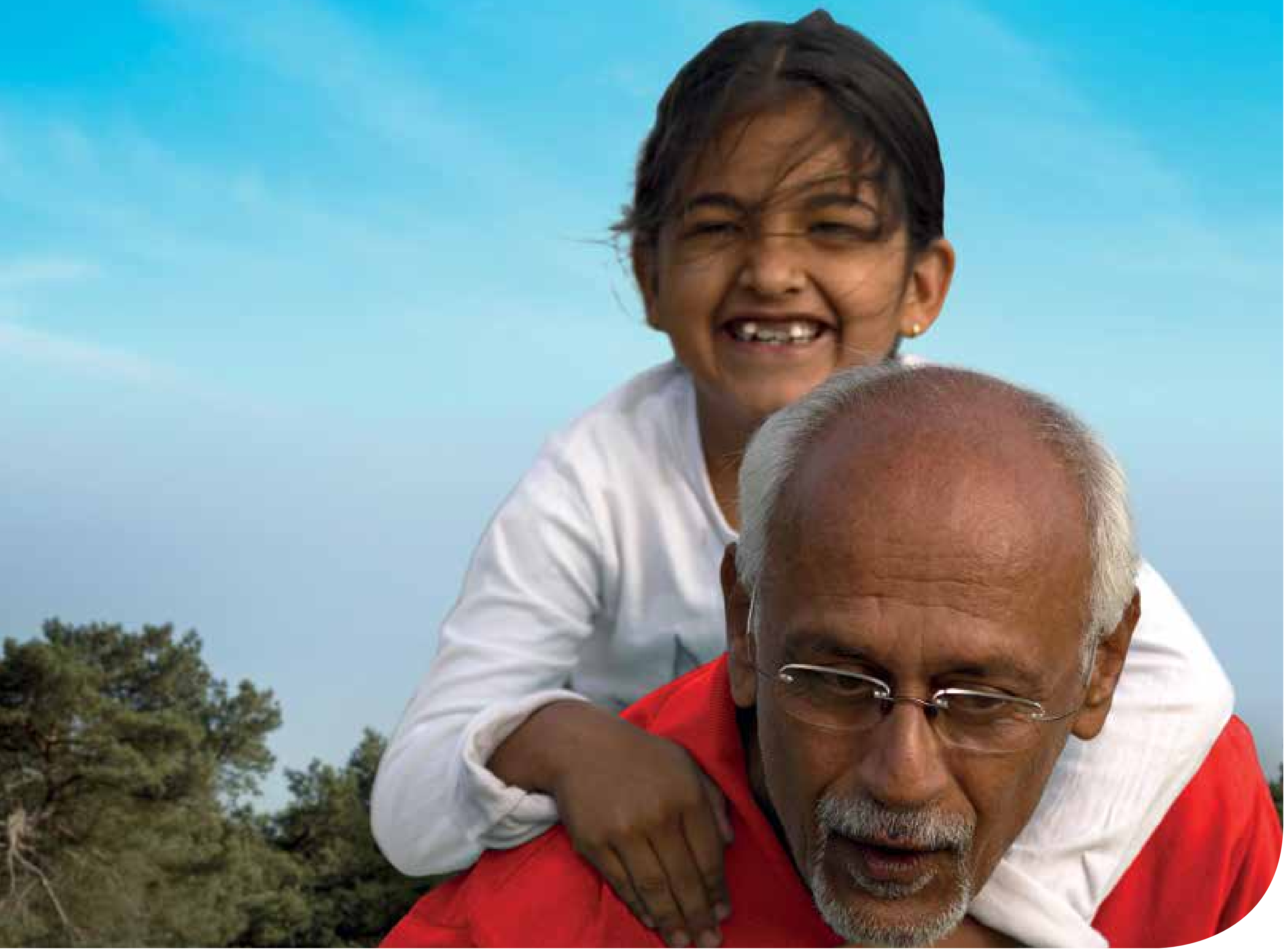
Friends Provident International

Securing your future



As an Indian expatriate living and working abroad, it's likely that you are able to earn more than you would at home. This could put you in a very strong position when it comes to financial planning and securing your future. In particular, when and how you retire.

Giving up work might seem like a long way off but the longer you delay making contributions into a retirement fund, the more it could cost you in the long run.

