

Senior Citizen Saving Scheme - 2004

George Foreman said, 'The question isn't at what age I want to retire; it's at what income.' He could not have been more right about income in retirement. Defined pensions are a lot better to look forward to in retirement than anything else

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Retirement brings with itself several complications and doubts, but there are savings products that are safe and ensure guaranteed retirement income. The Senior Citizen Savings Scheme (SCSS), launched in 2004, is a deposit scheme introduced by the Government of India to provide guaranteed returns to senior citizens. This scheme ensures a regular income stream for senior citizens during their retirement.



Features

Eligibility

You need to be a retired resident Indian to open an account.

Entry age

- 60 years
- 55 years for those who have retired on superannuation or under a voluntary or special voluntary scheme
- The retired personnel of defence services (excluding civilian-defence employees) are eligible to invest irrespective of the age limit subject to the fulfilment of the specified conditions.

Investments

- Minimum: ₹1,000
- Maximum: ₹15 lakh (₹30 lakh jointly with spouse)

- Deposits have to be in multiples of ₹1,000

Interest

- 8.60 per cent per annum compounded annually
- The interest is paid on the last working day of Apr, Jul, Oct and Jan.

Tenure

- Five years; can be extended by three more years

Account-holding categories

- Individual
- Jointly with spouse
- Multiple accounts allowed

Nomination

- Facility is available.

Investment Objective

The main objective of the SCSS is to provide an assured return paid every quarter to senior citizens, which helps them create a guaranteed regular income flow.

Capital Protection

The capital in the SCSS is completely protected as the scheme is backed by the Government of India

Inflation Protection

The SCSS is not inflation protected, which means whenever inflation is above the current interest rate, the deposit earns no real returns. However, when the inflation rate is below the current interest rate, it does manage a positive real rate of return.

Guarantees

Interest rates are aligned with G-sec rates of similar maturity, with a spread of 1 per cent. The government has decided to review the SCSS rates quarterly. However, once a subscriber has enrolled, the rates will remain unchanged for the tenure. For the first quarter of FY16–17, the rate has been set as 8.6 per cent compounded annually. The payout of interest is quarterly.

Liquidity

The SCSS is liquid, despite the five-year lock-in. One can make withdrawals subject to conditions and penalties.

Credit Rating

As the SCSS is backed by the Government of India, it does not require any commercial rating.

Exit Option

Premature closing of the account is permitted with penalty.

Other Risks

There is no risk associated with this investment.



The facility of pledging the deposit in the SCSS account to obtain loans is not permitted as it defeats the purpose of regular income. Premature withdrawal or closure of the SCSS account is permitted after completion of one year from the date of opening the account after deducting a penalty for early withdrawal or closure. The penalty varies from 1–1.5 per cent, depending on the completed tenure of the account.

- If the account is closed after the first year and before the end of the second year, an amount equal to 1.5 per cent of the deposit is deducted as penalty.
- If the account is closed on or after the second year, an amount equal to 1 per cent of the deposit is deducted.

Tax Implications

The sum invested in the SCSS on or after April 1, 2007, is eligible for tax deduction under Section 80C of the Income Tax Act. However, the interest earned on the deposit is fully taxable and tax is deducted at the source (TDS) only if the total interest in a year is above Rs10,000. However, if the income is not taxable, one has to provide Form 15H or Form 15G so that no tax is deducted at the source.

Going Online

If one has an online bank account with a bank which also offers SCSS, the two can be linked, which enables online access to the SCSS.



Where to Open an Account

The SCSS account can be opened at any head post office or general post office. Select branches of several designated nationalised banks – State Bank of India, State Bank of Hyderabad, State Bank of Bikaner and Jaipur, State Bank of Patiala, State Bank of Mysore, State Bank of Travancore, Allahabad Bank, Andhra Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Canara Bank, Central Bank of India, Corporation Bank, Dena Bank, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, UCO Bank, Union Bank of India, United Bank of India, Vijaya Bank and IDBI Bank offer the SCSS. ICICI Bank is the only private bank that offers the SCSS.

How to Open an Account

- Once you have selected the bank to open the SCSS account, you will first need to open a savings bank account. You will need the following documents:
 - An account-opening form, which the bank will provide
 - Two passport-size photographs
 - Address and identity proof such as the Aadhaar card, passport, PAN (permanent account number) card or declaration in Form 60 or 61 as per the Income Tax Act, 1961, driving licence, voter's identity card or ration card.
 - Carry original identity proof for verification at the time of account opening.

SCSS Rates (%) over the Years

	2016-2017	2015-2016	2014-2015
5-year SCSS	8.6*	9.3	9.2
*Valid for Q1.			

Payout on the SCSS Deposit

Amount of deposit (₹)	Quarterly interest (₹)
10000	215
25000	537
40000	860
70000	1505
100000	2150
200000	4300
500000	10750
800000	17200
1100000	23650
1500000	32250

Points to Remember

- Portability of the account from one bank to another is available.
- ECS transfer of interest to the savings account can be done.
- There is penalty in the case of early closure of the account.



Tips and Strategies

The guaranteed interest from this scheme can be used to create income streams to manage cash flows in retirement.

- Extend the SCSS account on completion of five years by additional three years.
- Split the SCSS account into two individual accounts – for self and spouse – to reduce the impact of early closure in the case of emergencies.
- It is wise to foreclose the account and invest in a bank savings account whenever banks offer higher interest rates on long-term deposits.

The present interest is 8.40 % for the quarter One of 2017-2018.

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