Unit	Syllabus
1	Introduction to Financial Planning -:Financial goals, Time value of money, steps in financial planning, personal finance/loans, education loan, car loan & home loan schemes. Introduction to savings, benefits of savings, management of spending & financial discipline, Net banking and UPI, digital wallets, security and precautions against Ponzi schemes and online frauds such as phishing, credit card cloning, and skimming,
2	Investment planning: Process and objectives of investment, Concept and measurement of return & risk for various assets class, Measurement of portfolio risk and return. Diversification & Portfolio formation. Gold Bond; Real estate; Investment in Greenfield and brownfield Projects; Investment in fixed income instruments- financial derivatives & Commodity market in India. Mutual fund schemes including SIP: International investment avenues.
3	Insurance Planning:-Need for Protection planning. Risk of mortality, health. disability and property. Importance of Insurance: life and non-life insurance schemes. Deductions available under the Income-tax Act for premium paid for different policies.
4	Retirement Benefits Planning :-Retirement Planning Goals, Process of retirement planning, Pension plans available in India, Reverse mortgage, New Pension Scheme. Exemption available under the Income-tax Act, 1961 for retirement benefits.

Unit – 1

Introduction to Financial Planning

A. Financial Goals

Money drives many decisions that we make day to day. Setting goals can help us take control and feel more confident about those decisions. Financial goals are the most important objectives you set for how you will save and spend money. They can be things you hope to achieve in the short term or long term.

When it comes to personal finance, everyone's situation is unique. No one has the same bills, rent, debts, or lifestyle. When you're ready to take control of your financial lifestyle, you need a plan that will answer your specific problems. **A financial goal is a target to aim for when managing your money. It can involve saving, spending, earning, or even investing.**

When you have a clear picture of what you are aiming for, working towards your target is easy. That means that your goals should be measurable, specific, and time-oriented.

Think about what is important to you as you begin to set goals. It is completely normal to have several goals;

Some of the financial goals are:

- Paying off debt.
- Saving for retirement.
- Building an emergency fund.
- Buying a home.
- Saving for a vacation.
- Starting a business.
- Feeling financially secure.
- Investment planning and method.
- Management of Cash and saving.
- Appropriate use of cash and credit.

There are several types of financial goals:

1) Short-term goals

2) Mid-term goals

3) Long-term goals

1) Short-term financial goals - These are smaller financial targets that can be reached within a year. This includes things like a new television, computer, or family vacation.

2) Mid-term financial goals - Typically, mid-term goals take about five years to achieve. A little more expensive than an everyday goal, they are still achievable with discipline and hard work. Paying off a credit card balance, a loan, or saving for a down payment on a car are all mid-term goals.

3) Long-term financial goals - This type of goal usually takes much more than 5 years to achieve. Some examples of long-term goals are saving for a college education, retirement, or a new home.

B. Time Value of Money

The time value of money (TVM) is the concept that the money you have in your pocket today is worth more than the same amount would be if you received it in the future. Understanding the time value of money can help you in making decisions ranging from which job has better salary terms, what's a good rate for a loan, or if the investment you're considering has good growth potential.

- The time value of money means that a sum of money is worth more now than the same sum of money in the future.
- The principle of the time value of money means that it grows only through investing so a delayed investment is a lost opportunity.
- The formula for computing the time value of money considers the amount of money, its future value, the amount it can earn and the time frame.
- For saving accounts, the number of compounding periods is an important determinant as well.
- Inflation has a negative impact on the time value of money because your purchasing power decreases as price rise.

Here's the basic formula for calculating the time value of money:

$$\textbf{Time Value of Money} = PV \times (1 + i/n)^{(n \times t)}$$

- **PV** is the present value of money.
- **i** is the interest rate or other return that could be earned.
- **t** is the number of years to take into consideration.
- **n** is the number of compounding periods of interest per year.

The time value of money is an important concept to understand for personal finance. It can help you decide how much to budget, evaluate a job offer, figure out if a loan is a good deal and help you save for the future. TVM showcases why your money loses value over time because of inflation.

C. Steps in Financial Planning

Step 1 - Defining and agreeing your financial objectives and goals
The goals and objectives will be the guide to the financial plan and should provide a roadmap for your financial future. They should contain the following features:

- Quantifiable and achievable
- Clear and have a defined timeframe
- Separate your needs from your wants

They should be agreed and documented with your financial adviser to assist you to measure progress. They should also be reviewed periodically to capture changing circumstances and to ensure they remain relevant.

Step 2 – Gathering your financial and personal information
The financial planning process and its success will depend on the quality and clarity of the information communicated to your adviser. Your adviser will complete a detailed financial fact-find to capture all relevant information in relation to your finances. This will include:

- Income and expenditure
- Assets and liabilities
- Risk attitude, tolerance and capacity

Step 3 – Analysing your financial and personal information.
Your financial adviser reviews the information provided in step 2 and uses it to produce a report that reflects your current financial profile. The following ratios are produced to improve your understanding of your financial circumstances and to pinpoint areas of strength or weakness:

- Solvency Ratio
- Savings Ratio
- Liquidity Ratio
- Debt Service Ratio

Your attitude, tolerance and capacity for risk are assessed using a psychometrically designed risk tolerance questionnaire in relation to investment assets. This is also analysed to assess your asset allocation for investment or pension goals.

Step 4 – Development and presentation of the financial plan
The financial plan is developed based on the information received in step 2 and analysis completed in step 3. Each of the goals and objectives in step 1 should be addressed and a recommendation for each identified. It will include:

- Net worth statement (a balance sheet)
- Annual consolidated tax calculation
- Annual cash flow report (displaying surplus or deficit)

The report is presented, explained, discussed and then signed by both client and adviser.

Step 5 – Implementation and review of the financial plan
Once the analysis and development of the plan is complete, the adviser will outline the recommended courses of action. This can involve implementing:

- A new pension or investment strategy
- Changing debt provider
- Additional life or serious illness insurance
- Income and expenditure adjustments

The Adviser may carry out the recommendations or serve as your coach, coordinating the process with you and other professionals such as, accountants or investment managers. They may also handle the interaction with financial product providers.

Financial planning is a dynamic on-going process that requires continuous monitoring. Review of the actions recommended in the plan should take place regularly, and the goals should be reviewed annually to take account of a change in income, asset values, and business or family circumstances.

Conclusion - Financial Planning that follows a properly defined and documented process will give the greatest chance of a successful outcome. It will not guarantee financial security or wealth but will provide an opportunity to pursue both and requires proper analysis, discipline and expertise.

