demat account, can purchase the bond from the exchange like an equity stock on basis of the availability. Investor needs to be cognizant of the credit quality and the Yield to maturity

(YTM) and coupon of the bond (Coupon payment - Annual interest payment received from the bond's issue date till maturity) before locking onto them

Since most of these bonds pay interest annually, investors looking to fulfil their regular income (at multiple times during a year) requirement though the bond proceeds can do so by investing in multiple bonds with interest payment dates spread across different dates.

These are investment avenues with higher risk compared to the others mentioned elsewhere in this article. However they can also offer higher returns. These schemes are more suited for long term game. Since capital preservation is the main aim of all retirees, be very careful while investing in these.

Bonds - Be careful before investing in bonds and read through the fine print. They are not risk free investments as being marketed. Since the downgrade and subsequent default of IL&FS in Sept 2019 and YES bank debacle, Indian Bonds markets has been riddled with high level of turmoil fuelled by an unforeseen number of credit events, including rating downgrades and credit defaults within debt securities, some of which were rated AAA (highest possible rating) as per the rating agencies. This has taken many debt investors by surprise as they had always perceived debt instruments to be completely safe until then and had never anticipated the possibility of capital erosion in the same. The travails of the Yes Bank additional tier-one bond holders are a case in point. Even highly rated bonds are susceptible to market shocks.

National Pension Scheme - NPS investments offer tax benefit under Sec 80 CCD (1) with in the overall ceiling of Rs. 1.5 lac under Sec 80 CCE. An additional deduction for investment up to Rs. 50,000 in NPS (Tier I account) is available exclusively to NPS subscribers under subsection 80CCD (1B). This is over and above the deduction of Rs. 1.5 lakh available under section 80C of Income Tax Act. 1961. Maximum entry age is 65, and exit age is currently set at 70. It has 3 modes of investment design based on risk appetite. It’s recommended to choose the safer one, even if returns could be a bit lower.

Mutual Fund - You may invest your money in MF schemes as per your risk appetite suitability. Returns are market driven and it’s better to exercise caution. The Franklin Templeton Fiasco should be an eye opener for the risks of mutual funds.

Equities - Unless you are a seasoned trader, it is advised against playing the stock market especially at this late juncture of your life. However if you have money to spare after investing in other safer avenues, try them as returns can be higher.

Dealing With Old Shares/Debentures/Bonds

Many of us might have purchased stocks/bonds in our younger years and might have forgotten about the same. If you are lucky some of the shares may be worth a fortune today. Try to collect all such share certificates that are still in physical form and convert them to Demat form. It gets a bit tricky if you have lost the original share certificates.

You can recover unclaimed securities from a company within seven years of investment, and after that, from the Investor Education and Protection Fund (IEPF). The Companies Act, 1956, mandates switching of all unclaimed dividends to the IEPF if it is unclaimed for seven years or more.

Even matured debentures or deposits (besides within the case of deposits held by banks that are exempt beneath the Companies Act, 2013) and curiosity accrued on them have to be transferred to the IEPF as soon as the stated interval of seven years has lapsed.

We have 2 ways to retrieve such assets:

- **Reclaim from firm -** Usually, aside from placing out ads in newspapers, firms e-mail before moving unclaimed sums to the IEPF. The particulars of unclaimed shares, dividends, debentures or deposits mendacity with the corporate might be listed on the corporate web site. So, in case you are remember of any sums that you might have invested after which forgotten, you'll be able to declare it from the corporate any time earlier than the completion of seven years.
- **Claim from the IEPF -**With ample time in we might unearth physical share certificates. Physical certificates are legitimate, besides that you need to compulsorily demat it when you intend to switch it. If the long-forgotten share certificates have been cancelled and moved to IEPF, examine investor-wise unclaimed and unpaid quantities within the IEPF web site (www.iepf.gov.in) by keying in your folio quantity or DP/Client ID. Further instructions to claim back those shares are available on IEPF website.

Health Insurance

This is a very important part of retirement planning. A medical emergency can easily wipe out a lifetime of savings in a matter of weeks. Health Insurance policies offered by General Insurance companies pay for treatment costs. Ensure that you have sufficient Health Insurance. Have a cover of at least 30 lacs for you and your spouse. While this may seem an unnecessary and even extravagant sum, consider the following costs:

- Ever rising medical costs especially due to advancements in treatment technology. Imagine treatment costs after 10 or 15 years (i.e. when you reach 75 or 80 years)
- The current COVID pandemic treatment costs should be an eye opener. In some extreme cases treatment costs for 15 days is in the range of 5 to 10 lakhs
- Most Insurance Companies hesitate to accept any mediclaim proposal of senior citizens over 65 years, leave alone increasing the Sum Insured (i.e. The amount payable for treatment)

Illustration to achieve 30 lakhs floater coverage economically:

- 8 lakhs – Base Floater policy (This will cover treatment bills upto 8 lakhs)
- 22 lakhs – Floater Top up policy (This will cover treatment bills exceeding 8 lakhs upto 30 lakhs)

