

# Best products to give you regular income

**Apart from interest rates, pay attention to factors such as tenure, lock-in, taxation and investment amount**

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To lead a retired life that is free from financial worries, one has to plan for it in advance so that an adequate income stream can be created. There are several products that give regular returns. But to make the best use of these, goal-based investing is crucial. "The endeavour should be to create and stay invested in a growth portfolio that is aligned to one's financial goals and risk appetite," said Abhinav Gulechha, an investment adviser registered with the market regulator.

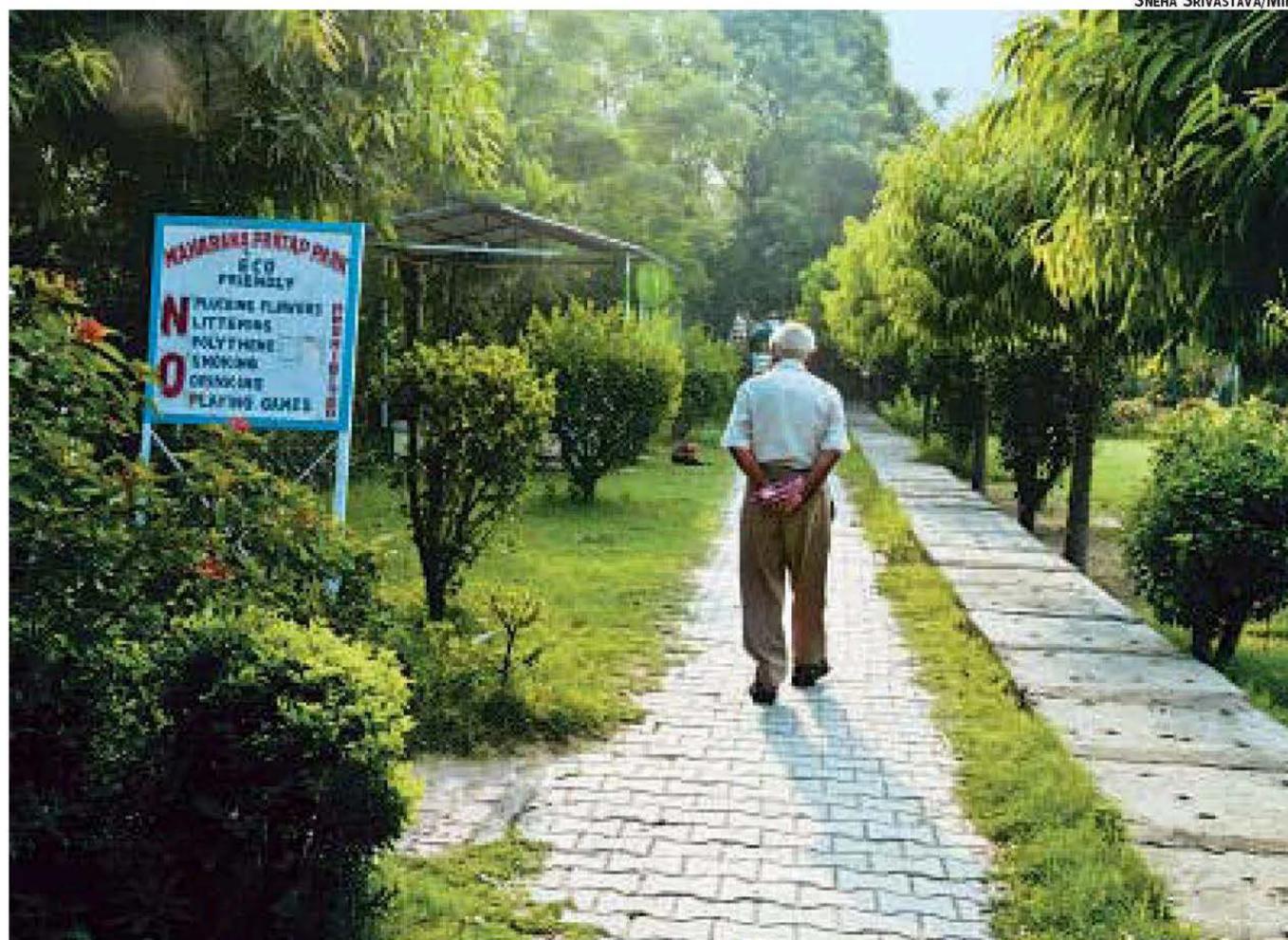
Even though traditional products such as bank fixed deposits (FDs) are convenient to get regular income, it is important to check their returns as well, especially considering inflation. This is the reason why one must consider adding riskier assets such as equity to a portfolio.

"Regularity of flow, taxation and liquidity are some points to factor in," said P.V. Subramanyam, a chartered accountant.

Earning positive real returns is crucial, especially for senior citizens since they may have fewer chances to have new sources of income and significant medical expenses. National Sample Survey Office (NSSO) statistics show that cost of treatments at hospitals in India has been growing at 10% compounded annually for the past 10 years.