D. Personal Finance/ Loans – Education Loan, Car Loan & Home Loan Schemes

Personal finance is the process of planning and managing personal financial activities such as income generation, spending, saving, investing and protection. The process of managing one's personal finances can be summarized in a budget or financial plan. The main areas of personal finance are income, spending, saving, investing, and protection.

- Income

Income refers to a source of cash inflow that an individual receives and then uses to support themselves and their family. It is the starting point for our financial planning process.

Common sources of income are: Salaries, Bonuses, Hourly wages, Pensions, Dividends. These sources of income all generate cash that an individual can use to either spend, save, or invest. In this sense, income can be thought of as the first step in our personal finance roadmap.

- Spending

Spending includes all types of expenses an individual incurs related to buying goods and services or anything that is consumable (i.e., not an investment). All spending falls into two categories: cash (paid for with cash on hand) and credit (paid for by borrowing money). The majority of most people's income is allocated to spending.

Common sources of spending are: Rent, Mortgage payments, taxes, food, entertainment, travel, credit card payments ect.

The expenses listed above all reduce the amount of cash an individual has available for saving and investing. If expenses are greater than income, the individual has a deficit. Managing expenses is just as important as generating income, and typically people have more control over their discretionary expenses than their income. Good spending habits are critical for good personal finance management.

- Saving

Saving refers to excess cash that is retained for future investing or spending. If there is a surplus between what a person earns as income and what they spend, the difference can be directed towards savings or investments. Managing savings is a critical area of personal finance.

Common forms of savings include: Physical cash, Savings bank account, Checking bank account. Most people keep at least some savings to manage their cash flow and the short-term difference between their income and expenses. Having too many savings, however, can actually be viewed as a bad thing since it earns little to no return compared to investments.

- Investing

Investing relates to the purchase of assets that are expected to generate a rate of return, with the hope that over time the individual will receive back more money than they originally invested. Investing carries risk, and not all assets actually end up producing a positive rate of return. This is where we see the relationship between risk and return.

Common forms of investing include: Stocks, Bonds, Mutual funds, Real estate, Private. Investing is the most complicated area of personal finance and is one of the areas where people get the most professional advice. There are vast differences in risk and reward between different investments, and most people seek help with this area of their financial plan.

- Protection

Personal protection refers to a wide range of products that can be used to guard against an unforeseen and adverse event. Common protection products include: Life insurance, Health insurance, estate planning etc.

This is another area of personal finance where people typically seek professional advice and which can become quite complicated. There is a whole series of analysis that needs to be done to properly assess an individual's insurance and estate planning needs.

The Personal Finance Planning Process - Good financial management comes down to having a solid plan and sticking to it. All of the above areas of personal finance can be wrapped into a budget or a formal financial plan. These plans are commonly prepared by personal bankers and investment advisors who work with their clients to understand their needs and goals and develop an appropriate course of action.

Personal Loans: Personal loans help households meet any shortfall they experience in buying a house or a car, in children's higher education, or even in cases of medical contingencies, among other things. Here's a low down on personal loans to understand them better. It is an unsecured loan taken by individuals from a bank or a non-banking financial company (NBFC) to meet their personal needs. It is provided on the basis of key criteria such as income level, credit and employment history, repayment capacity, etc. Unlike a home or a car loan, a personal loan is not secured against any asset. As it is unsecured and the borrower does not put up collateral like gold or property to avail it, the lender, in case of a default, cannot auction anything you own.

Education Loan: Education loans are unsecured loans that can be used to cover expenses related to education, such as tuition fees, books, living expenses and other such expenses as transportation costs, etc. If you wish to avail an education loan but are unemployed or still studying, a co-signer may be required to avail an education loan, like an eligible adult such as a friend, parent or relative. The repayment of the loan can be done once the student has completed his/her education. Given the flexible terms and conditions associated with the repayment of an education loan, availing one is fairly simple and straightforward. there are two wide categories of the education loans on the basis of location.

- Domestic Education Loan – For educational courses within the geographical limits of the country. The borrowers have to meet various eligibility criteria and the lenders will approve the loan if the student has got a secured seat in an institute that meets the requirements of the lenders.

- Study Abroad Education Loan - For educational courses outside the geographical boundaries of the country. Like a domestic education loan, the borrower should get a secured seat in a college or university among the list of eligible educational institutions to approve the loan.

Car Loan: Owning a car was once a luxurious commodity to have. But in today's economically developing world, a car is a necessity and convenience to travel from one corner of the ever-expanding city to the other.

Though everybody may not have enough cash to purchase the car with a lump-sum payment, numerous lenders can help you realise your dream of buying the car through a car loan. Applying for a car loan is now hassle-free, easy, and paperless. The financing can go up to 85%-90% of the on-road price of the car. Some banks offer up to 100% financing on the vehicle's on-road price to certain conditions. The loan tenure can range from one year up to seven years. The loan amount can be up to three times the annual income of the applicant. Some lenders offer instant financing facilities for cars.

Home Loan : As the name suggests, a home loan is the amount of money an individual borrow from banks or other financial institutions after meeting certain loan eligibility criteria to purchase a residential or commercial property. The money borrowed has to be paid back to the lender in easy monthly installments (EMI) at a particular rate of interest. There are many banks and financial institutions that offer loans to help you buy or construct your dream home. Loans are also available for renovation or extension purposes.

Types of Home Loans in India

Home Loan - The most common type of loan to avail for the purchase of any property. You can up to 80-90% of the property market price in form of housing finance.

Home Renovation Loan - It provides finance for renovating or improving the condition of your home.

Home Construction Loan - This type of loan is taken to construct a new house.

E. Introduction to savings, benefits of savings

Savings is the balance that remains after the meeting of the consumption needs of an individual. People who buy on credit and have incremental EMI commitments would have little or none to save on a monthly basis. Savings help in pooling up funds for the future. Savings can be as simple as keeping aside money on a monthly basis or even investing small amounts on a monthly basis. Savings can help in meeting financial commitments at a future date, for example, to buy a house.

Savings can help you earn more money with investments. Even money kept idle in a bank saving account earns interest annually.

Funds saved or set aside also enable an individual to stand against unforeseen emergencies. Such emergencies can arise at any time for an individual due to any reason.

Management of spending and financial discipline - A spending plan is an informal document used to determine the cash flow of an individual or household. A personal spending plan, similar to one's budget, helps outline where income is earned and where expenses are incurred.

When paired with a financial goals worksheet, the personal spending plan can be used to create a roadmap for monitoring spending, as well as helping determine the most appropriate methods for saving.

