Retirement Planning For Millennials - A Sweet Spot For Fintechs In India

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"Don't simply retire from something; Have something to retire to." – Unknown

Abstract
Personal Financial Education of an individual is their level of understanding of their financial situation, impact of macro-economic changes, ability to plan in advance for critical life goals such as retirement, awareness of available financial products and channels, consult experts at the right time that enables them to be financially discipline and make informed decisions to achieve their life goals. An attempt has been made through this paper to understand millennials with reference to retirement planning and opportunities available for FinTechs to enable millennials to plan for their retirement both for accumulation and decumulation/distribution phase. Retirement planning should be presented as 'Solution for life' rather grouping it with other short-term financial goals.

Keywords: Financial Literacy, Personal Financial Education, Retirement Planning, Certified Financial Planner, Advisor, Accumulation, Distribution, Decumulation, Millennials.

Introduction

Retirement Planning is a process whereby one would have a roadmap of personal and financial life, that would help to meet life's expenses post retirement.

Retirement planning has two distinct phases:

➢ Accumulation Phase
➢ Decumulation/Distribution Phase

The accumulation phase is the phase in which one would still work and add assets to fund and take care of the distribution phase. People in decumulation/distribution phase are usually either retired or semi-retired, and are supplementing their pre-retirement income with distributions from their accumulated corpus.
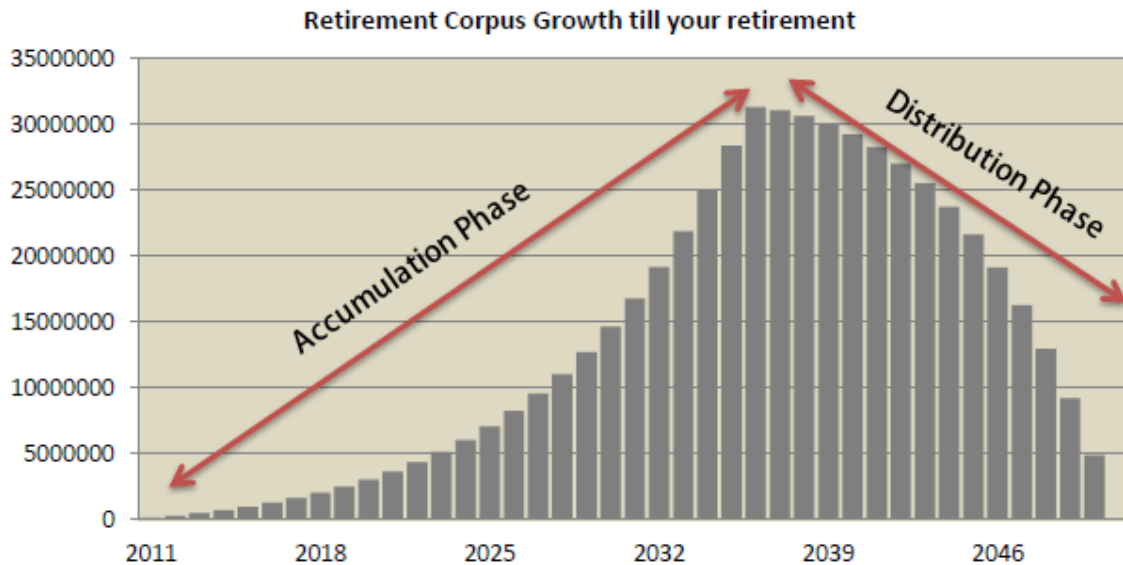
At macro level, shift from defined benefit to defined contribution, increase in Inflation, increase in life expectancy (6 years from 2000 to 2015; expected to increase further) and shrinking traditional joint family net due to life style changes clearly indicates the undoubted need to plan for one's retirement planning.

There is an increased traction in India's retirement planning over the past two to three years, but still at a nascent stage due to lack of financial literacy, lack of awareness and behavioural shift in expecting immediate gratification.