Before purchasing health Insurance policy;

- Check track record on insurance company vis a vis financials and Claim Settlement ratio. It's advisable to go with a company that will remain solvent for the foreseeable future

- If you are purchasing a health insurance policy for the first time, there may be waiting period for certain diseases.
- Co-Pay: Some Insurance companies deduct a fixed percentage from the bills
- Out Patient/Day care Treatment: Normally Health Insurance policies pay only for a minimum 24 hours of hospitalization. However some policies cover certain procedures that may not need hospitalization. Also some policies cover treatment costs undertaken in our homes
- Sublimit: Some Health insurance policies have sublimits based on Room Rent/ICU charges, Surgery/Procedure Classification (Major/Minor/Cataract) etc. Read through the fine print before finalizing the purchase

If you are confused by the plethora of plans offered by various Insurance Companies, you may also opt for the Arogya Sanjevani Health Policy. The Arogya Sanjeevani Policy is a standardized health policy designed by the Insurance Regulatory and Development Authority of India (IRDAI). All Insurance companies have to mandatorily offer this product, though premium rates may vary from company to company.

Income Tax Deduction under Section 80D for Medical Insurance premium can be availed

You may also opt for products that cover specific critical illness (Eg: Cancer), or pandemics (Eg Covid) to enhance your health coverage at a comparatively lower cost.

Reverse Mortgage

Reverse mortgage is an ideal option for senior citizens who don’t have a pension or require a regular income to supplement their pension without depending upon anyone else.

A reverse mortgage enables senior citizens to convert their home into a source of regular income without giving up ownership. A reverse mortgage is the opposite of a home loan. Rights to the home have to be pledged to the lender in return for a regular stream of income. Based on the demand for the property, current property prices, and the condition of the house, the lender will disburse a loan amount, usually upto 60% of the property value, either as a lump sum or periodic payments. The income will stop at the end of the tenure but the house can be occupied till death without any repayment.

The reverse mortgage loan becomes due either when the borrower dies or decides to sell the house. In the case of borrower's death, the bank holds all rights to sell the property and recover the loan. And, if the proceeds exceed the due amount, then the bank is obliged to return the same to the legal heirs. However, without letting the property get sold by the bank, legal heirs can still get the mortgage released by repayment of loan amount along with accumulated interest.

The customer is not required to service the loan during his lifetime and there are no end-use restrictions for the funds. The no prepayment- penalty feature is also there easing out the burden of borrowers and letting them make the advance payment of the loan as and when possible.

Minimum age for availing the RML is 60 years. If a couple seeks a joint loan, then age limit for the spouse must be 55 years or above. The applicant must have his/her own purchased house as RML cannot be secured against ancestor's property. There are various factors on which banks and other financial institutions assess the value of property, but its minimum residential life shouldn't be less than 20 years.

Eligibility for a reverse mortgage requires a person to prove that he/she can make their homeowner's insurance, tax, and upkeep payments.

Indians believe in bequeathing their property to their progeny and can be a bit hesitant to mortgage the same to a financial institution.

Disadvantages of Reverse mortgage:

- Large origination cost as compared to other form of mortgages and these costs become part of the initial loan balance and accrue interest to the customer.
- Problems due to the inherent nature of the real estate industry where the property value, interest rate and loan amount are subject to fluctuations during the loan tenure

There are mainly two types of RML available in the Indian market,

- Regular RML
- RMLeA (Reverse Mortgage Loan-enabled Annuity)

Decide on which type of RML you need after discussing thoroughly with your Financial Advisor.

General Tips

- Close all outstanding loans and liabilities
- If you have multiple credit cards, surrender all except one that offers maximum benefits
- Update nominee details in your Bank, PPF and any investments that you may have
- Many acquaintances, friends and relatives may approach you with investment schemes, business ideas, etc. Be very careful and don't hesitate to politely say no if the situation warrants
- Write down all your Account numbers, Netbanking Credentials, ATM Pin numbers and keep them in a safe place. Share the location details with your spouse/children so that they can access it in case of an emergency.
- It will be beneficial if you can impart financially literacy to your Spouse/Nominee.
- If for some reason, you are not sure about their ability to handle large amounts of money responsibly, try to manage it for them through annuities , Bank FD's etc
- Take the help of a tax consultant/ financial advisor especially for dealing with taxes on the Financial Year you retire (Whether to stick with exemptions based old regime or the new regime).
- Take the help of an independent (who doesn't have a direct interest in selling any financial product to you) unbiased financial advisor who can suggest future course of action regarding investments based on your outstanding liabilities and commitments like Marriage/Education of your dependent children.
- Prepare a will after taking help of a lawyer and inform your beneficiaries at least regarding the basics. If it's not possible entrust the execution of will with a trusted friend or relative
- Update all property records and title deeds. Ensure that all statutory levies and dues on them are paid. This will help to reduce any kind of ownership issues in future

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