Lock in rate of return for 10 years with PMVVY

SCSS, which offers 80C benefit, allows you to lock in for 5 years

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Senior citizens have slightly over three months left to subscribe to the Pradhan Mantri Vaya Vandana Yojana (PMVVY). This scheme, administered by the Life Insurance Corporation of India, is a government-backed pension scheme for senior citizens which provides an interest rate of 7.4 per cent per annum, payable monthly. This assured rate of pension will be payable for the full term of 10 years for all policies purchased until March 31, 2023.

Mrin Agarwal, founder-director, Finsafe, says, "Seniors can use PMVVY to lock into returns for the long term." Adds Maneet Pal Singh, partner, I.P. Pasricha & Co., "The scheme can protect senior citizens against a fall in interest rates in the future."

Attractive, risk-free return

This govt-guaranteed scheme carries zero default risk. The rate of return is decent. Amar Ranu, head-investment products & advisory, Anand Rathi Shares & Stock Brokers, says, "The assured rate of return of 7.4 per cent is for the monthly option. This can go up to 7.66 per cent for the annual option. These are very competitive rates."

According to Vishal Dhawan, board member, Association of Registered Investment Advisors, "This product frees a person of reinvestment risk."

Long lock-in, return taxable

The interest income from PMVVY, however, is fully taxable.

Mumbai-based certified financial planner (CFP) Kiran Telang says, "The product comes with a lock-in." Premature withdrawal before completion of the 10-year tenor is allowed only in the case of a critical ailment to self or spouse. Sanjeev Sachdeva, partner, Luthra and Luthra Law Offices India, says that a loan can be taken against it after three years.

The investment amount is capped at ₹15 lakh per individual. Dhawan says, "The lack of an inflation adjustment factor means the same value of money received will support a progressively lower lifestyle over time."

PMVVY FACT FILE

- A senior citizen should be of Indian origin and of age **60 years** and above to purchase PMVVY
- Maximum investment: **₹15 lakh** per individual
- For FY23, senior citizens can earn **7.4%** interest, payable monthly
- The initial investment, capped at **₹15 lakh**, is not eligible for tax deduction

YOUR MONEY

Consider SCSS

Next, let us examine how PMVVY compares with other major products for senior citizens, like immediate annuities and Senior Citizen Savings Scheme (SCSS). Annuities allow investors to lock in the rate of return for a lifetime. Ranu says, "Annuity schemes give payout rates of 5.95 per cent to 6.12 per cent for the return of purchase price (RoPP) option and 6.19 per cent to 7.2 per cent for the without RoPP option."

More people prefer the with-RoPP option, whose returns are lower. Investors who want a higher return from annuities may go for the option without-RoPP and stagger their annuity purchases (rates improve with age). Senior citizens can lock into PMVVY at 60, exit at 70, and buy without-RoPP annuity with it. SCSS is another sovereign-backed scheme that offers 7.6 per cent. Its tenor is only five years (extendable by three years). Sachdeva says, "Investment in SCSS up to ₹1.5 lakh is eligible for deduction under Section 80C of the Income-Tax Act." Interest income from SCSS is also taxed at marginal slab rate.

Ranu adds, "These days some corporate bonds and corporate fixed deposits also offer monthly payout options for long tenors like 10 years, but they carry credit risk."

Who should buy it?

Agarwal says PMVVY should be purchased only by people who can hold onto it for the long term and will not require liquidity in the interim. The size of the retirement corpus also matters. Telang says, "This is a good scheme for those who don't have a resource crunch. It might not work for someone with ₹35 lakh but it may for someone with a ₹1 crore corpus."

Singh says, "SCSS is a better option than PMVVY since it offers deduction under Section 80C."

If you want the Section 80C benefit, then exhaust your SCSS limit and then opt for PMVVY. Dhawan says, "It is ideal to use PMVVY in combination with SCSS, which is a shorter-tenor product, has quarterly payouts, and offers liquidity on principal."

Senior citizens falling in the 30 per cent or higher tax bracket may look for more tax-effective options. Says Ranu, "One can opt for long maturity roll-down funds like the Nippon India Nivesh Lakshya Fund. The net YTM post-expense ratio is ₹7 per cent." Target maturity funds are another attractive option today.