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Investment planning for Salaried Persons

*Dr. Rohan Joshi

*Assistant Professor, National College of Commerce, Ahmedabad, Gujarat (India)

INTRODUCTION

Every person has some ambitions and dream and to achieve that they manage their funds and that is called investment with a hope of achieving numerous benefits it in the long term. Investment is basically a matter of purchasing an asset with the expectations of better profit, interest and return. Investments are of several types such as fixed deposits, equities, property and much more. For any investors it is essential to identify balance between risk, return and liquidity.

Indian people habituated to save. How their hard-earned money helped them in situations when they needed it the most. Saving always help for child education, rents and for retirement also. However, now the whole scenario has changed completely. In today's world, savings alone are not sufficient to manage expenses such as child education, buying house, taking care of critical illness expenses or loans as well.

For every person in India, financial stability is a matter of major concern. Depending only on salaries is not a good idea for a financially stable life. That's why it is essential to make investments for getting better and higher returns.

NEED OF INVESTMENT FOR SALARIED PERSON

Money plays very vital role in our life and it is more important than how you manage money rather than how you earn it. Only proper investment and planning will create wealth ad fulfill any future needs. It is observed that managing money wisely is the first step towards better investment goals.

For a salaried person, financial planning is a critical thing. The reason behind the same is the limited and fixed flow of income. Fixed and regular income is very big advantage of salaried person. As the income is fixed salaried person can invest fixed amount per month. It can be used as a tool for systematic investments for the achievement of financial goals. It can be used as a tool for systematic investments for the achievement of financial goals. Another advantage for salaried person is the risk coverage that is offered by employers which may include life insurance and health insurance. However, it is recommended that one has his own personal insurance cover rather than depending only on risk covers offered by employers as the contract of risk cover would stop when the employment contract comes to an end.

OBJECTIVES OF INVESTMENT

1. **Financial Security:** In country like India where there is no financial and medical help or policy of government it is mandatory for every salaried person to invest efficiently while they are getting salary. Financial security relies on how much a person invest and how efficiently he/she did so. Investments would help in building a corpus that assists in generating a large cash reserve. It helps in providing a financial security to the family.

2. **Prepared for medical emergencies:** As mentioned above there is no medical scheme or policy of government in India so any medical emergency can cause a financial crisis. An unforeseen medical emergency can disturb you financially and mentally as well. Investment in insurance policy helps you in creating a financial cushion for your family. It will help you in dealing with all the unwanted situations that can leave a bad impact on your financial and emotional status. It is convenient for salaried person to invest in insurance scheme as they are getting regular monthly income, does not face any problem in paying premium.

3. **Assists in purchasing assets:** For a salaried person it is not possible to generate cash flow to purchase fixed asset, as they have limited source of income. But that disadvantage can be converted into advantage by proper investment. Purchasing a house, car, marriage or something that requires lots of funds. It is really hard to fulfill all the financial goals in today's world where the expenses are more than income. With the help of a goal oriented investment plan, you can achieve your financial goals easily.

4. **Wealth Creation:** In order to create wealth you require investment options that act as a factor of growth to your money. There are several options that assist you in building your wealth over an investment horizon.

5. **To compensate inflation rate:** Inflation ruins your savings completely. With every passing year, prices keep on increasing. Investments assist you in protecting your capital against price rise. To compensate inflation rate investor has to take some risk by investing in equity.

You must check few things before choosing the appropriate investment options

Investment Type	Return	Safety	Volatility	Liquidity
Equity	Moderate to high	Low	High	Low to high
Bonds	Moderate to high	High	Moderate	Moderate
Bank deposits	Low to high	High	Low	High
PPF	Moderate	High	Low	Moderate
Life insurance	Low to moderate	High	Low	Low
Gold	Moderate	High	Moderate	Moderate
Real estate	Low to high	Moderate	High	Low
Mutual fund	Moderate to high	High	Moderate	High

INVESTMENT OPTIONS FOR SALARIED PERSONS

Investment makes things easier for us by decreasing or eliminating the liabilities from our life. The below mentioned options are best investment options for a salaried person.

- **EPF (Employees' Provident Fund)**

The Employees' Provident Fund Organization (abbreviated to EPFO), is an Organization tasked to assist the Central Board of Trustees, a statutory body formed by the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 and is under the administrative control of the Ministry of Labour and Employment, Government of India.

EPFO assists the Central Board in administering a compulsory contributory Provident Fund Scheme, a Pension Scheme and an Insurance Scheme for the workforce engaged in the organized sector in India. It is also the nodal agency for implementing Bilateral Social Security Agreements with other countries on a reciprocal basis. The schemes cover Indian workers as well as International worker. Employee's provident funds are the first option for investment when it comes to salaried person. Employee Provident Fund is a very vital tool of retirement planning. The tax free interest (compounding) and the maturity assist in getting good returns of your money. If it continues for a long time period, it can help greatly in achieving the retirement goals.

