What are Small Savings Instruments? - UPSC Notes

Small Saving Schemes/Instruments are India's primary source of household savings, and there are 12 of them. Depositors are guaranteed a return on their money. The National Small Savings Fund receives funds from all small savings instruments (NSSF).

Small savings have emerged as a crucial source of funding for the government deficit, particularly since the Covid-19 outbreak caused the government deficit to inflate, necessitating increasing borrowing needs.

The central government manages small savings instruments to encourage residents to save regularly, regardless of their age. They not only provide higher rates of return than bank fixed deposits. They're also backed by the government and have tax advantages.

What are Small Savings Schemes?

- Small savings schemes/instruments are a group of savings instruments controlled by the federal government with the goal of encouraging residents of all ages to save consistently.
- They are popular because they offer not just larger yields than bank fixed deposits, but also a sovereign guarantee and tax advantages.
- The interest rates for modest savings schemes have been reviewed quarterly by the Finance Ministry since 2016.
- Post office deposits, savings certificates, and social security plans are the three types of schemes available.
- Savings, recurring, and time deposits with maturities of 1, 2, 3, and 5 years, as well as the monthly income account, are available through Post Office Deposits. The savings account currently offers 4% interest per year and can be created either singly or jointly with a Rs 500 initial deposit.
- The Monthly Income Account is a five-year term account that matures five years after it is opened. This scheme provides depositors with income in the form of monthly interest payments, with the current rate being 6.6% per year. A single

account can hold up to Rs. 4.50 lakh, while a joint account can hold up to Rs. 9 lakh.
- Public Provident Fund, Sukanya Samriddhi Account, and Senior Citizens Savings Scheme are under the third category of social security schemes. For long-term goals like as retirement, the Public Provident Fund is a popular savings choice. It pays 7.1 percent per year and is eligible for a tax break under Section 80C of the Internal Revenue Code. The account can be extended forever in blocks of 5 years after it matures after 15 years.

Types of Small Saving Schemes

Equity Linked Saving Scheme (ELSS)

- Equity Linked Savings Schemes (ELSS) are mutual funds that invest the bulk of their assets in stocks and stock-related securities.
- Furthermore, these are tax-advantaged mutual funds. As a result, under Section 80C of the Income Tax Act, 1961, an investment in these funds qualifies for tax savings of up to INR 1,50,000 per year.
- These funds require only an INR 500 minimum investment.
- Investments in ELSS funds are the only ones that qualify for a tax deduction. ELSS funds generate capital gains that are taxed.

Sukanya Samriddhi Yojana (SSY)

- The Sukanya Samriddhi Yojana (SSY) is a government of India project that supports the "Beti Bachao Beti Padhao Campaign." The post office savings scheme for a girl child was first introduced in 2015.
- Parents of a girl child under the age of ten can open a Sukanya Samriddhi account for her. Per girl kid, only one Sukanya Samriddhi account is permitted.
- Per family, the maximum number of accounts is two. The minimum and maximum annual investments in SSY are INR 250 and INR 1,50,000, respectively.
- Until the girl child reaches the age of 15, the parents or legal guardians must invest in the scheme. The girl child can

assume management of her account at the age of eighteen. At the age of 18, she can withdraw half of the money for higher study. When she reaches the age of 21, the plan will be complete.
- Premature withdrawals are permitted if the girl is afflicted with a life-threatening illness or dies at a young age. Only when the girl reaches the age of 21 will the scheme come to fruition. As a result, no early withdrawals or closures are permitted under the scheme.

Public Provident Fund (PPF)
The National Savings Institute established the Public Provident Fund in 1968 as a post office savings system.

It is one of the most often used tax-advantaged investment strategies. PPF requires a minimum annual investment of INR 500. The maximum annual investment is INR 1,50,000. PPF investments have a 15-year term.

For the current quarter, the PPF interest rate is 7.1 percent, compounded annually (January to March 2021). The interest rate on PPF is set by the Ministry of Finance at the start of each quarter.

Investors cannot open more than one PPF account, and they can invest in either a flat payment or monthly installments. A PPF account can also be transferred from one post office to another.

PPF investments have a 15-year lock-in period and can be extended for additional five years.

PPF and HUFs are only available to Indian citizens, and NRIs are not eligible to participate.

