10 Best Tax-Saving Investments under Sec 80(C)

Source : ET Bureau Jan 6, 2014

Multiple options. Contradictory advice. Many taxpayers find themselves in this situation at the beginning of the year, when they have to make tax-saving investments.
Are you also confused? Before you make a choice, go through this article to know which is the best option for you.

We have ranked 10 of the most common investments under Section 80C on five basic parameters:
Returns, **S**afety, **F**lexibility, **L**iquidity and **T**axability. Needless to add every investment has its pros and cons.

1. PPF – Public Provident Fund
2. ELSS – Equity Linked Saving Schemes
3. RGESS – Rajiv Gandhi Equity Savings Scheme
4. ULIP – Unit Linked Insurance Plans
5. EPF – Employees Provident Fund
6. SCSC – Senior Citizen Savings Scheme
7. NPS – New Penson Scheme
8. NSC's & Banking FD's
9. Life Insurance Policies
10. Pension Plans

The PPF may not have a very high return, but its tax-free status, flexibility of investment and liquidity by way of loans and withdrawals, gives it the crown in our beauty pageant.
Equity-linked saving schemes come in second because of their high returns, flexibility, liquidity and tax-free status.
However, traditional insurance policies, an all-time favourite of Indian taxpayers, manage the ninth place because of the low returns they offer and their rigidity.
Some readers might be surprised that the much reviled Ulips are in the third place. The Ulip remains a mystery and its returns are seldom tracked.
We checked Morningstar's data on Ulips and found that the returns have not been very good in the past 1-5 years.
Even so, it can be a useful instrument for the smart investor who shifts his money between equity and debt without incurring any tax.
We have tried to separate the chaff from the grain by assigning a star rating to the various tax-saving options.
Whether you are a novice or a seasoned investor, you will find it useful.
It will help you cut through the clutter and choose the investment option that best suits your financial situation.

PUBLIC PROVIDENT FUND (PPF)

OUR RATING:
★★★★★

RETURNS: 8.7% (for 2013-14)

This all-time favourite became even more attractive after the interest rate was linked to bond yields in the secondary market.
The PPF is our top choice as a tax saver in 2014. It scores well on almost all parameters.
This small saving scheme has always been a favourite tax-saving tool, but the linking of its interest rate to the bond yield in the secondary market has made it even better.
This ensures that the PPF returns are in line with the prevailing market rates.
This year, the PPF will earn 8.7 per cent, 25 basis points above the average benchmark yield in the previous fiscal year.
The benchmark yield had shot up in July and has mostly remained above 8.5 per cent in the past six months.
Although the yield is unlikely to sustain at the current levels, analysts don't expect it to fall below 8.25 per cent within the next 2-3 months.
So it is reasonable to expect that the PPF rate would be hiked marginally in 2014-15.
The PPF offers investors a lot of flexibility. You can open an account in a post office branch or a bank.
There's flexibility even in the quantum and periodicity of investment.

The maximum investment of Rs 1 lakh in a year can be done as a lump sum or as instalments on any working day of the year.
Just make sure you invest the minimum Rs 500 in your PPF account in a year, otherwise you will be slapped with a nominal, but irksome, penalty of Rs 50. Though the PPF account matures in 15 years, you can extend it in blocks of five years each.
However, this facility is no longer available to HUFs.
The PPF also offers liquidity to the investor. If you need money, you can withdraw after the fifth year, but withdrawals cannot exceed 50 per cent of the balance at the end of the fourth year, or the immediate preceding year, whichever is lower.
Also, only one withdrawal is allowed in a financial year.
You can also take a loan against the PPF, but it cannot exceed 25 per cent of the balance in the preceding year.
The loan is charged at 2 per cent till 36 months, and 6 per cent for longer tenures. Till a loan is repaid, you can't take more.
If you dip into your PPF account, be sure to put back the amount at the earliest.
Withdrawing from long-term savings is not a good strategy if you do it frequently. It can dent your overall retirement planning.
The PPF is especially useful for risk-averse investors, self-employed professionals and those not covered by the Employees Provident Fund and other retiral benefits.

