
A Study to Understand the Retirement Planning Behavior of Working Professionals in Mumbai City

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Abstract

The explanatory research is designed to find out the retirement planning behavior of different working professionals of Mumbai City. The study attempts to understand the objective of the retirement planning of working professionals of different age cohort and their investment preferences to achieve their retirement objectives. The study also tries to find out the relationship between retirement planning and the different factors affecting retirement planning. 161 working professionals of different age groups have been taken for the study from Mumbai City. The study also aims to understand that does the investment avenues preference differ from different age cohorts?

Keywords: Retirement Planning, Investment Avenues, Cohort, Working Professionals.

Introduction

Retirement planning is very important that an individual can make sure that they can be financially independent after retirement and secure their future. The need for retirement planning is mostly for a) Increasing retirement age b) Medical expenses c) Financial independence post-retirement. There is even benefit of retirement planning such as a) Guaranteed income after retirement, b) Security of family after death, c) Tax Benefits. (*Pension Plans - Retirement Policies Online in India 2020 | ICICI Prulife, n.d.*)

In this study an attempt has been made to understand the different age cohort and their objective of retirement planning and their preference towards the investment avenues available for investment.

In a recent study done by different organizations, it can be seen that Indian depends more on their own saving nearly 46% compared with the global figure of 24% to take care of their retirement. "Nearly 49% of Indians are confident they will be able to take care of their

healthcare expenses after quitting work, reveals the Aegon Retirement Readiness Survey, 2018.”(*Retirement Planning: 49% Indians Confident of Meeting Healthcare Expenses in Retirement: Survey*, n.d.)

The coverage of the pension system In India was limited to Employees' Provident Fund (EPF), Employees' Pension Scheme (EPS), and Public Provident Fund (PPF). In recent years the government has started new schemes such as the National Pension Scheme (NPS) and Atal Pension Yojana (APY) under the pension system. Working individuals can begin investing in different investment avenues irrespective of government pension schemes. (Vinmalar & Joseph, 2018)

“The concept of retirement preparedness is changing rapidly. Today’s workers find themselves in a very different world to that of their parents. In many countries, the presence of traditional generous government pension is disappearing and millennia’s are seeking non-traditional job profiles. Although, it is suggested that one must start saving for retirement as soon as s/he starts earning, today’s youth fail to realize this at the appropriate phase of life as they mostly believe in living their life for today rather than planning for the future.” (*Retirement Planning: Why Millennials Need to Start Saving Early - The Financial Express*, n.d.)

Objectives

- To understand the knowledge of the respondents about retirement planning.
- To understand most preferred objectives of retirement planning by the different age groups of working professionals in Mumbai City.
- To understand the investment classes or avenues preferred by different age groups to meet their retirement objectives.

Literature Review:

(Vinmalar & Joseph, 2018) They have found that because of increasing family size expense ratio also gets high which leads to low saving amount bear any expenses which may arise at any point in time. The authors were keen to find out how working individuals are aware and in which avenues they opt to invest for their retirement life as well as to utilize the fund at any emergency time or for handling their monthly expenses. They also found that there is no association between demographic factors and investment behavior, except the factor monthly income. There is no association between investment done in avenues and marital status. Married working individuals invest in avenues on a huge basis towards their retirement life when compared with unmarried ones.

(Su, 2008) in the study has found that End-of-Life (EOL) planning, is in fact, a method that integrates both health and financial plans. Most of the individuals has make EOL health plans only. The author has suggested that EOL health plans and EOL financial plans should not be analyzed separately it can be misleading. Policymakers, health professionals, and financial professionals were worried about the effect of the absence of EOL health plans should facilitate joint planning, combining health and finances, especially among those at higher risk of not having such plans, for example, males, persons with lower educational level, and those with a lower level of net worth.

(Thakur et al., 2017) In their study, they found that the most preferred retirement planning objective was regular income. Starting a business was the least preferred retirement objective by the respondents. House property investment was most preferred the Atal Pension Yojna was the least proffered investment avenue for investment by the respondents.