Source: Wikipedia

- **ELSS (Equity Linked Saving Scheme)**

ELSS funds are one of the best avenues to save tax under Section 80C. This is because along with the tax deduction, the investor also gets the potential upside of investing in the equity markets. Also, no tax is levied on the long-term capital gains from these funds. Moreover, compared to other tax saving options, ELSS has the shortest lock-in period of three years. There is no upper limit on investments. However, investments of only up to Rs.1,50,000 per year are allowed to be claimed as deductions under Section 80C of IT Act. Only disadvantage ELSS has is that risk factor is very high compared to NSC and EPF. The main advantage of ELSS is its short lock-in period. The maturity period of NSC is 6 years and PPF is 15 years. Since it is an equity-linked scheme earning potential is high. Investor also can opt for dividend option and get some gains during the lock-in period.

- **National Pension Scheme (NPS)**

From November 2017 the Pension Fund Regulatory and Development Authority (PFRDA) increased the maximum age of joining the National Pension Scheme (NPS)-private sector from 60 years to 65 years. This move, now allowing a larger segment of senior citizens to adequately plan for retirement, matters because research shows that by 2050, 20% of our population will be above 60. Moreover, coming on the heels of the tax incentives announced in Budget 2017, it is yet another step by the pension regulator to make NPS more attractive for investors.

NPS does offer several tax benefits, which unfortunately gets sidelined in the face of the fact that only 40% of the NPS corpus is tax free on maturity, unlike other retirement options like EPF and PPF, which are fully exempt.

Another tax friendly feature is that GST is waived on annuities purchased with the NPS corpus. Normally, there is 1.8% GST payable on the value of the annuity, but NPS investors are exempt. Those new to the workforce need to understand that NPS was started in 2004 with the objective of providing retirement income to citizens. Initially, it was introduced for new government recruits, barring the armed forces but since May 2009, it has extended its reach to all citizens, including the unorganized sector workers on a voluntary basis.

Tier	Tier 1	Tier 1	Tier 2	Tier 2
Type of employee	**Government**	**Non Government**	**Government**	**Non Government**
Contribution	10% of basic + D.A. with matching contribution from the government	At least Rs.6,000 p.a.; minimum contribution Rs.500 per	Contribution of Rs.1,000 at account opening; minimum contribution of	Contribution of Rs.1,000 at account opening; minimum contribution of

		installment	Rs.250 at a time; minimum balance of Rs.2,000 at the end of each financial year	Rs.250 at a time; minimum balance of Rs.2,000 at the end of each financial year
Port Folio	Default scheme that invests mostly in government and corporate bonds.	A mix of stocks, government bonds, corporate bonds, fixed deposits, and liquid funds.	A mix of equity, government bonds, corporate bonds, fixed deposits, and liquid funds.	A mix of equity, government bonds, corporate bonds, fixed deposits, and liquid funds.
Fund Managers	Three fund managers: LIC pension, SBI pension, and UTI retirement solutions	Six fund managers: ICICI prudential, IDFC, Kotak Mahindra, Reliance capital, SBI and UTI.	Six fund managers: ICICI prudential, IDFC, Kotak Mahindra, Reliance capital, SBI and UTI.	Six fund managers: ICICI prudential, IDFC, Kotak Mahindra, Reliance capital, SBI and UTI.
Fees	0.0102%	0.25%	0.0102%	0.25%
Bank account	Not mandatory	Not mandatory	Mandatory	Mandatory
Withdrawal	Not allowed before investor turns 60	Not allowed before investor turns 60	No restrictions	No restrictions

Source: business today

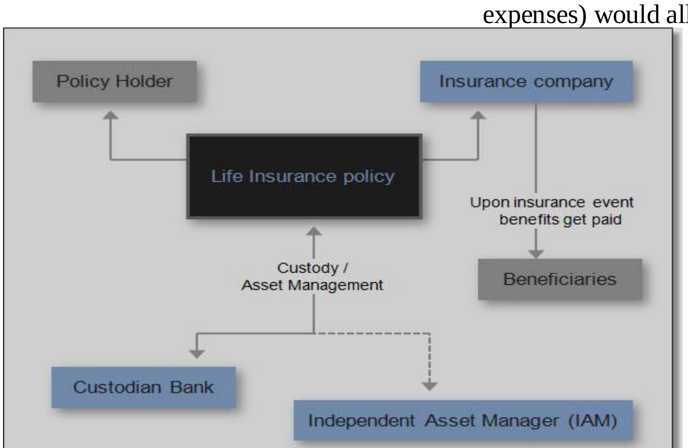
- **Public Provident Fund (PPF)**

PPF or Public Provident Fund is one of the one of the most tax efficient tools in India. It is a tax- free savings avenue which was launched the Ministry of Finance (MoF) in India in the year 1968. Individuals in their own name as well as on behalf of a minor can open the account at any Branch. A minimum of Rs.500 subject to a maximum of Rs.1,50,000 per annum may be deposited. The amount can be deposited in lump sum or in a maximum of 12 installments per year. Original duration is 15 years. Thereafter, on application by the subscriber, it can be extended for 1 or more blocks of 5 years each. The rate of Interest determined by Central government on quarterly basis. At present it is pegged at 7.90% per annum with effect from 01.04.2017 (currently 7.6%). Interest is paid on 31st March every year. Interest is calculated on the minimum balance between 5th day and end of the month. Loans and withdrawals are permitted depending upon the age of the account and balances as on the specified dates.

