Handy Financial Tips for Seniors

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Retirement Strategy in different stages

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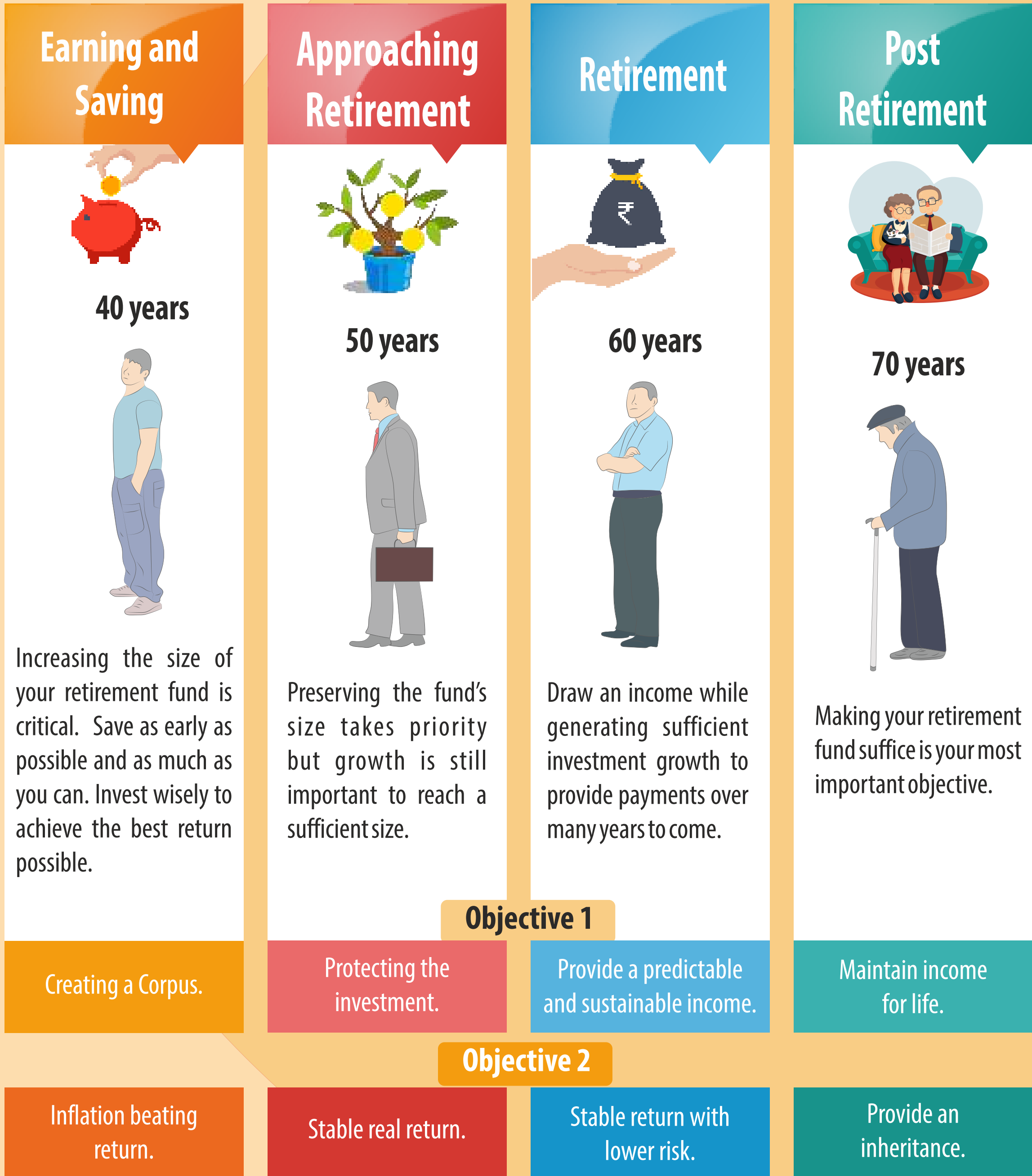

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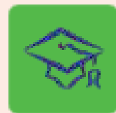

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Retirement Life - How to Manage

Retirement can be called the Golden Years if you have good health and are financially secure. Post retirement planning is not same as the pre-retirement planning. Following are common risks faced by the retirees:

- Outliving the Retirement Resources
- Inflation
- Falling Interest Rates
- Unexpected Health Care needs and related costs
- Loss of ability to live independently
- Change in Housing Needs
- Dependency of Family Members on retirees

A thoughtful planning can help address the above issues.