Atal Pension Yojana (APY)
- The Atal Pension Yojana (APY) is a government of India attempt to bring unorganized sector workers into the social security system. In the year 2015, this voluntary pension system was created.
- Subscribers to this plan must determine the amount of pension they want to receive when they retire. INR 1,000, INR

2,000, INR 3,000, INR 4,000, and INR 5,000 per month are the fixed sum pension options available.

- Investors must be at least 18 years old to participate. The maximum age for admission is 40. They must contribute until they reach the age of 60.
- The amount of the contribution is determined by the set amount of the pension and the investor's age. If the investor joins the program early, the contribution will be minimal, but if he or she joins late, the contribution would be significant.
- The subscriber can modify the amount of pension they want to receive. They can either increase or decrease it, but they can only do it once a year in April.
- If the subscriber does not pay his or her monthly contribution, the subscriber will be charged a penalty. If the subscriber does not make monthly instalments, the account will be frozen after six months. The account will be deactivated after 12 months, and it will be closed after 24 months.

National Saving Certificates (NSC)

- The National Savings Certificate (NSC) is a post office savings program that encourages people to save small amounts of money. This effort by the Indian government encourages investors to save money on taxes when investing.
- The investment has a five-year term, thus the lock-in period is five years as well.
- The interest earned by the program is immediately reinvested back into it.
- When the investment matures, the principle and interest will be paid directly to the investors.
- Except in the event of the investor's death, NSC does not allow any premature withdrawals. NSC can be used as a kind of collateral for a loan.

Post Office Saving Account

- A Post Office Savings Account works in the same way that a bank savings account does. The annual interest rate on a Post Office Savings Account is 4%.
- The minimum balance amount between the 10th and the end of the month is used to compute interest. In addition, the interest is credited to the investor's account at the end of the fiscal year.
- The minimum deposit required to start an account is INR 500. The maximum deposit amount, on the other hand, is unrestricted.
- A person can only have one account. Individuals have the option of opening a single or joint account. On behalf of a minor or a person of unsound mind, a guardian can open an account. A minor above the age of ten can also open an account.
- A withdrawal of INR 50 is the bare minimum. Account holders, on the other hand, must keep a minimum balance of INR 500 in their accounts at all times. A minimum balance fee of INR 100 will be imposed by the post office. The account will stay closed even if the balance falls to zero.

Senior Citizens Savings Scheme (SCSS)

- The Senior Citizens Savings Scheme is a post office savings account for seniors. It is backed by the Indian government and so safe for depositors.
- In the form of interest payments, the system provides a consistent source of income. Every quarter, interest is calculated and credited to the investor's account.
- The minimum investment amount is INR 1,000, with a maximum of INR 15,00,000. A five-year lock-in period applies to this post office savings plan.
- Investors might also choose to continue the scheme for an additional three years.
- Furthermore, SCSS investors have the option to take their money out early. However, there are fees associated with

these withdrawals. The penalty is determined by the length of time the account has been open.

- Investors are only eligible to withdraw their funds prematurely after one year of account opening.

National Pension Scheme (NPS)

- The National Pension Scheme (NPS) is a government-sponsored program for workers in the public, private, and unorganized sectors.
- The plan is appropriate for retirement benefits. Investors who want a steady income after retirement while still saving money on taxes can consider the National Pension System. They're also low-risk investments.
- The plan is appropriate for retirement benefits. Investors who want a steady income after retirement while still saving money on taxes can consider the National Pension System. They're also low-risk investments.
- After retirement, the scheme allows the investor to withdraw a percentage of the accrued funds. Following retirement, the remaining money is paid out as a pension on a monthly basis.

Latest Interest Rates

For the April-June quarter, the government has chosen to keep interest rates on modest savings vehicles unchanged. The most recent interest rates are listed here for the period of April 1, 2022, to June 30, 2022.

Small Saving Scheme	Interest rates for Q1 of 2022-23
Public Provident Fund Account (PPF)	7.1 per cent
Senior Citizens Savings Scheme (SCSS)	7.40 per cent
Post Office Time Deposits	5.5-6.7 per cent
National Savings Certificate	6.8 per cent
Post Office Monthly Income Scheme(MIS)	6.6 per cent
Post Office 5-year time deposit	6.7 per cent
5-year recurring deposit	5.8 per cent

Sukanya Samriddhi Yojana	7.6 per cent
Savings Deposits	4 per cent per annum
Monthly Income Account	6.6 per cent