BRIGHT IDEA: Invest before the 5th of the month if you want your contribution to earn interest for that month as well.

ELSS FUNDS

OUR RATING:

RETURNS: 17.5 per cent (Past five years)

The potential for high returns, wide choice of funds and flexibility make these funds a good tax-saving option for equity investors.

Equity-linked saving schemes (ELSS) have the shortest lock-in period of three years among all the tax-saving options under Section 80C.
However, this should not be the most important reason for investing in this avenue.
Being equity funds, these schemes can generate good returns for investors over the long term.
In the past five years, this category has created wealth for investors with average returns of 17.5 per cent.

TOP PERFORMING ELSS FUNDS – Growth option

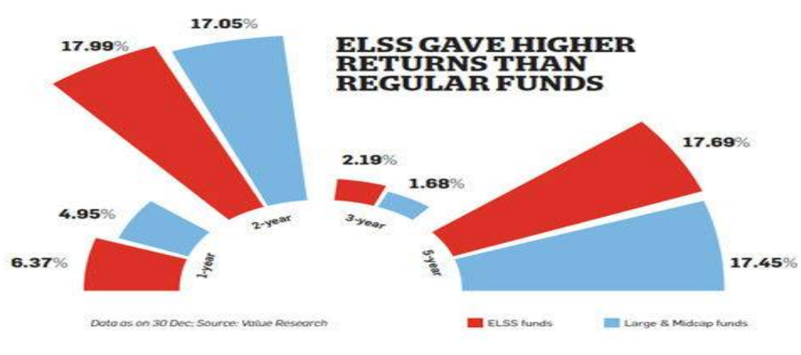
The One Year, Three year and Five year returns make them a compelling buy (NAV as on 8 July 2014)

SCHEME	Inception	NAV	1-year	3-year	5-year
AXIS Long Term Advantage	29 Dec 2009	23.30	55.58	21.70	-
Reliance Tax Saver	21 Sept 2005	37.97	74.39	21.02	22.74
ICICI PRU Tax Plan	19 Aug 1999	233.45	62.18	17.77	23.21
DSP BR Tax Saver	18 June 2007	26.59	47.48	16.12	18.96
Franklin India Taxshield	10 April 1999	325.77	41.07	15.01	18.99
HDFC Long Term Advantage	2 Jan 2001	212.96	49.59	14.74	19.48
Birla SL Tax Plan	1 Jan 2006	20.99	45.36	14.74	16.71
HDFC Tax Saver	31 May 1996	355.67	62.84	14.36	20.05
Birla SL 96 Fund	6 Mar 2008	16.42	46.74	13.83	15.92
L&T Tax Advantage	27 Feb 2006	31.55	41.33	12.52	18.46

The Figures are returns as on 8 July 2014. The 3-year and 5-year returns are annualised. Funds have been ranked on the basis of 3-year annualised returns.

ELSS data source : Inhouse, NEEV Advisories

However, this potential to earn high returns comes with a higher risk. There is no guarantee that your investment will generate positive returns after the 3-year lock-in period.
The category has generated an average return of 16.28% in the past three years.
The returns will naturally mirror the performance of the stock markets.
Therefore, only investors who have the stomach for a roller-coaster ride should consider this option.
Should investors avoid ELSS now, especially since the stock market is close to its all-time high?
Not really, because the stock market has returned to the previous high after a 6-year gap and, therefore, is not overvalued at all.
Since the stock market is reasonably valued now, ELSS should generate good returns for investors who can remain invested for 5-7 years," says Gajendra Kothari, managing director and CEO, Etica Wealth Management.
Though the large-cap Sensex and Nifty are at higher levels, the mid-cap and small-cap indices are at much lower levels.
This means there is enough value in midcap stocks, which should help the fund managers do well in the coming years.
<u>Selecting the right scheme is crucial since there is significant variation in the returns of different schemes.</u>
Though past performance is an important parameter, also take into account the track record of the fund house and fund manager.
Once you select a scheme, decide whether you want to go for the dividend or growth option.
There is no difference in the tax treatment of the two options.
The decision should be based on the cash-flow requirements of the investor.
Dividends from mutual funds are tax-free so there is no tax liability as well.
<u>Avoid the dividend reinvestment option for ELSS schemes</u> because the lock-in period will prevent you from exiting fully.
Though the ELSS funds invest in equities, they are different from other open-ended diversified equity funds.
Due to the lock-in period, the ELSS fund manager does not have to worry about redemption pressure from investors.
This gives him the freedom to invest in shares as per his conviction and hold them for longer periods.
In the past few years, the ELSS category has consistently outperformed the large and midcap sub-category of diversified equity funds (see graphic).