Complete financial sector work in a defined and disciplined business strategy. They follow the rules and laws set out by regulators which keep a check on their work and financial discipline. But in our personal financial life we are so mismanaged, that many times we find it difficult to go for a movie in the last days of month. We don't take holistic view of our finances and what effect one decision is going to give on other.

Prepare a monthly spending budget and stick to it.

- Invest with a goal. Goals give direction and help you in selecting right product.
- Avoid loans for your desires. Better do a financial planning check before going in for a big purchase.
- Invest monthly to become regularise in your savings and this will also help you maintain consistency.
- Motivate yourself by visualizing the goals and the end result for which you are working.

F. Net Banking and UPI and Digital Wallets

Net Banking : Internet banking, also known as online banking or e-banking or Net Banking is a facility offered by banks and financial institutions that allow customers to use banking services over the internet. Customers need not visit their bank's branch office to avail each and every small service. Not all account holders get access to internet banking. If you would like to use internet banking services, you must register for the facility while opening the account or later. You have to use the registered customer ID and password to log into your internet banking account.

UPI and Digital Wallet :

1) Unified payment interface (UPI) transaction is a direct bank-to-bank transfer whereas digital wallets act like intermediaries between bank accounts.
2) UPI uses virtual payment address and identity whereas digital wallets use mobile number.
3) UPI transaction limit is Rs 1 lakh per transaction while the wallet transaction is limited to Rs 10,000 per month for non-KYC customers.
4) UPI transactions can take place between any two banks whereas digital wallet transactions occur between two accounts in the same digital wallet app.
5) UPI allows future transactions, whereas, digital wallets are for instant transactions.

G. Securities and precautions against Ponzi schemes and online frauds such as phishing, credit card cloning and skimming

Ponzi Schemes : A Ponzi scheme is an investment fraud that pays existing investors with funds collected from new investors. Ponzi scheme organizers often promise to invest your money and generate high returns with little or no risk. But in many Ponzi schemes, the fraudsters do not invest the money. Instead, they use it to pay those who invested earlier and may keep some for themselves.

With little or no legitimate earnings, Ponzi schemes require a constant flow of new money to survive. When it becomes hard to recruit new investors, or when large numbers of existing investors cash out, these schemes tend to collapse.

Ponzi schemes are named after Charles Ponzi, who duped investors in the 1920s with a postage stamp speculation scheme. Some characteristics of Ponzi schemes.

- High returns with little or no risk.
- Overly consistent returns.
- Unregistered investments.
- Unlicensed sellers.
- Secretive, complex strategies
- Issues with paperwork.
- Difficulty receiving payments.

Online frauds such as phishing, credit card cloning and skimming:

Online fraud is fundamentally different to fraud that occurs at brick-and-mortar businesses as it's harder to be certain that the person you're selling to is who they say they're. Some fraudsters adopt more sophisticated methods than just trying to make purchases on a stolen card. When accepting payments online, it's important to be aware of the different kinds of fraud and what your liability is.

- Phishing and spoofing: The use of email and online messaging services to dupe victims into sharing personal data, login credentials, and financial details.
- Skimming is another common tactic that can lead to credit card fraud. A skimmer is an electronic device that is hidden within a legitimate card reader without the merchant's knowledge and used to steal data during real-world transactions. When a shopper makes a purchase using the affected card reader, the skimmer copies the information stored in the credit card's magnetic strip.
- Card cloning commonly occurs after your credit card data has been stolen. Once a skimmer captures your card's unique information, it can be copied onto a blank card or overwritten onto another stolen card. The cloned card may then be used to make direct purchases, obtain a cash advance or buy money orders.

Unit – II

Investment Planning

A) Process and objective of investment

Investment of hard-earned money is a crucial activity of every human being. Investment is the commitment of funds that have been saved from current consumption with the hope that some benefits will be received in the future. Thus, it is a reward for waiting for money. Savings of people are invested in assets depending on their risk and return demands.

Investment refers to the concept of deferred consumption, which involves purchasing an asset, giving a loan or keeping funds in a bank account with the aim of generating future returns.

Objectives of Investment

The need for investment will grow as you move ahead in life. Growing responsibilities will demand an increase in investment. The primary objectives of investment are listed below:

- Safeguard your Money

Investing keeps your money safe from immediate and unnecessary expenditures. It also helps you keep your money safe from inflation effects. Inflation erodes the value of your money unless it is invested in an interest-earning asset. Thus, investing will help you automatically keep up with inflation.

- Grow your Savings

Investment is the only way to start growing your invested money. It allows your money to earn interest and if you keep the interest invested it will also start to earn interest.

- Build Funds for Emergencies

Life is usually a series of ups and downs. Few times you are earning decent and saving money while other times you need a large sum for an emergency. Building investment pools help you on such rainy days.

- Secures your Retired Life

Retired life is where you don't have a source of income to sustain your life. Once you have built a retirement corpus, you can experience the freedom that comes with it.

- Save Tax

Investment in tax-saving instruments like life insurance plans, ULIPs, PPF, NPS, etc allows you to claim deductions on your taxable income. Thus, investing in specific assets can help you reduce your tax liability. Many of these investments also help you reduce your future tax with tax-free maturity values.

- Fund Bigger Life Goals

Your monthly income will not be enough to purchase your next car or build a house for your family. However, if you invest a small sum in a few years both could be possible.

B) Concept and measurement of return and risk for various asset class

Concept of Return:

Return can be defined as the actual income from a project as well as appreciation in the value of capital. Thus there are two components in return—the basic component or the periodic cash flows from the investment, either in the form of interest or dividends; and the change in the price of the asset, commonly called as the capital gain or loss.

The term yield is often used in connection to return, which refers to the income component in relation to some price for the asset. The total return of an asset for the holding period relates to all the cash flows received by an investor during any designated time period to the amount of money invested in the asset.

It is measured as:

Total Return = Cash payments received + Price change in assets over the period /Purchase price of the asset. In connection with return we use two terms—realized return and expected or predicted return. Realized return is the return that was earned by the firm, so it is historic. Expected or predicted return is the return the firm anticipates to earn from an asset over some future period.

Concept of Risk:

A person ma king an investment expects to get some returns from the investment in the future. However, as future is uncertain, the future expected returns too are uncertain. It is the uncertainty associated with the returns from an investment that introduces a risk into a project. The expected return is the uncertain future return that a firm expects to get from its project. The realized return, on the contrary, is the certain return that a firm has actually earned.