We are living longer so, as a result, we need our retirement fund to last longer too. If you wait too long, you may find the cost of securing a comfortable retirement becomes prohibitive. At a time when you may want to relax and spend time with your family, you shouldn't have to keep on working.

By making appropriate provision early on, you could take control of exactly when you finish working and maintain a high standard of living in your retirement.

Our range of financial planning solutions could help you achieve your retirement goals.

Please remember that investment involves risk. Fund prices may go up and down and you could get back less than you paid in.

How much will I need?

To effectively plan for your retirement you need to consider:

- Where you would like to retire.
- How much it will cost to maintain your current standard of living in retirement.
- Other funds you have set aside for your retirement.
- The effect inflation will have on your savings.
- Your appetite for investment risk.

If you have accumulated a lump sum already, you should consider investing in a single premium bond. By setting funds aside now and investing wisely, your investment could generate an income that will enable you to enjoy the lifestyle you choose throughout your retirement.

Alternatively, you may prefer to save a fixed amount on a recurring basis, in a regular savings plan. You could pay on a monthly, quarterly, half-yearly or annual basis and would have the flexibility to make additional top-up payments.

Creating your retirement fund

By making appropriate provisions early on, you can take control of exactly when you finish working and secure a high standard of living in retirement.

As an expatriate, your retirement planning is likely to involve building a portfolio of assets such as pension schemes and investments, rather than relying on a single pension plan, all of which could provide you with capital and income to fund your retirement.

There's no single investment that can be called the best: a diversified portfolio of different investments is likely to be more appropriate. You may have been building up a retirement fund if/when you lived in India. Whether this is a pension plan, mutual fund or a National Pension System (NPS), you may wish to continue making contributions to this fund.

Being a non-resident Indian for tax purposes affects how you continue to pay into any retirement fund.

Your existing Indian retirement fund

You can continue contributing to your retirement funds in India while living overseas, but you should take into account the risks i.e. taxation and inflation, which may potentially reduce the value of your retirement fund when you retire.

Let's look at commonly used retirement focused savings or investment products in India:

Life insurance pension plans

There are countless unit-linked pension plans offered by Indian life insurance companies. These are bundled products, offering the benefits of both insurance and investment. As per Indian life insurance regulations, these pension plans offer in-built guarantees like death cover and a maturity benefit of at least 101 percent of the entire premium paid or the fund value, whichever is higher. Policyholders can withdraw 25 per cent of the fund value during an emergency, including a serious illness, marriage and the education of their children.

These guarantees push costs upwards as some insurers levy a 'guarantee charge' and they also restrict the potential of returns because to ensure the guarantee is met, the allocation of premium into equities is restricted. Such plans suit conservative investors, who are looking at market-linked returns with lesser volatility.

Another restriction, of these pension plans is that at the time of retirement, only 60% of the accumulated retirement fund can be taken as lump sum, and the balance must be used to purchase an annuity such that 20% is bought from the original insurer through whom the pension plan was purchased and the remaining 20% from any other insurance provider.

Currently annuity income is taxed in India as per income tax tiers. However, specified commuted pension income (i.e. the lump sum amount) received from such schemes is exempt from taxes in India subject to conditions prescribed as per section 10(10A) of the provisions of the Income Tax Act, 1961 (the Act).

If you are planning to retire in another country, this annuity income may be affected by currency risk.

For more details:
www.policyholder.gov.in/Pension_Policies.aspx

Mutual funds schemes – retirement focused

While Indian mutual fund investors are spoilt for choice, detailed research and financial advice is required to select funds to meet your retirement goals.

Some aspects relevant to choosing the right mutual funds for you include:

- Your attitude to risk
- Your investment time horizon
- The fund charges and total expense ratio
- How the funds will be taxed on your retirement (in India or elsewhere)

The table opposite shows how tax can affect your gains in India:

Type of funds	Holding period		
	Up to 12 months	More than 12 months but less than 36 months	More than 36 Months
Equity	15%* tax applicable on short term capital gains	10%* tax applicable if total long term capital gains# are more than INR 1 lakh** without benefit of indexation	10%* tax applicable if total long term capital gains# are more than INR 1 lakh** without benefit of indexation
Debt	Short term capital gains taxed as per income tax tier	Short term capital gains taxed as per income tax tier	20%* tax applicable on long term capital gains# with benefit of indexation

* Applicable Surcharge (if any) & Health and Education Cess will be charged additionally.

