Retirement Income Streams

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Introduction To Retirement Planning Streams

Retirement planning is necessary for every individual now a days, due to increase in life expectancy. But some individuals like businessmen or professionals who are not covered under occupational retirement schemes, for them it becomes more important to accumulate corpus for his old age.

Investment options for retirement planning can be divided in two phases:

- Accumulation Stage
- Retirement Stage or Disbursal Stage

Accumulation Stage

It is the stage in our lives where we passed the hurdles of starting careers, college is far behind and we are concentrating on:

- Raising families
- Growing in the careers we have chosen and moving up the ladder
- Moving from starter homes to more substantial housing
- Dealing with more complex investment and tax considerations
- Planning for future generations with estate planning and investment plans
- Financially stable enough to afford more exotic or expensive investments
- Taxes are more complex at this stage with numerous deductions, choices and opportunities.

The investment options available are:

- Bank Deposits
- Public Provident Fund
- Post office savings bank account
- Post office recurring deposit
- Post office time deposit account
- National saving certificate scheme
- Kisan Vikas Patra
- RBI 7.75% (Taxable) Bonds, 2018
- Systematic Investment Plan (SIP) – Mutual Fund
- Equity Linked Saving Scheme (ELSS)
- Pension Plans from Mutual Fund and Insurance Companies

Retirement Stage

It is a stage when a person has no or minimum source of income. He has to rely upon the corpus he built in the accumulation stage of his life.

At this stage risk taking ability of a person is nil or at minimum level. The investment options available at this stage are:

- Senior Citizens Scheme.
- Post Office Monthly Income Scheme (POMIS).

ACCUMULATION STAGE

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Bank Deposits

In accumulation stage for savings purposes different bank deposits accounts can help to pile up fund which can be further invested in long term products with the aiming of fulfilling of retirement goals.

When you deposit a certain sum in a bank with an "insured account", it is called a Bank Deposit.

We can classify the deposits accepted by Indian banks into two main types:

- Demand deposits
- Term deposits.

Demand deposits can be subdivided into two categories: current and savings. Term deposits are also known as "Fixed Deposits". Bank Deposits include money invested in insured bank accounts such as:

- Savings Account
- Current Account
- Fixed Term Account

Fixed Term Deposit Account

- Bank Fixed Deposits or Fixed term deposit is the account where the amount is deposited for a fixed period of time and carries the rate of interest which depends upon the maturity period of the FD and the amount invested.
- The interest can be calculated monthly, quarterly, half-yearly, or annually, and varies from bank to bank.
- They are one of the most common savings avenues, and account for a substantial portion of an average investor's savings.
- The facilities offered by some banks are withdrawal through cheques on maturity; break deposit through premature withdrawal; and overdraft facility etc.

15 Year Public Provident Fund Account (PPF)

The Public Provident Fund Scheme has been introduced by Central Government on 1st July, 1968.

Any resident Individual, above 18 years old can open only one account in his own name or any resident individual can open an additional account on behalf of minor of which he is guardian can open account in this scheme. The account under this scheme can be opened in any branch of the State Bank of India, and its subsidiaries, or in any Head Post Office or any selected sub post office or in any of the nationalized banks.

Under this scheme “Guardian” in relation to a minor means,

- Father,
- Mother,
- Either of the parents,
- A person entitled under the law for the time being in force to have care of the property of minor, where neither parent is alive or where the only living parent is incapable of acting.

Tax & Other Benefits

- The interest recoverable against loan taken from PPF account shall accrue to the Central Government. U/s 80C of the income tax, 1961 investment in PPF is qualified for deduction. Investment in PPF account earns interest 8% per annum compounded annually.(I.E. Effective for 2018-19)
- The interest earned in PPF account is tax free u/s 10(11) of the IT Act. PPF account can be attached by the Income Tax and Estate Duty authorities only. But it has immunity against attachment under a decree/order of a court of law.
- PPF has the lowest risk in default. Liquidity in PPF is poor but loans/partial withdrawals are available.

