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Public Provident Fund Vs Sukanya Samriddhi Scheme

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Persons between the age group of 28 to 40 should make his financial plan for future properly otherwise it may create problem for them in future. While planning for future they should consider various principles of investments like liquidity, profitability, safety, diversification and taxation along with other principles. Fortunately majority of the principles we find in both schemes Public Provident Fund (PPF) and Sukanya SamriddhiScheme (SSS). Before investing in any scheme an investor has to take decision which scheme is better for him. He may take decision easily if he is having knowledge of the salient features of that scheme.

Before taking investment decision one should clearly understand unique feature of that scheme. Then decision should be taken considering various principles of investments i.e.,safety, profitability, liquidity, diversification and taxation etc. benefits etc. So, first of all we will discuss the salient features of Public Provident Fund and Sukanya Samriddhi Scheme.

Salient Features of PPF Account:

1. **Who Can Open An Account**

   Any individual can open a PPF Account in his own or spouse name or on behalf of a minor through guardian. Those who are contributing in GPF Fund or CPF/EPF account can also open a PPF account. For opening this account no age limit is prescribed. At any point in your life, you are allowed to have only one PPF account in your name. In case if at any time it is seen that you have more than one account in your own name, the second account will be deactivated and only your principal will be returned to you.

2. **Who cannot open PPF account**

   It is pertinent to mention that this account **cannot be opened jointly**. Non Resident Indian, **power of attorney** holder can neither open nor operate PPF account,even **grandfather/mother** cannot open a PPF account on behalf of their minor grandson/daughter and since 13-05-2005 **Hindu Undivided Family** cannot open a PPF Account.

3. **Where to open account**

PPF Account can be opened in Head Post Office or selection grade sub post offices or in any branch of State Bank of India (Excluding offices managed by single officer or clerk) and also at specified branches of some nationalized banks.

4. **Rules regarding Contribution**

The minimum deposit 500 and maximum Rs.150000 in a financial year in the multiple of Rs.100. Deposit can be made in lump sum or in not more than 12 installments in a year with two installments in a month subject to total deposit of Rs.150000 per FY. The deposit in a minor account is clubbed with the deposit of the account of the Guardian but the limit of Rs.150000 should not exceed.

Interest rate on PPF Account

Balance in the account earns interest at the rate fixed by Central Government periodically. Present rate of interest is 7.9 per cent which fell rapidly over the years, is evident from Table 1. In fact the PPF interest rate has steadily dropped over the years and can be expected to slowly fall in coming years.

Table 1

Rate of Interest on PPF Account

Period	Interest Rate Per Annum (in %)
01 April 1986 - 14 Jan 2000	12.00
15 Jan 2000 - 28 Feb 2001	11.00
01 March 2001 - 28 Feb 2002	09.50
01 March 2002 - 28 Feb 2003	09.00
01 March 2003 - 30 Nov 2011	08.00
01 Dec 2011 - 31 March 2012	08.60
01 April 2012 – 31 March 2013	08.80
1 April 2013- 31 March 2016	08.70
1April 2016- 31 March 2017	08.10
1 April 2017 – 31 March 2018	07.90

Table 1 depicts that rate of interest is continuously decreasing and decreased from 12 (between 1986 to 2000) to 7.9 in financial year 2017-2018 . In true sense rate of interest is still more because interest on PPF is fully exempted and that will depend in which slab of Income Tax investor is? If, the assessee is in 10 slab of Income Tax then effective rate of interest becomes 8.8 (Interest Before Tax + 3 Education Cess=IBT), 20 slab of Income Tax then this rate becomes 9.95 (IBT) and if in 30 slab of Income Tax then this rate becomes 11.43 (IBT). It is better than any investment option where investor may get up to 8.8, 9.95 & 11.43 interest respectively, if he is in the slab of 10, 20 & 30 in Income Tax Act.

Objective

Sukanya Samridhi Scheme Unique Small Savings Scheme for daughters that's why it is said Open Sukanya Samridhi Scheme and bring happiness in your home. Main aim of the scheme is to motivate parents of female child for creating fund for future which may be useful for the higher education or marriage of daughters.

