PENSION PLAN

A plan for your sunset years

Aegon Religare's pension plan scores well on charges and features, and could be your vehicle for retirement savings, that is, if you are not willing to wait for the NPS

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AEGON RELIGARE Life insurance recently launched a unit-linked pension plan. The plan is banking on its competitive prices and features, like the lifestyle fund, to attract customers.

Features

PREMIUM PAYMENT. The plan offers flexibility to increase or decrease the premium amount paid. While you may start investing, say, Rs 5,000 a month, this should ideally increase with every salary increment. However, most of us are not disciplined enough to do so. The plan offers two choices — level premium, and and increasing premium, where premium increases by 5 or 8 per cent every year. You may shift from increasing premium to level after three policy years, but not in the reverse direction.

AUTO-REBALANCING. It allows you to stick to a particular portfolio allocation throughout the tenure. The fund managers rebalancing your portfolio at the end of each policy year.

ADDITIONAL UNITS. For policies that continue for more than 10 years, the insurance company will bump up the fund value by offering additional units. After the 10th policy year, the company will add 0.4 per cent of the fund value every year for the next four years, 0.6 per cent of the fund value for the next four years, and 1 per cent thereafter.

OTHER FEATURES. The plan offers two riders — term and waiver of premium. After the fifth year, the plan does not deduct any surrender charge. After the first three policy years, the policyholder is allowed to make partial withdrawals, subject to limits. The plan is open for subscription to those between age 20 and 60.

FUND CHOICES. The company offers a six funds — five regular and one lifestyle fund. The regular funds are: pension secure, debt, balanced, enhanced equity and index fund. The index fund mirrors the Nifty 50. The lifestyle fund is designed for non-savvy investors. It works on a formula: a percentage equal to 80 less the age of the policyholder is invested in equities and the rest in debt. With the passing of each policy year, it tilts more heavily towards debt. In the last three policy years, all premiums received are allocated to Pension Balanced, Secure and Debt funds. Says Mumbai-based financial planner Vishal Dhawan, "It's a good option that ensures safety of funds as you near your golden years."

CHARGES. The plan looks quite competitive on this count. The premium allocation charge is 25 per cent for the first year and zero thereafter. From second year onwards, the company deducts only the fund management charge and the policy administration charge. The policy administration charge is Rs 52.50 per month for calendar year 2009, and will keep increasing by 5 per cent each policy year. The fund management charge is competitive.

RETURNS. Assuming a return on investment of 10 per cent, Rs 5,000 paid monthly under level premium will after 30 years fetch an internal rate of return of 9.17 per cent, and the increasing premium option, 11 per cent.

RETIREMENT. On retirement, you have two options: take one-third of the corpus collected and buy annuity with the rest, or buy annuity for the total amount. Depending upon the corpus collected and after deducting its charges (annuity rate), the insurance company will pay you a fixed monthly income.

WHAT IT COSTS YOU

FUND MANAGEMENT CHARGE

FUNDS	CHARGE (%)
Pension Secure	1.00
Pension Debt	1.10
Pension Balanced	1.50
Pension Enhanced Equity	1.75
Pension Index	1.25

SURRENDER CHARGE

NO OF YRS [1]	% OF FUND VALUE
< 1	50
1–2	30
2–3	15
3–4	5
4–5	5
>5	Nil

[1] for which premium paid

Missing pieces

Although the plan offers a lot of choices, policyholders must make the choices before entering into the contract. Any change made after the commencement of the policy will attract a fee of Rs 200.

Besides, all pension plans from life insurance companies have a few shortcomings. According to current tax laws, the annuity you receive during retirement will be treated as an income and will attract an income tax. Industry experts are hopeful that this norm will change in future.

Moreover, such plans come with restrictions regarding vesting age and the amount that you are allowed to withdraw at the end of the accumulation phase. For instance, this plan does not allow you to retire before 50 or continue vesting beyond age 70.

What experts say

While the New Pension System(NPS) is the cheapest option, so far it is not open to private sector employees (this is likely to happen by April). This plan scores on a few counts. "Although the policy administration charge will keep increasing by 5 per cent every year, overall, on the expense front, the policy looks competitive," says Dhawan.

"The availability of the increasing premium option makes the plan better," adds Dhawan. Moreover, this plan also offers a healthy mix of choices. If policy holders do not wish to depend on a fund manager to manage their funds, they can opt for the index fund that will mirror the Nifty.

On the whole, the plan looks decent enough for taking care of your retirement needs. ◆

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