Measurement of Risk:

Two approaches are followed in the measurement of risk:

1. Mean-variance approach, and
2. Correlation or regression approach.

C) Measurement of portfolio risk and return

To compute the risk and return of a portfolio of assets. Let's start with a two-asset portfolio.

Portfolio Return

Let's say the returns from the two assets in the portfolio are R1 and R2. Also, assume the weights of the two assets in the portfolio are w1 and w2. Note that the sum of the weights of the assets in the portfolio should be 1. The returns from the portfolio will simply be the weighted average of the returns from the two assets, as shown below:

$RP = w1R1 + w2R2$

Let's take a simple example. You invested $60,000 in asset 1 which produced 20% returns and $40,000 in asset 2 which produced 12% returns. The weights of the two assets are 60% and 40% respectively.

The portfolio returns will be:

$RP = 0.60 \times 20\% + 0.40 \times 12\% = 16.8\%$

Portfolio Risk

Let's now look at how to calculate the risk of the portfolio. The risk of a portfolio is measured using the standard deviation of the portfolio. However, the standard deviation of the portfolio will not be simply the weighted average of the standard deviation of the two assets. We also need to consider the covariance/correlation between the assets. The covariance reflects the co-movement of the returns of the two assets. Unless the two assets are perfectly correlated, the covariance will have the impact of the reduction in the overall risk of the portfolio.

D) Diversification and portfolio formation

A diversified portfolio is a collection of investments in various assets that seeks to earn the highest possible return while reducing likely risks. A typical diversified portfolio has a mixture of stocks, fixed income, and commodities. Diversification works because these assets react differently to the same economic event.

In a diversified portfolio, the assets don't correlate with each other. When the value of one rises, the value of another may fall. The mixture can lower overall risk because, no matter what the economy does, some asset classes will benefit. That can offset losses in the other assets. Risk is also reduced because it's rare that the entire portfolio would be wiped out by any single event. A diversified portfolio is your best defense against a financial crisis.

- You receive the highest return for the lowest risk with a diversified portfolio.
- For the most diversification, include a mixture of stocks, fixed income, and commodities.
- Diversification works because the assets don't correlate with each other.
- A diversified portfolio is your best defense against a financial crisis.

To Build an Investment Portfolio

- Stage 1: Determination of the investment policy and type of the portfolio.

Understanding your current financial situation and choosing a corresponding investment policy and type of portfolio is a first step to building your investment portfolio. Generally speaking a newly-graduate at the start of their career should have a different portfolio strategy from a 60-year old married person with children.

- Stage 2: Determination of the strategy of portfolio management.

There are two basic approaches for portfolio management including active portfolio management strategy and passive portfolio management strategy. The Active portfolio management involves higher than average costs and it stresses on taking advantage of market inefficiencies, while Passive asset management are low cost investments kept for the long term.

- Stage 3: Analysis of assets and formation of a portfolio.

The general criteria for including assets in an investment portfolio are the ratios of their profitability, risk and liquidity. There are different ways to fulfil an asset allocation of your choice.

  - Stocks

Buying a tiny percentage of company stocks promises to make profit from company growth, but the risk is high since they may also lose their value. To minimize risks, stock buyers usually use funds to invest in them.

  - Bonds

Bonds are considered to be safer yet less profitable. They can also be referred to as fixed-income investments.

  - Mutual Funds

In contrast to individual stocks buying mutual funds allows you to add instant diversification to your portfolio. Some of them need active management while others don't. Index funds and Exchange-Traded Funds (ETFs), for example, try to match the performance of a certain market index. ETFs, like individual stocks, can be actively traded on an exchange during the trading day, while index funds can only be bought and sold for the price set at the end of the trading day.

- Stage 4: Measuring portfolio performance

You need to evaluate the effectiveness of a portfolio in terms of comparing the factually obtained profitability and risk. Portfolio returns are only a piece of the whole. Without evaluating risk-adjusted returns, an investor cannot possibly see the whole investment picture.

- Stage 5: Rebalancing your portfolio on time

Over time your investment goals may change or your previously chosen allocation may be ruined. Audit of a portfolio is vital in order not to make its content contradict the already changed economic situation, the investment quality of securities and the goals of an investor.

E) Gold Bond , Real Estate

Sovereign Gold Bonds

Sovereign gold bonds are RBI mandated certificates issued against grams of gold, allowing individuals to invest in gold without the strain of safekeeping their physical asset. Sovereign gold bonds act as a secure investment tool among individuals, as gold prices are less susceptible to market fluctuations. Owing to the popularity and widespread demand for gold, prices of such assets tend to rise significantly over time, a highly prospective investment avenue.

As these bonds are issued by the RBI under Government of India stocks, a particular window is pre-set for subscription, during which a sovereign gold bond scheme is issued in the name of investors in tranches. Generally, the RBI announces issuance of latest sovereign bonds in a press release every 2-3 months, with a one week window during which individuals can subscribe to this scheme.

A holding certificate is issued in the name of an investor upon successful purchase of a sovereign gold bond.

Investment in Real Estate

When you think about real estate investing, the first thing that probably comes to mind is your home. Of course, real estate investors have lots of other options when it comes to choosing investments, and they're not all physical properties.

- Real estate is considered to be its own asset class and one that should be at least a part of a well-diversified portfolio.
- One of the key ways investors can make money in real estate is to become a landlord of a rental property.
- Flippers try to buy undervalued real estate, fix it up, and sell it for a profit.
- Real estate investment trusts (REITs) provide indirect real estate exposure without the need to own, operate, or finance properties.

F) Investment in greenfield and brownfield projects

The classification between Greenfield FDI and Brownfield FDI has its origin in two types of investment- Greenfield investment and Brownfield investment.

Greenfield and Brownfield investments

Greenfield investment is investment in new plants. It is establishing new production capacity by an investor or company. On the other, Brownfield investment is an investor investing in an existing plant. Brownfield investment is mainly made through merger and acquisitions.

Green field and Brownfield FDI

Applying the same criteria, Greenfield FDI in India is investment by a foreign investor in fresh production facilities. It is a situation where an MNC starts a new venture in India by constructing new operational facilities.

This new production capacity creation will bring new physical assets (like plants and machineries), creates fresh employment and adds to more production of the concerned good. Often Greenfield FDI has a merit that it brings superior technology by the MNC.

Brownfield FDI is an investment made by a foreign company in existing production arrangements. An important form of Brownfield investment is merger and acquisition by foreign MNCs in India. Here, a domestic company is taken over by the MNC.