## List of expenses

So how can one plan a basket of regular income giving products? The first step is to have an estimate of expenses. This is the goal that all the investments



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**Planned steps:** *Even though some traditional products may be convenient to use to get regular income after retirement, check their returns as well, especially considering inflation.*

have to meet together.

"One of the factors to consider would be the amount of medical cover, since money may be needed in an emergency if a cashless facility does not exist," said Lovaii Navlakhi, managing director and chief financial planner, International Money Matters. Others include monthly expenses such as utility bills and groceries, any pending loans or other liabilities, and leisure expenses such as trips or gifts.

This list of expenses can then be divided by duration, and financial products chosen accordingly. "One could adopt the three-bucket strategy. The first bucket should be one year's expenses, the money for which can be kept in a bank savings account and in liquid mutual funds. The second bucket should have products that give regular income, and the third bucket

should have equity mutual funds, which will give capital appreciation," said Prakash Praharaj, a Mumbai-based certified financial planner (CFP).

## The best match

Give careful thought to the provident fund corpus that you will receive on retirement. "Employee Provident Fund (EPF) and Public Provident Fund (PPF) corpus should be considered when choosing regular income schemes," said Praharaj. Consider this corpus as part of your overall retirement funds.

There are other products that can be used in various combinations to generate regular income. Here's a look at some of them.

**Fixed deposits (FDs):** All bank FDs offer monthly, quarterly and yearly payout options. But the timeline differs. For example, if you invest in a UCO

bank FD for quarterly interest, you will receive it at the end of every calendar quarter, irrespective of the date the FD started. South Indian Bank pays interest three months from the time of investment. So, if you start the FD on 1 August, interest will come on 1 November.

While FDs offer convenience and guaranteed returns, they also carry reinvestment risk—the risk of you not getting the same interest rate after maturity. "This risk can be avoided by choosing longer-term FDs over shorter-term ones," said Praharaj. In the current scenario, FD rates are falling and locking in now for the long term makes sense.

Bank FD interest is taxed as per your income tax rates and if the amount is more than ₹10,000, tax of 10% is deducted at source (if permanent account number is given; else, 20%).

**Post office monthly income scheme (Pomis):** The interest rates for this product are revised every year along with other post office schemes (8.4% at present). Interest is paid every month. Even though interest is taxed like a bank FD, there is no TDS. But you can invest only up to ₹4.5 lakh per individual, and the set tenor is five years.

**Corporate deposits:** Just like bank FDs, corporate deposits also offer several payout options, and interest rates are usually higher. For instance, the corporate deposit by Shriram Transport Finance Ltd gives rates based on the frequency of interest pay out (higher the frequency, lesser the interest). Also, non-banking financial companies give rates that are 0.25-0.5% higher for senior citizens. But this product faces the risk of default—the company may not pay the interest. "Check the issuer's profile, and the deposit's credit ratings. Invest only in the highly-rated ones," said Hiren Dhakan, associate fund manager, Bonanza Portfolio, an investment advisory firm. *Mint* prefers AAA-rated deposits.

**Senior Citizens' Savings Scheme (SCSS):** This scheme is for those who are over 60 years. The interest rate is a good 9.3% with tax deduction on the investment available under section 80C of the income-tax Act. But interest income is taxable and the scheme provides only quarterly interest payout. "Someone above 60 years can invest ₹15 lakh (the limit) to generate taxable income of ₹1.4 lakh per annum. Since a senior citizen has ₹3 lakh of income exempt from tax, she can invest a further ₹20 lakh in, say, FDs that give 8% per annum, and yet have her income tax free," said Navlakhi.

**Mutual fund monthly income plan (MIP):** These schemes invest majorly in debt instruments to provide periodic

payouts. "Mutual funds are flexible, tax efficient and low on cost. Due to tax deferral over longer periods, income stream from mutual funds is tax efficient," said Gulechha. MIPs have returned 10-12% year-on-year in the past three years. These schemes are treated as debt funds and taxed at 20% with indexation if held for more than three years. So, these may be preferred by investors in the highest tax bracket. Returns fluctuate unlike bank FDs and dividend declaration is at the discretion of the mutual fund.

**Annuity:** This is a product offered by insurance companies. It provides pension in a series of payments when you invest a lumpsum. Returns vary, but are usually in the range of 7-9%, depending on your age, gender and the type of annuity.

There may be lack of transparency. Returns were not mentioned on websites of companies we checked. Also, once you buy an annuity, you are locked into it for life. So, you can't take heavy exposure to these even though they offer guaranteed payout. Income earned is taxable.

**Other options:** You may also get regular income from rental and dividends from equity shares (which are tax free).

"Risks will rise in rental income if it is a very high proportion of total income generated; or it is from a single property," said Navlakhi. Buying a property to generate rental income is not advisable. "One may look at a reverse mortgage option if the corpus is not large enough to support a long retirement," said Vishal Dhawan, a CFP. But do remember that this is a loan and you may outlive it.

Dividends from equities are not regular for several companies. You could also consider systematic withdrawal plans (SWPs) offered by mutual funds, but there is the disadvantage of capital erosion.