Income Tax benefits are available under Sec 88 of IT Act. Interest income is totally exempt from Income Tax. Amount outstanding to the credit is fully exempted from Wealth Tax also. Premature payment is allowed only after the account or the account of the minor account holder of whom he/she is the guardian has completed five financial years.

- **Life Insurance**

Life insurance or life assurance is basically an agreement between the insured and insurer. Under the same, the insurance company promises to pay a designated beneficiary a sum of money in return of premium upon the death of the policyholder. Other expenses that occur because of the terminal or critical illness would be liable under this policy, but it completely depends upon the norms of the plan. In this you need to pay premium on prescribed time, either regularly or in lump sum. Other expenses (such as funeral expenses) would all be covered by this policy.



Source – Wikipedia.co; https://www.policyx.com/life-insurance/compare-life-insurance.php
National Saving Certificate (NSC)

The National Savings Certificate (NSC) is an investment scheme floated by the Government of India. It is a savings bond that allows subscribers to save income tax. There is no maximum limit on the purchase of NSCs, but investments of up to Rs 1,50,000 in the scheme can earn a tax break under Section 80C of the Income Tax Act. The certificates earn a fixed interest, which is currently at the rate of 8.1% per annum. This interest is added back to the investment and compounded annually. These certificates can also be used as collaterals while taking loans from banks.

Anyone who is looking for a safe investment avenue to save taxes can opt for the NSC. The NSC offers guaranteed interest and complete capital protection. Since it is backed by the government and can be bought from most post offices in India, the NSC is also more easily accessible than other tax-saving investments. However, the NSC cannot earn inflation-beating returns as compared to other tax-saving investments like tax-saving mutual funds and National Pension System.

Investments of up to Rs 1,50,000 in the National Savings Certificate can earn the subscriber a tax rebate under Section 80C. Furthermore, the interest earned on the certificates are also added back to the initial investment and qualify for a tax break as well. For example, if you purchase certificates worth Rs 1,000, you will be able to get tax break on that initial investment amount in the first year. But in the second year, you will get a tax break on not only additional NSC purchases but also on the interest earned on the investment made in the first year. This is because the interest is added to the original investment and compounded annually.

The NSC VIII Issue comes with a lock-in period of 5 years. The interest that is earned every year is not paid back to the subscriber. Instead, it is reinvested and compounded annually. Only the interest that is earned in the last year has to be added to your taxable income. Upon maturity, you will receive the entire maturity value. Since there is no TDS on NSC payouts, it is the subscriber’s responsibility to pay the applicable tax on it.

The NSC had two types of certificates–NSC VIII Issue and NSC IX Issue. The NSC IX Issue was discontinued in December 2015. Currently, only the NSC VIII Issue is open for subscription. There is no maximum limit on the purchase of these certificates. You can get them from most post offices in India. The current interest rate on the NSC VIII Issue, as of 1 April 2016, is 8.1% per annum. NSC certificates can also be transferred from one person to other as well as from one post office to another. A duplicate certificate can also be requested in case the original is misplaced or gets destroyed.

Source: https://cleartax.in/s/nsc-national-savings-certificate

- **Atal Pension Yogna (APY):**

APY aims to help these workers save money for their old age while they are working and guarantees returns post retirement. The scheme also promises a co-contribution by Central Government of 50% of the total prescribed contribution by a worker, up to Rs. 1000 per annum, but only to those who joined APY before 31.12.2015. Further, this co-contribution would be made only for 5 years, from FY 2015-16 to 2019-20 in the eligible cases subject to the conditions that subscriber should be Indian citizen, should have valid bank account and from the age group between 18 to 40 years. APY is a periodic contribution based pension plan and promises a fixed pension of Rs 1000/ Rs 2000/ Rs 3000/ Rs 4000 or Rs 5000. Your monthly contribution depends upon the fixed amount of monthly pension you want and the age when you start Contributions end and pension starts at 60 years of age. Therefore, even if you join APY at 40 years of age you need to pay premium for a minimum of 20 years to avail the pension. The scheme also allows a subscriber to decrease or increase pension amount during the course of accumulation phase, once a year.

In case of death of subscriber, the spouse of the subscriber shall be entitled for the same amount of pension till his or her death. And after the demise of both spouse and subscriber, the nominee will be entitled to receive the pension money that the subscriber had accumulated till 60 years of age.

However if the subscriber dies before 60 years, the spouse will have the choice to either exit the scheme and claim the accumulated amount or continue maintaining the account under the subscriber's name for the remaining vested years. The spouse of the subscriber shall be entitled to receive the same pension amount as the subscriber until death of the spouse in the latter case.

Source:https://economictimes.indiatimes.com/topic/Atal-Pension-Yojana-%28APY%29

CONCLUSION

For any smart investment planner number investment schemes are available, investor has to choose as per his/her source of income and as per future needs. Before investing investor should check risk involved in scheme. It is vital to make an investment for any individual for their secured future.

