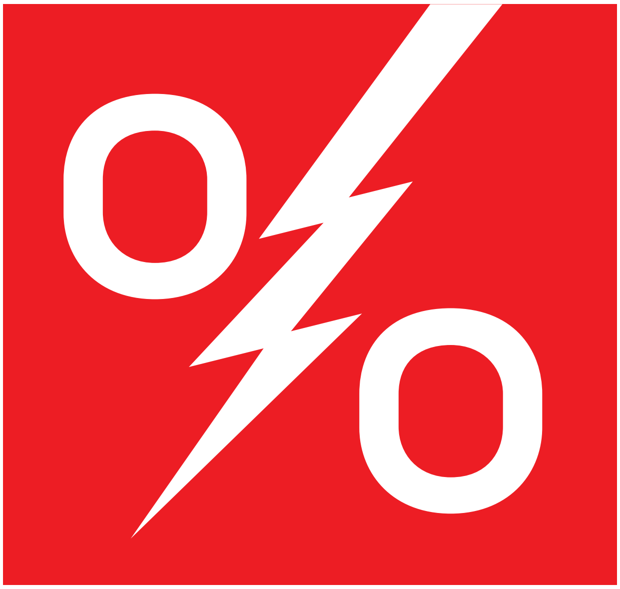
SMART MONEY

MONEY WISE

- COMPANY FDs
- LIFE INSURANCE
- ELSS
- GOLD

Illustration by SIDDHANT JUMDE



MORE SKIN IN THE GAME

Don't be lured just by the high rates, NBFC and company deposits carry risks

The year 2018 saw interest rates go upwards as the Reserve Bank of India (RBI) raised the repo rate twice by 25 basis points each (100 basis points is equal to one per cent). This led to banks raising their fixed deposit as well as lending rates. Prime lender State Bank of India (SBI) is currently offering an interest rate of 6.8 to 6.85 per cent on one to 10 year deposits. For people in the top tax bracket, post-tax returns will come down to 4.76 per cent and 4.8 per cent respectively.

However, some non-banking finance companies (NBFCs) have been offering a higher interest rate of up to 9 per cent or above since October-November. Liquidity conditions tightened for NBFCs after the IL&FS crisis forced them to raise the interest on retail deposits. "The recent liquidity challenges has led to some risk aversion vis-a-vis the NBFC sector. Capital market funding, especially from mutual funds, are typically at the shorter end of the curve. Hence, to diversify sources of borrowing, it could be that deposits are being offered high rates," says Lakshmi Iyer, chief investment officer (debt) and head, products, Kotak Mahindra Asset Management Company.

Shriram Transport Finance is offering an interest rate of 9.25 per cent on five-year deposits under a yearly payout option. Bajaj Finance is offering 8.75 per cent for three- to five-year deposits. DHFL is offering 9 per cent on three- to 10-year deposits. Post-tax returns on these will come to around 6.3 per cent for a nine per cent deposit. Such returns do look attractive when compared to bank fixed deposits.

ARE COMPANY DEPOSITS IDEAL?

Company deposits typically offer higher interest rates compared to bank fixed deposits. It helps investors lock money for a higher interest rate for a longer term and with monthly, half-yearly and annual interest payout options, it suits investors looking for a regular income.

However, no matter how attractive company fixed deposits look, one should understand that they are riskier than bank deposits. In case of bank fixed deposits, deposits of up to Rs 1 lakh is secured and the chances of banks defaulting are very low while company deposits do carry that risk. Company deposits are generally unsecured loans and investors have limited legal recourse in case of default.

So, corporate deposits are not a bad option but due diligence is a must. "Interest rates are not the only factor for making decisions. Some research and due diligence are prudent for a safe investment," says Abhinav Angirish, founder, Investonline.in.

"Factors such as management, annual accounts, rating and past track record of the company should be looked at before investing," advises Vikram Dalal, MD, Synergy Capital. "Only if you have the ability or resources to analyse company financials is it worthwhile to invest in company deposits."