Salient Features of SSS Account:

- **Who can open this account?**

  Account may be opened by the parents (Mother/father) or legal guardian, if no parents are alive till the age of 10 years of the daughter.
- **Where to open account?**

  The account can be opened in Head Post Office or selection grade sub post office or in any branch of State Bank of India (Excluding offices managed by single officer or clerk) and also at specified branches of other nationalized banks.
- **How Many accounts can be opened?**

  a. Only one account can be opened by the parent or legal guardian of female baby in the name of daughter either in Bank or in Post office in India.

  b. Another account may be opened in the name of SECOND daughter, but number of such accounts in a family should not be more than two.

There might be three accounts in following circumstances but that should be supported by medical proof:

c. If triplets female baby born at the time of fist delivery or

d. If twins female baby born at the time of second delivery.

Documents Required For Opening Account

1. Birth Certificate of Daughter
2. Identity Proof of Parents/ Guardian
3. Two Photograph of Parents/ Guardian & Daughter
4. Address Proof of Parents/ Guardian

Rules Regarding Deposit in the Scheme

Minimum amount required for opening a Sukanya Samriddhi Scheme is Rs.1000 and maximum ceiling is Rs.150000. Contribution can me made any time during the Financial Year between Rs.1000 to 150000 in the multiple of Rs.100 up to14 years from the year of opening of the account through cash, cheque/demand draft/ RTGS/ or via any electronic mode. However, no contribution is to be made from 15 years onwards but, account will earn interest and will continue up to 21 years or up to the marriage of daughter whichever is earlier.

Rate of Interest

Rate of interest on this account is determined every year in the Budget. From January, 2016 Government fixes rate of interest on quarterly basis based on the yields on government securities. Interest notified by the government is compounded yearly and credited to the relevant account. Following table shows rate of interest in various quarter of the years are as follows:

Table 1

Rate of Interest since Inception

Financial Year	April - June	July - September	October - December	January - March
2014-2015	X	X	X	9.2
2015-2016	9.2	9.2	9.2	9.2
2016-2017	8.6	8.6	8.6	8.5
2017-2018	8.4	8.3	8.3	8.1

Source: Budget of various year

It is evident from table 1 that interest rate is continuously decreasing since its inception and decreased from 9.2% (2014-15) to 8.1% (2017-18).

Withdrawal

The account will remain operative for 21 years from the date of its opening or till the marriage of the girl after she turns 18. To meet the financial requirements of the account holder for the purpose of higher education (Documentary proof in the form of offer of the confirmed admission in an educational institution or a fee slip from such institution clarifying that such financial requirement, is required. Further, the withdrawal amount will be restricted to the actual demand of fee and other charges required at the time of admission as shown in the offer of admission or the relevant fee slip issued by the institution) and marriage, withdrawal of up to 50 per cent of the balance at the credit of the account at the end of preceding financial year is allowed moreover, if marriage take place before completion of 21 years, the operation of the account will not be permitted beyond the date of her marriage. If account is closed before the completion of 21 years, the account holder will have to give an affidavit to the effect that she is not below 18 as on the date of closing of account. On maturity, the balance, including the interest outstanding in the account, will be payable to the account holder on the production of withdrawal slip along with the passbook.

Transfer

Account can be transferred from one branch of Post Office/Bank to another branch of Post office/Bank or from Bank to Post office or vice versa and non-transferrable among two daughters.

Benefits

Contribution made in the account qualifies for Deduction U/S 80C of the Income Tax Act, 1961 along with other deposits maximum up to Rs.150000. Interest credited; Withdrawal/Maturity value is also exempted. This investment is based on EEE concept.

Nomination

Nomination facility is not available under this scheme.

Default in Contribution

Each year contribution of Rs.1000 is to be made; if it is not made in one or more years then it can be revived latter on by paying penalty of Rs.50 per year along with minimum contribution.If the penalty is not paid, the entire deposit, including those made before the date of default, will receive interest rate applicable (at that time) in post office savings bank account. In case excess interest has been paid it will be reversed.

Closer of Account

Account may be closed after completion of 21 years from the financial year in which account was opened. In the event of death of the female child, the account will be closed immediately on the production of a death certificate issued by the competent authority and the balance in the account will be paid, along with the interest till the month proceeding the month of the premature closure of the account to the guardian.