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Objectives

1. Understanding Millennials with reference to retirement planning
2. Opportunities available for FinTechs

1. Understanding Millennials with reference to retirement planning

In this study, 50 working individuals in various private sector organizations living in Bengaluru were selected as size of sample. Simple random sampling is adopted in this research. This sampling means selecting the sample respondents randomly from the organization. Primary data from the respondents was collected by using a non-disguised structured questionnaire. Percentage analysis is used for making comparison between two or more series of data. It is used to classify the opinion of the respondent for different factors. Table 1 shows the characteristics of the sample used for the purpose of this study.

**Table 1:** Demographic and Socioeconomic Details of Respondents

		Frequency	**Percentage**
GENDER	Male	36	72.0
	Female	14	28.0
AGE (YEARS)	Below 40 Years	42	84.0
	41 – 50 Years	8	16.0
	Above 51 Years	0	0.0
EDUCATION	Graduate	16	32.0
	Post Graduate	34	68.0
	Others	0	0.0
WORK EXPERIENCE	Less than 10 Years	7	14.0
	10 - 20 Years	43	86.0
	Above 21 Years	0	0.0
ANNUAL SALARY LEVEL IN INR	Less than 15 Lakhs	17	34.0
	15-40 Lakhs	31	62.0
	Above 41 Lakhs	2	4.0

Source: Primary Data

Results and Discussion

A. Dimension of retirement readiness

Chart 1: Retirement readiness
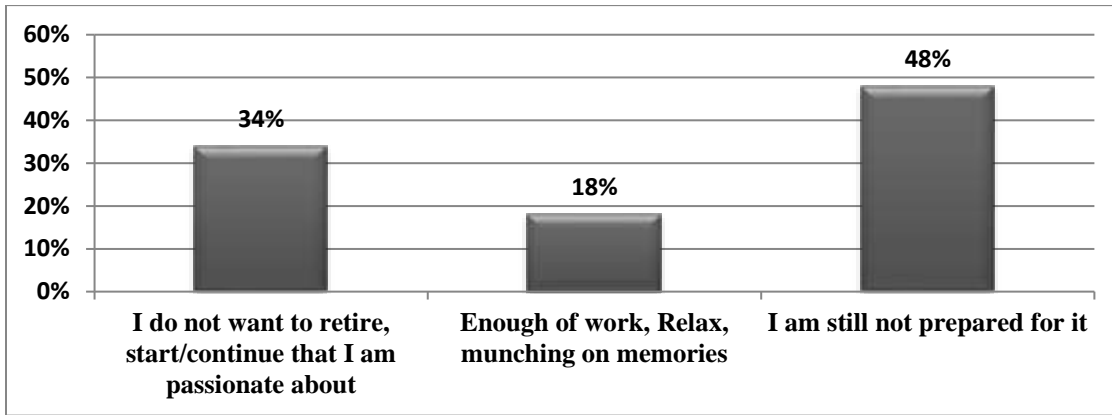
Above chart infers that majority of the respondents, 48% responded as 'I am still not prepared for it', 34% responded as 'I do not want to retire, start/continue that I am passionate about' and 18% responded as 'Enough of work, Relax, munching on memories'.

B. Dimension of retirement readiness and gender along with annual salary level

| Gender and Annual Salary level	I do not want to retire, start/continue that I am passionate about	Enough of work, Relax, munching on memories	I am still not prepared for it	Sum	SS	F	Fc
Male (Less than 15 Lakhs)	2	1	7	10	20.66		
Male (15-40 Lakhs)	7	7	11	25	10.66		
Male (Above 41 Lakhs)	0	0	1	1	0.66		
Female (Less than 15 Lakhs)	4	1	2	7	4.66	7.29	3.106
Female (15-40 Lakhs)	3	0	3	6	6.0		
Female (Above 41 Lakhs)	1	0	0	1	0.66		
Total				50	43.33		

Source: Primary Date

*Significant at 5%

The findings indicate that readiness towards retirement differ significantly depending on a person's gender and annual income. While male respondents earning over INR 15 lakhs a year were still not prepared for retirement, female respondents desired to pursue their passions.