(Boisclair et al., 2015) In their study, they found that knowledge of financial literacy is very important for retirement planning. It is similar to other countries and Canadian context as well even the fortunate Canadians who had higher education and income were having a very low level of financial literacy. If the financial education is increased in lower-earning the individual will lead to an improvement in their general financial situation and retirement and which will lead to upgrading them to higher earning categories.

Research Methodology

The research is based on both primary and secondary data. A sample of 161 working professionals from Mumbai City has been taken for the study. Further charts tables and graphs have been used for the study.

A structured questionnaire was circulated the respondents were questions related to demographics and retirement planning. The two main questions that are objective of retirement and preference of investment avenues which had around 13 different questions on objectives of retirement planning and 14 investment avenues to be choose were asked on a five-point Likert scale (Strongly Disagree to Strongly Agree).

Limitations of the Study

The research is restricted to Mumbai City only.

Analysis & Findings

Table 1: Source: Self-administered questionnaire

| Demographics of respondents Mumbai | | |
|---|--------------------|-------------------|
| Category | Respondents | Percentage |
| Gender | | |
| Male | 107 | 66% |
| Female | 54 | 34% |
| Total | 161 | 100% |
| Age Group | | |
| 21-35 | 104 | 65% |
| 36-45 | 33 | 20% |
| 46-60 | 24 | 15% |
| Total | 161 | 100% |
| Education | | |
| Under-Graduate | 0 | 0% |
| Graduate | 14 | 9% |
| Post-Graduate/ Masters | 117 | 73% |
| Doctoral/professional | 30 | 19% |
| Total | 161 | 100% |

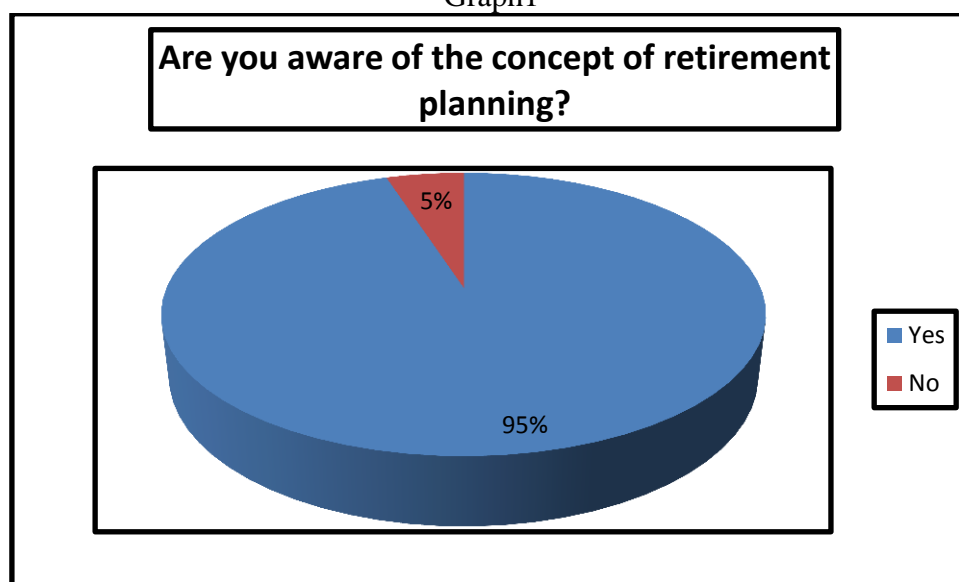
| Sector of employment | | |
|-----------------------------|-----|------|
| Private | 146 | 91% |
| Government | 15 | 9% |
| Total | 161 | 100% |
| Annual Income | | |
| Below 3 lakhs | 0 | 0% |
| 3 lakhs to 5 lakhs | 29 | 18% |
| 5 lakhs to 10 lakhs | 90 | 56% |
| above 10 lakhs | 42 | 26% |
| Total | 161 | 100% |

(Source: Primary Data)

From table 1 it can be observed that out of the total respondent 66% are male and 34% are female. 65% of respondents belong to the age group of 21-35 years, followed by 20% and 15% by 36-45 years and 46-60 years. 73% of respondents have completed Post-graduate/Masters, followed by 19% have done Doctoral/professional and remaining were graduate i.e. 9%.