Greenfield FDI makes additional production capacity, whereas Brownfield FDI is purchase of existing production capacities. The latter is just a transfer of ownership of existing firm from a domestic entrepreneur to a foreign one.

Disadvantage of Brownfield FDI as a source of investment is that it doesn't create expansion of production capacities or employment generation etc.

Examples of Brownfield Investments:

- Vodafone in India
- Tata Motors in the United Kingdom

Examples of Greenfield Investment :

- In Andhra Pradesh- The Indonesian paper giant company Asia Pulp & Paper invest 3.5 billion $ to build one of the world's biggest paper mill, is the largest greenfield project in India.
- Noida International Airport. etc.

G) Investment in fixed income instruments – financial derivatives & commodity market in India

Fixed income instruments are financial instruments that offer assured returns along with capital protection. They are latent to market volatility and offer a fixed rate of interest throughout the investment period. Example – Fixed Deposits or PPF.

Financial Derivatives are financial contracts. The value of financial derivatives is dependent on the underlying asset. The assets can be stocks, bonds, commodities, currencies, etc. The value of the underlying asset changes with the market movements. The key motives of a derivative contract are to speculate on the underlying asset prices in the future and to guard against the price volatility of an underlying asset or commodity.

To better understand a financial derivative, let us take an example of Company ABC. You are certain that the share prices of Company ABC are likely to go up. You can buy a derivative contract by placing an accurate bet to leverage the price movement. Furthermore, derivative contracts can also act as a cushion for your investment to limit losses.

Taking another example, derivative contracts are used to fix the price of a commodity to minimise losses. For instance, dealing in the commodities market doesn't necessarily involve the physical delivery of the commodity. To elaborate, a futures contract for onions doesn't involve buying and selling onions. The value of the contract is derived from the cost of buying and selling onions.

Therefore, derivatives aim to create a balanced exchange rate for assets. Hence, they are popular options to hedge against price volatility.

Commodity Derivative is a Market is a place, where the investor can directly invest in Commodities, rather than investing in those companies that trade in these commodities. In other words, Commodity Derivative markets are the market, where the trade is undertaken through future/options/swap contracts. Under these contracts, as the name suggests, the transaction is completed at a future date. Commodity Derivatives markets are a good source of critical information and indicator of market sentiments. Since commodities are frequently used as input in the production of goods or services, uncertainty and volatility in commodity prices and raw materials make the business environment erratic, unpredictable and subject to unforeseeable risks.

H) Mutual Fund Schemes – SIP

Systematic Investment Plan is a method of investing in mutual funds wherein an investor chooses a mutual fund scheme and invests a fixed amount of his choice at fixed intervals.

SIP investment plan is about investing a small amount over time rather than investing one-time huge amount resulting in a higher return.

SIP investments can be started anytime, ensuring minimum risk with the correct suitable scheme plan for the investor. It is very important for the investor to choose the scheme which suits his long-term goals well. Hence, there is no suitable time frame within which an investor should start a SIP investment plan, the sooner the better.

Types of Systematic Investment Plan (SIP)

- Top-up SIP

This SIP allows you to increase your investment amount periodically giving you the flexibility to invest higher when you have a higher income or available amount to be invested. This also helps in making the most out of the investments by investing in the best and high performing funds at regular intervals

- Flexible SIP

As the name suggests this SIP plan carries flexibility of amount you want to invest. An investor can increase or decrease the amount to be invested as per his own cash flow needs or preferences.

- Perpetual SIP

This SIP Plan allows you to carry on the investments without an end to the mandate date. Generally, an SIP carries an end date after 1 Year, 3Years or 5 years of investment. The investor can hence, withdraw the amount invested whenever he wishes or as per his financial goals.

I) International investment avenues

Individual investors can invest in various instruments including foreign securities, property outside India, forex or commodity derivatives in foreign stock markets etc. This option is more viable and relevant for the high net worth investors (HNI) who have significantly large portfolios and are looking for diversification outside the country.

Securities in foreign markets

Investors can invest or trade in foreign shares or mutual funds by opening an account with an international brokerage firm. The brokerage and other transaction charges are quite significant for investing in stocks and mutual funds abroad, therefore investors should think of going abroad only if they are planning to invest a sizable amount (above USD 20,000 at least). Investors can also look for investing in commodities abroad as well.

Real Estate

Property prices have gone up significantly in India over the last couple of years. Investors can look for attractive investment opportunities in real estate abroad too. However, investments in real estate require a lot more research from the investor's side. Issues related to investing in real estate include liquidity, identifying the right location of property etc.

Foreign currency bank account

Investors can maintain a foreign currency bank account in order to earn better interest on deposits, foreign currency appreciation (or rupee depreciation), short-term bank balance in foreign banks etc.

These are some of the positives of investing in foreign markets:

Since markets over the world are not co-related, investments in international markets reduce the overall investment risk of an investor's portfolio. The downturn in one country's economy can often be offset by a rise in another's. Some markets perform better than others in world. Investors will have wider access to opportunities across the globe. Investors can use some of the investment instruments that are not adequately represented in the local markets. For example, trading in foreign exchange derivatives.

Investors can have better protection for their funds against market risks by investing the funds in developed markets. These are some of the risks in investing in foreign markets: Instability of emerging (high growth) markets: Instability and volatility in emerging markets tend to be high. Their economies are usually dominated by only a few stocks, industries or sectors. This in combination with an unstable political or economic environment, may lead to dramatic rises and falls in the value of your investments. Currency fluctuations: Investments in foreign countries can be impacted by fluctuations in the local currency of the foreign nation.

This could work as an advantage as well as a disadvantage for investors in international funds. Political risks: International investments are subject to various regulations in foreign countries. Political changes can impact your investments adversely. Also, investors will have lesser knowledge of foreign markets and investments of foreign funds.

Unit – 3

Insurance Planning

A. Need for protection planning

An insurance protection policy is a plan for the unthinkable, which provides financial security to your family.

A big fear for most people revolves around how their family members will cope financially if something unimaginable happens to them. To a large extent, life insurance offers peace of mind through immediate financial protection for one's dependents.

It is unique in guaranteeing the delivery of financial security at precisely the moment it is needed. There are several types of life insurance policies—pure protection, endowment and whole life. Then there are variants of these, besides Ulips, which combine insurance and investments. Almost, every type of financial need is met by life insurance, which makes it a unique financial instrument.