C. Dimension of Personal factors that influences retirement planning

Chart 2: Personal factors that influences retirement planning
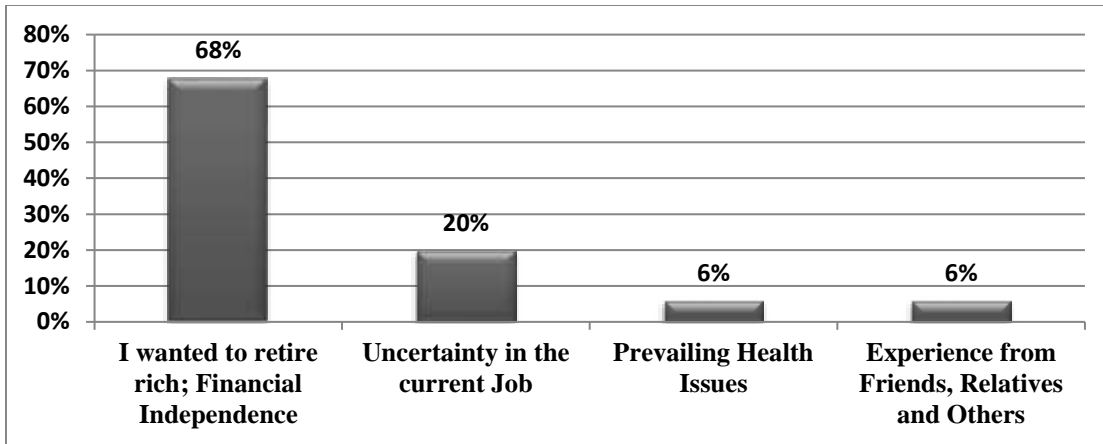
It is observed from the above chart that majority of the respondents 68% responded that 'I wanted to retire rich; Financial Independence' influences them to plan for retirement, 20% responded that 'Uncertainty in the current Job' influences them to plan for retirement, 6% responded that 'Prevailing Health Issues' influences them to plan for retirement and 6% responded that 'Experience from Friends, Relatives and Others' influences them to plan for retirement.