ELSS funds offer tremendous flexibility to investors. As mentioned earlier, the 3-year lock-in period is the shortest.
Since there is no tax on gains from equity funds after a year, an investor can safely recycle his investments every three years and claim tax benefits on the reinvested amount.
Young taxpayers, who have taken huge loans and don't have enough surplus to save tax, will find these schemes very useful.
If you can help it, don't exit the scheme after three years just because lock-in period is over.

Studies show that equities give better returns in the long term. The minimum investment is also very low.
Unlike a Ulip, pension plan or an insurance policy, there is no compulsion to continue investments in subsequent years.
Since ELSS funds are a high-risk investment and their NAVs are volatile, you need to stagger your investment over a period of time instead of going for a lump-sum investment at the end of the financial year.
This is more important at this juncture when the benchmark indices are trading close to their all-time high levels.
Your best option is to take the SIP route. Before you take the plunge, remember that your investment should be guided by your overall asset allocation. If your exposure to equities is lower than what you want, go for the ELSS fund.
If your portfolio already has too much equity, avoid investing in these funds.

BRIGHT IDEA: Don't invest a lump sum. Split investments in ELSS funds into three SIPs starting from January till March.

RGESS: **An avoidable option for the first-time equity investor**

The RGESS allows **first-time equity investors** earning up to Rs 12 lakh a year additional tax savings under the newly introduced Section 80 CCG. If you invest in the RGESS options, you can claim a deduction of 50 per cent of the invested amount.
The maximum investment is Rs 50,000, so the maximum deduction availed of can be Rs 25,000.
This is over and above the Rs 1 lakh limit available under Section 80C.
The scheme permits investments in the BSE-100 or CNX 100 shares, shares of Maharatna, Navratna or Miniratna PSUs, or in designated equity mutual funds and ETFs.

If you do opt for any RGESS fund or ETF, your investment is locked in for three years (fixed lock-in period during the first year, followed by a flexible lock-in period for the two subsequent years).
Under the flexible lock-in option, you are allowed to sell your RGESS shares or mutual funds units and reinvest the proceeds in any other RGESS instrument. This will enable you to get rid of the underperforming investments and shift to better options.
However, in the absence of an SIP facility, you are exposed to market timing.
Also, the maximum tax saving you can get through this scheme is Rs 7,725 for those in the 30 per cent income tax bracket.
In the 20 per cent bracket, the maximum saving is Rs 5,150, while you save only Rs 2,575 in the 10 per cent bracket.
This is not much considering the risk you are taking by investing in equities.
Besides, investors will also need to open a demat account to invest in the RGESS, which would incur annual charges.

ULIPs

OUR RATING:

RETURNS: 7.2-11.8 per cent (Past five years)

Don't go by the past record. The new Ulip is a good way to invest in the equity and debt markets for tax-free returns.
There's a good reason why this most hated investment is so high on our rating scale.
For many policyholders, Ulips denote the costly mistake they made a few years ago.
But that was a different era, when companies were gobbling up 50-60 per cent of the premium in the first few years in the guise of charges.
The 2010 guidelines have reformed the Ulip, turning it into a more customer-friendly investment.
Though a Ulip should not be your first insurance policy, you can consider buying one as an investment that also helps you save tax.
Of course, it also offers a life cover, but the stress is on investment, not protection.
Don't buy a Ulip (or any other insurance policy, for that matter) if you are not sure whether you can continue paying the premium for the entire term. If you end it prematurely, be ready to pay surrender charges.
Your insurance policy should not impinge on other financial commitments. It's easy to set aside a big sum when you are young because your liabilities are limited, but this changes and expenses shoot up when you start a family or buy assets.
If the premium is very high, the policyholder may find it difficult to pay it year after year.
Under the new Ulip rules, you cannot take a premium holiday. If you stop paying the premium, the policy will be discontinued.
Also, you need to take a long-term view when you buy an insurance plan.
A Ulip will yield good results only if you hold it for at least 10-12 years.
Before that, the plan may not be able to recover the charges levied in the first few years.
This is why short-term plans of 5-10 years usually give poor results, which pushes investors to dump them within 3-4 years of buying.