6 Steps in planning after retirement

1. Estimating the regular needs in Retirement

Spending requirements would not be the same after retirement. It is necessary to have a clear estimation of the essential expenses post-retirement. It will help you define the required size of a retirement portfolio. Most people believe that after retirement, their annual spending will amount to only 70% to 80% of what they spent previously.

It is advisable to withdraw a portion of the corpus to meet their essential expenses. To start with, 4-5% may be withdrawn from the retirement savings in the initial year. In the subsequent years, to tackle inflation, this may be gradually increased by 1-2%.

For instance, if a person has a corpus of Rs. 1 Crore, he may withdraw 4% i.e Rs. 4 Lakhs in the first few years. In case, due to inflation, the amount is not good enough to meet the essentials, it may be increased to 6% i.e. to Rs.6 Lakhs.

2. Risk Appetite & Asset Allocation

Retirement corpus is the only thing that makes up living for retirees. It is important not to risk their living for a little extra return. Retirees should not fall for the trap of high return.

Retirees should be very much aware of the consequences of any financial decision that they make in their retirement life. They should split their retirement corpus into two Parts, and allocate one major portion to fixed-income and relatively a reasonable portion to equity.

Research says that the optimal ratio to secure the corpus while still in a safe zone is 70% allocation to fixed-income securities and 30% allocation to equity. The 70:30 (debt: equity) ratio is considered as the minimal risk ratio of investment to fight inflation.

3. Maintaining a Liquid Fund for emergency needs

Liquidity risk can be a major threat to financial security and peace of mind during retirement. Liquidity describes how quickly an asset such as a stock, a mutual fund or even a house can be converted into hard cash. If an asset takes a long time to liquidate (sell) or incurs a large loss in its value when selling it quickly, it can be said to have significant liquidity risk. While return and risk remains as the pillar of investment decision making process, it is important for the retirees not to ignore Liquidity. A portion of the portfolio should be readily withdrawable.

4. Secure with a Health Insurance Plan

Health Insurance is a must have for every senior citizen since there are sudden possibilities of unexpected health care needs due to age. Senior citizen insurance plans usually have 'Co-pay' clause and sub-limits. Co pay clause means where the insured has to bear some part of the initial expenses. Insurer chips in only after a certain level of medical bill has been reached. You must understand the co-payment and sub limits thoroughly before buying a policy.

5. Nomination & Succession Plan.

It is better to nominate the spouse / Son/ Daughter as Nominee for all investments made. Nomination helps the family to transfer the funds smoothly without much paper work in case of any unfortunate event.

Create and maintain legal documents that outline the wishes and priorities — e.g., a power of attorney for finance and healthcare, advance directives, a living will, and updated beneficiary designations.

6. Investments in Demat Mode

It is advisable to hold all Investments in Demat Mode. Shares, Bonds, NCDs, ETFs can be held in a single demat account. The biggest advantage of Demat facility is one-point contact for all investments. Consolidated Account Statement (CAS) helps to monitor the investments held periodically. Any change in address / bank details, can be done with Depository Participant. There is no requirement of informing the individual companies and this saves a lot of paper work.

Also, there is an option of updating upto 3 nominees in a demat account. This would help the beneficiary to complete the transmission process in a hassle free manner without the need for documents such as Will & succession certificate.

Investment Options for Senior Citizens

Bank Fixed Deposits and Post Office Monthly Income Scheme are most popular among senior citizens. Apart from it, there are some unique schemes benefiting Senior Citizens. Lets explore:

1. Pradhan Mantri Vaya Vandana Yojana

- The Government of India has introduced Pradhan Mantri Vaya Vandana Yojana (Modified-2020), for period of three years from Financial Year 2020-21 till 31st March, 2023.
- Rates of pension will be reviewed and decided at the beginning of each year by the Ministry of Finance, Government of India.
- For the first financial year i.e. up to 31st March 2021, the Scheme will provide an assured pension of 7.40% p.a. payable monthly.
- LIC of India is solely authorised to operate this scheme.
- Pension shall be payable for 10 years.
- At end of the policy term of 10 years, Purchase price (Initial investment) along with final pension instalment shall be payable.
- On death of the Pensioner during the policy term of 10 years, the Purchase Price shall be refunded to the Nominee.