In recent times, the role of protection policies has gained popularity for several reasons. Primarily, protection plans or term plans, as they are known are easy to comprehend and cost less by way of premiums one pays for insurance policies. Term policies provide insurance cover for a set period of time, known as the policy term. If the insured passes away during the term, the beneficiaries listed in the policy receive the policy's death benefit. Term policies are available for long period of up to 30 years and may be renewed further depending on the insured's age.

B. Risk of Mortality, Health, disability, and property

Our lives involve uncertainties and risks. Sometimes, the uncertainty relates to the question of whether an event will occur (What if I become disabled? Will I reach retirement age?). In other cases, an event, such as death, will definitely occur; therefore, the risk relates to the timing of the event (all people will die, but we don't know when). The risk management of individuals is strongly related to mortality because it determines the probabilities of dying and surviving. It is also related to words and concepts like life expectancy and to the measurement of the financial threats created by the life cycle risks.

The distinction between different effects of mortality risk was made at the beginning of the twentieth century. Human beings, like machines, were assessed according to their ability to contribute to the economy. A machine is expected to operate during its economic lifetime; it may, however, break down before it reaches its life expectancy, causing its owner to suffer a loss of future income streams. A machine may exceed its economic life, and this situation brings about increased maintenance costs. It may have a deficient production capacity due to some malfunctioning, and this situation involves increased costs and a lower level of production. The analogy between human beings and machines certainly raises ethical questions, and it may be disliked by most readers, but it is a practical approach that may help us characterize the risks and quantify them purely from a financial perspective. Like any other risk, we shall try to assess the probabilities and the intensity of occurrences.

C. Importance of Insurance – Life and non-life insurance scheme

Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property.

- Life Insurance Schemes

There are two simple types of life insurance policies:

1. Pure Protection plan i.e., Term Insurance Plan

2. Savings Plan

Pure Protection plans are specifically designed to protect the future of your family by providing a lump sum payment, in case of your absence. Whereas a savings plan is a financial product that helps in planning long-term goals like buying a home, fees for children's higher education, and more while providing life coverage benefits.

  - Term Insurance

The purest and most affordable type of life insurance plan that offers financial coverage to the policyholder against the fixed amount of premiums for a specific duration. In case of policyholder's untimely death, their nominee receives the Cover Amount, as per the chosen policy.

  - Term Return of Premium (TROP)

(Term Return of Premium) is a variant of term insurance that provides an additional feature of Survival benefit. In addition to the life cover, if the policyholder survives the entire Policy Term, then all the premiums are paid back, excluding GST.

  - Whole Life Insurance

Under Whole Life Insurance, the policyholder is covered till the age of 100 years. If you want to leave a legacy for your family, and ensure that they are always financially covered, then Whole life Term Insurance is the best option.

- Non-Life Insurance Schemes

Non-life insurance covers property, businesses and individuals and is also known as general insurance in India. In some markets this type of insurance is known as Property and Casualty (P&C) insurance. Unlike life insurance which covers lives for assured benefits, non-life insurance provides coverage for damages on an indemnity basis. It protects the insured monetarily by providing money in the event of an accidental loss. Examples of non-life insurance are Fire, Marine, Motor, Health insurance, home, factory, shop, travel and liability insurance etc.

D. Deductions available under the income tax Act for premiums paid for different policies

Life Insurance Plans are very popular as a tool to get deduction under section 80C of the Income Tax Act, 1961. The investment in life insurance can be deducted up to Rs 1,50,000. (Rs. 1 Lakh upto A.Y. 2014-15). It a common perception that Premium Paid on all Life Insurance Policies qualifies for deduction under section 80C of the Income Tax Act,1961 and full premium amount qualifies for deduction under section 80C. Apart from several other items provided under section 80C, a taxpayer, being an individual or a Hindu Undivided Family (HUF), can claim deduction under section 80C in respect of premium on life insurance policy paid by him/it during the year.

- In case of an individual, deduction is available in respect of policy taken in the name of taxpayer or his/her spouse or his/her children.

- In case of a HUF, deduction is available in respect of policy taken in the name of any of the members of the HUF.

- No deduction is available in respect of premium paid in respect of policy taken in the name of any person, other than given above.

- Deduction Allowed Overall deduction u/s 80C (along with deduction u/s 80CCC & 80CCD) allowed is up to Rs. 1,50,000

How much deduction available u/s 80C for investment in insurance policies?

- Section 80C of the Income Tax Act provides a deduction up to Rs 1,50,000 provided you invest according to the condition given in section itself. One of the most popular way of saving tax by deduction u/s 80C is the purchase of an insurance policy. There is common perception that premium upto Rs 1,50,000 on any insurance product like life insurance or Unit Linked Insurance plan is fully allowed. However, this is not correct. The reason for such conclusion is section 80C (3) and

3(A) of the Income Tax Act which specifies which premium is eligible for deduction under section 80C of the Income Tax Act,1961.

- The tax deduction that is allowed is for life insurance policy premiums is 10% at the maximum of the sum that has been assured for policy which was issued after or prior 1st of April 2012.
- The premiums for policies that were issued prior to March 2012 can enable a tax deduction of as much as 20% of the amount assured.
- It is only the premium for a life insurance policy that is paid in a specific financial year that will be eligible for tax deduction in that particular year.

UNIT – 4

Retirement benefits planning

A. Retirement Planning Goals

When it comes to retirement, everyone has different dreams, goals, and priorities. And, that's why your personal retirement income strategy starts with you, defining your vision of the future. As you begin thinking about your personal vision of retirement, list your retirement plans and goals and then prioritize them. This exercise helps you visualize how you'd like to spend your time in retirement and how your personal lifestyle choices may affect your income needs in retirement.

Dividing your expenses into the following three categories may help you plan for your retirement income needs.

Essential expenses are basic, ongoing expenses like food, mortgage or rent payments, transportation, insurance premiums, taxes, basic health care costs, and other nondiscretionary living expenses.

Discretionary expenses include nonessential expenses, such as entertainment, travel, recreation, charitable giving, and luxury purchases. Because these expenses are not essential, you can adjust them if your lifestyle or financial situation changes.

Unexpected expenses include various long-term and unanticipated expenses, such as major healthcare needs, long-term care services, and personal emergencies.

Retirement Goals are the objectives that you wish to achieve in your retirement years. These could be traveling and exploring new places or taking up hobbies that you have always wanted to pursue.

However, if you do not plan and save for all these retirement goals in your working life, they cannot become a reality in your post-retirement years.

Hence, it is absolutely essential to have a strong Retirement Plan that will make you aware of where you stand today, and what steps you need to take to achieve this goal.

