



Should I invest in ULIP or Mutual Funds?

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In the 21st century, no one is a stranger to terms such as mutual funds, investment, plans and others generally used in financing. There is no denial in saying that we have all heard the narrative “mutual fund is subject to market risks...” at breathtaking pace after every investment-related ad!

In this article, we will discuss the current ULIP v/s Mutual funds dialogue, which has become a pertinent question in the market for quite some time now. Let us break down each viewpoint of these investments to find out which plan works better in which plot.

Basics of a Mutual Fund:

The idea of pooling monetary resources using closed-end investments termed 'mutual funds' first took roots in Great Britain and France, advancing its way to the United States in the 1890s. So what exactly is mutual fund? A mutual fund is a professionally operated investment fund that pools or merges money from many investors to purchase bonds. It is a type of investment medium consisting of a portfolio of stocks or other securities.

The significance of the mutual fund firm depends on the performance of the securities it decides to purchase. So, when an investor buys a share of a mutual fund, he is also buying a part of the portfolio's value. Mutual funds give individual investors access to professionally handled portfolios at an economical rate.

Benefits of Investing in Mutual Funds

Maximum Returns: Investment in equity and hybrid funds has tremendous potential for high returns. Customarily, investors looking for short-term or medium-term investment outputs invest in mutual funds.

Liquidity: With mutual funds, one can invest and exit at any time as there is no lock-in period, except in the case of ELSS (equity-linked savings scheme) which has a 3 year lock-in period.

Track History: Mutual funds have been in the market since long. Here, the investors are in the upper hand as they can track the performance records before investing, thus allowing taking right decisions and minimize risks.

What is ULIP?

The first ULIP was conceptualized by Unit Trust of India (UTI). ULIP or 'Unit Linked Insurance Policies' are insurance policies which extend the potential of capital production while rendering the safety of a Life Cover. The Best ULIP plan is one in which a part of your premium is committed towards your Life Cover and the rest is allocated to a common pool of money, which invests in equity, debt, or a combination of both, called fund. The returns on your investments are subject to the performance of the fund opted.

Benefits of Investing in ULIP:

Tax Exemptions: The major attraction of the ULIP insurance is that the premiums paid towards the ULIP are tax-free under Section 80C of the Income Tax Act, 1961. The payout obtained by the nominee is also tax-free under Section 10(10D) of the Income Tax Act, 1961.

Life Cover: The life insured under ULIP insurance is covered against the chance of a premature demise and there is a guaranteed death benefit that is payable to the nominee.

Add-ons to base plan: ULIP allows expanding your base plan coverage and investment fund. Add-ons or Top-up is a one-time lump sum investment that can be paid with your premiums and can be availed anytime during the policy term.

ULIP v/s Mutual Funds:

The following parameters need to be considered while choosing either Mutual funds or a ULIP as an investment.

Opt for Mutual Funds:

- If you require only investment (no life coverage)
- If you want returns in short or medium-term
- If you want your investment to be liquid
- If you already have a term life plan to protect your family financially
- If you have disposal money and wish to gain high returns

Opt for ULIP:

- If you require insurance and investment
- If you are seeking a long-term investment policy
- If you want a life cover along with investment to provide financial support to your family
- If you want a financial channel to help in saving tax
- If you are ready to accept investment risk

Conclusion:

ULIP investment provides utmost flexibility, wherein the policyholder can shift from one policy to another depending on how the market operates. With Bajaj Finserv, all charges are detailed in the top ULIP plan policy document; hence customers know what they pay for and how the funds are used.

Mutual funds are considered liquid assets therefore; retrieving money from a mutual fund quickly is very likely. At Finserv Markets, commission and brokerage do not eat up into your returns! You get to invest in your desired mutual fund without losing money on commissions while still getting expert opinions from our team of Professional Management Team. Contact us today for a personalized financial planning experience.