

Module III (Exam 2) - Retirement Planning and Employee Benefits (RPEB)

Exam 2 Topic List to the extent of 80% of Total Marks (150) i.e. 120 marks (30 marks reserved for the Module I – Introduction to Financial Planning)

Course Description:

This module would cover the knowledge of basic strategies towards achievement of objectives of a client of his/her post-retirement financial and other needs and ways to systematically build the required corpus. The knowledge and skills of exploring and constructing various retirement solutions such as income flow from a purchased annuity and/or a fixed asset as well as of retirement products available or devised/customized would be tested. For clients who are employees of an organization – government, quasi-government or private, the superannuation benefits eligible and their assimilation in retirement strategy would be required for a prospective CFP professional. The emphasis would also be on the process of wealth creation and its protection and liquidity aspects in the approaching years to retirement and in the post-retirement period.

Learning Objectives:

At the end of this module, a student should be able to:

1. Understand the importance of retirement planning as a necessary objective in view of increasing longevity, inflation and changing social structure, governmental stance.
2. Enable the client to appreciate retirement goal and demonstrate the ability to evaluate client's financial situation pre and post-retirement.
3. Determine appropriate retirement strategy for the client, account for superannuation benefits and assets to be utilized for income post-retirement.
4. Determine the tax implication of annuity or stream of income post-retirement and the legal structure for encashment or bequeathing of assets.
5. Implement the retirement solution in consultation with the client to achieve the objective of post-retirement income stream, monitoring progress periodically.

Detailed Topic List:

The topics are structured into five distinct sections as follows. The weights of these individual sections in relation to the Module 'RPEB' are given along with testing objective and the nature of testing. A summary of distribution of marks is provided below:

Pattern of Question Bank RPEB module – 80% in Exam 2											
		Section-I		Section -II		Section -III		Section -IV		Section -V	
		No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks
Marks Category	1	10	10	3	3	3	3	4	4	8	8
	2	4	8	2	4	2	4	2	4	2	4
	3	0	0	5	15	5	15	2	6	0	0
	4	0	0	1	4	4	16	3	12	0	0
Total		14	18	11	26	14	38	11	26	10	12

Total Items: 60 / Total Marks - RPEB Module: 120

Total Marks – Exam 2: 150

Section I: Employee Benefits and Superannuation Benefits

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2'
Total weight to Exam 2	12%
Nature of Test Items	10 items: 1 mark each 4 items : 2 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
1.1. Employee Benefits	'Grade 1'
Detailed Topics	
1.1.1. Salary and Bonus 1.1.2. Reimbursement of expenses- Medical, etc. 1.1.3. Health benefits 1.1.4. Group insurance 1.1.5. Other allowances- Leave Travel Allowance (LTA), Transport Allowance, etc. 1.1.6. Loan facility- Concessional loans	
1.2. Superannuation Benefits and Schemes	'Grade 1 & 2'
Detailed Topics	
1.2.1. Gratuity provisions 1.2.2. Superannuation Funds – Tax Benefit to Employers and Employees 1.2.3. Benefits - on retirement, Voluntary retirement and Death 1.2.4. Leave Encashment- Tax free limits	
1.3. Defined Benefit Plans and Limitation	'Grade 1 & 2'
Detailed Topics	
1.3.1. Characteristics of Defined Benefit plans 1.3.2. Workmen Compensation Scheme 1.3.3. Employees Deposit Linked Insurance Scheme 1.3.4. Applicability and withdrawal norms of Defined Benefit plans 1.3.5. Taxability of Defined Benefit plans	
1.4. Defined Contribution Plans	'Grade 1'
Detailed Topics	
1.4.1. Characteristics of Defined Contribution plans 1.4.2. Employees Provident Fund- Types, EPF rules, modes of operation and investment norms 1.4.3. Employees Pension Scheme- Features, funding of scheme, EPS Rules 1.4.4. Employees State Insurance 1.4.5. Central Government Employees Group Insurance Scheme 1.4.6. Applicability and withdrawal norms of Defined Contribution plans 1.4.7. Taxability of Defined Contribution plans	

