

My money is safe in FD. Really ?

By AK Rao Personal Finance Advisory



Picture this.

You have ₹10 lakh parked in a bank FD. The money is guaranteed. The rate is locked. And every year, the interest gets credited without fail.

It feels responsible. It feels safe.

But here is the question nobody asks:

Safe from what?

Safe from market falls? Yes.

Safe from inflation quietly eating into your purchasing power? That is a very different story.

What the FD actually earns you today?

Let us start with the numbers. A 1-year FD at SBI currently offers around 6.5% per annum. Major private banks like HDFC and ICICI are in a similar range. Small Finance Banks offer up to 8–8.5% for specific tenures.

Sounds reasonable. But before you feel reassured, apply two filters that most people overlook.

Filter 1: Tax

FD interest is fully taxable as income. If you fall in the 30% income tax bracket — which many salaried professionals and retirees do — your 6.5% FD is no longer 6.5%.

Tax Bracket	Post-Tax FD Return (on 6.5%)
5% slab	~6.2%
20% slab	~5.2%
30% slab	~4.6%

Filter 2: Inflation

Now subtract inflation from your post-tax return. Headline CPI inflation in India stood at around 3.5% as of early 2026 — comfortable, some would say.

But the question is not what the headline number says. The question is: what are YOUR actual expenses growing at?

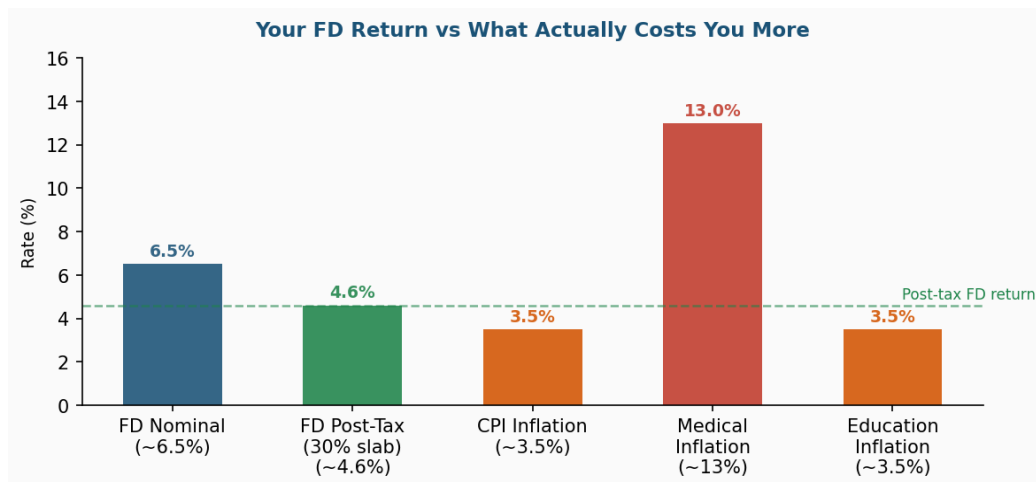


Fig 1: FD post-tax return vs actual inflation rates across key spending categories (2025–26 data)

Medical inflation in India is running at 12–14% annually — more than double the general CPI rate. Education inflation is sticky at 3–4% per year. For families who spend significantly on health and schooling, the effective inflation rate they experience is far higher than the headline number.

Inflation Category	Annual Rate (2025–26)
CPI Headline Inflation	~3.5%
Food Inflation	~4.2%
Education Inflation	~3.5%
Health / Medical Inflation	12–14%
Housing Inflation	~2.9%

The Real return: What is left after everything

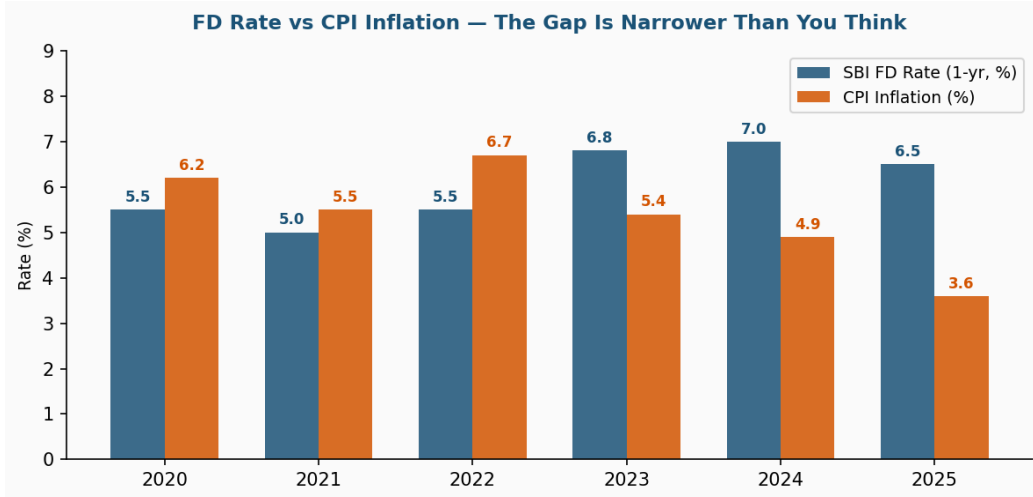
Real return = Nominal FD rate – Tax – Inflation

For a person in the 30% bracket, using headline CPI:

6.5% – 30% tax – 3.5% inflation = approximately 1.1% real return

That is before accounting for any inflation on healthcare or school fees — categories that affect every Indian household.

