

# MODULE 4 – Retirement and Pension

## UNIT 4.2 - Pension

<p><b>LESSON INTRO</b></p>	<p>Understanding the basics of retirement and pensions is crucial for financial planning and ensuring a comfortable retirement. Some key concepts related to retirement and pensions that the competence is covering include: Retirement Age, State Pension Entitlements, Individual Retirement Accounts (IRAs), Private Pension Funds.</p>
<p><b>PREVIOUS ASSIGNMENT(s) CHECK</b></p>	
<p><b>INTRODUCTION TO THE TOPIC</b></p>	<p>Pensions are financial arrangements intended to give people a source of income during retirement. They are also sometimes referred to as retirement or superannuation in some areas. It guarantees people financial security once they stop working and is a crucial component of retirement preparation.</p> <p>During a person's working years, pensions usually require regular contributions from both employers and employees. With time, these invested contributions build up in hopes of securing a reliable income stream during retirement.</p>

## GENERAL THEORY

Pension plans come in a variety of forms, including:

**Defined Benefit Plans:** Under these plans, retirees get a fixed sum that is decided by various factors, including years of service and past earnings. The investment and longevity risks related to these plans are borne by the employers.

**Defined Contribution Plans:** Under these plans, employers and employees make specific contributions, but the final payout is contingent on the performance of the investment portfolio. 401(k) plans in the US and the Group Registered Retirement Savings Plan (RRSP) in Canada are two such examples.

Individuals can open retirement funds on their own by creating Individual Retirement funds (IRAs). They are available in several formats, each with unique tax benefits and contribution caps, such as Traditional IRAs, Roth IRAs, and SEP IRAs.

Pensions are essential to retirement planning for a number of reasons.

- **Financial Security:** Pensions guarantee a consistent flow of income for retirees, allowing them to pay for living expenses, medical bills, and other necessities.

	<ul style="list-style-type: none"> <li>• <b>Protection Against Longevity:</b> Pensions assist people in maintaining their level of living during their retirement years while life expectancy rises.</li> <li>• <b>Tax Benefits:</b> There are several tax benefits associated with contributions to pension plans, including tax deductions for contributions made and tax deferrals on investment profits.</li> <li>• <b>Employer Benefits:</b> As part of their benefits package, many firms provide pension plans, which aid in luring and keeping talent.</li> </ul>
<p><b>REGIONAL THEORY</b></p>	<p>In Bulgaria there are three types of pension. The first one is the pension for assured length of service and age. As of January 1, 2016, the required age for retirement and insurance service for men and women has increased to 65 years for both sexes and 40 years of insurance service for men and 37 years for women. There are specific requirements and exceptions for people with more specific jobs such as policy makers, military and ect.</p> <p>The second type is early retirement; it is mainly focused on the type of work. For example, worked in mines, a pilot or metallurgical worker.</p> <p>There are two ways:</p>

Pensions from occupational pension funds.

As of January 1, 2016, persons insured in an occupational pension fund who have not chosen to be insured only in the "Pensions" fund of the state social insurance (first pillar) are entitled to a fixed-term occupational pension paid by the occupational pension funds.

Pension from the "Pensions" fund (first pillar).

If individuals have not acquired the right to a pension paid by an occupational pension fund, or have chosen to be insured only in the "Pensions" fund of the state social insurance (first pillar), they are entitled to a lifetime pension paid by the National Social Security Institute

And the third type of pension in Bulgaria is the social pension for old age. People are entitled to a social old-age pension when they reach the age of 70, if the annual income of a family member is less than the guaranteed minimum income for the last 12 months and if you do not receive any other pension, including from another country. For 2023, the guaranteed minimum income is BGN 75 per month.

For more information regarding the pension system in Bulgaria please visit:

	<a href="https://ec.europa.eu/social/main.jsp?catId=1103&amp;intPagelId=4437&amp;langId=bg">https://ec.europa.eu/social/main.jsp?catId=1103&amp;intPagelId=4437&amp;langId=bg</a>
<p><b>EXAMPLES (BOTH REGIONAL AND NON-SPECIFIC)</b></p>	<p>Here are some examples for pension plans all around the world. They vary significantly due to differences in government policies, economic conditions, and cultural norms.</p> <p>In India for example the National Pension System (NPS) is a government-sponsored pension scheme that allows individuals to contribute to their retirement savings through a combination of voluntary and mandatory contributions. The scheme is managed by the Pension Fund Regulatory and Development Authority (PFRDA) and offers various investment options.</p> <p>In New Zealand on the other hand there is a voluntary savings scheme called KiwiSaver that helps individuals save for retirement. Contributions to KiwiSaver are made by employees, employers, and the government, and the funds are invested in various investment options chosen by the individual.</p> <p>For Canada things are quite different. The Canada Pension Plan (CPP) is a government-run pension plan that provides retirement, disability, and survivor benefits to eligible Canadians. Contributions to the CPP are made by employees, employers, and self-employed individuals, and benefits</p>

	<p>are based on earnings history and age at retirement.</p>
<p><b>HANDS ON EXPERIENCE</b></p>	<p>What is a pension?</p> <ul style="list-style-type: none"> <li>a) A savings account for emergencies</li> <li>b) A retirement plan that provides a fixed sum of money regularly to a retired employee</li> <li>c) A loan provided by the government to retired individuals</li> </ul> <p>What is the minimum age to start receiving a state pension in most countries?</p> <ul style="list-style-type: none"> <li>a) 55</li> <li>b) 60</li> <li>c) 65</li> </ul> <p>Which type of pension plan is funded by both the employer and the employee?</p> <ul style="list-style-type: none"> <li>a) Defined Benefit Plan</li> <li>b) Defined Contribution Plan</li> <li>c) Social Security</li> </ul> <p>What is vesting in the context of pensions?</p> <ul style="list-style-type: none"> <li>a) The process of distributing pension funds to retired employees</li> <li>b) The point at which an employee becomes entitled to receive pension benefits</li> <li>c) A legal term related to pension disputes</li> </ul> <p>What is the purpose of a pension fund?</p> <ul style="list-style-type: none"> <li>a) To provide loans to retired individuals</li> </ul>

	<p>b) To invest money for future pension payments  c) To pay for employee salaries</p> <p>In the United States, what government program provides pensions to retired individuals?  a) Social Security  b) Medicare  c) Medicaid</p> <p>Answers to the questions:</p> <ol style="list-style-type: none"> <li>1. b) A retirement plan that provides a fixed sum of money regularly to a retired employee</li> <li>2. c) 65</li> <li>3. b) Defined Contribution Plan</li> <li>4. b) The point at which an employee becomes entitled to receive pension benefits</li> <li>5. b) To invest money for future pension payments</li> <li>6. a) Social Security</li> </ol>
<b>DISCUSSION</b>	<p>Do older individuals have enough knowledge regarding retirement regulations? Do the older individuals know where to look for help or ask questions regarding their retirement?</p>
<b>FEEDBACK AND OTHERS</b>	