Section II: Life Cycle Analysis, Retirement Needs and Factors in Planning

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skills: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 2	17.33%
Nature of Test Items	3 items : 1 mark each 2 items : 2 marks each 5 items : 3 marks each 1 item : 4 marks

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
2.1. Introduction to Retirement Planning	'Grade 1, 2,3 & 4'
Detailed Topics	
2.1.1. Significance of Retirement Planning 2.1.2. Purpose and need of Retirement Planning 2.1.3. Role of Financial Planner in Retirement Planning 2.1.4. Importance of starting early 'Grade 3&4'	
2.2. Analysis of Client's Life Cycle	'Grade 1,2,3 & 4'
Detailed Topics	
2.2.1. Early earning stage and Established earning stage 2.2.2. Stability and Visibility of Earnings 2.2.3. Pre-retirement phase (Accumulation) and Post-retirement phase (Distribution) 2.2.4. Life expectancy vs. Retirement age 2.2.5. Early retirement vs. Delaying retirement 'Grade 3' 2.2.6. Post-retirement activities and goals 2.2.7. Risk of living longer than expected 'Grade 4'	
2.3. Factors Considered in Retirement Planning	'Grade 1,2,3 & 4'
Detailed Topics	
2.3.1. Nature of income- Salaried, Business or Self-employed 2.3.2. Standard of living 2.3.3. Time horizon 2.3.4. Inflation rate- Accumulation and Distribution stages 'Grade 2&4' 2.3.5. Profile of Assets sustainable through retirement 2.3.6. Income generation potential of fixed assets 'Grade 3' 2.3.7. Liquidity aspects of fixed and other assets 2.3.8. Profile of financial and other liabilities near retirement age 'Grade 3'	
2.4. Analysis of Client's Retirement Needs	'Grade 2,3 & 4'
Detailed Topics	
2.4.1. Determine financial objectives on Retirement 2.4.2. Estimate household expenses on Retirement 2.4.3. Corpus estimated for funding post-retirement needs 'Grade 3' 2.4.4. Alternative arrangements for supplementing retirement corpus 'Grade 4' 2.4.5. Consider escalated medical expenses post-retirement 'Grade 4' 2.4.6. Charitable activities and social work 'Grade 4'	

2.5. Wealth Creation- Factors and Principles	'Grade 2 & 3'
Detailed Topics	
2.5.1. Income and savings ratio 2.5.2. Allocation of savings to asset classes 2.5.3. Consistency in savings and monitoring 2.5.4. Taking strategic advantage of opportunities in various Asset Classes 2.5.5. Overall effective yield and tax aspects 2.5.6. Wealth protection and Erosion of wealth	

Section III: Creation and Sustenance of Retirement Fund- Risk Profiling, Strategies Adopted and Modified through Life Stages

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skills: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 2	25.33%
Nature of Test Items	3 items : 1 mark each 2 items : 2 marks each 5 items : 3 marks each 4 items : 4 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
3.1. Retirement Planning Process	'Grade 1,2,3 & 4'
Detailed Topics	
3.1.1. Ascertain client's household expenses continuing through retirement 3.1.2. Estimate average expected inflation rate pre and post-retirement 3.1.3. Estimate client's expenses post-retirement 3.1.4. Ascertain income from fixed assets post-retirement 'Grade 3&4' 3.1.5. Estimate client couple's life expectancy 3.1.6. Estimate corpus to be accumulated 'Grade 3&4' 3.1.7. Ascertain client's current sources of income and saving potential 3.1.8. Prioritize investible surplus in various financial goals including retirement 3.1.9. Ascertain risk profile of client and changes with life stages 3.1.10. Ascertain risk capacity as per age and asset profile 'Grade 3&4' 3.1.11. Ascertain client's Asset Allocation to create retirement corpus 'Grade 3&4' 3.1.12. Optimize rate of return from the chosen Asset Classes 'Grade 3&4'	
3.2. Pre-retirement Strategies	'Grade 2,3 & 4'
Detailed Topics	
3.2.1. Step increase in investment while maintaining asset allocation 3.2.2. Alter allocation strategically to capitalize on asset classes anomalies 3.2.3. Alter asset allocation through life stages to retirement 3.2.4. Provision for contingency fund creation close to retirement 3.2.5. Rebalance accumulated funds in line with defined Asset Allocation 3.2.6. Use of Small Savings Schemes in transitioning to retirement 3.2.7. Hunt for a suitable annuity product to transfer fund near retirement	