B. Process of retirement planning

- Set your Retirement Goals

Start by listing thirty retirement goals on a sheet of paper. We suggest thirty because the first ten are easy to identify, the next ten are somewhat harder to recognize, and the last ten make you discover your inner dreams. Arrange your goals into short, medium and long-term goals.

- Assess your Current Financial Position

To help you achieve your retirement goals, you need to take stock of where you are today. A net worth statement will identify all of the assets from which retirement income may be derived. You must also assess your retirement budget needs. What do you spend to support your current lifestyle? You may need at least 80% to 90% of your pre-retirement income to meet your goals in retirement. Preparing a retirement cash flow statement (budget) is a very important task.

- Identify Retirement Income Sources

Retirement income may come from a variety of sources and the percentage of each may change over time. These sources may include a pension, Social Security, IRA accounts and other savings, and even part-time work. The after-tax benefit of each source of income needs to be considered. The timing of when to use each source also needs to be determined.

- Evaluate Retirement Risks

You must consider the risks that affect your retirement income. Inflation will erode the purchasing power of your income over time. The various investment markets may occasionally falter. You may well live to be 100 years old. All of these risks need to be taken into account.

- Understand Health Care Issues

Retirement usually brings a change in health care insurance coverage. If you retire before age 65, you may need to secure health insurance on your own. After 65, Medicare is available, though you may wish to consider Medigap insurance to cover the cost between your doctors' fees and what Medicare pays.
Long term care insurance proposals often present a confusing array of choices. How do you determine if it is right for you? Not everyone needs it. A careful evaluation of your personal situation is required.

- Invest your Retirement Assets

With goals identified and portfolio withdrawals requirements defined, develop a written investment policy that will govern your investment approach. The investment policy statement is your retirement investments road map. An asset allocation (the mix of stock, bonds and cash in your portfolio) should be clearly stated. The policy should also provide diversity of investments, be appropriate for your goals and time frame, and be in line with your risk tolerance. Only then should specific mutual funds, bonds or exchange-traded funds be selected and purchased to reflect your investment policy decisions. Within the various retirement sources, understanding the character of the asset is important. Some income, such as wages and interest, may be taxed at ordinary tax rates, while dividend income and long-term capital gains may be taxed at reduced rates. Always take into account the tax consequences of asset purchases and sales.

- Manage your Retirement Income

While in the working world, we are accustomed to getting income from our employer or from our business. With the onset of retirement, however, the paycheck ceases. Now income has to come from a number of different sources. Properly managing these retirement income sources requires planning and monitoring.

- Monitor your Retirement Assets

It is important to conduct periodic reviews of your financial situation. Using the net worth statement and the retirement budget, a portfolio withdrawal rate may be calculated. By monitoring your portfolio withdrawal rate, you can assure yourself that you will have sufficient assets to fully fund your retirement. At worst, you may discover that you may need to engage in part-time work during retirement. You need to maintain a sustainable withdrawal rate strategy.

A quarterly review of your portfolio performance is important to detect early signs of inappropriate asset allocation. Quarterly reviews will give you the confidence to live the retirement lifestyle that you planned.

C. Pension plans available in India

There are a wide variety of Plans available in the market. Each plan has a specific classification with regard to its structure and benefits. All Pension Plans have a divergent benefit structure. Let us know the different types of Pension Plan available in India-

1. Deferred Annuity Pension Plan

Annuities have been popular as they offer guaranteed income. People are looking for smarter ways to invest and manage their retirement savings. These are a kind of insurance plan for long term savings.

A Deferred Annuity option requires an investor to build a corpus that can later be used to buy an annuity at the time of retirement. The Life Insurance Company promises to pay the insurer a regular or lump-sum amount at the future maturity date. These Annuities can be purchased by a one-time payment method or through a regular premium payment method. These also have the benefit of tax exemption up to a limit like any other insurance plan.

There are several different types of Deferred Annuity-

Fixed, Indexed, and Variable which further determines the computed rate of return. As the name suggests, Fixed Annuity promises a guaranteed or fixed rate of return, Index Annuity the return is based on the market index, and Variable Annuity is based solely on the portfolio of the Mutual Fund performance or other accounts so chosen by the owner.

Deferred Annuities are fixed or locked and are subject to charges at the time of early withdrawal. There are also tax penalties of 10% levied on any withdrawal made before the maturity date.

2. Immediate Annuity Pension Plan

Immediate Annuity is also a kind of life insurance premium pension plan that promises to pay a series of annuity payments throughout your life. You also have an option of a joint-life pension annuity plan under which annuity payments are made even during the lifetime of your spouse.

The purchase price of the annuity is payable in a single premium. The annuity payment frequency can be monthly, half-yearly, quarterly, or annually as per the choice of the Annuitant. These annuities offer guaranteed income almost immediately and the premium paid is tax-exempted as per the Income Tax Act 1961.

3. Certain Annuity Pension Plan

A Certain Annuity is offered by an Insurance Company limited. These are an investment in retirement income. A Certain Annuity option provides a guaranteed retirement income for a pre-specified period to the Annuitant or his nominees. The annuity can also be taken as a Lump sum.

Due to its set expiration date, these annuities provide higher returns than any other annuity option. These have high upfront fees and other charges as compared to other traditional annuities.

4. With Cover and Without Cover Pension Plans

Pension Plans with cover means the life of the Policy Holder is covered and upon his death, a lump sum amount is paid to his immediate family members also known as the nominees. These plans are like the typical insurance plan but the amount paid under these plans is not considerable. The large amount invested in these plans goes to the building of the corpus rather than covering the life risk.

Pension Plans without Cover are those plans where the life of the Policy Holder is not covered. Upon the death of the Policy Holder, the nominee only gets the corpus so built during his lifetime. Only Long Term insurance plans have the option of life cover like Deferred Annuity Scheme, unlike Immediate Annuity which is short term and does not cover life.

5. Guaranteed Period Annuity

As the name suggests a Guaranteed Period Annuity is an annuity that offers guaranteed return. This annuity ensures that the immediate family members of the Annuitant are benefitted even after the death of the Policy Holder throughout the entire period of guarantee of the annuity.

6. Life Annuity Pension Plan

Life Annuity is the most common type of Pension Plan. Under this plan, a Policy Holder or Annuitant is guaranteed a life pension annuity income throughout his life. It also provides the option of Joint-Annuity where the annuity is paid to the spouse even after the death of the Policy Holder.

7. Life ULIP Plan

Life ULIP Plan or Unit Linked Investment Plan is a single integrated plan where unlike a traditional insurance plan both life cover and investment are provided. These are offered by Insurance Companies.

