

The COVID-19 Outbreak – Retirement Planning Crisis in India

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Abstract

The COVID-19 had a devastating impact on almost all spheres of individual life. Due to this pandemic, employees are more concerned about their financial health as many employees lost their jobs during this calamity while others experienced a salary diminution. Employees are either forced to reduce their plan contributions or withdrawing funds from such plans as they are no longer able to contribute because of their disturbed financial condition. Along with this, contribution on the part of employers has also been withdrawn in some cases. Obstacles have also been experienced in growth of retirement funds due to reduced yield in stock market. Retirement savings of employees faced a downturn due to this predicament. The purpose of present study is to present the impact of COVID-19 pandemic on retirement planning of working individuals in India.

Key Words: COVID-19, Financial Health, Retirement Planning, Retirement Savings.

Introduction

The COVID-19 pandemic had adversely impacted not only the global economies but also the personal finances of the individuals. During past few months, salary diminution and job losses have been observed at extreme levels. Although the impact of this calamity has been observed on each and every sphere accordingly retirement planning also got effected from the ill effects of pandemic. In the initial months of the epidemic, new business premiums for life insurance policies and general insurance business reported a significant decline. Even falling inflows have been observed in equity mutual funds during present financial year. This implies that a cautious approach is required to be followed to invest funds in insurance and mutual funds due to prevailing instability in the market.

Significant fund withdrawals from EPFO have been recorded in New Delhi where about 8 million subscribers withdrew funds to the tune of Rs. 30,000 crores from their retirement corpus during April to July, 2020. Due to substantial withdrawals from the EPFO by about 60 million salaried class individuals who managed retirement buffer of approximately Rs. 10 Lakh crores lead to pressure with respect to earnings in 2021. Withdrawal rate was reported on peak between April and third week of June (Economic Times Report). The contributing reason for these withdrawals was the global lockdown due to the pandemic and eventually, salary diminution, escalating medical cost and job losses.

Strategies for retired and retirement aspirants

For already retired individuals: People who formulated and followed a strategy for their retirement income, they should allow the income planning and generation process to run at its pace and more importantly they should stick to the strategy adopted by them for their retirement income. Ultimately, an ideal retirement strategy holds the ability to curtail the long-term effects of market fluctuations. When a person has uncertainty about this retirement income and do not have any strategy for retirement income then they should consult their financial advisor in this regard.

For individuals planning to retire within next 10 years: Possession of adequate amount of assets is required at this stage of life. As a consequence of economic downturn it is abysmal time to liquidate any kind of securities, especially stocks. Further, it is ideal time to review the planning already done in order to recognize further requirements.

Challenges faced by Indians in the way to financial stable retirement

The Covid – 19 outbreak, the associated economic downturn and lockdown all over the globe impacted retirement savings, retirement savings schemes and their providers, regulators, supervisors which ultimately resulted in future lower incomes in retirement and also dysfunctions in the market. The major potential impacts are:

- Decreasing value of assets in retirement savings accounts from falling financial markets
- Increasing liabilities from falling interest rates in retirement savings arrangements with retirement income promises (e.g. defined benefits retirement plans, and life annuity arrangements)

- Fall in capability to contribute to retirement savings plans by individuals, as they see their wages reduced or lose their jobs, and by employers suffering financial distress
- Operational disruptions as a result of working remotely
- Cyber-attacks, frauds and scams directed at individuals, regulators, supervisors and providers of retirement savings schemes (e.g. pension funds)
- Reduction in savings and compound interest earned as a result of measures intended to provide relief in the short-term that can have a large negative impact in the long-term, especially on retirement income adequacy (e.g. contribution holidays, early access to retirement savings).

Many Indians lost their jobs and livelihood due to corona pandemic which resulted in depletion of their savings. Bankbazaar Savings Quotient reported that the epidemic resulted in shrinkage of savings of Indians which compelled them to reorder their priorities. Some highlights of the report have been discussed in the subsequent part.

Bankbazaar Savings Quotient Report

- **Shrinkage in savings:** Adhil Shetty, CEO, Bankbazaar said that the collective impact of the recession, the epidemic and the lockdown have resulted in less money at hand with people to spend or save which further resulted in the reduced wallet share for savings in 2020. A survey conducted on 650 working professionals aged between 22 to 45 years from five Indian cities revealed that their average savings stood at 32% of their income levels witnessing 6% decline in income from last year's average of 38%. In addition to this, drop in interest rate and market fluctuations have also been reported as a matter of concern for people.
- **Shifting priorities:** The uncertainty following the epidemic has driven home the relevance of financial planning and security compelling people to reorder their priorities. Job uncertainties and market fluctuations made people focused on long-term goals for self and family, while keeping aside discretionary goals like travel and luxury.
- **Postponing retirement:** Increasing inflation and interest rate raised concern among people to adequately plan for retirement by building a sufficient corpus for retirement years. Report revealed that presently 25% people are planning to accumulate Rs. 2 crores for retirement compared with 20% during the last year. But the need for a larger corpus indicates workers have to stay in workforce for a longer period of time. Uncertainty

and lower returns impacted the people between the age group of 35 to 45 years to the most. Retirement age got increased to 58 years from earlier 57.4 years for this age group which indicates that they are less certain about the amount that they can put aside every month as well as the returns that can be earned from their investments. However, the average expected retirement age remained constant at 56.4 years similar with the last year's report. Undoubtedly, the pandemic has changed many aspects of our lives, therefore, Indians saving and investment pattern also got influenced. Due to this crisis, people became aware about their financial status further compelling them to focus on making financial arrangements for secure future.