In any other case, a request for the premature closure of an SSS account can be put forward after the completion of five years of the account opening and will be allowed as per rules, on extreme compassionate grounds such as is suffering from any life – threatening disease which require heavy amount for treatment or due to marriage of the daughter before 21 years, in such cases the entire deposit will get interest of Post Office Savings Bank account.

Difference between PPF and SSS

PPF account may be opened by any individual in his name, spouse name or any other dependent member may be minor or major whereas SSS account will be always open by parents on behalf of female child up to age of 10 years only. One account can be open in the name of each family member in case of PPF but in case SSS maximum 2 account can be opened in a family, if number of female child below 10 year is 2 (only in some case it might be 3 accounts). Minimum contribution in a financial year is Rs.500 in PPF and Rs.1000 in SSS and present rate of interest is 7.9 and 8.1 per cent respectively in PPF and SSS. Loan facility is available from 3rdto 6th financial year in PPF but no such type facility available in SSS. Withdrawal facility is available in PPF account from 7th financial year onwards but in case of SSS it is available at the age of 18th year of the child and that is in some special cases only. PPF account may be opened in post office, bank and some private bank like ICICI & Axis bank but SSS cannot be open in private banks. Period of PPF account is 15 years which can be extended unlimited in the block of 5 years in contrast to this SSS's period is 21 years and that cannot be extended in any case. PPF is free from attachment but no rule is framed by the government yet in case of SSS.

Above differences may be presented in brief in following table -3.

Table 3
Difference between PPF & SSS

S. No.	Basis of Difference	PPF	SSS
1.	**Who can open**	Any individual in his name, spouse name or any dependent member may be minor or major	Account will be always open by parents on behalf of female child up to age of 10 years only
2.	**Number of account**	One account can be open in the name of each family member	Maximum 2 account can be opened in the name of 2 female child up to age of 10 years only
3.	**Minimum Contribution in a F Y**	Rs.500	Rs.1000
4.	**Number of Contribution**	Maximum 2 times in a month but not exceeding 12 times in a financial year	No Limit
5.	**Rate of Interest**	7.9	8.1
6.	**Nomination**	Available	Not Available
7.	**Loan**	Available from 3rd Year	Not Available
8.	**Withdrawal**	Available from 7th Year onwards until money is not withdrawn	Available in 18th year in special cases only
9.	**Where to open**	Head Post Office or selection grade sub post offices or in any branch of State Bank of India and also at specified branches of some nationalized banks and private banks namely ICICI & Axis Bank.	Head Post Office or selection grade sub post offices or in any branch of State Bank of India and also at specified branches of some nationalized banks. **NOT IN PRIVATE BANKS.**
10.	**Maturity Period**	After 15 Years of opening of account	After 21 years of opening of account
11.	**Extension of Account**	Can be extended unlimited in the block of 5 years	Cannot be extended
12.	**Free from Attachment**	Free from Attachment	Not Available

Similarity between PPF and SSS

Both schemes are backed by Central Government hence; both schemes are 100% risk free. Maximum contribution is Rs.150000 in a Financial Year; if investor does not invest due to any reason in any financial year then he will have to pay minimum contribution + Rs.50 as penalty for each year in both the schemes. At the same time both scheme cannot be open by a NRI and premature closer of the PPF and SSS is feasible if investor fullfil certain conditions. Both schemes qualifies for deduction U/S 80C of the Income Tax Act, 1961 along with other deposits with maximum ceiling Rs.150000 and covered by EEE principles i.e., exempted at the time of contribution, exempted at the time of interest accrual and exempted in the hands of recipient at the time of maturity. Moreover, transfer of said account feasible from one place to another, from post office to bank and vice versa.