Eligibility & Terms

a. Minimum Entry Age: 60 years (completed)

b. Maximum Entry Age: No limit

c. Policy Term: 10 years

d. Total amount of purchase price allowed to a senior citizen shall not exceed Rs.15 lakhs.

e. Minimum and maximum Purchase Price under different modes of pension will be as under:

Mode	Minimum	Maximum	Mode	Minimum	Maximum
Yearly	1,56,658	14,49,086	Quarterly	1,61,074	14,89,933
Half -yearly	1,59,574	14,76,064	Monthly	1,62,162	15,00,000

f. **Sample Pension rates**

Mode	Purchase price	Rate per 1000	Pension
Yearly	14,49,086	76.60 p.a	1,11,000
Half -yearly	14,76,064	75.20 p.a	55,500
Quarterly	14,89,933	74.50 p.a	27,750
Monthly	15,00,000	74.00 p.a	9,250

g. Premature exit under exceptional circumstances like treatment of any critical/terminal illness of self or spouse. The Surrender Value payable at 98% of the Purchase Price.

h. Loan facility is available upto 75% after completion of 3 policy years.

I. Pension amount subject to tax at the rate as applicable from time to time.

2. The Senior Citizens' Saving Scheme (SCSS):

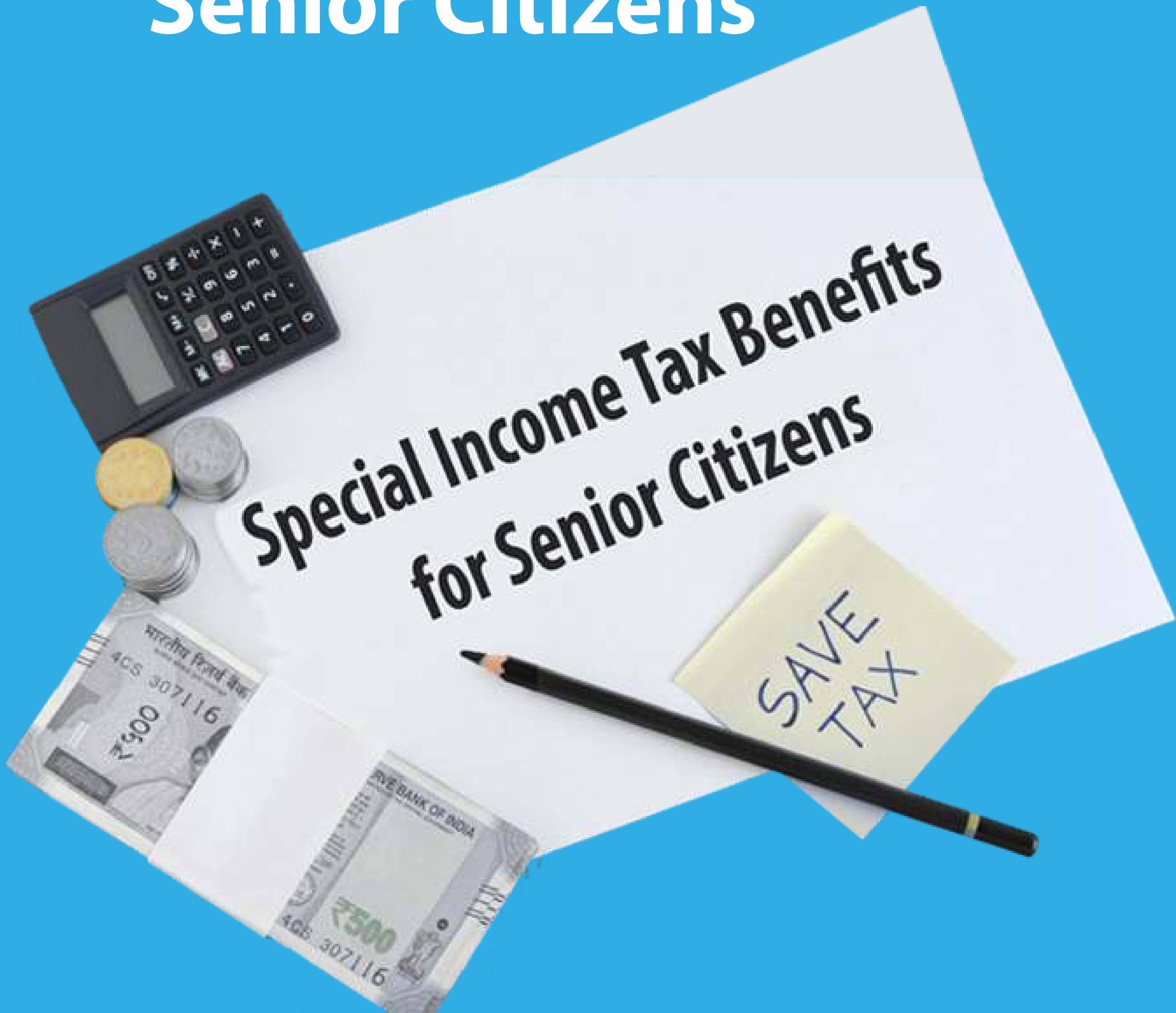
Can be availed from a post office or a Bank. SCSS has a 5 year tenure, which can be further extended by 3 years once the scheme matures. Interest rate will be defined by Ministry of Finance from time to time & currently it is 7.40% payable quarterly. Maximum investment amount Rs.15 lakhs. Investments in SCSS are tax deductible up to Rs 1.50 lakh per annum u/s. 80 C but the interest on the same is taxable.