** Only gains made after 31 January 2018 should be taxable under grandfathering provisions. Tax rates based on the assumption that the Mutual Fund is listed in India.

\# Above long term capital gain can be claimed as exempt under section 54F of the Act by investing the gains into new residential house property and subject to fulfillment of specified conditions.

For more details:
www.amfiindia.com/investor-corner/knowledge-center/equity-funds.html

www.cleartax.in/s/different-mutual-funds-taxed

Public Provident Fund (PPF)

The Public Provident Fund (PPF) has stood the test of time in India as a retirement vehicle. The PPF has a term of 15 years but the maximum amount you can invest in PPF is **INR 1.50 lakh (USD 2,097)** per annum. The interest rate on PPF is set by the government every quarter based on the yield (return) of government securities. Since the interest earned and the principal invested is backed by sovereign guarantee, it makes it a relatively safe investment. Under income tax law, any amount received from a PPF account is exempt from tax in India, irrespective of your residential status.

However, under the PPF Scheme, NRIs are not eligible to open a new PPF account. They are only allowed to contribute towards PPF in India on a non-repatriation basis until maturity of the PPF account that was opened when resident in India.

On 3rd October 2017, a notification was issued by the Ministry of Finance amending the provisions of the PPF Scheme: if a resident opened an account under the PPF scheme and subsequently became non-resident during the term, the account shall be deemed to be closed from the date of change of status from resident to non-resident. However, in February 2018, the above amendment notification has been held in abeyance until further instructions by an Office Order from the Ministry of Finance. Accordingly, an NRI can continue to contribute towards PPF in India on a non-repatriation basis until maturity if the PPF account was opened while resident in India.

For more details:
www.indiapost.gov.in/Financial/Pages/Content/Post-Office-Saving-Schemes.aspx

www.cleartax.in/s/ppf

National Pension System (NPS)

The National Pension System (NPS) is an unlimited long-term retirement focused investment product managed and regulated by the Pension Fund Regulatory and Development Authority (PFRDA). You must wait until you are 60 before drawing an annuity from a life insurance company and the annuity must be based on at least 60 percent of the retirement fund, while the balance can be withdrawn as a lump sum. Neither the return accumulated over the period, nor the annuity (pension) are guaranteed and entirely depend on the underlying asset classes which can be, amongst others, equity, corporate bonds and government bonds. NPS comes with tax advantages on the amount invested, however, the annuity remains taxable.

Currently, the tax treatment for contributions made in the Tier 1 scheme of the NPS account is Exempted-Exempted-Taxed (EET) i.e., the amount contributed is entitled for deduction from total gross income up to **INR 1.50 lakh (USD 2,097)** (along with other prescribed investments) as per section 80C of the Act as amended from time to time. Additional deductions of **INR 50,000 (USD 699)** per annum as per section 80CCD (1B) of the Act are available to the subscriber for his own contribution to NPS. The growth accrued on the contribution and the amount used by the investor to buy the annuity is not taxable. On withdrawal/closure of the NPS account after the age of 60, 60% of the accumulated fund will be non-taxable. However, pension payments received from an annuity plan will be taxable. [1]

For more details:
www.india.gov.in/spotlight/national-pension-system-retirement-plan-all

Advance taxes should be paid on the above income after reducing for the taxes deducted at source (if any) by the payer in India.