91% of respondents were employed in the private sector and the remaining 9% in the government sector. 56% of respondents were having annual income between 5-10 Lakhs, followed by 26% had annual income above 10 Lakhs, and 18% had an annual income between 3-5 Lakhs.

Graph1

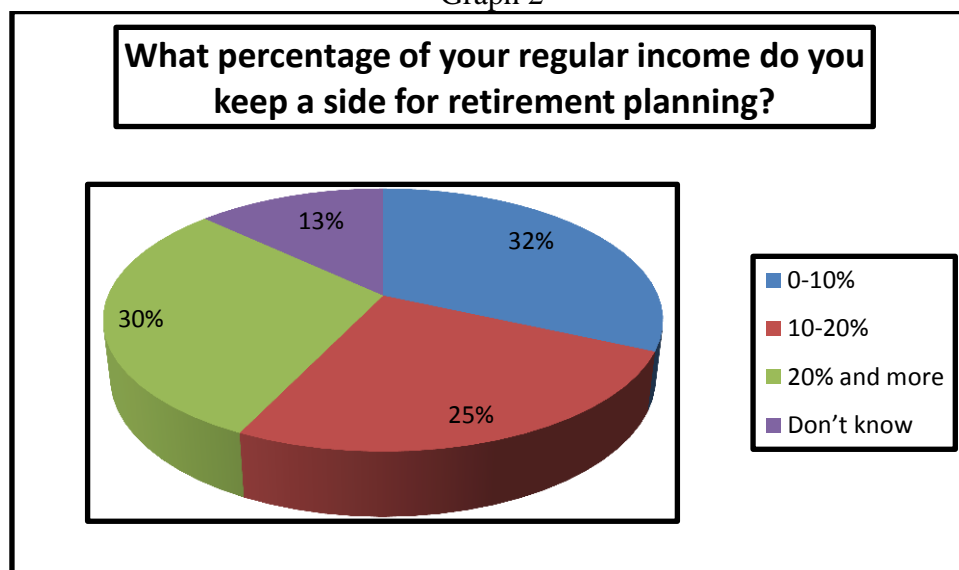


(Source: Primary Data)

Interpretation:

From the above Graph 1 it can be seen that 95% of respondents were aware of the concept of retirement planning.