"The retail investor should go for company deposits only if he or she has undertaken a thorough research of the company's financial health. Keep in mind on thing, its return of capital and not just return on capital that is critical," says Lakshmi. It is also be a wise idea not to put all your money in one company deposit, diversification is a better mantra. ■

—Renu Yadav

THINGS TO LOOK OUT FOR WHILE INVESTING IN COMPANY FIXED DEPOSITS

- Avoid company deposits that are offering very high interest rates
- Check the ratings of the company, it's better to go with AAA+
- Check the financial performance of the company in the past few years
- Avoid troubled sectors
- Always check if the company has defaulted in any past issuances

Illustration by TANMOY CHAKRABORTY

TAKE COVER IN THE SHADE

Whole life term insurance or a regular term life insurance, which one should you go for?


Illustration by TANMOY CHAKRABORTY

Fixed deposits may be one of the most popular investment products for risk-averse investors but fixed return investments are not entirely risk-free. Buying a suitable insurance product requires some research on your part to identify your needs and comparisons to find the best product. "The life insurance products available in the market are for different financial needs: term plan for income replacement, endowment plan for regular savings and corpus creation and unit linked insurance plan (ULIP) for wealth creation," says Anirudh Jain, head, insurance, Centrum Group. When it comes to pure insurance products, people cannot decide between a whole life term plan and a regular one. The regular term plan is cheaper, but a whole life plan ensures protection for a longer tenure. To help you choose between the two, it is worthwhile to go through the nitty-gritty of both insurance products.

WHAT IS THE DIFFERENCE?

"A regular term life insurance is a pure protection plan and provides coverage up to the policy term period whereas whole-life insurance covers the insured till the end of his lifetime and gives you a guaranteed payout," explains Santosh Agarwal, associate director and cluster head, life insurance, policybazaar.com.

Whole life term insurance works as a legacy plan for the family where an Individual can leave behind the sum assured as a legacy for loved ones. Apart from the death benefit, there are maturity and survival benefits and the policy remains in force throughout the lifetime of the policyholder until the time they are paying the premium. If the policyholder outlives the policy, they are liable to receive the maturity benefit. The negative side of whole life policy includes expensive premiums and high fees and commissions. Terms and conditions are also likely to be convoluted.

On the other hand, a regular term life insurance plan's positive points include low premium rate, tax benefit and option for a greater sum assured. You can easily buy a term plan as it is quite easy to understand. Term plans also have some drawbacks. Unlike whole life term policy, the regular term policy doesn't allow any maturity benefits and its premiums may escalate in the future. Term plan also doesn't help in capital build-up like a whole life policy.

WHOLE LIFE INSURANCE VS REGULAR TERM LIFE INSURANCE

Parameter	Term Insurance	Whole Life Insurance
Duration	Specific Insurance (10,20, 30 years)	Whole life
Survival benefit	No	Yes
Growth in cash value	No	Earns interest at a fixed rate
Premium	Can increase periodically or stay the same during the policy term	Stays the same
Partial withdrawal	No such option	Can withdraw

YOUNG VS OLD AND RISK APPETITE

Vijay Kuppa, co-founder of Orowealth, suggests that "age factor, risk appetite, and financial objective must be considered while purchasing any insurance plan. The younger generation can buy term insurance for financial cover and then invest in other market avenues for wealth creation. People aged 40 and above should consider whole life insurance cover". Experts say that everyone should buy term insurance cover as it is a pure protection plan with 'death benefit' for dependents. If you have liabilities and want a guaranteed payout, then whole-life insurance policy is the better bet. ■