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National Savings Certificate (NSC)

National saving certificate are generally popular for taking tax benefit U/S 80C. Any adult individual can purchase National Savings Certificate (NSC) in their name. The main features of National Savings Certificates scheme are as follows:

Duration:	6 years
Rate of Interest:	7.6% per annum compounded annually for five year
Place of Investment:	Any post office by cash, local cheque of demand draft
Eligibility	(i) An individual (Above 18 years) (ii) Two individuals (iii) A guardian on behalf of a minor
Limit	There is no limit of investment
Certificate Denominations	Rs. 1000/-
Withdrawals	(i) On Maturity (After 5 years or 10 years) (ii) Premature on the death of the holder or any of the holders.
Nomination	This facility is available
Tax Benefit	Investment eligible for rebate u/s 80c of I.T. Act Annual accrued Interest is also eligible for rebate u/s 80c of I.T. Act 1961

National Savings Certificate (NSC)

Post Office Savings Bank Account (POSB)

- Post Office is the biggest organization of the country serving the people of our nation. It has 1, 54,000 branches out of which 1,30,000 are in rural sector. It has a long history dating back to 1882.

5 Year Post Office Recurring Deposit Account (PORD)

- A 5 Year Post-Office Recurring Deposit Account (RDA) is a banking service offered by Department of post, Government of India at all post office counters in the country. The scheme is meant for investors who want to deposit a fixed amount every month, in order to get a lump sum after five years. The scheme, a systematic way for long term savings, is one of the best investment options for the low income groups.

Post Office Time Deposit Account

Post office time deposit account is a fixed term accounts in which the term of the deposit is fixed for it to mature.

Types of Accounts

- One Year Maturity
- Two Years Maturity
- Three Years Maturity
- Five Years Maturity

The account can be opened by a single adult or two adults jointly, a pensioner to receive / credit his monthly pension, a guardian on behalf of a minor or a person of unsound mind.

The deposits shall be in the multiples of Rs. 200 with no maximum limit.

The deposited amount is repayable after expiry of the period for which it is made viz: 1 year, 2 years, 3 years or 5 years.

Interest, 'calculated on quarterly compounding basis', is payable annually.

Kisan Vikas Patra

Duration:	**Amount invested doubles in 112 months (9 years and 4 months)**
Rate of Interest:	7.7% w.e.f 1.01.2019
Place of Investment:	Any post office by cash, local cheque of demand draft
Eligibility	(i) An individual (Above 18 years) (ii) Two / three individuals in joint names. (iii) A guardian on behalf of a minor (iv) A Trust
Limit	There is no limit of investment
Certificate Denominations	Rs. 1000.00
Withdrawals	(i) On Maturity (ii) Premature after 2 years and 6 months. (iii) Any time in case of death of holder / any of the holders.
Nomination	This facility is available
Tax Benefit	There is no tax deduction at source.

Equity Linked Saving Schemes (ELSS)

- ELSS is a variant of diversified equity funds however these schemes come along with income tax benefits.
- It is an investment option that provides tax saving benefits as well as capital gains.
- Investment in ELSS is eligible for a tax deduction under section 80 (C) of the Income Tax Act.
- The investor can invest in ELSS Rs. 1,50,000- under section 80C. However the income tax deduction comes with a lock-in-period of 3 years.
- ELSS is governed by ELSS 2005 guidelines of Central Board for Direct Taxes, Ministry of Finance, Govt. of India apart from the usual SEBI (Mutual Funds) Regulations, 1996.

Insurance Policies

- Generally return a pre-determined amount on maturity.
- However, some unit linked plans are an exception, but they are not actually investments in the strict sense- a part of the amount goes towards providing insurance cover – which does not earn you a return, while the balance goes into long term investments.
- While fixed rate savings and insurance are useful in their own right and should be part of a well-balanced portfolio, if you are looking for tax benefits coupled portfolio, if you are looking for tax benefits coupled with the earning potential of equities, then consider an ELSS.
- **Risk and Return:** Such schemes carry the same risk as equity diversified schemes. Yet they could deliver better returns since the lock in period gives the scheme's fund manager the freedom to invest without fear of redemption pressures.