For a family where medical and education costs form a major share of spending, the real return on an FD can effectively be zero — or even negative.



The 20-Year wealth erosion picture

Numbers on a spreadsheet can feel abstract. Let us make it real.

Assume you invest ₹10 lakh today. Here is where three paths lead you over 20 years:

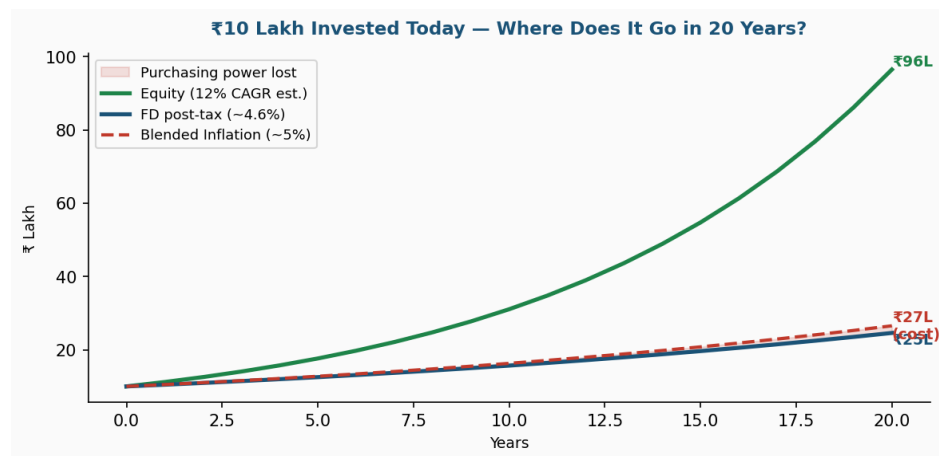


Fig 3: ₹10 Lakh invested today — projected value after 20 years across different scenarios. FD assumes 4.6% post-tax. Blended inflation ~5%. Equity assumes 12% CAGR (Nifty 50 long-term historical average). Illustrative only.

After 20 years, ₹10 lakh in an FD (post-tax) grows to approximately ₹24.7 lakh.
But if blended inflation runs at 5%, what costs ₹10 lakh today will cost ₹26.5 lakh in 20 years.
Your FD did not keep pace. You lost purchasing power — silently, steadily, over two decades.

Why FDs still feel safe — And why that feeling can mislead

Loss aversion is a powerful psychological force. We covered it in our previous article. The same principle applies here.

When you put money in an FD, the number in your passbook always goes up. There is no red. No volatility. No scary news about your FD crashing overnight.

This predictability feels like safety.

But consider what is not visible in that passbook:

- The purchasing power you quietly lose each year
 - The tax deducted at source before the interest even reaches you
 - The opportunity cost of capital that could have been working harder
 - The widening gap between your FD return and what you actually spend on
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So When does an FD actually make sense?

This article is not saying FDs are bad. They serve a real and important purpose. Here is when they are the right tool:

FDs Work Well For:

- Emergency fund — 3 to 6 months of expenses, parked safely
- Short-term goals (under 2–3 years) — wedding, car, down payment
- Senior citizens — where capital preservation is the primary objective
- Parking surplus funds temporarily — while deciding on a longer-term allocation
- Fixed income portion of a diversified portfolio

Where FDs consistently underperform is as a long-term wealth creation vehicle for people in the accumulation phase of life — especially for goals 5, 10, or 20 years away.

Using an FD to build a retirement corpus over 25 years, or to fund a child's education 15 years from now, is asking the wrong tool to do the wrong job.

What to consider instead

The alternative is not to take reckless risk. It is to align instruments with goals — and time horizons.

Goal / Time Horizon	Instrument to Consider
Emergency fund (always available)	Savings account / Liquid fund
Short term < 2 years	FD / Short-duration debt fund
Medium term 2–5 years	Debt mutual funds / Hybrid funds
Long term 5–10+ years	Equity mutual funds (SIP)
Tax-efficient savings	PPF (7.1%, fully tax-free)
Retirement (20+ years)	Equity + NPS + PPF combination

Note: This is illustrative guidance. Suitability depends on individual risk profile, income, and goals.

Bringing it all together

An FD is safe from market risk. It is not safe from inflation risk, tax drag, or the slow erosion of your future purchasing power. At AK Rao Personal Finance Advisory, we help individuals and families align their money with their goals — with the right mix of safety, growth, and tax efficiency.

Because protecting your money is just the beginning. Making it work for your future is the real job.

If this resonates, let's talk.