3. Other Investment Opportunities:

Though not exclusive for Senior Citizens, **RBI Floating Rate Bonds** is another investment option where there is absolute safety with 7.15% interest rate currently. Here interest rate will get reset every 6 months @ NSC interest rate + 0.35%.

Non-Convertible Debentures (NCD), Corporate Fixed Deposits, Debt Mutual Funds (preferably Growth Option with SWP) also can be considered after a proper scrutiny. Though the return is expected to be higher than a Bank FD, there is always some element of risk.

Special Income Tax Benefits for Senior Citizens



1. **The Elementary Exemption Benefit**

The basic tax exemption limit for Senior Citizens is Rs 3 lakh, while for Very Senior Citizens (above 80 years), the limit is Rs 5 lakh. So, a Senior Citizen doesn't have to pay any tax or file ITR in case the annual income is up to Rs 3 lakh and no TDS is deducted during the financial year. Similarly, a Very Senior Citizen is exempted from paying tax and filing ITR if his/her annual income is up to Rs 5 lakh and no TDS is deducted.

2. **Standard Deductions from Pension Income**

Senior citizens are allowed a standard deduction of ₹50,000 on account of their pension income. ***(Note: Standard deduction not available if new regime is opted)***.

3. **Section 80D: Available Deductions**

A. Premium on Health Insurance

- Section 80D of the Income Tax Act provides deductions related to the medical insurance premium paid by tax payer and his/her family members.

- Tax deduction can be claimed for the health insurance premium paid for self, spouse and children upto Rs.50000 even if any one of the members is aged above 60.

B. **Exclusive benefit for Senior Citizens to claim actual medical Expenses**

- **Section 80D allows deduction for medical expenditure incurred exclusively on senior citizens, if not covered by health insurance.** This deduction can be claimed by the senior citizen himself/herself or by his/her children (if medical expenditure is incurred by children).
- Senior Citizens are also allowed to claim the amount spent on medical expenditure of Spouse & dependent children (if aged above 60 and no health insurance).
- If the tax payer is a senior Citizen and medical expenditure is incurred by him/her for self (Rs. 50,000) and Parents (Rs.50,000), claim can be upto Rs.1,00,000.
- Apart from hospitalisation expenses, medical expenses such as consultation fees, medicines, diagnostic expenses and so on can be claimed as deduction.
- To establish the proof of medical expenses, one must maintain the records of the doctor's prescription

along with the copy of invoices/receipts of the consultation fees, diagnostic tests, medicine bills etc. Also, all expenses should have been made through banking channels (Debit Card/ Wallet /UPI / Credit Card). If spent by cash, deduction would not be allowed.

C. Preventive Health Check up

Money spent upto Rs.5,000 within the overall limit (irrespective of age) can also be claimed even if it is paid by cash.

Summary of available Deduction under Section 80D.

Self, Spouse and Children *(Any one member above 60)*	Parents above 60	Total
Upto Rs. 50,000	Upto Rs. 50,000	Upto Rs. 1,00,000

Note: Section 80D not available if new regime is opted.