Graph 2

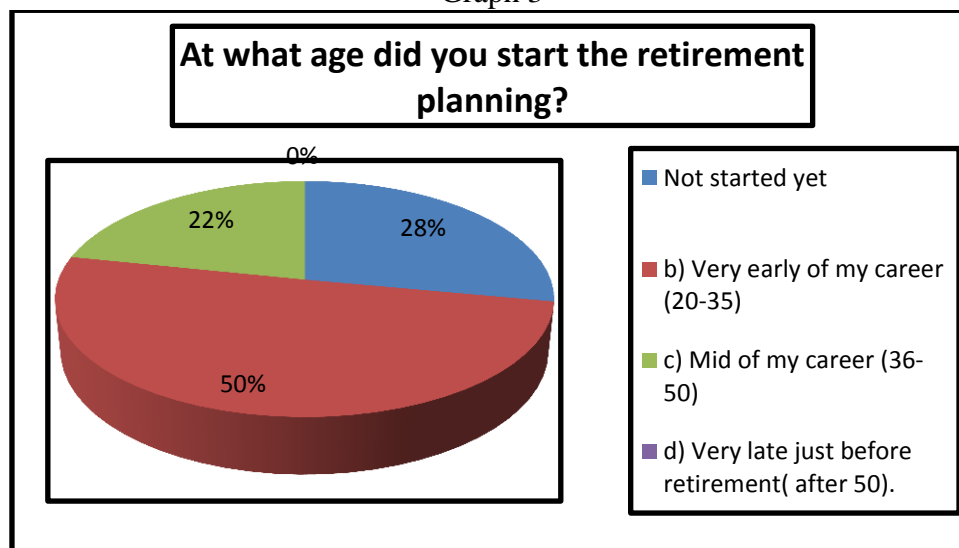


(Source: Primary Data)

Interpretation

Form Graph 2 can be seen that maximum of respondents i.e 32% were keeping between 0-10% and more of their regular income aside for retirement planning. Followed by 30% who were keeping their regular income aside for retirement planning was more than 20%. 13% of respondents were not sure about their saving for retirement planning.

Graph 3

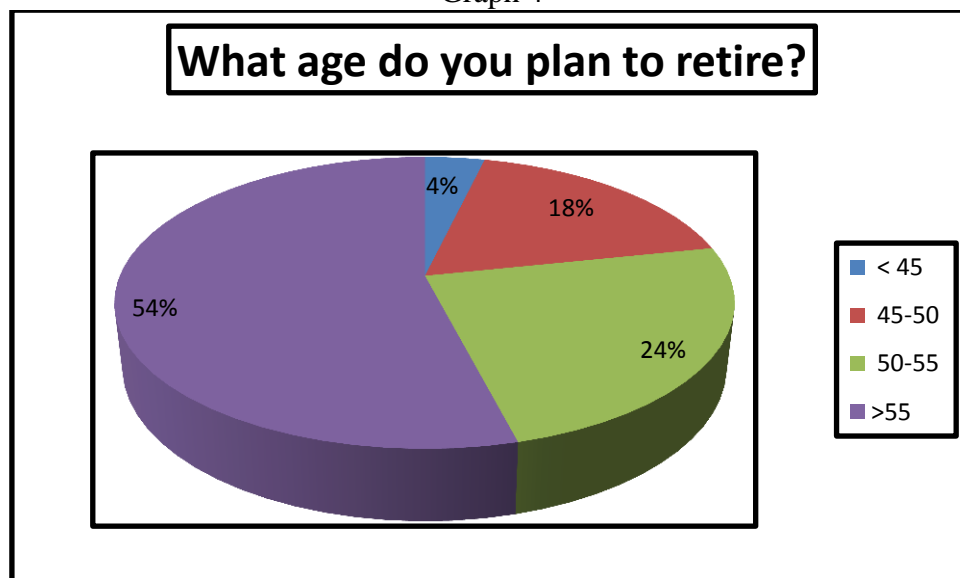


(Source: Primary Data)

Interpretation:

Out of the total respondents it can be seen from Graph 3 that 28% of respondents have not started retirement planning. 22% of respondents started retirement planning at their mid of career and 50% of the respondents have started at very early of their career.

