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Retirement Accounts & Tax-Efficient Investing in India

the world of retirement accounts and tax-efficient investing in India, helping you build wealth while minimizing tax liabilities.



by Himanshu Rajbhar

Understanding Retirement Accounts in India

EPF, PPF, and NPS

Retirement planning in India goes beyond financial savings. It involves selecting government-backed and market-linked financial instruments for tax-efficient wealth accumulation. Individuals contributing to retirement accounts like Employee Provident Fund (EPF), Public Provident Fund (PPF), and National Pension System (NPS) benefit from tax deductions under Sections 80C and 80CCD, as well as long-term compounding of financial assets.

Power of Compounding

A software engineer contributing ₹5000 monthly to EPF at 8.1% annual interest can generate over ₹2.5 crores before reaching age sixty. Similarly, freelance workers contributing ₹1.5 lakhs annually to PPF at 7.1% annual interest will accumulate a tax-free total of ₹1.7 crores over 25 years. These accounts promote long-term financial discipline through restricted premature withdrawals, allowing funds to grow unimpeded for decades.

Tax-Saving Mutual Funds (ELSS)

1

Double Advantage
Equity-Linked Savings Schemes (ELSS) are the fundamental tool for tax-efficient investments in India's market. Investors benefit from double advantages: deductions up to ₹1.5 lakhs under Section 80C and access to equity market potential, which traditionally delivers higher returns than traditional fixed-income options.

2

Tax Savings and Capital Growth
Indian taxpayers investing ₹1.5 lakhs annually in ELSS funds enjoy tax deductions and capital growth due to market returns. They save ₹46,800 in taxes every year due to their 30% tax bracket. With annual returns of 12% over 15 years, this investment will amplify to ₹55 lakhs, whereas a tax-saving FD yielding 7% returns would reach only ₹34 lakhs.

3

Convenience and Accessibility
The three-year lock-in period of ELSS provides convenience compared to other Section 80C saving tools. Access to equity investment through Systematic Investment Plans (SIPs) in ELSS funds through Zerodha Coin and Groww allows users to invest with monthly contributions starting from ₹500.

National Pension System (NPS): A Long-Term Powerhouse

Tax Advantages

The NPS serves as India's retirement solution, integrating equity investments alongside debt instruments and government bonds within a tax-advantageous structure. The tax deduction benefit of ₹50,000 under Section 80CCD(1B) makes it attractive for high-income earners.

Potential for Growth

A 35-year-old investing ₹20,000 every month into NPS, distributing funds among equity (50%), corporate bonds (30%), and government securities (20%), can accumulate ₹5.4 crores upon retirement at age 60 if investments yield a 10% annual return.

Annuity Requirement

NPS requires converting 40% of the saved corpus into an annuity upon retirement for lifelong income provision, which reduces retirement fund accessibility. The low cost ratio (0.1 – 0.3%) of NPS surpasses mutual fund expense ratios, but investors need to evaluate the annuity requirement alongside market volatility.

3

Identify Alternative Course of Action

Balancing Liquidity and Tax Savings



Retirement Savings

Retirement savings programs focus on long-term capital appreciation, but individuals should not neglect their need for quick access to funds.



Liquidity Options

Retirees can withdraw limited funds from PPF after a 6-year waiting period, while EPF provides emergency access for treatments and home acquisitions. However, regular withdrawals damage the accumulation of compounded growth.



Diversification

To balance illiquid retirement funds and short-term liquidity needs, consider combining retirement investments with options like liquid mutual funds and short-term debt funds. A 30-year-old professional should distribute savings as 70% into retirement funds (EPF/PPF/NPS), 20% into ELSS, and 10% into liquid funds.

Common Indian Investor Queries

NPS vs. PPF

Investors often inquire about the superiority of NPS over PPF as an investment option. The high investment equity level and tax advantage of NPS are limited by its restricted flexibility and lack of sovereign guarantee like in PPF. PPF suits risk-averse investors, while NPS fits those comfortable with market-linked returns.

Combining PPF and EPF

Investors can contribute to both PPF and EPF. EPF receives contributions from employers for salaried workers, but PPF has no such restriction, welcoming any Indian resident. Diversification of retirement funds occurs when investors combine PPF and EPF investments, as they cater to different debt-related needs.

Missed PPF Contributions

1

Reactivation

You can reactivate a dormant PPF account by paying a ₹50 fee and ₹500 yearly for each dormant year. However, missed payments will reset their compounding power.

DO YOU NEED TO HAVE A FINANCIAL PLAN



Key Takeaways

1

Early Start

Starting an ELSS SIP for ₹10,000 per month at age 25 instead of age 35 will result in a 3x larger retirement fund.

2

Tax Advantages

Tax advantages are obtainable by combining contributions in Section 80C (EPF/PPF/ELSS) along with 80CCD (NPS) products to reduce taxable income.

3

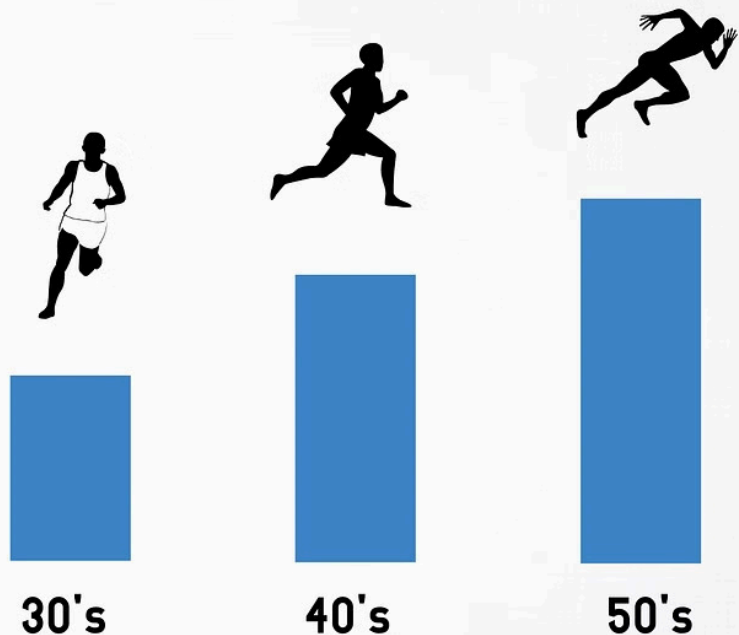
Flexibility

Use EPF/NPS together with ELSS as retirement strategies due to their varying liquidity levels. This provides extra flexibility.



How to adjust your retirement plan as you age

- Plan early asset allocation goals to compromise on
- Use catch-up contributions to speedup savings
- Devise an income strategy to outlast your retirement reserves



Plan asset allocation

- Choose an asset allocation as per your risk tolerance.
- Contribute towards a Roth IRA if you expect higher tax rates during retirement.
- Choose alternative investments with Self-directed IRAs.

Stay on-course with contributions

- Treat retirement savings as expenses & contribute throughout this decade.
- Don't let your child's college education or a new home compromise your retirement savings.

Go all in with catch-up contributions

- Speedup your retirement savings with catch-up contributions.
- Catch-up limits for regular IRA: \$1,000
- Catch-up limits for 401k plans: \$6,000

Retirement Planning Tools

Retirement Calculator

The Retirement Calculator offered by Scripbox allows users to visualize their retirement portfolio distribution clearly.



Next Steps

Consult with a financial advisor to create a personalized retirement plan tailored to your individual needs and risk tolerance. Explore the various retirement accounts and tax-efficient investment options available in India. Start investing early and consistently to maximize the benefits of compounding and tax savings.