EFFICIENCY OF MARKET LINKED RETIREMENT PLANS - ASPIRATIONS AND EXPECTATIONS OF THE RETIREMENT PLANS

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ABSTRACT

Risk and uncertainties are part of everyman life's great adventure. Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for. The risks in the case of human being are related to early death, living too long, disabilities, sickness and unemployment. This paper evaluates Pension as a technique for meeting the problem of risk, i.e. living too long. In this scenario, present study "A Comparative Study on Unit Linked Pension Plans (ULPPs)" is set out to compare Unit Linked Pension Plans to Strategies Company's market operation and also to determine best ULIPS from the retirement kit offered by the companies. Objective of the study is to compare retirement plans keeping in mind the charges levied by the company and performance of the fund i.e. portfolio of the growth fund .The study was confined to Chennai city, secondary data was used and detailed analysis was made using analytical tools like Portfolio Price to Earnings ratio, Portfolio Price to Book Value ratio, Portfolio Return, Portfolio beta, Portfolio alpha and Portfolio composition. The paper has been concluded by outlining the plans based on performance of fund and it will be useful to individuals to choose more cost-effective and efficient retirement plans for the future.

Keywords: *Allocation Charges, Fund Manager Charges, Portfolio Return, Portfolio Style*

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1. INTRODUCTION

As is evident from its very name, it deals with insurance of human life. In our wordily life, whenever there is uncertainty, there is an involvement of risk. The instinct for security against such risk is one of the basic motivating forces determining human attitudes. As a squeal to this quest for Security, the concept of insurance must have been born. The urge to provide insurance or protection against the loss of life & property must have prompted people to make some sort of sacrifice willingly in order to achieve security through "COLLECTIVE CO-OPERATION", in this sense; story of insurance is probably as old as the story of mankind.

Insurance Regulatory and Development Authority of India, 1996 (IRDA):

In 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834.In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers. The Insurance Amendment Act of 1950 abolished Principal Agencies. In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd.

In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein , among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

Retirement – Golden Period

There is a direct positive effect of improved life expectancy on the working life span. It is corollary that, with the improved life expectancy the retirement age will have to be shifted further. But whether it will be possible in all type of organizations when the age of retirement is decided not only on the basis of life expectancy but also on the basis of many other factors. Very important factors such productivity, economic and financial issues, employment rules and statutes and rapid expansion requiring more innovation and initiatives, made decide the retirement age.

Especially, when the unemployment scenario in the country is as what it is today, the government would like to keep the retirement age lower so as to enable the employable youth gain employment rather than rising the retirement age further. Hence, every working individual has to contend with the smaller working span and perhaps a longer retired life.

Therefore, in the given circumstance it is imperative for an individual to think about the following issues affecting him/her personally or his/her family or both together.

- The level of standard of living that an individual like to maintain after retirement age.
- His/her present capacity to save to provide for a regular retirement income.
- The estimate life expectancy at the time of retirement.
- The additional responsibilities that he has to shoulder on his/her retirement, depending upon his/her family circumstance and dependence that he/she has.
- Provision for unexpected emergency, hospitalization, accident etc.

The object of retirement planning is to balance the income and expenditure during the post retirement dependency period. It's a known fact that any retirement benefit can be built over a period of time only by setting aside a certain proportion of the income earned during the working span.

IMPACT OF RISING COST*

TIME	RISING COST		
	MILK /LITER(Rs.)	PETROL/LITER(Rs.)	DOCTOR FEES (Rs.)
2009	23	55	200
2017	39	93	338
2022	52	124	452

* Source: HDFC Standard Life Cost Survey 2008

Life after retirement should be life without any worry. It's the golden period that has to be enjoyed to the fullest. Health and emotional needs post retirement can be taken care of, only if the financial aspect handled today.

The share of the Indian life insurance sector in the global market was 2.45 per cent;.(source:pre-launch survey report of insurance awareness campaign, irda) There is wide scope for insurance companies to increase their sales of pension plans in the market. There are many pension plans offered by various companies, investor should select an appropriate plan to satisfy long term needs and enable to live desired lifestyle after retirement. Thus selecting an effective retirement solution by comparing various pension plans is a need for the investor which will outperform the inflation.

