Small Savings Instruments

Why in News?

Despite successive hikes in interest rates on several **small savings instruments (SSIs)** in the last three quarters, the returns on **some of such schemes are still significantly lower** than what they should have fetched (as per calculations released by the **Reserve Bank of India (RBI)).**

What are Small Savings Instruments?

- **About:**
  - Small savings instruments **help individuals achieve their financial goals over a particular period.**
  - They are the **major source of household savings** in India.
  - Collections from all small savings instruments are credited to the **National Small Savings Fund (NSSF).**
- **Classification:**
  - The small savings instrument basket **comprises 12 instruments** which can be classified into three categories:
    - **Postal Deposits:** (comprising savings account, recurring deposits, time deposits of varying maturities and monthly income scheme).
    - **Savings Certificates:** National Small Savings Certificate (NSC) and Kisan Vikas Patra (KVP).
    - **Social Security Schemes: Sukanya Samriddhi Scheme,** Public Provident Fund (PPF) and Senior Citizens 'Savings Scheme (SCSS).
- **Rates of Small Saving Instruments:**
  - The rates for small saving instruments are **announced quarterly.**
  - Theoretically, **it is based on yields of** G-Secs **of corresponding maturity** but political factors also influence the rate change.
  - The **Shyamala Gopinath panel (2010)** constituted on the Small Saving (SS) Scheme had suggested a **market-linked interest rate system for SS Schemes.**
- **Formula for Small Savings Rates:**
  - It is **used to calculate the interest rates for various SSIs** in India and is based on the **average quarterly yields on G-Secs** in the first 3 of the preceding 4 months.
    - The formula is used to **decide how much interest to pay to savers who invest in SS schemes.**

What are the Few Important Small Savings Schemes?

- **Sukanya Samriddhi Account Scheme:**
  - Aims to **promote the welfare of girl children in India.**
  - Parents or legal guardians can open deposits for **up to two daughters aged below 10,** and **in the case of twin girls or three girl children,** the scheme allows three accounts to be opened.
  - **Minimum initial deposit - Rs 250; Maximum annual ceiling - Rs 150,000.**
  - Deposits can be made for a maximum of 15 years; account matures on completion of **21 years from the date of opening or on the marriage of the account holder,** whichever is earlier.

- **Senior Citizens' Savings Scheme:**
  - To provide **senior citizens in the country a regular source of income after they turn 60 years old.**
  - Eligibility -
    - **Indian citizens above 60 years of age**
    - Retirees in the age of 55-60 years who have opted for a **Voluntary Retirement Scheme (VRS)** or Superannuation
    - **Retired defense personnel between 50-60 years of age.**
  - **Maturity period of five years,** which can be extended for **another three years.**
  - **Minimum deposit - Rs. 1,000;** Maximum deposit **limit increased to Rs. 30 lakhs in the** Union Budget 2023-24.
  - **Premature withdrawal is allowed after one year of opening the account.**
  - Deposits in SCSS also qualify for **deduction under Section 80-C of the** Income Tax **Act.**
- **Monthly Income Scheme:**
  - Allows monthly investments by **Indian residents above the age of 10 years.** 1-3 individuals can hold the account jointly.
  - **Has a 5-year lock-in period with premature withdrawal** allowed after one year with a penalty.
  - Maximum deposit limit enhanced in Union Budget 23-24 **to Rs 9 lakh (for single account) and Rs 15 lakh (for joint account).**
    - Any income from the scheme is not subject to TDS or tax deductions.
  - **NRIs not eligible to invest in this scheme.**
  - Account is **transferable from one post office to another.**
- **Public Provident Fund (PPF):**
  - Encourages **individuals to save for their retirement.**
  - **Has a tenure of 15 years,** extendable to **an additional 5 years after maturity.**
  - Minimum annual investment required to keep a PPF account active - **Rs. 500;** Maximum investment limit - **Rs. 1.5 lakh per FY.**
- **Kisan Vikas Patra (KVP):**
  - Governed by the **Government Savings Certificates Act 1959** (an SSI offered by **India Post).**
  - Originally launched in 1988 and relaunched in 2014.
  - Available to resident Indians and trusts.
  - Tenure - **124 months, but not fixed.**
  - **Minimum** investment amount - **Rs. 1,000; No upper limit.**
  - Interest rate reviewed by the government **every quarter.**
- **Mahlia Samman Savings Certificate:**
  - A one-time new small savings scheme for women or girls
  - Available for a **two-year period up to March 2025**
  - **Deposit facility up to Rs 2 lakh** (fixed interest rate of 7.5%)
  - **Partial withdrawal option**

Source: TH

Buy Now