AVERAGE RETURNS FROM ULIPS

Ulip option	1-year	3-year	5-year
Aggressive allocation	4.01	2.17	11.77
Moderate allocation	3.91	3.93	10.12
Conservative allocation	4.29	5.69	8.03
Short-term bond	6.97	7.64	7.18

Figures are returns in %. 3-year and 5-year returns are annualised. Source: Morningstar

Buyers must also understand that a Ulip is not necessarily an equity-linked investment.
You can also invest your Ulip corpus in debt funds.
You can start shifting the money to the equity fund or debt fund, when the prospects look rosier.
Only a Ulip allows you to switch from debt to equity, or vice versa, without incurring any capital gains tax.
It is best to invest in a plain vanilla Ulip that allows you to choose your investment mix and also offers online transaction facilities.

BRIGHT IDEA: Opt for the liquid or debt fund and then shift to the equity option as per your reading of the market.

VOLUNTARY PF

OUR RATING:

RETURNS: 8.5 per cent (for 2013-14)

This little used option is available only to salaried taxpayers covered by the Employees' Provident Fund.
The contribution to the Employees' Provident Fund (EPF) is a compulsory deduction, as also an automatic tax saver.
However, you can contribute more than 12 per cent of your basic salary that flows into the EPF every month.
This voluntary contribution will earn the same rate of interest, will fetch you the same tax benefits under Section 80C and the maturity corpus will also be tax-free.
A key disadvantage is the limited liquidity that the Provident Fund offers. You cannot access the money till you retire.
A one-time withdrawal is allowed in special circumstances, such as medical emergency, purchase or construction of a house, or a child's marriage.
Companies typically ask their employees to submit the Voluntary PF mandate at the beginning of the financial year.
Ask your company if you can start contributing to the VPF from this month onwards.
Once you have opted for the deduction, you cannot discontinue it till the end of the financial year, except in extraordinary circumstances. While the VPF gets tax deduction and the maturity corpus is also tax-free,
you will have to pay tax on the interest if you withdraw the money within five years.
So, opt for it only if you are sure that you can remain invested for the long term.
Another drawback is the possibility of a lower interest rate for the PF in the coming years.
The rate is announced by the EPFO Trust after examining the interest earned by the EPF corpus.

It is likely to be 8.5 per cent for the current financial year, but there is no certainty that this will be maintained over the longer term.
Contributing to the VPF is suitable for taxpayers in their 50s, who want to aggressively save for their retirement but don't want to invest in market-linked options or tax-inefficient fixed deposits.

BRIGHT IDEA: Channelise at least 10 per cent of your increment to the VPF every year. The higher savings will not pinch you.

SENIOR CITIZEN'S SAVING SCHEME

OUR RATING:

RETURNS: 9.2 per cent (for 2013-14)

This remains the best way for retirees to save tax, though the Rs 15 lakh investment limit is a damper.
With four stars, this assured return scheme is the best tax-saving avenue for senior citizens.
However, the Rs 15 lakh investment limit somewhat curtails its utility as a tax-saving option.
The interest rate is 100 basis points above the 5-year government bond yield.
Unlike the PPF, the change in interest rate does not affect the existing investments.
This year, the interest rate has been cut by a marginal 10 basis points to 9.2 per cent.
Many grey-haired investors may not be enthused by this. Banks are offering up to 10 per cent to senior citizens right now, almost 50-60 basis points higher than what they give to regular customers.
There's a good reason for this pampering. Senior citizens have a bulk of their investments in fixed deposits, which makes them prized customers for banks.
So, if you do not consider the tax deduction under Section 80C, this option is not as lucrative as bank FDs.
However, as a tax-saving tool, the scheme scores over bank fixed deposits and NSCs because the quarterly payment of the interest provides liquidity to the investor. The interest is paid on 31 March, 30 June, 30 September and 31 December, irrespective of when you start investing.

