

Give retirees choice of variable annuities



TRUTH BE TOLD

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My friend Prakash, a fitness enthusiast, exercised daily—running, weightlifting, and stretching. At 60, his doctor advised him to slow down, recommending leisurely walks instead.

He drew an analogy between this and India's annuity market. Annuities, offered by life insurance (LI) companies, provide periodic pension payouts in exchange for a lump-sum premium.

India's stagnant annuity market gained attention after the finance minister proposed a regulatory coordination forum to develop it.

Prakash, now 60, built a retirement corpus of ₹1 crore through the National Pension System (NPS). He withdrew 60 per cent tax-free, leaving ₹40 lakh for an annuity. LI companies offered him only "guaranteed" lifetime payouts. Even if he chooses an annuity without a return of corpus, he would get ₹30,000 per month fixed for life.

Prakash is willing to take a risk to get inflation-adjusted returns, but no option is available to him. Despite building the corpus through his calculated risk-based NPS investment, he is now being forced into a low-return "guaranteed" structure—akin to being barred from exercising just because he turned 60.

Retirees deserve the choice of variable PPPs to hedge against inflation in retirement that could sometimes extend as long as their working years

yielding around 6.75 per cent annually. The issue? These fixed-for-life pension payouts are offered by LI companies by investing the premium in "safe" but low-yielding government bonds. The pension will not keep pace with inflation. If inflation averages 6 per cent annually, his ₹22,000 pension would be equal to ₹5,000 in today's purchasing power—making it insufficient.

His concern is valid. A 50:50 equity-government securities NPS portfolio has averaged 10 per cent annual return over the past decade. If his ₹40 lakh corpus earns the same, he could start with ₹22,000 monthly, adjusted for 6 per cent inflation, reaching ₹89,000 monthly at age 85—while preserving the corpus for nominees for the first 20 years.

While this is a simplistic projection assuming a stable return of 10 per cent every year, better risk-adjusted models exist that take variations into account, including periods of negative return. As long as the word "guaranteed" is not part of the equation, the numbers may not change much.

Globally, in countries like the United States of America (USA), Canada, Australia, and across Europe, pension markets offer a range of Pension Payout Products (PPP)—fully variable, partly fixed, or

completely fixed (like India's). The key difference? Choice is available to investors, and it is they who choose whether to take the risk or not.

LI companies haven't launched variable PPPs despite no regulatory barriers. The mutual fund industry has a demonstrated track record of selling risk-based products responsibly without underplaying the risk.

Truth be told, the government can also benefit from a successful variable PPP. If private-sector employees adopt it, government employees could follow. The Unified Pension Scheme (UPS) ensures a minimum pension payout for every government employee. After retirement, this individual retirement corpus is transferred into a common pool for the payment of fixed pensions.

Retirees aren't children in need of overprotection. They deserve the choice of variable PPPs to hedge against inflation in retirement that could sometimes last as long as their working years. Let's hope they are given that choice, even as those who need it continue to have access to the existing fully guaranteed plan.

Disclosure: As a Securities and Exchange Board of India (Sebi)-registered investment advisory firm, the author's firm recommends investments in mutual fund schemes for its clients and thus can be said to be interested in the mutual fund industry.

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HEALTH INSURANCE FOR SENIOR CITIZENS

Struggling to afford premium? Go for plan with deductibles

If you are facing challenges in obtaining coverage, apply for a specialised senior citizen plan

SANJAY KUMAR SINGH & KARTHIK JEROME

On January 30, 2025, the Insurance Regulatory and Development Authority of India (Irdai) issued a circular directing insurers not to revise the premium for senior citizens by more than 10 per cent per annum.

Chorus of complaints

Three factors lead to an increase in health insurance premiums. One is medical inflation, which in India is around 14-15 per cent. The second is the insurer's claims experience, and the third is a change in the age bracket.

Health insurance premiums do not necessarily increase every year. A firm may keep the premium constant for three years, after which it might bump it up substantially.

Senior citizens have a higher propensity to fall ill because of their advanced age. As a result, insurers tend to increase their premiums by a higher amount.

Greater certainty

The imposition of a cap is expected to have a positive impact. "It will provide comfort to senior citizens that their premiums will go up within a certain limit.



be incentivised to purchase health insurance," says Siddharth Singhal, head of health insurance, Policybazaar. Senior citizens will also find it easier to budget for this expense.

Insurers are now expected to be conscious that the regulator keeps an eye on pricing for senior citizens. "They will now give a lot of thought to how they price their new products and hike their premiums over the years," says Mehta.

Goel says that the mindset of locking in customers at a low price and then jacking up the price later is expected to die out.

Higher initial prices

This measure could possibly have some negative effects as well. Insurers may set the initial price higher. "They will want to make sure they get the pricing right at the time of launch," says Mehta.

Earlier, whenever there was a price increase, insurers would add some features to the plan. We might see limited instances of this in the future," says Goel.

COST OF ₹25 LAKH COVER FOR A RETIREE

Premiums are for a 60-year-old male residing in Delhi

Table with 3 columns: Insurer, Plan, Annual premium (in ₹)

Source: Policybazaar

Managing high initial premiums

One option for reducing the premium is to go for a deductible. This is the amount of the claim the insured pays, with the insurer paying any amount above it.

Seniors should also meet smaller claims out of their own pockets. "Maximize no-claim bonus by maintaining good health and avoiding unnecessary claims," says Ajay Shah, head of distribution, Care Health Insurance.

When the need for hospitalisation arises, go to a preferred partner network hospital. "Using such a hospital can get you a discount on premium of up to 15 per cent," says Singhal.

Instead of waiting till the age of 60 or later, buy health insurance at an early age, when more options are available. "This will allow you to get a good plan at a reasonable price," says Goel.

Dealing with tight underwriting norms

Underwriting norms for senior citizens tend to be strict and could get stricter in the coming days. "Look for specialised senior citizen plans, which tend to have more accommodating underwriting standards," says Yadav.

When an insurer turns down your application, try another. "This, according to Shah, can be effective as underwriting criteria vary across companies.

Go through a pre-underwriting process. "Provide your medical reports and get a view from the insurer about whether they are likely to accept your proposal," says Mehta.

Goel suggests enlisting the help of a good broker who may be able to guide you regarding which insurer is likely to accept your case.

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DMI HOUSING FINANCE PRIVATE LIMITED advertisement with contact details

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