A portion of the investment made under these plans is utilized to provide life cover and the remaining is invested in Equity and Debt Funds. There are certain charges levied on these schemes, unlike the traditional Insurance Policies.

The returns under the Unit Linked Insurance Plan depends entirely on the market conditions and the risk of investment is solely borne by the PolicyHolder.

8. Defined Benefit Pension Plan

A Defined Benefit Pension Plan is one where a specified pension payment, lump-sum, or combination thereof is paid to the employee by his employer. These are employer-sponsored retirement plans. The benefit of an employee is computed taking into account his age, earnings, tenure of service, etc.

The incomes under this plan are generated solely on the basis of your work. It is a joint contribution of both you and your employer that makes retirement much easier.

9. Defined Contribution Pension Plan

Defined Contribution Pension Plan requires one to contribute their own money towards a retirement plan. Here both the employer and the employee make contributions on a regular basis.

Accounts are set up for each individual and benefits are calculated as per the credits held in these accounts through both employee and employer contribution. A predetermined portion of the employee's income goes towards these accounts as his contribution and the rest is matched by the employer. This contribution can later be used as retirement benefits by an employee.

10. National Pension Scheme (NPS)

One of the most significant steps taken by the Government of India was the introduction of the National Pension Scheme. Though the Scheme was initially applicable to Government Employees only later the same was opened for all the citizens of India in 2009.

This Scheme was introduced to safeguard the retirement benefits of the individual post-retirement. Due to its tax savings benefit, NPS has become a popular investment scheme in recent times. These are managed by the Pension Fund Regulatory And Development Authority.

Under this Scheme, only 60% of the fund is withdrawable on retirement. The rest of the 40% fund is further utilized in purchasing annuities.

11. Pension Funds

Pension Funds are another type of Retirement Pension Plan which are popular among investors. These Funds usually have a large amount of money invested and the returns are higher as compared to the other retirement plans.

Comparison Between Pension Plans……………..

Retirement Plans	**Tax on Income**	**Applicable Tax on Investment**	**Tax on withdrawal**	**Withdrawal Flexibility**	**The flexibility of Increase and Decrease Income**	**Lock-in Periods**
Deferred Annuity	Taxable	Tax-free	1/3rd non-taxable 2/3rd taxable	After expiry of 1 year 10% of the annuity value can be withdrawn without surrender charge	No	Up to 10 years
Immediate Annuity	Applicable Income Tax rate	Exempted	2/3rd taxable 1/3rd non-taxable	Post expiry of 1 year 10% of the annuity	No	Up to 15 years

				value can be withdrawn without surrender charge		
Certain Annuity	Under the Income Tax rate	Non-taxable	Taxed as Capital Gains	33% of fund value upon retirement	No	5 years, 10 years and 15 years
With and Without Cover Pension Plans	Taxed	No Tax	1/3rd non-taxable 2/3rd taxable	Withdrawal up to 33% upon retirement	No	5 years
Guaranteed Period Annuity	Taxable	Tax-Free	1/3rd non-taxable 2/3rd taxable	Up to 33% of fund value upon retirement	No	Stops on the death of the annuitant
Life Annuity	Taxed	Exempt	1/3rd non-taxable 2/3rd taxable	Withdrawal up to 33% of fund value upon retirement	No	15 years
Life ULIP Plan	Exempted from Tax	Under section 80 up to 1.5 lakhs	Yes. 100% withdrawal tax-free	Yes. 100% withdrawal anytime after 5 years	Yes	5 years
Defined Contribution Pension Plan	Taxed	Tax-Free	No.Withdrawal up to 33% on retirement	Withdrawal to up to 33% of Fund value on retirement	No	Depends on type of pension fund
National Pension Scheme (NPS)	Yes	Tax deductions under section 80 CCD(1B) upto 50K and section 80 upto 1.5 lakh	Upto 60% of the fund value tax free upon retirement	No. Partial withdrawal upto 25% after 10 years	No	Can be withdrawn at the age of 60
Pension Fund	Taxed	Yes	No. Partial withdrawal upto 50%	Partial withdrawal upto 50%	No	Depends upon type of pension fund

Reverse Mortgage

Reverse mortgage is a loan which provides additional source of income for senior citizens who have a self-acquired or self-occupied home in India. The borrower is paid payments by the lender against the mortgage.

D. New Pension Schemes

Government of India established Pension Fund Regulatory And Development Authority(PFRDA) on 10th October, 2003 to develop and regulate pension sector in the country. The National Pension System (NPS) was launched on 1st January, 2004 with the objective of providing retirement income to all the citizens. NPS aims to institute pension reforms and to inculcate the habit of saving for retirement amongst the citizens.

Initially, NPS was introduced for the new government recruits (except armed forces). With effect from 1st May, 2009, NPS has been provided for all citizens of the country including the unorganised sector workers on voluntary basis.

NPS offers following important features to help subscriber save for retirement:

The subscriber will be allotted a unique Permanent Retirement Account Number (PRAN). This unique account number will remain the same for the rest of subscriber's life. This unique PRAN can be used from any location in India.

PRAN will provide access to two personal accounts:

Tier I Account: This is a non-withdrawable account meant for savings for retirement.

Tier II Account: This is simply a voluntary savings facility. The subscriber is free to withdraw savings from this account whenever subscriber wishes. No tax benefit is available on this account.

E. Exemption available under the income tax Act, 1961 for retirement benefits

Presently, the tax treatment for contribution made in Tier I account is Exempted-Exempted-Taxed (EET) i.e., the amount contributed is entitled for deduction from gross total income upto Rs.1.00 lakh (along with other prescribed investments) as per section 80C (as per the provisions of the Income Tax Act, 1961 as amended from time to time).

The appreciation accrued on the contribution and the amount used by the subscriber to buy the annuity is not taxable. Only the amount withdrawn by the subscriber after the age of 60 is taxable.

What is the Basic Exemption Limit for Retired employees under I-T Act, 1961? Is the Pension received after retirement taxable? For ordinary individual tax-payers the basic exemption limit, upto which he is not required to pay any tax is presently fixed at Rs. 2.50 lakhs for AY 2021–22. However, for Retired employees who are also Senior Citizens between 60 and 80 years of age, the basic exemption limit is fixed at a higher figure of Rs. 3 lakhs. For super senior citizens who are above 80 years of age, the exemption limit is set at Rs. 5 Lakh. The pension received by you is taxable under the Income head 'Salaries' beyond the exemption limit.

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