Above similarity may be presented in brief in following table 4

Table 4

Similarity between PPF & SSS

S. No.	Basis of Similarity	PPF	SSS
1.	Supported by	Central Government	Central Government
2.	Maximum Contribution in a F Y	Rs.150000	Rs.150000
3.	Default in contribution	In order to regularaise A/C Rs.50 + Minimum contribution for each year is to be deposited	In order to regularaise A/C Rs.50 + Minimum contribution for each year is to be deposited
4.	NRI	Cannot open	Cannot open
5.	Premature closer of A/C	If certain conditions are satisfied	If certain conditions are satisfied
6.	Deduction U/S 80C	Available up to Rs.150000	Available up to Rs.150000

7.	**Availability of EEE Principal**	EEE Principal Available	EEE Principal Available
8.	**Transfer**	A/C can be transferred from one place to another or from Bank to Post Office or vice versa allowed	A/C can be transferred from one place to another or from Bank to Post Office or vice versa allowed

For having a clear cut idea about the availability of loan, withdrawal and maturity amount of PPF and SSS following table 5 and 6 formulated with certain assumptions of PPF & SSS given below:

Assumptions for PPF

- Interest on PPF is calculated on the minimum balance in PPF account between the 5th and the last day of every month.
- Each contribution is made before 5th day of each month (April)/year.
- Withdrawal is also made before 5th day of each month (April)/year.
- Deduction U/S 80C of Income Tax Act, 1961 is not availed.
- Interest rate will not change in 15 years.
- Equal amount Rs. 500 contributed annually before 5th April.
- Since interest rate is decreasing continuously so maturity value, loan and withdrawal has been computed presuming at decreased rates 7.5 & 7 per cent also.
- No extension was taken by the accountholder.

Assumptions for SSY

1. Interest is paid on monthly product and compounded yearly.
2. Interest rate is fixed for the entire period (up to 21 years).
3. Contribution is made before 10th of April each year in yearly and before 10th of the each month in case of monthly contribution.
4. Contribution taken for calculation might not be in multiple of Rs.100.

Table 5

Statement showing maturity value in Public Provident Fund (PPF A/C) and Sukanya SamriddhiScheme(SSS)

S. No.	Year	Public Provident Fund @ 7.3%			Sukanya Samriddhi Scheme @ 7.8%		
		Balance	Contribution	Closing Balance	Balance	Contribution	Closing Balance
1	1/4/2017	0	500	536.50	0	500	539.00
2	1/4/2018	536.50	500	1112.16	539.00	500	1120.04
3	1/4/2019	1112.16	500	1729.85	1120.04	500	1746.41
4	1/4/2020	1729.85	500	2392.63	1746.41	500	2421.62
5	1/4/2021	2392.63	500	3103.79	2421.62	500	3149.51
6	1/4/2022	3103.79	500	3866.87	3149.51	500	3934.17
7	1/4/2023	3866.87	500	4685.65	3934.17	500	4780.04
8	1/4/2024	4685.65	500	5564.21	4780.04	500	5691.88
9	1/4/2025	5564.21	500	6506.89	5691.88	500	6674.85
10	1/4/2026	6506.89	500	7518.40	6674.85	500	7734.49
11	1/4/2027	7518.40	500	8603.74	7734.49	500	8876.78
12	1/4/2028	8603.74	500	9768.31	8876.78	500	10108.17
13	1/4/2029	9768.31	500	11017.90	10108.17	500	11435.60
14	1/4/2030	11017.90	500	12358.70	11435.60	500	12866.58
15	1/4/2031	12358.70	500	13797.39	12866.58	0	13870.17
16	1/4/2032	13797.39	0	15341.10	13870.17	0	14952.05
17	1/4/2033				14952.05	0	16118.31
18	1/4/2034				16118.31	0	17375.53
19	1/4/2035				17375.53	0	18730.83
20	1/4/2036				18730.83	0	20191.83
21	1/4/2037				20191.83	0	21766.79

It is evident from the table 5 that if investor wants to take loan from PPF deposits is available between 3rd to 6thfinancial years of deposit to the extent of 25% of the amount standing at the end of the second last financial year in which the application for loan is given. So, investor may get loan of Rs.134.13 Rs. 278.04, Rs.432.46 and Rs. 598.16 in3rd, 4th, 5th and 6th year respectively when his contribution is only Rs. 500 in a year for any purpose and withdraw amount from 7th financial year on wards. He may extend this account unlimited in the block of 5 years. In contrast to this in SSS account investor may take withdrawal in financial year 2034-2035 as this account is opened in 2017-2018 for which he has to give proper proof then only he may get withdrawal of Rs.8059.16 being 50% of the closing balance on 31st March 2033 and rest amount female child will get at the age of 21 years of the daughter.