Graph 4

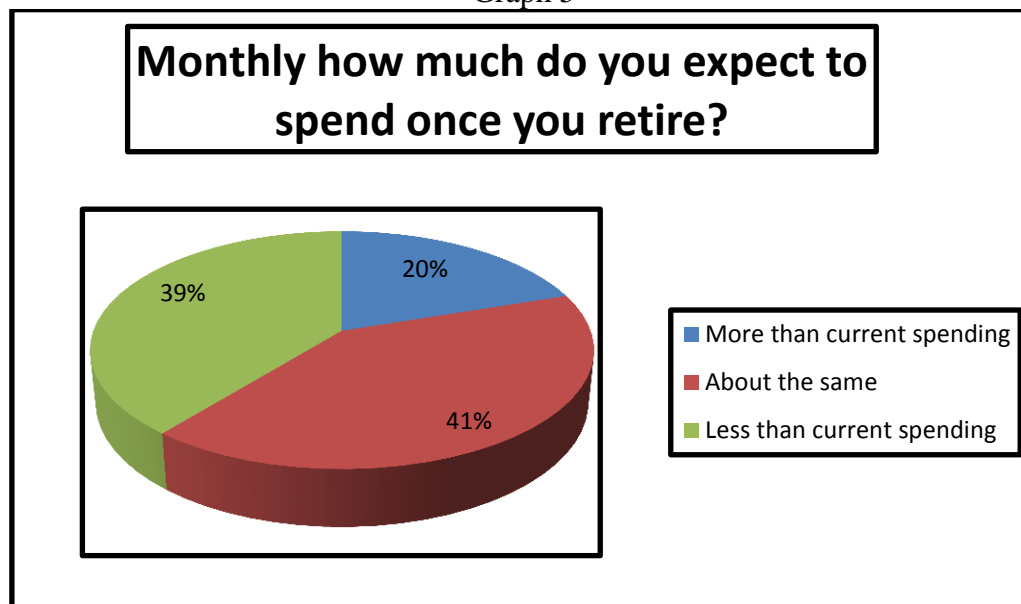


(Source: Primary Data)

Interpretation

From Graph 4 it is observed that the maximum of respondents wants to retire after the age of 55 years i.e. 54%. And only 4% want to retire before the age of 45 years. 24% of respondents want to retire between the age 50- 55 years and 18% wants to retire at between the age of 45 to 50 years.

Graph 5

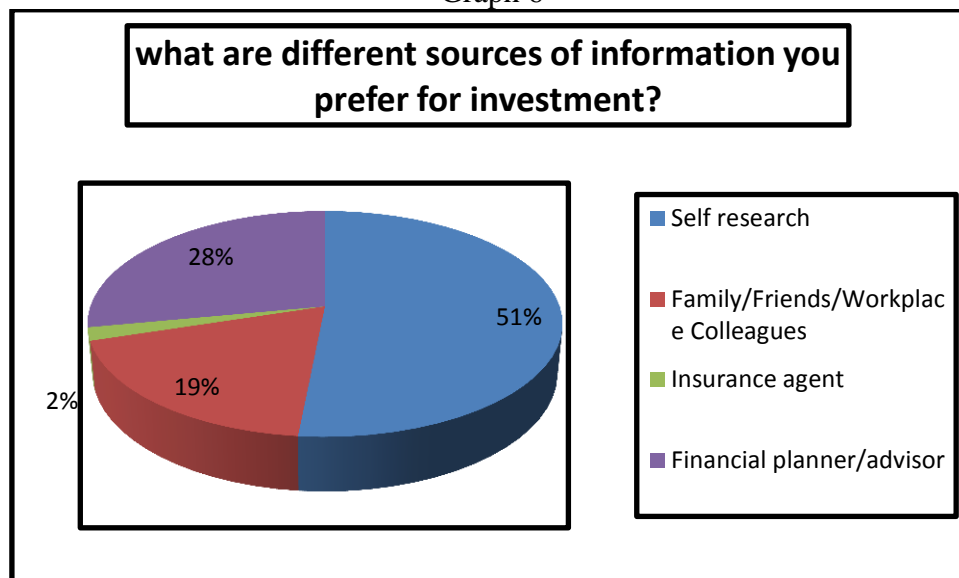


(Source: Primary Data)

Interpretation

From graph 5 it can be seen that the maximum of the respondents around 41% wants to have the same spending as their current spending. 20% of the respondents want to have spent more than the current spending and 39% want to spend less than the current spending after retirement.

Graph 6



(Source: Primary Data)

Interpretation

From Graph 6 it can be seen that a maximum of respondents was doing self-research for information for investment preference. 28% and 19 % were depending on Financial Planner/Advisor and Family/Friends/Workplace colleagues respectively for the sources of information on investment avenues. And only 2% were depending on an insurance agent for the source of information for investment.