–**Amit Sethi** *is a freelance writer*

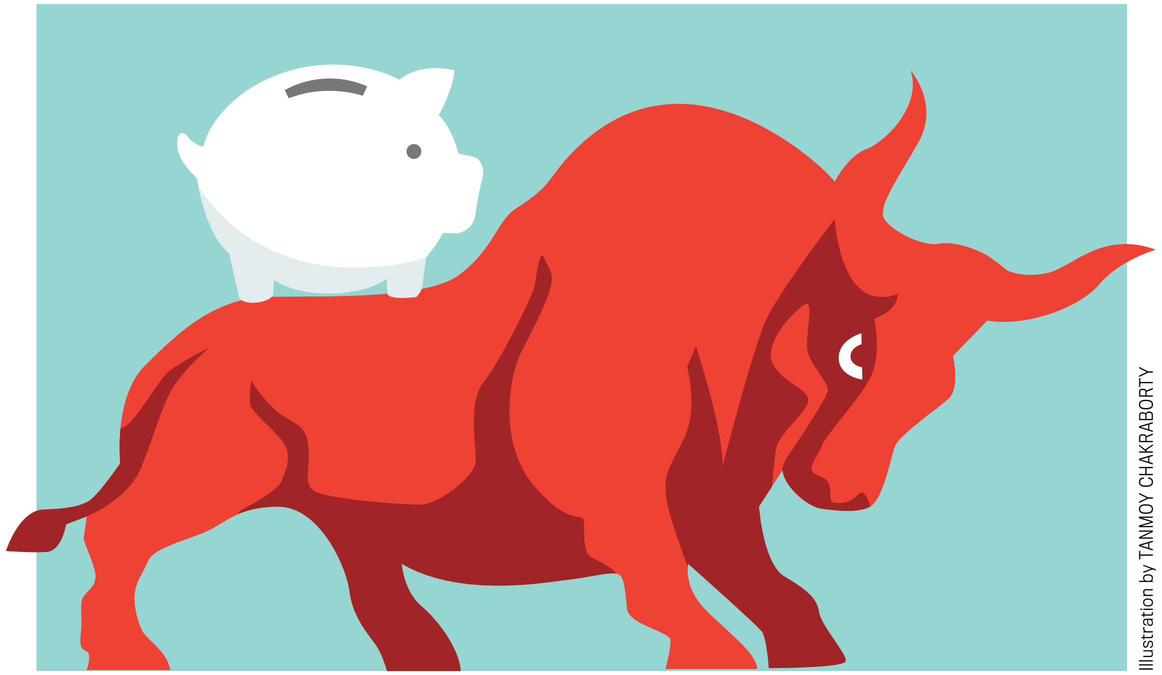


Illustration by TANMOY CHAKRABORTY

ELSS IS A WIN-WIN

Lock-in
Three years, lowest among all tax-saving products

Liquidity
Dividend payout option provides a degree of liquidity even during lock-in period

Taxation
ELSS attracts LTCG tax, but there is none on gains up to Rs 1 lakh in a year. The tax on the additional gain is 10 per cent

Ease of investment
Allows investment in lump sum as well as through SIP

KEEP THE ELSS EDGE

Why equity-linked savings schemes remain a good bet in the LTCG tax era

Long-term Capital Gains (LTCG) tax on equity made a comeback after almost 14 years in 2018. Now, equity fund investors will have to pay 10 per cent LTCG tax on gains over Rs 1 lakh in a financial year. This means that the gains made from investments in ELSS (equity-linked savings schemes) will attract LTCG tax at redemption if the net gain is over Rs 1 lakh in a financial year.

ELSS is a diversified equity mutual fund product that qualifies as a tax-saving instrument under Section 80C of the Income Tax Act. The tax exemption is limited to an investment of Rs 1.5 lakh. Taxation on your equity investment doesn't mean it has lost its charm. "Even with LTCG tax, equity remains attractive from a taxation standpoint," says Radhika Gupta, CEO, Edelweiss Mutual Fund. "Investors should continue looking at equity as an asset class for the long term."

Here's how LTCG tax will work. If you invest Rs 1.5 lakh in ELSS on, say, January 5, 2019, and your investment grows to Rs 3 lakh on January 6, 2022, you have made a gain of Rs 1.5 lakh. If you redeem your entire investment, the gains above Rs 1 lakh will attract LTCG tax of 10 per cent—Rs 5,000. So your net gain will be Rs 1.45 lakh. Despite this, ELSS scores on many fronts.

THE EQUITY ADVANTAGE

Equity can provide higher returns with an acceptable level of risk. The challenge lies in understanding the behaviour of markets over the long term. Returns over 10 to 15 years have been very attractive. Ditto for ELSS. In the past five years, the average return from the top 10 ELSS stands at 19.03 per cent. If you are investing for your long-term financial goals, equity is a must-have in your portfolio. And ELSS could be a good starting point for the newbies in equity investing.

SIP's the way: Being a mutual fund scheme, ELSS allows you to invest by way of SIP (systematic investment plan). This helps limit the exposure to market volatility. When the markets are down, the investor ends up buying higher number of units for the same SIP amount, cutting the losses in the long run when the markets rebound.