1.2 Objective of the study

- To compare the charges, this includes Premium Allocation Charges, Fund Management Charges and Policy Administration Charges of Unit Linked Pension Plans for regular premium.
- To find and compare yield @10 per cent investment return and its corpus at the end of policy term.
- To analyze and compare Portfolio Price to Earnings(P/E) ratio, Portfolio Price to Book Value(P/BV) ratio, Portfolio Return, Portfolio beta and Portfolio alpha of growth fund for regular Unit Linked Pension Plans.
- To find out portfolio composition style

1.3 Review of literature

We also find that financial knowledge and planning are clearly interrelated. Those who displayed financial knowledge were more likely to plan and to succeed in their planning. Moreover, those who did plan were more likely to rely on formal methods such as retirement calculators, retirement seminars, and financial experts, and less likely to rely on family/relatives or co-workers. Most importantly, those who display higher financial literacy are more likely to save and invest in complex assets, such as stocks. (Financial Literacy and Planning: Implications for Retirement Wellbeing, Annamaria Lusardi and Olivia S. Mitchell, October 2006)

• Only 1 in 3 adults in their 50's have ever tried to devise a retirement plan... and only 2 in 3 of those who tried claiming to have succeeded. (Lusardi & Mitchell, 2011)

• Only one-third of pre-retirees say they have a retirement plan, compared to just 57% of retirees. (Society of Actuaries (SOA), 2012)

• The typical retiree reports a financial planning horizon of just five years (median), and a general planning horizon of ten years (median). Just 2 in 10 pre-retirees say they look 20 or more years into the future when making important financial decisions. (SOA, 2012)

1.4 Research methodology

A comparative study is undertaken in order to compare the institutions to analysis the variables of interest in a situation. In this study companies taken for comparison is limited to eight due to non-availability of portfolio details. Data was collected from the secondary source and were obtained from brochures, Capital Market Magazine, Investment Guide Magazine, Company's websites, Company's Annual Report. Analytical tools used are Portfolio Price to Earnings(P/E) Ratio, Portfolio Price to Book Value(P/BV) Ratio, Portfolio Beta, Portfolio Alpha and Portfolio Return.

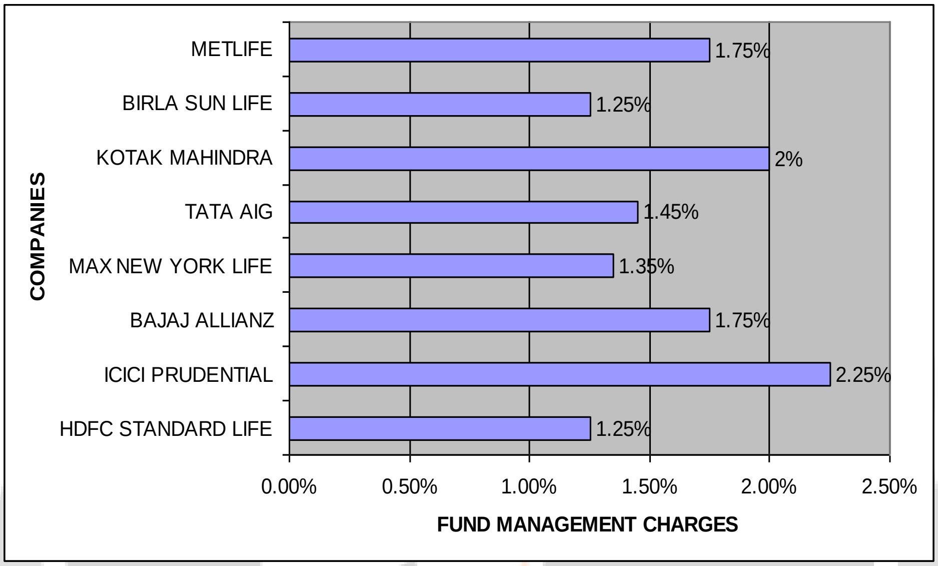
2. Data analysis

From the data analysis, it's been absorbed that after IRDA move on reducing the allocation charges, it seems like almost all companies levies more or less equal allocation charges.