4. **Allowance on the treatment of specified diseases**

Section 80DDB allows Senior Citizens (Only Individuals & HUF) to claim upto Rs. 1 Lakh in a year spent towards treatment for specified diseases. *(Please refer to Income Tax Rule 11DD for complete list of diseases).*

Deduction should be for Self or Dependent who are wholly or mainly dependent for support and maintenance. Dependants are defined as Spouse, Children, Parents, Brothers & Sisters of the Individual.

This section is available in addition to section 80D. Deduction under Section 80DDB is available irrespective of whether premium for a health insurance policy is paid or not. Deduction amount will be net of amount received from Insurer or reimbursed by Employer.

To claim the deduction, the assessee is required to obtain the medical certificate for such medical treatment from the respective specialist.

5. **Privilege on Interest Income**

While an individual below 60 years of age may claim deduction up to Rs 10,000 on interest on Savings Bank Account(s) u/s 80TTA, Senior Citizens may claim deduction up to Rs 50,000 on interest on Savings Bank Accounts as well as on bank/Post Office deposits u/s 80TTB. (Note: Section 80TTA & 80TTB not available if new regime is opted).

6. **No Advance Tax**

While ordinary individuals have to pay an advance tax if their tax liability is Rs.10,000/- or more in a financial year, senior citizens are free from this burden unless they make income from business or profession. Those not owning a business only have to pay the Self-Assessment Tax.

7. **Income Tax Return benefits**

E-filings of ITR-1 (Sahaj) and ITR-4 (Sugam) are not mandatory for Very Senior Citizens and they may file their return of income either Online or Offline, while no other assessee can file Offline Return.

8. **Form 15H**

Form 15H is for senior citizens, those who are 60 years or older. These forms are submitted to prevent TDS deduction from investment income. For this, PAN is compulsory.

9. Gratuity and its taxation

Gratuity is a monetary benefit given by the employer, but not paid as part of the regular monthly salary. The provisions of gratuity are governed by the Payment of Gratuity Act, 1972, and it is given generally on Superannuation. It is mandatory for the employee to have completed a minimum of five years in service to be able to receive gratuity.

Gratuity Taxation Rules: Calculation of amount of gratuity exempted from tax.

The least of the following is exempt from tax:

- Last salary (basic + DA)* number of years of employment* 15/26;
- Rs. 20 lakhs which is the upper tax-free limit set by the government.
- Gratuity Actually received

For Example: The employer of Mr Kumar paid him Rs. 12 lakh as gratuity. He would be eligible for a gratuity of Rs. 3,46,154. Here, the lowest of the eligible gratuity amount (Rs. 3,46,154), Rs. 12 lakh (actual gratuity received) and Rs. 20 lakh, the upper tax-free limit set by the government will be tax-exempt. Here the lowest amount is Rs.3,46,154, which will be exempt from tax, and the remaining Rs.8,53,846 will be taxable as per the applicable income-tax slab rate.

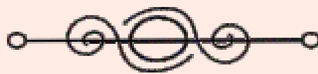
Is the new regime beneficial to Senior Citizens?

The new lower income tax rate regime introduced in the FY 2020-21 does not provide higher tax exemption limit for resident senior and super senior citizens, unlike available to them in the old tax regime.

As per the old income tax regime, the basic income threshold exempt from tax for Senior and Very Senior Citizens is Rs 3 lakh and Rs 5 lakh respectively. This offers them some tax relief in the existing structure. Under the new regime, aside from the other deductions and exemptions, this relief is not available as well since it treats all individuals (non-senior citizens and senior citizens) equally.

For Senior Citizens to decide between both regimes, they have to calculate whether they would pay less tax in the existing or new regime keeping their investments, deductions, exemptions in mind. The composition of every individual's gross income allows them to claim the level of deductions/exemptions assumed. For instance, if a person's income comprises pension and income from other sources, they will be able to claim a standard deduction (maximum Rs 50,000), deductions u/s. 80 C (up to Rs.1.50 lakhs) and deductions u/s.80TTB (maximum Rs 50,000). A Senior Citizen can claim several other deductions including for medical insurance

premium/bills u/s. 80D up to Rs 50,000. Since the investment, deductions will vary person to person, the choice between the two regimes will be personal. One has to calculate their tax under both regimes carefully and compare before deciding on one.



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