Advantages of ELSS over NSC and PPF

- Maturity period of NSC is 5 or 10 years and PPF is 15 years, while that of ELSS is 3 years. So with a lesser lock-in period, one can withdraw the amount.
- Earning potential is very high as it is equity linked scheme.
- Investor gains money during the lock-in period and he also have the option of dividend.
- Systematic Investment Plan is a part of ELSS
- Accident death cover insurance is covered in some ELSS funds.

Pension Plans from Mutual Fund and Insurance Companies

- Pension plans offered by insurance companies
- Pension plans offered by mutual fund companies

RETIREMENT STAGE

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17 Monthly Income Scheme (MIS)

This is one of the most popular schemes of post office among the senior citizens in India. It provides regular monthly income to the depositors plus some bonus at the time of maturity. The main reason for its popularity is its monthly cash flow and security.

Key Features	
Duration:	6 years till 01/12/2011 and thereafter 5 years
Rate of Interest:	7.3% per annum payable monthly (w.e.f 1.01.2018).
Bonus:	Bonus is paid on the deposited amount at the rate of 5%, w.e.f. 08-12-2007
Mode of Investment:	Any post office by cash, local cheque of demand draft
Eligibility	(i) An individual (Above 18 years) (ii) Two / three individuals in joint names. (iii) A minor who has attained the age of 10 years. (iv) A guardian on behalf of a minor/a person of unsound mind.
Limit	Minimum – Rs. 1500.00 Maximum – (i) Rs. 4.50 lakhs for single account (ii) Rs. 9.00 lakhs for joint account
Withdrawals	(i) On Maturity with bonus (ii) Premature (a) After one year with deduction of 2% of deposited amount. (b) After three years with 1% deduction.
Nomination	This facility is available
Tax Benefit	There is no tax deduction at source.

Senior Citizens Savings Scheme

The Scheme is for the benefit of senior citizens and maturity period of the deposit will be five years, extendable by another three years. The scheme is available for citizens above 60 years of age; however a provision has been put in place for individuals who have crossed 55 years of age. Such individuals may invest subject to the conditions that:

- The person has retired under a voluntary retirement scheme or a special voluntary retirement scheme on the date of making the investment,
- The investment is made within three months of the date of retirement,
- A certificate from the employer, indicating the fact of retirement, retirement benefits, along with period of such employment with the employer, is attached with the application form.

Non-Resident Indians and Hindu Undivided Families are not permitted to investing the scheme.

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Key features of Senior Citizen Savings Scheme

- **Place of Investment:** Investments can be made in any post – office by opening an account. Only one deposit can be made in each account; the deposit amount shall be a multiple of Rs. 1,000 and should not exceed Rs. 15,000,000.

- A depositor can operate more than one account subject to the condition that all the deposits taken together don't exceed the specified amount i.e. Rs. 15,00,000. Also more than one account shall not be opened in the same post-office during a calendar month.

- **Rate of Interest Rate:** The scheme will offer an interest of 9.30 per cent per annum payable quarterly. The same will be payable on 31st March, 30th June, 30th September and 31st December each year.

- **Mode of holding:** The depositor can hold an account either individually or jointly with his/her spouse.

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Key features of Senior Citizen Savings Scheme

- **Nomination:** Nomination facility has been provided under the scheme. In the event of death of the depositor, the amount due shall be paid to the nominee. Nomination facility is also available in case of joint accounts.
- **Duration/Maturity:** The scheme has tenure of 5 years. The account can be extended for a 3 years period by making an application.
- **Withdrawals:** Investors will be permitted to prematurely liquidate their investments at any time after the expiry of 1 year from the date of opening of the account subject to the following conditions:
  - In case the account is closed after the expiry of 1 year but before the expiry of 2 years from the date of opening of the account, an amount equal to 1.5% of the deposit shall be deducted.
  - In case the account is closed on or after the expiry of 2 years from the date of opening of the account, an amount equal to 1% of the deposit shall be deducted.