How to approach retirement in times of crisis?

1. Consider postponing retirement

Falling income levels and low returns lead to market turbulence, hence postponing retirement can be considered as an alternative to recover from the ill-effects of COVID-19 in order to live a stress-free retirement life. Every individual fixes a specific retirement age in mind. Some people may choose to work till 60 years' of age or beyond, while some may have the wish to retire at the age of 50. If an individual don't have the intention to work beyond his/her fixed retirement age because of possible personal choices then more saving and investment needs to be considered over the next few years.

2. Review and rebalance portfolio regularly

Drift in a particular asset class in the form of appreciation/depreciation in comparison to other assets out of aggregate portfolio can be observed due to volatility and uncertainty in the financial market. If portfolio is not rebalanced from time to time, plausibly desired results might not be achieved. There lies probability that unbalanced portfolio may be skewed towards a specific asset category, reflecting the concentration risk.

Diversification of retirement portfolio among different asset categories provides a wide range of alternatives to counter market uncertainties. Hence, an adequate asset allocation plan should be made and if necessary, portfolio should also be rebalanced.

Rebalancing of portfolio when:

- Divergence of a specific asset class touches the pre-set limit
- Change in the stance for a particular asset class
- Changes in financial circumstances
- Readjustment of financial goals
- Making any kind of windfall gains or losses
- As one approach his/her retirement

3. Reassessment of risk profile

Due to current uncertainty in equity markets, reassessment of risk profile is required even if one has done his/her risk

assessment recently. Probably, true risk appetite (the level of risk one is willing to take in case of positive sentiments in the market) may be underestimated. If one slips up his/her assessment of risk tolerance level then probably unreasonable or more aggressive investment can be made than one's affordability. One could realize his/her true risk-taking capability only when he/she observes downward movement in the markets. In the present scenario, tapping opportunities in beaten down assets would be a wise option only if it aligns with one's risk profile.

4. Avoid dipping into retirement savings

Amid the COVID-19 crisis, majority of employees dipped into retirement savings in order to simplify their financial crunch. Ideally, utilization of retirement savings for any other purpose should be avoided. Maintaining a contingency reserve to the tune of at least 6-12 months of expenditure to deal with unexpected expenses would be advisable. Investment during retirement phase should also be continued. It is believed by many individuals that they should toggle to excessively conservative investing pattern after their retirement. Some individuals even switch their entire portfolio to fixed income avenues and cash.

Policy responses affecting retirement savings

Nations have introduced a number of policies to deal with these challenges. These policies target plan members; employers; retirees; and/or providers of retirement savings plans (e.g. pension funds). Several policy responses have been identified by OECD:

- Policies for restrictions on the materialization of short-term investment losses.
- Policies to ensure the solvency of plans with guarantees and the business of pension providers.
- Policies that provide subsidies to cover pension contributions
- Policies to resolve operational disruptions
- Policies to safeguard providers and participants from cyber risks and COVID-19 associated scams.
- Policies to offer short-term relief to individuals or their employers.

The first five policy responses focus on ensuring the resilience of the funded and private pension system and protecting future retirement income and its adequacy from the consequences of the COVID-19 outbreak. The last response, however, provides short-term relief but it may come at a potential cost to future retirement income.

Policy Messages

A guiding policy is requirement of time to curb the disturbed scenario and during this course policy makers need to ensure compliance from the side of people saving for retirement.

- Long-term planning is needed for retirement savings. In order to avoid selling and materializing value losses, people should ensure maintenance of investments included into their retirement portfolios.
- Contribution to retirement plans should be a continuous process. As part of many programmes, income transfers and subsidies from government side may be provided to assist people passing through the ill-effects of economic downturn of COVID-19 and the associated lockdown.
- Along with this, policy makers, regulators and supervisors should:
- Regulatory flexibility with respect to recovery plans should be allowed to resolve fund related issues arising out of retirement promises. For instance, defined benefit pension arrangements, and lifetime income products.
- Rules concerning funding and solvency for Defined Benefit plans should be counter-cyclical. Further, flexibility in meeting funding requirements should be introduced to avoid 'pro-cyclical policies' and investment in pension funds should be long-term aimed at stabilization of forces within the international financial system.
- In order to reduce frauds and to facilitate efficient operations, proportionate, flexible and risk-based supervisory oversight along with adequate communication needs to be provided. The aim of supervisory oversight should be to focus on prudential and market conduct regulation coupled with ensuring protection of member and beneficiaries from COVID-19 associated scams. In addition to this, communication between supervisors and market participants should be ensured for discussion of their prudential expectations and suggestions during crisis time and steps taken to facilitate pension funds' operations and to lessen administrative pressure.
- Access to retirement savings should be allowed as a measure of last resort and only in exceptional cases. Access to retirement savings could result in materialization of temporary asset value impairments, liquidity and problems associated to investment management and especially to retirement income adequacy deficits. Present regulatory frameworks already permit for utilization of retirement funds but only in exceptional cases when considerable income losses occur, and should not be expanded further.
- Close collaboration with stakeholders, regulators and supervisors at the national and international levels

should be developed to share solutions and effective ways to deal with the present crisis.

Conclusion

It is apparent that no segment of people is escaped from the influence of covid-19 outbreak but those with an appropriate strategy for retirement corpus managed to cope with the ill-consequences of pandemic. Hence, it is evident that individuals should possess financial buffer to recover from the effects of market fluctuations. Investment decisions are critical for the financial well-being of an individual and have long-term consequences, therefore people should devote required time and attention to ensure financial security during the upcoming times of their lives.

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