COMPANIES	TOTAL PREMIUM ALLOCATION CHARGES FOR 1ST FIVE YEARS
HDFC STANDARD LIFE	10%
ICICI PRUDENTIAL	NIL
BAJAJ ALLIANZ	8%
MAX NEW YORK LIFE	10%

TATA AIG	12%
KOTAK	15%
BIRLA SUN LIFE	10%
METLIFE	12%

Another important charges investor should look in before making retirement plan decision is fund Management Charges because it will affect the corpus amount at the end of the policy term.



*Data as on Dec 2013

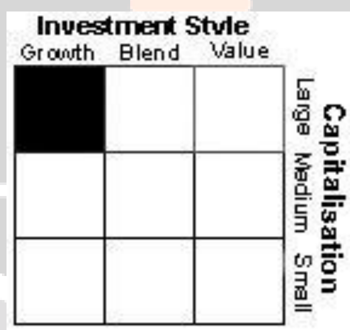
Comparison of Yield at 10 % Investment Return assuming that Rs.15000 as annual premium paid by the investor for 30 Years Policy Term

COMPANIES	YIELD AT 10% INVESTMENT RETURN
HDFC STANDARD LIFE	8.05%
ICICI PRUDENTIAL	7.16%
BAJAJ ALLIANZ	7.52%
MAX NEW YORK LIFE	7.97%
TATA AIG	7.87%
KOTAK MAHINDRA	7.39%
BIRLA SUN LIFE	8.14%
METLIFE	7.56%

Below table shows comparative analysis of portfolio - growth fund, Comparison of Portfolio P/E, P/BV, Return, Alpha and Beta as on Dec 2013

COMPANIES	PORTFOLIO P/E	PORTFOLIO P/BV	PORTFOLIO RETURN	PORTFOLIO BETA	PORTFOLIO ALPHA
HDFC STANDARD LIFE	15.32	7.43	2.26	1.05	4.92
ICICI PRUDENTIAL	2.09	0.51	1.5	0.85	3.63
BAJAJ ALLIANZ	10.34	3.51	1.83	0.49	3.05
MAX NEW YORK LIFE	9.81	2.91	3.31	0.69	4.61
TATA AIG	12.34	2.69	1.39	1.02	3.97
KOTAK MAHINDRA	9.67	3.02	2.74	0.48	3.94
BIRLA SUN LIFE	16.82	3.13	1.43	0.77	3.37
METLIFE	32.77	3.89	4.72	0.87	6.91

In the Year 2008 there was a wide difference in allocation charges and other charges levied by the companies which ranges from 57 % to 14%. But now charges are more or less equal. Therefore investors should give importance for fund manager's performance, portfolio style and stocks in the portfolio. Portfolio investment style adopted by all companies is growth style with large capitalization.



3. CONCLUSION

The result of the study states that any Unit Linked Pension Plan should satisfies the retirement needs of the individual in a better way by levying minimum charges on the pension plans product and providing huge corpus at the end of policy term. Since retirement plan is a long term product, qualitative aspects are equally important for selecting pension plans. Qualitative aspects be consider are management pedigree, in-house facilities for managing funds, size of the company, risk management ability, company cost control ability, customer service, etc.

Company can give comparative fact sheet with index for better understanding of funds performance and to encourage customers to invest more money in pension plans in the form of top-ups to increase the corpus at the end of policy term. Information on annuity and portfolio can be given in the brochures for better understanding of the plan.

The best time to invest in any Unit Linked Pension Plans is when capital market in down trend, in order to get units in lesser price. Regular premium is good choice for regular fixed income group individual and those who cannot follow the capital market and half yearly mode in regular premium is the best mode to invest because it will average the buy price of the units throughout the policy term.

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