Shorter lock-in period: ELSS mutual funds are open-ended schemes having a mandatory lock-in period of three years from the date of investment. Investors not comfortable with this feature should know that the lock-in is of a much lesser period than other tax-saving instruments. It is six years and 15 years in the case of NSC (National Savings Certificate) and PPF (Public Provident Fund) respectively.

Liquidity: ELSS allows you to choose between the dividend and growth options, as per your liquidity requirements. The growth option ensures compounding and capital appreciation. In case of ELSS, the dividend payout option provides some liquidity even during the lock-in period. The dividend can be invested in other investments—equity or debt—depending upon the rebalancing needs in a portfolio.

Invest with small amount: One can buy units of a minimum amount of Rs 500 and in multiples of Rs 500 thereafter. There is no maximum investment cap in these plans, but the tax advantage is only up to Rs 1.5 lakh. There has been a change in the tax laws, but not in the characteristics of ELSS. So if you are investing for a long-term financial goal and are ready to take some volatility in your stride, ELSS remains a good bet like before. ■

—**Kundan Kishore** *is a Mumbai-based freelance journalist*

AJAY THAKURI

IN TINY DOSES

Gold has time and again proven itself to be a safe haven. It makes sense to make it a part of the portfolio in spite of not-so-great returns

Indians love gold. The country is the world's second-biggest buyer of the yellow metal and consumes 800-900 tonnes of it annually, as per the World Gold Council. But does it make sense to make gold part of your portfolio?

ALL THAT GLITTERS?

More than a crucial investment avenue, gold should be looked at as a tool to spread risk and diversify. It is a safe haven during economic volatility, especially during phases of high inflation.

Experts suggest an exposure of 5-10 per cent. Balwant Jain, an independent tax and investment expert, says, "While one should hold around 5 per cent in gold at any time, currently we are recommending investors to park 10 per cent in the metal," says Jain.

MIDAS TOUCH WOES

Investment in physical gold has risks such as purity issues, chances of theft, price differential and even making charges. There are also storage, locker and insurance costs. If opting for it regardless, keep the following in mind:

- Go for hallmarked jewellery and coins
- Cross-check non-hallmarked pieces at Caratometers
- Check prices on www.gjf.in before heading to the store. Note that "selling rate" is the selling price for the jeweller and "buying rate" is the rate at which the jeweller will buy from you
- Preserve invoices
- Rough cut bars called *lagdis* are available at a discount compared to minted, embossed bars

VIRTUAL GOLD CHECK

Paper gold outweighs physical gold in benefits. There are no purity and storage issues, it cannot be stolen, the prices are transparent. You can save on the mark-up of 2-15 per cent jewellers charge on physical gold. They come in three forms. Gold ETFs, or gold units held in demat form, each unit representing a gram of 24K gold. Then there are Gold Savings Funds, which basically invest in gold ETFs. The government introduced Sovereign Gold Bonds, which offer an additional interest of 2.5 per cent per annum on units, to reduce gold import and its impact on the rupee.

TAX IMPLICATIONS

The tax implications differ based on the mode of investing. Physical gold attracts GST and capital gains tax, gains from gold ETFs are subject to long-term capital gains tax of 20 per cent. Indexation (inflation adjustment) benefit is allowed if held for three years or more. GST does not apply on gold held in electronic form.

Capital gains from selling SGBs have been exempted from tax if held till maturity. However, the interest on gold bonds is taxable. When bonds are transferred and capital gains tax arises, indexation benefits are provided.

So what should it be, gold bonds or gold ETFs? While gold ETFs and Gold Savings Schemes are available throughout the year, SGBs are issued during specific periods by the government. Also, SGBs come with a five-year lock-in. ■

—**Khyati Dharamsi** *is a freelance writer*

SOVEREIGN GOLD BONDS VS GOLD ETFS

Parameters	Gold ETF	Sovereign Gold Bond
When can one invest	Any business day	Tranches opened by government
Tenure (Lock-in)	Tradeable on exchange, no lock-in	Eight years (five-year lock in)
Fixed interest	No	2.5% annually
Redemption	Business days	After five-year lock in half-yearly window
Withdrawal price	Trading price on exchange	Simple average of closing price of gold of 999 purity of previous three working days
Maximum Purchase	NA	4 kg for individual
Taxation	Subject to long-term capital gains tax of 20% post indexation	Interest taxable, long-term capital gains not taxed if held till maturity