Table 6

Statement showing maturity value in Public Provident Fund (PPF A/C) and Sukanya Samriddhi Scheme (SSS)

S. No.	Year	Public Provident Fund @ 7.3%			Sukanya Samriddhi Scheme @ 7.8%		
		Balance	Contribution	Closing Balance	Balance	Contribution	Closing Balance
1	1/4/2017	0	150000	160950.00	0	150000	161700.00
2	1/4/2018	160950.00	150000	333649.35	161700.00	150000	336012.60
3	1/4/2019	333649.35	150000	518955.75	336012.60	150000	523921.58
4	1/4/2020	518955.75	150000	717789.52	523921.58	150000	726487.47
5	1/4/2021	717789.52	150000	931138.16	726487.47	150000	944853.49

6	1/4/2022	931138.16	150000	1160061.24	944853.49	150000	1180252.06
7	1/4/2023	1160061.24	150000	1405695.71	1180252.06	150000	1434011.72
8	1/4/2024	1405695.71	150000	1669261.50	1434011.72	150000	1707564.64
9	1/4/2025	1669261.50	150000	1952067.59	1707564.64	150000	2002454.68
10	1/4/2026	1952067.59	150000	2255518.52	2002454.68	150000	2320346.14
11	1/4/2027	2255518.52	150000	2581121.38	2320346.14	150000	2663033.14
12	1/4/2028	2581121.38	150000	2930493.24	2663033.14	150000	3032449.73
13	1/4/2029	2930493.24	150000	3305369.24	3032449.73	150000	3430680.80
14	1/4/2030	3305369.24	150000	3707611.20	3430680.80	150000	3859973.91
15	1/4/2031	3707611.20	150000	4139216.82	3859973.91	0	4161051.87
16	1/4/2032	4139216.82	0	4602329.64	4161051.87	0	4485613.92
17	1/4/2033				4485613.92	0	4835491.80
18	1/4/2034				4835491.80	0	5212660.16
19	1/4/2035				5212660.16	0	5619247.66
20	1/4/2036				5619247.66	0	6057548.98
21	1/4/2037				6057548.98	0	6530037.80
					6530037.80	0	7039380.74

It is evident from the table 6 that if investor wants to take loan from PPF deposits is available between 3rd to 6th financial years of deposit to the extent of 25% of the amount standing at the end of the second last financial year in which the application for loan is given. So, investor may get loan of Rs.40237.50 Rs. 83412.34, Rs.129738.93 and Rs. 179447.38 in3rd, 4th, 5th and 6th year respectively when his contribution is only Rs1.5 lakh in a year for any purpose and withdraw amount from 7th financial year on wards. He may extend this account unlimited in the block of 5 years. In contrast to this in SSS account investor may take withdrawal in financial year 2034-2035 as this account is opened in 2017-2018 for which he has to give proper proof then only he may get withdrawal of Rs.2417745.90 being 50% of the closing balance on 31st March 2033 and rest amount female child will get at the age of 21 years of the daughter.

Conclusion

Considering the facilities available in PPF like loan, withdrawal, maturity period, rate of interest etc it can be said it is considered good investment. But if investor considers rate of interest as the main point then SSS will be best but at the same time there is lack of liquidity because money cannot be withdrawn before completion of 18 years and i.e., also restricted to only 50% of the deposit as on 31st March of the previous Financial Year. So, it may be concluded that one should take decision for SSS if the age of the daughter is less than 2 years and for PPF if the age of daughter is between 7 to 10 years. On the whole it may be concluded that more liquidity in PPF is given by the Government and rigidity in SSS in order to safe guard the interest of female child. Government wants to make sure that the money of SSS should be used only in the interest of female child. Hence, parents/guardians have to give proof for withdrawal at the age of 18 years for the purpose.

References:

1. Public Provident Fund Rules as amended time to time
2. Sukanya Samriddhi Scheme as amended time to time