WHICH ONE SUITS YOU BEST?

Option	Returns (%)	Investment limit (₹)	Tax deduction	Interest payout
Sr Citizen's Saving Scheme	9.2	15 lakh	✓	Quarterly
Sr Citizen bank FDs	9.5-10	No limit	x	As required
Tax-saving FDs	9.5-9.75	No limit	✓	On maturity

This aspect of the SCSS, and the fact that it is an ultra safe scheme backed by the government, makes it an ideal option for retired taxpayers looking for a steady stream of income.
Though the interest earned is fully taxable, retired people usually don't have a high tax liability.
Keep in mind that the basic tax exemption for senior citizens is higher at Rs 2.5 lakh.
For very senior citizens, it is even higher at Rs 5 lakh.
The only glitch is the Rs 15 lakh investment limit per individual. If a person parks Rs 15 lakh of his retiral benefits in the scheme, he will be able to claim deduction for only Rs 1 lakh. Although the scheme is for senior citizens (60 years), even those above 55 years can invest if they have taken voluntary retirement.
Retired defence personnel can join irrespective of their age if they fulfil other conditions.

BRIGHT IDEA: If you have Rs 15 lakh to invest in the scheme, stagger the investments over 2-3 years to claim more tax benefits.

NEW PENSION SCHEME

OUR RATING:

RETURNS: 4.2-10.2 per cent (past 3 years)

The low-cost retirement product is a good option for those saving for retirement, but watch out for the limited liquidity it offers.

Its low-cost structure, flexibility and other investor-friendly features make the New Pension Scheme an ideal investment vehicle for retirement planning. However, even though the fund management charges have been raised from the ridiculously unviable 0.0009 per cent to a more reasonable 0.25 per cent, the pension fund managers are not hardselling the scheme.
If you want to save tax through the NPS this year, be ready to do a lot of legwork and paperwork before you can get to invest in this unique pension plan. The returns from the NPS funds are a mixed bag (see table).
While the returns from the E class (equity) funds are in line with the market returns, those from the G class (gilt) funds are quite a disappointment. Government employees, who have a chunk of their pension funds in the G class schemes of LIC Pension Funds and SBI Pension Funds, would be especially hit.
The redeeming feature is the high returns churned out by the C class (corporate bond) funds. However, these bonds carry a higher risk.
The scheme scores high on flexibility. The minimum annual contribution is Rs 6,000, which can be invested as a lump sum or in instalments of at least Rs 500. There is no upper limit. The investor also decides the percentage of the corpus that goes into equity, corporate bonds and government securities, the only limitation being the 50 per cent cap on exposure to equity.

NPS FUNDS HAVE GIVEN MIXED RETURNS

Scheme	Equity funds		Corporate bond funds		Gilt funds	
	1-year	3-year	1-year	3-year	1-year	3-year
SBI Pension Fund	10.18	2.73	5.80	9.85	-0.09	6.59
Kotak Pension Fund	8.15	5.92	6.02	10.35	0.77	6.63
Reliance Pension Fund	8.42	7.40	7.03	11.09	0.58	7.44
UTI Retirement Solutions	9.91	1.87	6.38	9.65	0.65	5.65
ICICI Pru Pension Fund	9.47	2.85	6.30	10.25	1.43	6.80
Average	**9.23**	**4.15**	**6.30**	**10.24**	**0.67**	**6.62**

Returns in % as on 31 Dec 2013; 3-year returns are annualised. *Source: Pension funds websites.*

