Overview of Pension Plan

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An old quote states ~ Past is History, Futu is mystery and Today is a Gift that is why it called Present, so live it to fullest and live t "NOW" moment. Of course it would be nice we all can only live in present and not atter to gaze in the future, in real world though, there are challenges in present and everyo should secure his future financial needs. T is where Pension Plans come into picture. These are individual plans that gaze into th future financial needs based on inflation, earning potential, expected expenses and current capability to invest for future so tha you don't have to reach a stage and wonde in old age on how to get the required finan necessary to meet your objectives and not give up the best things in life.

These plans are offered by life insurance companies to help individuals plan effectively for their retirement. Pension plans provide individuals with a regular income in their golden years. They also provide tax benefit which is limited to INR 10,000. Tax benefits is just one part though and it is important that one evaluate pension plans from a retirement planning perspective to live a happy and peaceful life post retirement.

What are pension plans?
In simple words, pension plans (also called retirement plans) are offered by insurance companies to help individuals build a retirement corpus. On maturity this corpus is invested for generating a regular income stream, which is referred to as pension or annuity. Pension plans are distinct from life insurance plans, which are taken to cover risk in case of an unfortunate event. The plans can be chosen from conventional or ULIP's and each offers different return values.

"With cover" and "without cover" plans

Pension plans are also classified as 'with cover' and without cover' plans. The 'with cover' pension plans offer an assured life cover (i.e. sum assured) in case of an eventuality.

Under the 'without cover' pension plan, the corpus built till date (net of deductions like expenses and premiums unpaid) is given out to the nominees in case of an eventuality. There is no sum assured in this case.

'Immediate annuity' plans and 'Deferred annuity' plans

Pension plans are also classified as 'immediate annuity' plans and 'deferred annuity' plans. In case of immediate annuity plans, the annuity/pension commences within one year of having paid the premium (which is usually a one-time premium).

The premium paid for the immediate annuity policy is also known as the purchase price. Currently in India, very few life insurance companies offer immediate annuity plans. LIC's Jeevan Akshay II is an example of an immediate annuity pension plan.

In case of deferred annuity, the annuity/pension does not commence immediately; it is 'deferred' up to a time, which is decided upon by the policyholder. For example, if an individual buys a pension plan with tenure of 30 years (also known as the 'deferment period'), then his annuity will begin 30 years hence.

Deferred annuity premiums can be paid as a 'single premium' or as regular premium. Presently, most pension plans available are deferred annuity plans.