Financial Planning for Old Age

Challenges Involved

PROF. R.VAIDYANATHAN WRITES THAT WITH GLOBALIZATION AND MIGRATION OF YOUNGER POPULATION TO OTHER LOCATIONS AND FOREIGN COUNTRIES, THE JOINT FAMILY SYSTEM IS ON THE DECLINE; AND THE CHALLENGE OF CARING FOR THE AGED HAS BECOME GREATER FOR THE SOCIETY AND GOVERNMENT.

The explicit recognition of the 'retirement stage' has given rise to actions by family and community to felicitate the same at sixty /eight years etc .Hence, caring for the aged is by and large taken care by the joint family and community. Caring for the aged is part of the Indian tradition, going back to thousands of years. In the past, rich merchants and other donors used to construct 'Old Age Homes' nearer to pilgrimage centres where the old aged people could spend their time in Godly pursuits. The traditional division of human existence by Hindu scriptures suggests four stages consisting of *Bramacharya* or bachelorhood [period of education], *Grihasta* [married stage], *Vana Prastha* [retirement stage] and *Sanyas* [renunciation of all worldly things]. We observe that around one-eighth of the world's elderly population live in India. Most of them are not covered by a mandated pension system, and have to rely on family based arrangements or their own earnings.

But with globalization and migration of children to other locations and foreign countries, the joint family system is on the decline— at least in the urban areas— and to that extent the challenge of caring for the aged has become greater for the society and government. The traditional and informal methods of old age income security are not able to cope with the trends of increased life span and enhanced medical expenses during old age. Hence there is a very pressing need to re-examine the existing formal and informal systems available to tackle the challenge of the 'Age Quake'.

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Table 1

Percentage distribution of Project Population by Age and Sex (1996 - 2016)

Age Group	1996	2001	2006	2011	2016
60 - 69	4.2	4.3	4.5	5.0	5.5
70 - 79	1.8	2.1	2.3	2.4	2.6
80+	0.8	0.6	0.7	0.8	0.9
Total of 60+	6.8	7.0	7.5	8.2	9.0

Source: Population Projections for India and States 1996-2016, Registrar General, Ministry of Home Affairs, Govt. of India, India Stat.com

Traditionally, gold has been a major investment vehicle since it has many favorable characteristics. It is very liquid in the sense anywhere in the country and any point of time, one can sell it or get loan against it from money lenders.

The total population is expected to rise by 49% between 1991and 2016; and the number of elderly persons (aged 60 and above) is expected to increase to 113.0 million.[See Table-1]. In other words, the share of aged in the total population will rise to nearly 9% by the year 2016 and to 13.3% (179 million) by the year 2026. Males and females in India at age 60 today are expected to live beyond 75 years of age. Thus, on an average, an Indian needs to have adequate resources to support himself or herself for nearly 15 years after retirement.

Savings in Different forms of Financial Assets

We also observe that in the year 2006, around Rs.11.5 lakh crore was our savings which was more than 32 percent of our national income. Out of this the savings by household sector was nearly Rs.8 lakh crore [around 70 percent]. Of this Rs.8 lakh crore, half was saved in financial assets and the other half in physical assets like flats/houses etc.[See Table-2]

The Financial assets were saved in Bank Deposits [24%]; Postal Savings [21%]; Insurance [20%]; Provident funds [15%]; Shares and Bonds [8%] and others like currency etc. Actually the proportion of financial savings in shares and bonds used to be 17% prior to 1992 – that is before Harshad Mehta scam. After 1992 the financial savings are more in Bank deposits and Postal savings.

Other than this, India is also the largest buyer of Gold for Jewellery purposes. Nearly 30 percent of world Gold consumption is by Indian households. For instance, last year around 700 tonnes [at an average price of say Rs.10,000 per ten grams] of purchase by Indians imply an investment of nearly Rs.70,000 crore. [See table-3]. As far as households are concerned, it is considered as investment even though government statistics may treat it as consumption.

Traditionally, gold has been a major investment vehicle since it has many favorable characteristics. It is very liquid in the sense anywhere in the country and any point of time, one can sell it or get loan against it from money lenders. It is divisible –that is even small amounts can be invested unlike say real estate. It is portable unlike real estate and generally not disposed off without the explicit consent of the lady of the house, unlike bonds etc. Actually many males may not know the exact amount of gold held in the household. It is considered as an insurance/pension product for the housewife particularly after the demise of

Table 2

Composition of House Hold Savings 1950 to 2006 (%)

Item	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2004-05	2005-06
Gross domestic Savings (GDS) to GDP	8.9	11.6	14.6	18.9	23.1	23.7	31.1	32.4
House hold Savings (HS) to GDS	69	63	70	73	84	89	69	69
Physical Savings (PS) to HS	90	64	70	57	55	51	53	48
Financial Savings to HS (FS) to HS	10	36	30	43	45	49	47	52
Currency to FS	131	32	25	19	13	7	12	12
Net Deposits to FS	-42	2	19	34	22	34	13	24
Shares and Bonds to FS	84	15	7	5	17	4	3	8
Net Claims on Govt. to FS	-136	12	-1	7	15	18	33	21
Life Insurance to FS	32	11	14	10	11	15	21	20
PF and Pensions to FS	31	28	36	25	22	22	18	15
Total FS	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Economic Survey 2005-06, tab 1.4. pp. S-6 GoI New Delihi & for 2005-06 data - Stt 18, National Accounts Statistics 2007; CSO