One of the most outstanding features of the NPS is the 'lifecycle fund'. It is meant for those who are not financially aware or can't manage their asset allocation themselves. It is also the default option for someone who has not indicated the desired allocation for his investments. Under this option, the investor's age decides the equity exposure. The 50 per cent allocation to equity is reduced every year by 2 per cent after the investor turns 35, till it comes down to 10 per cent. This is in keeping with the strategy to opt for a higher-risk, higher-return portfolio mix earlier in life, when there is ample time to make up for any possible black swan event. Gradually, as the investor approaches retirement, he moves to a more stable fixed-return, low-risk portfolio.
This automatic rejigging of the asset allocation is a unique feature of the NPS. No other pension plan or asset allocation mutual fund offers such a facility to investors. There are a few funds based on age, but they are one-size-fits-all solutions, not customised to the individual's age.
Another positive feature of the NPS is the wide choice of funds for the investor. Though you can switch from one fund manager to the other only once in a year, it is still better than investing in a Ulip or a pension plan where you are stuck with the same fund manager for the rest of the tenure. IDFC Pension Fund quit the NPS last year,
but two well-regarded entities — HDFC Pension Fund and DSP Blackrock Pension Fund — have joined the club.
Another unique feature of the NPS is the tax benefit it offers under the newly added Section 80 CCD(2).
Under this section, if an employer contributes 10 per cent of the salary (basic salary plus dearness allowance) to the NPS account of the employee, the amount gets tax exemption of up to Rs 1 lakh.
This is over and above the Rs 1 lakh tax deduction under Section 80C. It's a win-win situation for both because the employer also gets tax benefit under Section 36 I (IV) A for his contribution.
By putting in money in the NPS, the employer can provide an additional tax benefit to the employee by simply reorganising the salary structure without incurring any additional cost to the company (CTC). The wart in the NPS is the lack of liquidity. You cannot access the funds before you turn 60. On maturity, at least 40 per cent of the corpus must be used to buy an annuity. Some see this as a positive feature that prevents premature withdrawals.

BRIGHT IDEA: Get your company to opt for the Section 80CCD(2), under which you can save more tax through the NPS.

NSCs AND BANK FDs

OUR RATING:

RETURNS: 8.5-9.75 per cent

They appear attractive, but taxability of income takes away some of the sheen from these instruments.

There are many misconceptions about bank fixed deposits in the minds of investors.
Many think that up to Rs 10,000 interest from bank deposits is tax-free, as announced in the budget two years ago. This is not true.
The newly introduced Section 80TTA gives a deduction of up to Rs 10,000 on interest earned in the savings bank account, not on fixed deposits and recurring deposits.

BEST TAX SAVING FDs	Interest rate (%)	Effective post-tax yield (%)		
		10% TAX SLAB	20% TAX SLAB	30% TAX SLAB
Axis Bank	9.75	11.05	12.53	14.24
Bank of Baroda	9.55	10.87	12.37	14.10
Canara Bank	9.55	10.87	12.37	14.10
Bank of India	9.55	10.87	12.37	14.10
ICICI Bank	9.50	10.82	12.32	14.06
NSCs (5 years)	8.50	9.91	11.51	13.36

Effective yield takes into account the tax saving under Sec 80C as well as the tax paid on the interest.

Also, the nomenclature 'tax-saving deposits' means you save tax under Section 80C. It does not mean that these deposits are tax-free.
The interest earned on deposits is fully taxable at the normal tax rate applicable to you.
You have to mention this interest under the head 'Income from other sources' in your income tax return.
Keep in mind that this tax is payable every year on the interest that accrues in that financial year, even though you get the amount on maturity. So don't get misled by the high interest rates offered on the 5-year bank fixed deposits.
The post-tax yield may not be as high as you think. In the 20 per cent and 30 per cent income tax brackets, it is not as attractive as the yield of the tax-free PPF.
The second misconception is that there is no need to pay tax if TDS has been deducted by the bank.

You may have to pay tax even if TDS has been deducted.
TDS is only 10 per cent (20 per cent if you haven't submitted your PAN details), and if you are in the 20-30 per cent bracket, you need to pay additional tax. Ignore mentioning the interest income in your return at your peril.
The TDS is credited to your PAN and reported to the tax authorities.
If there is a mismatch in the TDS details in the tax records and in your return, you will surely get a tax notice.
The Central Board of Direct Taxes has a computer-aided scrutiny system (CASS), which flags any discrepancy in the tax return filed.