The cost of delaying your retirement planning

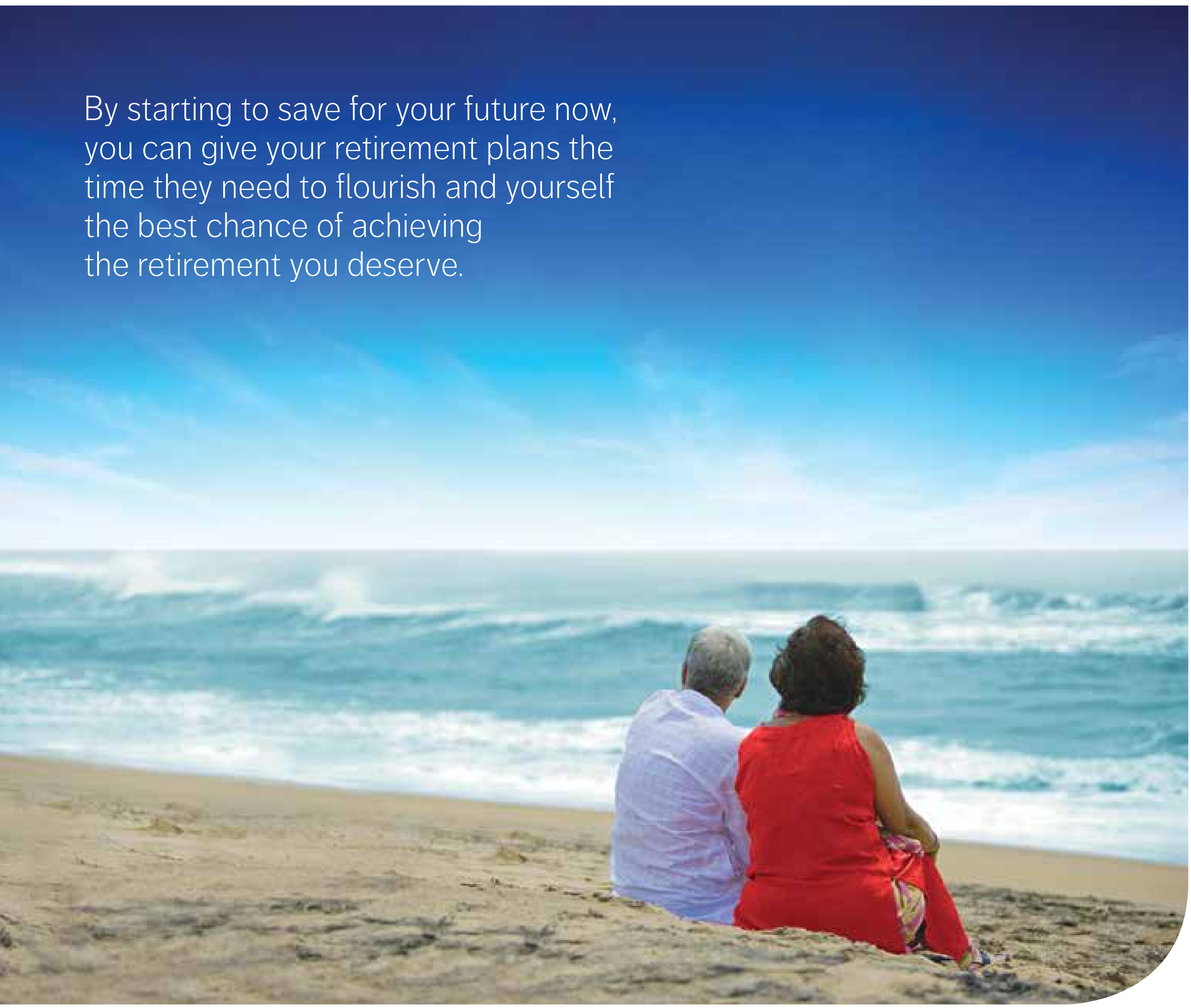
Let's assume you are aged 30 and want to give up work at 55 and retire with a standard of living equivalent to today. Currently, the average monthly cost of living in main Indian cities like Delhi, Mumbai, and Bangalore is around **USD 1,239**[2] **(INR 88,575)**. However, let's assume that you would like to maintain a higher standard of living with an income of **USD 2,098 (INR 1.50 lakh)** per month. By the time you retire in 25 years, if we assume inflation runs at 5% p.a.[3], you will actually need an income of **USD 6,786 (INR 4.85 lakh)** per month.

The average life expectancy of an Indian resident is 69.4 years[4], As an NRI it is possible that you have a higher standard of living, and access to better medical facilities, than you would in India. This in turn means that your life expectancy may be greater. Let's assume you live until 75 and your investment grows by 5% a year post retirement. You would need an overall retirement fund of **USD 1,042,130 (INR 7.45 crore)** to support that level of income (excluding product and fund charges).

To reach this retirement fund, you would need to save **USD 1,526 (INR 1.09 lakh)** every month from today (assuming a 6% growth rate and excluding any product and fund charges).