Table 3

Gold : Jewellary Demand 2000-2006

Conuntries	2000	2001	2004	2005	2006
India	620	598	517	587	505
Greater China	282	265	259	277	275
Japan	37	38	35	34	33
Indonesia	87	98	84	78	58
Vietnam	21	24	26	27	22
Middle East	448	429	343	365	304
Turkey	148	92	189	195	165
USA	387	389	352	349	309
Italy	92	90	77	71	64
UK	75	82	70	59	50
Total - Including others	3209	3016	2610	2610	2267
Gold price ($/oz)	279.1	271.1	409.2	444.5	603.8

Note: 1 Tonne=32, 151 troy oz of fine gold
Source: World Gold Council - Gold Demand Trends various issues

the husband and that is one reason for the rule that she should not remove her basic ornaments like Mangal Sutra etc while he is alive. That is; if the children are rapacious, she is left with at least these ornaments for her future needs. The most important advantage for Gold is that it can be bequeathed without much difficulty unlike shares or land. In the case of Gold in India, possession is ownership and no other proof is required.

The other type of assets is bonds and shares. The critical difference is the risk underlying these assets. Risk is a measure of uncertainty associated with future benefits of an asset. It is not possible to measure the entire uncertainty but a significant portion can be measured using statistical techniques. For instance if you invest in Government bonds like those issued by RBI the returns will not be high. They may be 7 or 8 percent. But there is no risk or uncertainty associated with the interest/s and principal. This is because of the fact that Government will never renege on its commitments since it can always print more notes. This facility is not available to corporates and individuals like you and me.

Similarly if one invests in fixed deposits of say SBI, then it can also be considered as less risky since SBI is as good as Government of India and it is too big to fail or allowed to fail. But if one invests in say fixed deposits of companies or bonds of companies, then expected return is more but risk is also more. It is important to understand and internalize the axiom that greater the expected return, the greater the risk - that is chance of not getting it. For instance there may be schemes offered by some non-bank companies or firms that will double your money in three years – which imply that you earn above 30 percent per year. Such schemes which offer attractive expected returns also have a very high risk namely chance of not getting interest and even your principle.

Let us be clear that volatility or uncertainty in the share market is a reality. That arises due to hundreds of reasons. It is more due to globalization and impact due to developments in USA or Japan. At old age, one is not comfortable with uncertainty when certain death is nearing oneself. Hence a larger part of funds should be invested in less risky bonds and some percentage in shares. As one gets older say more than seventy then focusing on fixed

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income is better since health related costs also have to be managed. Having a health insurance from the fifties is more important for the self employed since they do not have post-retirement benefits like government employees.

The Government can provide larger tax advantages to people in the age group of fifty compared to younger groups in pension deductions. From the point of view of the pension funds, the younger cohorts are more attractive since the early money is with them for longer period of time. But from the point of view of facilitating the transition from a community and family dependant system to deposits and funds dependant system, it is needed to give a big boost to the savings of persons in the fifty years bracket . For instance, the ministry can think of giving tax exemption up to Rs.5 Lakh for exclusively to pension savings to this group. We feel that a constant deduction across all age groups needs to be re-looked in the context of tectonic changes taking place in the demographic profile and the social system. May be, after a decade this tax structure can be re-worked.

FM can also create a National Fund for the Aged [NFA]—similar to PM's relief fund. This NFA should be used to meet medical expenses of the aged and the needy by tying up with hospitals. A contribution to this fund should provide tax exemption to corporates; and tax exemption and membership to individuals. It is a replica of the successful Yashaswini scheme in Karnataka but covering even the middle class.

Pension funds can be encouraged to take single premium in the form of gold since we are one of the largest savers in gold ornaments in the world and for that suitable monetary tax exemption can be given by the Government. This would put to productive use the stock of gold which is available with the middle class and not much used. All the more so, in the context of girls belonging to younger cohorts not showing as much interest in gold ornaments as it used to be by their grandmas.

Traditionally, reverse mortgages were designed as a product for elderly homeowners, who are 'house-rich' but 'cash-poor', whereby they could liquidate a portion or the whole of their home equity over a period of time to create a regular stream of income.

Another major asset is the house or buildings available with the elderly. The importance of the housing equity is well understood in a country like India. Data provided by the National Sample Survey (59th Round) on Household Assets and Liabilities provide clues to the situation. An analysis of data by MPCE (Household monthly per capita expenditure) class shows that middle class households (urban) hold up to 67% of their wealth in the form of housing equity. In the rural areas, about 63% of the elderly had some property; whereas the corresponding figure for urban areas was 58% .This over investment in housing is against the textbook type of investment in a diversified portfolio. Most households tend to over invest in housing equity because housing is both a durable (investment) as well as consumption good ('shelter needs' that have an outflow of imputed rent).

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Hence the Finance Minister in his budget should give a huge boost to reverse mortgage by completely exempting the income stream from taxation and also ironing out other legal issues in the Indian context. If some enterprising Pension Funds want to use Gold for reverse mortgage then that should also be treated similarly.

Ageing is a normal process since it happens biologically; but graciously aging and dignified living in old age is more difficult in the context of decline in joint family. The choice is that of the aged but it should be facilitated by the Government.

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