3.3. Post-retirement Strategies	'Grade 1, 3 & 4'
Detailed Topics	
3.3.1. Allocate corpus to annuity/other products for regular income stream 3.3.2. Reverse Mortgage facility to supplement retirement income – Fixed Annuity 3.3.3. Reverse Mortgage facility – Lump sum payment and Credit line 3.3.4. Retrenchment of expenses, if any 3.3.5. Choice of annuities – Life vs. Certain, and withdrawal strategy 3.3.6. Government sponsored regular income schemes- Senior Citizens Savings Scheme, Post Office Monthly Income Scheme 3.3.7. Appropriate asset allocation for income generation 3.3.8. Manage contingency funds and supplement them	

Section IV: Provident Fund and Pension Schemes

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skills: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 2	17.33%
Nature of Test Items	4 items : 1 mark each 2 items : 2 marks each 2 items : 3 marks each 3 items : 4 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
4.1. Public Provident Fund	'Grade 1,3 & 4'
Detailed Topics	
4.1.1. Features of Public Provident Fund (PPF) scheme 4.1.2. Applicability and subscription norms of PPF scheme 4.1.3. Loan and withdrawal facility in PPF scheme 4.1.4. PPF - Systematic accumulation for retirement funds 'Grade 3&4' 4.1.5. Tax advantage of PPF scheme	
4.2. New Pension System (NPS)	'Grade 1 & 2'
Detailed Topics	
4.2.1. Features of New Pension System (NPS) 4.2.2. Applicability and subscription norms 4.2.3. Accounts and schemes available under NPS 4.2.4. Investment approaches in NPS - Active and Auto choices 4.2.5. Tax benefits under NPS 4.2.6. Withdrawals norms and other benefits 4.2.7. Functions of Pension Funds managers and NPS Trust	
4.3. Pension Plans from Mutual Funds and Insurance Companies	'Grade 1,2,3 & 4'
Detailed Topics	
4.3.1. Pension plans from insurance companies: Unit Linked Pension Plans 4.3.2. Pension plans from Mutual Funds: Systematic investment/withdrawal 4.3.3. Immediate annuities vs. Deferred annuities 'Grade 3&4'	

4.3.4. Annuities- Period certain, Life certain and Life with period certain 'Grade 3&4'	
4.3.5. Taxation of annuities- On subscriptions and receipts	
4.4. Reverse Mortgage to Supplement Post-retirement Expenses	'Grade 1&2'
Detailed Topics	
4.4.1 Features of Reverse Mortgage	
4.4.2 Lump sum withdrawal 'Grade 3&4'	
4.4.3 Reclaiming property in Reverse Mortgage arrangement	

Section V: Pension Sector Reforms and Regulatory Framework of Retirement Solutions

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical testing clarity of concepts: 'Grade 2'
Total weight to Exam 2	8%
Nature of Test Items	8 items: 1 mark each 2 items: 2 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
5.1. Pension Sector Reforms	'Grade 1'
Detailed Topics	
5.1.1. Demographic trends and coverage of population	
5.1.2. Mandatory contributory system	
5.1.3. Institutional Framework	
5.1.4. Investment architecture	
5.1.5. Operational processes, products and distribution	
5.1.6. State Governments, Autonomous Bodies and Un-organized Sector	
5.1.7. The Project of OASIS Report	
5.2. Regulatory Framework of Retirement Solutions	'Grade 1 & 2'
Detailed Topics	
5.2.1. Payment of Gratuity Act- 1972	
5.2.2. Workmen's Compensation Act- 1923	
5.2.3. Provident Fund and Miscellaneous Provisions Act- 1952	
5.2.4. Provident Funds Act- 1925	
5.2.5. Employee's Deposit Linked Insurance Scheme- 1976	
5.2.6. Employee's Pension Scheme-1995	
5.2.7. Pension Fund Regulatory and Development Authority (PFRDA) 2003	
5.2.8. New Pension System (PFRDA)	