But if you delay your saving for retirement by just five years, you would need to save an additional **USD 754 (INR 53,918)** every month to achieve the same monthly income of **USD 6,786 (INR 4.85 lakh)**.

Delaying saving for retirement by just five years could mean you would have to save USD 180,878 (INR 1.29 crore) more!



Securing your family's future

You should consider safeguarding your spouse's future should anything happen to you and you become unable to meet your financial obligations. Taking out a life and/or critical illness policy insurance policy will enable your spouse to continue to live their life even if you are not able to be there to share it with them.

For example, you could ensure that the **USD 1,042,130 (INR 7.45 crore)** retirement fund would be covered in the event of your death and becomes available to your spouse for his or her post retirement life.

Life insurance cover (including total permanent disability) for an insured sum of **USD 1,042,130 (INR 7.45 crore)**, for a 25 years term, would typically result in monthly premiums of just **USD 116.23 (INR 8,312)**.[5]

Another aspect of retirement planning you should consider is that your planned retirement fund should not be jeopardized in the event you suffer from a critical illness or a total permanent disability.

For example, you could ensure that in the event of you suffering a critical illness or total permanent disability, cover is arranged that would help you meet the expenses while you recuperate so you don't have to dip into your retirement fund at this important time. Critical illness cover (including total permanent disability) for an insured sum of **USD 150,000 (INR 1.07 crore)**, for a 25 year term, would typically result in monthly premiums of just **USD 48.70 (INR 3,483)**.[5]

Reach a retirement fund of USD 1.04 million (INR 7.45 crore) by saving just USD 1,526 (INR 1.09 lakh) per month

Protect a projected retirement fund of USD 1.04 million (INR 7.45 crore) with life cover for just USD 116.23 (INR 8,312) per month

Protect your retirement fund with critical illness cover of USD 150,000 for a premium of just USD 48.70 (INR 3,483)

Flexibility for expatriates

If you do not intend to live in India for some time, or if you expect to be mobile, continuing contributions to Indian pension plans or any other domestic pension scheme can be unattractive, as these arrangements are likely to be restricted in their portability, taxation and benefits.

You may find that the tax-efficient investment growth offered by international life company savings and investment plans makes them an attractive alternative to domestic retirement plans.

Through a regular savings plan, for example, you can make contributions towards retirement in a tax-efficient manner. You would have flexibility in how you make contributions and how you take the benefits at the end of the savings term.

You choose to pay on a monthly, quarterly, half-yearly or annual basis and can make additional top-up payments, for instance when you receive bonuses or dividends. The multi-currency options of these plans can be a particularly useful feature for expatriates.

If you have accumulated a lump sum already, you should consider investing in a single premium bond. By setting funds aside now and investing wisely, your investment could generate an income that enables you to enjoy the lifestyle you choose throughout your retirement.

Your investment in an international savings plan or single premium bond will be tax efficient if you were to return to India, depending on your residency status. Please refer to our Indian Tax guide for more details.

Assumed exchange rate is 1 US Dollar (USD) equals 71.51 Indian Rupee (INR).

www.fpinternational.com

Visit our website to learn more about our range of flexible savings, investment and protection plans.

Speak with your financial adviser to see how we could help you plan for your future.

About Friends Provident International

We are leading financial services provider, with an reputation of trust, commitment and integrity, offering financial solutions to customers throughout their lives.

Friends Provident International has over 40 years of international experience and our heritage dates back over 180 years.

All currency conversions correct as of October 2019.
All figures are rounded off to nearest zero.

Sources

1 https://www.india.gov.in/spotlight/national-pension-system-retirement-plan-all

2 https://www.numbeo.com/cost-of-living/

3 https://www.business-standard.com/article/news-cm/cpi-inflation-rises-to-3-05-in-may-2019-119061200946_1.html

4 http://www.geoba.se/population.php?pc=world&type=015&page=2

5 Premiums are based on a life cover and Critical illness cover including total permanent disability for a 30 year old Indian male expatriate, living in Dubai, 25 year term.

Data Privacy

We take the responsibility of handling your personal data very seriously and we will only ask you for details required to process your requests to us. Please be aware of our privacy policy – please visit www.fpinternational.com/legal/privacy-and-cookies to view the full policy, or this can be provided on request.

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