Check the TDS in your Form 26AS, which has details of the tax deducted on your behalf. It can be easily checked online.
It is easier if you have a Net banking account with any of the 35 banks that offer this facility. Otherwise, you can go to the official website of the Income Tax Department and click on 'View your tax credit'.
The first-time users will have to register, but it takes less than 5 minutes to log on and view your details.
The interest on NSCs is also taxable but very few taxpayers include it in their returns.
However, with the integration of tax records, a taxpayer may not be able to escape the tax net easily. For instance, if you have claimed tax deduction under Section 80C for investments in NSCs or FDs in one year, the tax department may want to know why the interest earned is not reflecting in your tax returns for subsequent years.

BRIGHT IDEA: Don't try to avoid the TDS by investing in FDs of different banks. You will have to pay the tax later anyway.

LIFE INSURANCE POLICIES

OUR RATING:

RETURNS: 5.5-7.5 per cent
Despite the revised guidelines, insurance plans are still not a good investment. Only HNI investors will find the tax-free corpus appealing.

Though the Irda guidelines for traditional plans have made insurance policies more customer-friendly by ensuring a higher surrender value and larger life covers, they are still the worst way to save tax.
The tax saving is only meant to reduce the cost of insurance. It is not the core objective of the policy.
Money-back and endowment insurance policies score low on the flexibility scale.
Once you buy a policy, you are supposed to keep paying the premium for the rest of the term.
This can be a problem if you took the policy only to save tax.
However, these policies are not as illiquid as they appear. You can easily get a loan against your Policy.
The terms are quite lenient and repayment can be done at your convenience.
Insurance companies claim their products offer the triple advantage of life cover, long-term savings and tax benefits.
That's not true. Traditional plans give a low life cover of 10 times the premium.
For a cover of Rs 25 lakh, you will have to spend Rs 2.5 lakh a year. They also give niggardly returns.
The internal rate of return (IRR) for a 10-year policy comes to around 5.75 per cent. For longer terms of 15-20 years, the IRR is better at 6.5-7.5 per cent.
As for the tax benefit, there are simpler and more cost-effective ways to save tax, such as 5-year bank FDs and NSCs.
If the taxability of the income worries you, go for the tax-free PPF.
However, traditional insurance policies still make a lot of sense for the HNI investor who is more concerned about the tax--free corpus under Section 10(10d) than the deduction under Section 80C.
Even for such investors, a Ulip will make more sense as they will have control over the investment mix.

PENSION PLANS

OUR RATING:

RETURNS: 7-10 per cent

After a hiatus of 2-3 years, pension plans are making a comeback, but the high charges mean lower returns for investors.

Pension plans offered by life insurance companies made a comeback in 2013.
However, the charges of these plans are significantly higher than those of the NPS.
While the NPS has a fund management charge of 0.25 per cent, a typical pension plan from a life insurance company charges almost 3-4 per cent. This difference can snowball into a wide gap over the long term, reducing the returns of the pension plan by a significant margin.
Insurers argue that the low-cost NPS is good only on paper because there are so many hurdles to investing in the scheme.
A pension plan from an insurer is costlier but you don't have to go around in circles trying to invest in it. That's true to a great extent.
Even after four years of launch and offering additional tax benefits, the NPS has not been able to attract investors in hordes.
However, the solution is not a high-cost pension plan.

A few mutual funds also have pension plans. The Templeton India Pension Plan, UTI Pension Plan, two schemes in the market and offers deduction under Section 80C. Debt-oriented fund that invests 30-40 per cent of its corpus in equities and the rest in debt.
But at 10.7 per cent, its 5-year annualised returns are nothing to gloat about.
A better option would be a combination of an ELSS scheme and any of the debt instruments(preferably PPF).

BRIGHT IDEA: It is not a good idea to invest a large sum in the equity option at one go. Opt for the liquid or debt fund instead.