Table 2

| Top 3 Ranks of respondents as per retirement planning objective in their order of importance which has influenced them | | | |
|---|--|--|--|
| Age | Rank 1 | Rank 2 | Rank 3 |
| 21-35 (Younger) | To maintain pre-retirement standard of living (4.09) | To meet medical expenses after retirement (4.02) | To have regular income after retirement (3.97) |
| 36-45 (Mid) | To have regular income after retirement (4.64) | To meet medical expenses after retirement (4.45) | To minimize taxes at the time of retirement and afterwards(4.36) |
| 46-60 (Older) | To have regular income after retirement(4.25) | To meet medical expenses after retirement(4.19) | To take care/financial security of dependents & To maintain financial self-sufficiency at the time of retirement(4.00) |
| Overall | To have regular income after retirement(4.18) | To meet medical expenses after retirement(4.14) | To maintain financial self-sufficiency at the time of retirement(4.00) |

(Source: Primary Data)

Interpretation

Table 2 shows that top three rankings of age group 20-35 years are “to maintain the pre-retirement standard of living, to meet medical expenses, and to have regular income after retirement”. Whereas other age groups have given rank 1st and 2nd, “To have regular income after retirement and to meet medical expenses after retirement”, Age group 36-45 have given the third rank to minimize taxes at the time of retirement and afterward. Age group 46 to 60 years respondents have given 3rd rank to “To take care/financial security of dependents & To maintain financial self-sufficiency at the time of retirement”

Table 3

| Top 3 Ranks of respondents preferences towards investment asset classes to achieve those retirement planning objectives. | | | |
|---|---------------------|--------------------------|----------------------|
| Age | Rank 1 | Rank 2 | Rank 3 |
| 21-35 (Younger) | Mutual Funds (4.16) | Real Estate/House (3.93) | EPF(3.88) |
| 36-45 (Mid) | EPF(4.45) | Bank FD (4.36) | PPF (4.27) |
| 46-60 (Older) | NPS (3.75) | Mutual Funds (3.52) | Gold, PPF, EPF(3.50) |
| Overall | EPF(3.94) | Mutual Funds(3.92) | PPF(3.83) |

(Source: Primary Data)

Interpretation

Table 3 shows that age group 21-35 yrs preferring Mutual Funds, Real Estate/House, and EPF as preferred investment avenues to meet the retirement planning objective. Age group 36-45 yrs preferred EPF, Bank FD, and PPF to meet the Retirement planning objective and they were very much conservative in choosing their investment avenues. And age group between 45 to 60 yrs preferred NPS, Mutual Fund, Gold, PPF, and EPF to meet their retirement planning objective.

Conclusions

The study shows that Most of the respondents were aware of retirement planning. 32% were keeping between 0-10% of their regular income aside for retirement planning. 30% who were keeping their regular income aside for retirement planning was more than 20% of theirs saving.

28% of respondents have not started retirement planning, 22% have started their retirement planning at mid of their career, these shows that retirement planning lacks in most of the respondents and they are required to be guided for the same.

Maximum of respondents wants to retire after the age of 55 years. 39 % of respondents want less than current spending after retirement and 41% want the same level of spending after retirement.

Most of the respondents were depending on the self-research as a source of information for investment in different avenues. There should be proper awareness about investment planning by the government.

It was seen that younger age group gave more importance to “To maintain the pre-retirement standard of living” 1st rank whereas mid and older age group gave more importance to “To have regular income after retirement” whereas the second objective of all age group respondents were the same as “To meet medical expenses after retirement”.

To meet this objective of retirement the different age groups had different preferences for investment avenues. The younger age group preferred Mutual Funds, Real Estate, and EPF. Mid age group respondents preferred EPF, Bank FD, and PPF, they were having a more conservative approach. And older age group respondents NPS, Mutual Fund, Gold, PPF & PDF.

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