# Rates of small savings schemes hiked: What should investors do?

Interest rates on various small savings schemes, including PPF, Senior Citizen Savings Scheme (SCSS) and Sukanya Samriddhi Scheme (SSS) have been increased by 40 basis points (bps) for the October-December quarter.

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The interest rate on PPF has been hiked to 8% while Senior Citizen Savings Scheme will fetch 8.7%. Photo: Mint

Interest rates of small savings schemes are linked to the government bond yields and are recalibrated on a quarterly basis. We asked experts about the recent rate hike and how investors should look at them.

**Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors**

**Interest rates will continue to go up**

The recent round of interest rate hikes on the small savings were long overdue. However, the correlation between increase in yields and **small savings rates** have been less than perfect thus far. Planning the strategy for investments in small savings has been a challenge as investors have to wait and watch to hear on the interest rate changes rather than use the government yield-related formulae to predict possible rate changes.

Assuming that rates continue to go up on the back of rising oil prices, emerging market currency pressure translating into pressure on the rupee, and possible fiscal pressure getting into an election year, we believe that small savings rates will continue to go up in the short- to medium-term. The choice of the small savings instrument will vary from investor to investor depending on their investment time horizon and tax bracket, as well as the opportunity to get access to unique offerings like the **Senior Citizens Saving Scheme ( SCSS), Sukanya Samriddhi Yojana (SSY) and the Public Provident Fund ( PPF)**.

**Nisreen Mamaji, certified financial planner and founder, Moneyworks Financial Advisors**

**Invest in equity MFs for better returns**

Risk-averse senior citizens dependent on interest income may opt for **Senior Citizens Savings Scheme (SCSS)** which is currently offering 8.7%, but bear in mind that interest is taxable as per your tax slab. Other citizens in the highest tax bracket may also consider **PPF** at 8%, which translates to 10.4% for purposes of comparison with taxable products.

High- and moderate-risk appetite investors with an investment horizon of 5 years or more should instead invest in equity mutual funds as equities outperform fixed income products in that time frame as they offer a better inflation-adjusted return.

Higher oil prices and a weaker rupee point out that small savings schemes will continue to provide an attractive option to bank deposits in the next quarter. Demographic and financial profiling should determine whether small saving schemes are an ideal investment opportunity for you.

**Hemant Rustagi, CEO and Director, Wiseinvest Advisors**

**Don’t invest in the schemes aggressively**

The first hike in interest rates after a gap of 30 months will definitely bring cheer to a large number of investors in our country. The government action is likely to nudge the banks to further hike deposit rates, which augurs well for conservative investors. While we might see anther repo rate hike in October 2018, it may not translate into further hike in small savings interest rates as the government will look to reduce its market borrowings going forward.

However, investors will do well to not get swayed by the recent rate hike and avoid investing aggressively in these schemes. In fact, they must initiate allocation of a part of their portfolio to market-linked products offered by mutual funds to improve long-term returns. A combination of equity savings, balanced advantage and hybrid equity funds along with small savings schemes can create the right balance between risk and reward.

**Varun Girilal, co-founder and executive director, Mitraz Investment Advisors**

**SWPs from debt MFs a better alternative**

The system of recalibration of interest rates of small savings schemes are beneficial in a rising interest rate environment as it helps small savers deal with inflation more effectively. During FYs 2011-13, bank FDs were between 9-10% due to sharp inflation while interest rates on small savings schemes did not rise correspondingly. The system of quarterly recalibration ensures small savers are not losers in inflationary environments.

**Setting aside a sum towards PPF is ingrained among Indian savers and the tax benefit of ₹1.5 lakh under Section 80C** and tax exempt status at the time of withdrawal makes it a good option for retirement planning. The small savings schemes are primarily beneficial for investors and savers who have taxable income of less than ₹10 lakh and more so for those having income below ₹5 lakh. Investments such as Sukanya Samrriddhi are made with an emotional intent along with planning for long terms goals of daughters. For investors in higher tax bracket of 30%, SWPs from debt funds are a better alternative.

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