

PPF lovers beware

The PPF is trusted by many as a long-term, tax-free investment option – only that it has grossly underperformed ELSS since 2001

Good old PPF! The Public Provident Fund (PPF) has been our safety net for decades. It has served many of us who aren't privileged enough to get an inflation-linked government pension. The Employees' Provident Fund (EPF), its sibling, has employers chipping in, but many of us don't have that luxury either. Our PPFs are funded from our own pockets without anyone's help. It's been our only friend in the battle against inflation, medical costs and spousal nagging to make us save.

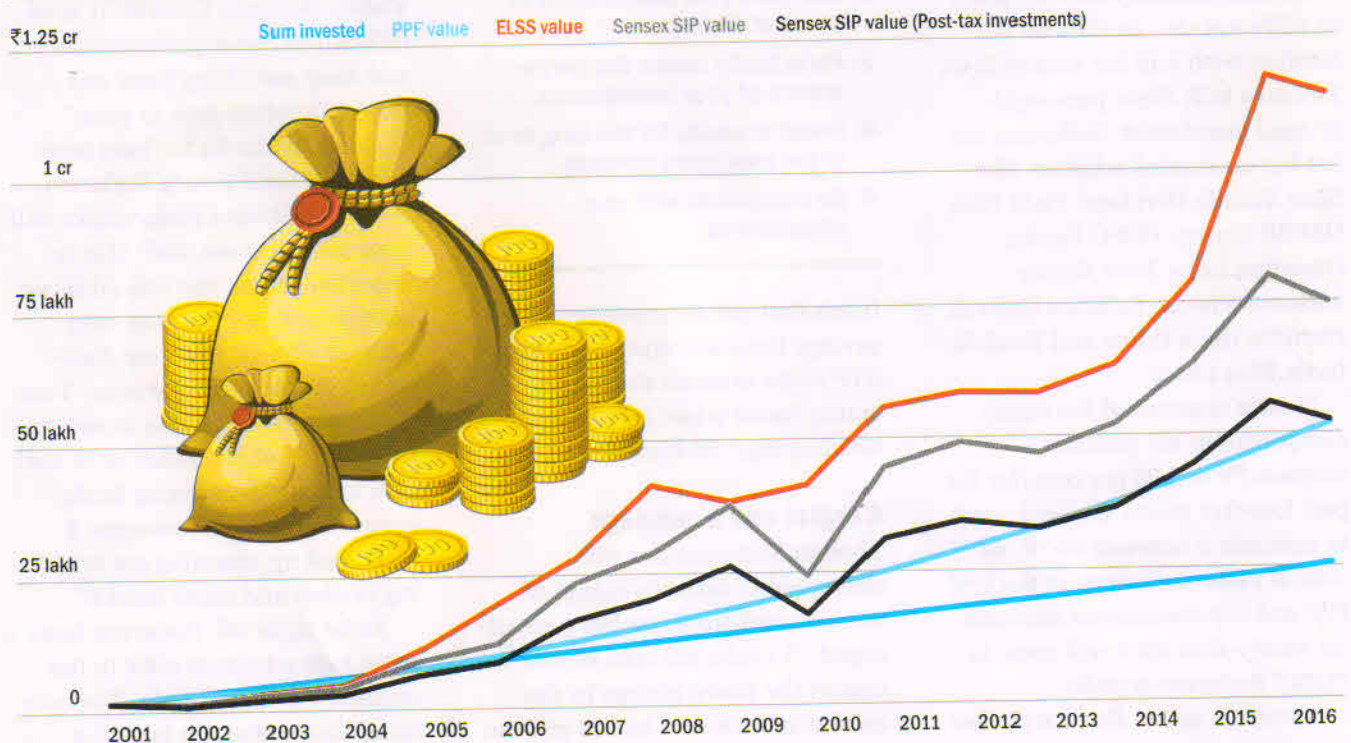
Every year the government let us set aside some money into the PPF and we did so dutifully and gladly. The PPF tax exemption became a ritual and a pleasant one at that; we were providing for our future, aged selves. But what would have happened if we'd put this money to work in equity instead? We analysed two competitors of the PPF over the last 15 years, equity-

linked savings schemes (ELSS) and pure index investments. And the picture our analysis has revealed is one of terrible underperformance by our 'only friend'.

As the graph shows, an SIP investment in the Value Research's ELSS category of an identical amount as that in the PPF would have given us much higher returns. A ₹1,50,000 investment every year since FY01 in the PPF would've added up to ₹51,80,221, whilst an investment in the ELSS category would've added up to ₹1,13,92,725, a whopping ₹62,12,504 or 2.2 times higher! Simply investing in the Sensex (including dividends) also beat the PPF – by ₹23,03,989 or about 1.44 times the PPF's returns. It is only after accounting for tax (at 30 per cent) does this difference disappear, with the Sensex outperforming by a marginal ₹58,726.

So, while the PPF may be close to your heart, you can't afford to ignore ELSS. ■

PPF vs ELSS and Sensex



For simplicity, we have assumed a yearly investment amount of ₹1,50,000 for the past 15 years in the PPF and its alternatives. In reality, the PPF limit was different for different years, ranging from ₹60,000 to ₹1,50,000. We have also assumed annual investment and hence annual rather than quarterly compounding for the PPF.