D. Dimension of Preferred intermediaries to seek advice for retirement planning

Chart 3: Preferred intermediaries to seek advice for retirement planning
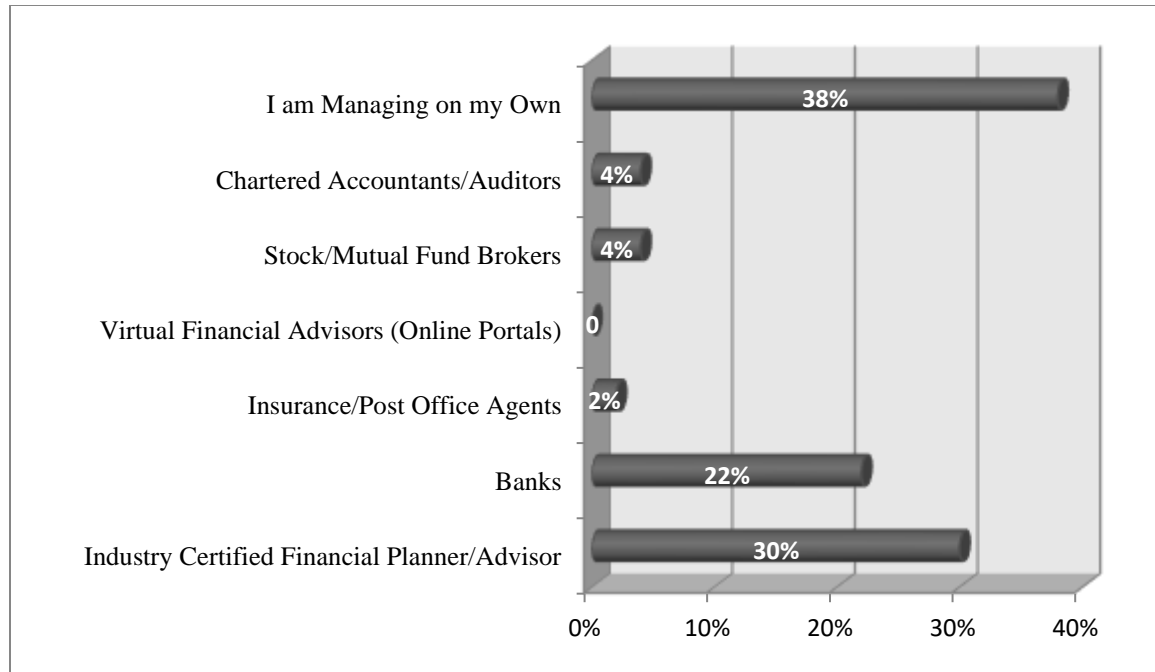
It is observed from the above chart that majority of the respondents 38% responded that they prefer to 'Manage their planning and investments on the own', 30% prefers to prefer Industry Certified Financial Planning/Advisor, 22% prefers Banks, 4% prefers Stock/Mutual Fund Brokers and Chartered Accountants/Auditors and 2% prefers Insurance/Post Office Agents as preferred intermediaries to seek advice for retirement planning and make investments in financial assets.

*Millennials/Generation Y: Born 1981-1996 (22-37 years old) as per Pew Research Center, USA

2. Opportunities available for FinTechs
Firstly, let us look at opportunities available in accumulation phase

Enough to focus:

Healthy population base, nearly 300 million+ people are under the age of 35 in India. It is evident from above study that respondents agree with the fact that they are

▪   Not prepared for the retirement

- ▪ Aspire to retire rich; after attaining Financial Independence'
- ▪ Manage investments on their own – need assistance from technology

Financial vs Non-financial assets:

At a macro level, due to various reasons preference of Indians is also slowly but definitely shifting to financial assets over physical assets on year-on-year basis.

India Household Savings

	2019-20	2020-21
Physical Assets	56%	47%
Financial Assets	44%	53%

Source: Handbook of Statistics on the Indian Economy – (2022-23) by Reserve Bank of India

<u>Secondly, let us look at opportunities available in decumulation phase</u>

The total assets under management are more than ₹15 trillion as of March 2021.
Employee Provident Fund Organization has annual accruals of over Rs1.2 trillion of its 50 million active subscribers. More than 52% of active subscribers are in age group of 23 -35#. Assets in EPFO would grow on year on year basis and more subscribers are going to retire and definitely need assistance/advice on how to spend down their nest egg.

People in retirement need more advice on decumulation, on tax harvesting, on how not to run out of money in old age.

Depends upon age group, service expectations from intermediaries differs from Paper statements to digital dashboards at a click of a button. Preferences varies from working with human financial advisor or a machine interaction that runs on pre-defined algorithm to seek advice for the decumulation phase of retirement.

It is very evident that there is a huge demand for hybrid model that combines high tech and high touch fulfilling needs.

#Source: EPFO India - March 2021

Conclusion

We only get old once. And so, we don't have a lot of practice making these very consequential decisions. Individuals should have a clear goal when they are planning for retirement, which will prepare them to be confident enough and be prepared to face retirement. Nonetheless, any goals or plans made for retirement should be achievable or attainable. Hence they will not lose their direction and will be able to follow the scheduled plan properly

Retirement planning should be presented as 'Solution for life' rather grouping it with other short-term financial goals. Reiterating again, Personal Financial Education should be given importance from childhood days through formal education to develop financial discipline at an early stage.

One should also obtain professional advice when they face problems in preparing their retirement plans.

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