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## EDITORIAL

Retirement is one of the most important life events many of us will ever experience. It should be the best time of your life, when you can relax and enjoy your life by reaping benefits of what you have earned in so many years of hard work. From both a personal and financial perspective, realizing a comfortable retirement is an incredibly extensive process that takes sensible planning and years of persistence. Even once it is reached; managing your retirement is an on-going responsibility that carries well into one's golden years.

The concept of retirement in India has undergone a paradigm shift in the last few years. Retirement opens a whole new chapter for many individuals, when they pursue the 'work they love to do' and convert their hobbies to professions. There's an increasing trend of individuals opting for voluntary retirement as they reach the other side of 40s and live for over 85 years.

This leads us to understand some major reasons for planning your retirement:

- Our generation will live longer than previous ones due to improved medical and healthcare, implying the need to gather enough funds that can sustain longer life.
- As you need to worry about it you need to account for it as well. You need to take into account inflation while calculating your retirement funds as well as your expenses.
- The employer or government funded pension schemes are less likely to sustain the income needs post retirement. The pension that one may receive from these schemes will not be sufficient to maintain the lifestyle.
- In spite of family support, many retirees don't prefer depending on the relatives or children for meeting post retirement expenses. Maintaining independent lifestyle is sustainable only when backed with a financial cushion.
- Unlike the US and UK, there is no social security system in our country. Hence one has to plan to build the entire corpus to help meet the regular income or any contingency post retirement.
- Some people plan to retire early and are financially ready to do so. Many of us have dreams and goals that can't be satisfied while holding down a full-time job. You might want to travel more or try self-employment by starting a business venture.

In our country, there are various Government schemes which provide a good retirement cover for individuals. Retirement planning can be divided into two phases - Accumulation and Distribution. Accumulation phase is the period where you accumulate the amount required for your needs post retirement. Distribution phase is where the accumulated corpus is distributed well to suffice the post retirement needs.

Some of the Pre-retirement investment products include – New Pension Scheme (NPS), Employee's Provident Fund (EPF), Equity Linked Savings Scheme (ELSS), Exchange Traded Funds (ETF) and Equities & Bonds. On the other hand, some Post- retirement investment products include – Monthly Income Schemes, Pension Plans, Reverse Mortgage, Senior Citizen Saving Scheme (SCSS) and so on.

Retirement planning is an on-going, lifelong process that takes decades of commitment in order to receive the final payoff. The idea of accumulating hundreds of thousands of rupees in a retirement nest egg certainly can seem intimidating, but with a few basic calculations and commitment to a feasible plan, it's not difficult to achieve. It is advisable that we introspect, study our needs and aspirations, draw a timeline and observe discipline in doing so. The earlier this process is initiated, the better it is, as we can gain from the power of compounding as well as aim for a higher return in order to lead a comfortable life in our golden years.

Wishing all the readers a very Happy Gudi Padwa!

Happy Investing!

Warm regards,

NANaik

NIKHIL ASHOK NAIK
Editor

## SHOULD INSURANCE BE AN INVESTMENT OR A PROTECTION TOOL AGAINST RISK?

Insurance is a cover against future uncertain events which causes financial loss. By buying an insurance policy we are transferring our risk to insurance company. Obviously, the insurance companies charge premium for protecting against risk. Insurance is a risk mitigating tool. There are different types of insurances available for different types of risks viz., life insurance for risk of death, health insurance for risk of heath and accidental insurance for the risk of meeting with an accident.

Often it is observed amongst people, they misunderstand insurance as an investment tool. When people pay premiums for their insurance covers, they expect some amount of return on maturity. In case, there are no future income arising out of current premium payments, they feel a bit reluctant to opt for that insurance policy.

I believe this culture needs to be changed with proper knowledge sharing with the investor. Let us first understand the types of insurance policies offered in India: Whole Life insurance, Endowment policy, Money Back Policy, Special Plans, ULIPs and Term Insurance. Except for Term insurance, the policyholder may receive the sum assured + Accrued Bonus (if any) of the policies at the time of maturity. Only in case of Term Insurance the nominee gets the Sum assured in the event of policyholder's death during the policy tenure. In the occasion of policyholder surviving the Term insurance policy tenure, he does not get any maturity amount.

All the policies charge premium depending on the product features. Amongst all, term insurance charges the lowest premium as it is a plain vanilla insurance product. The claim arises only on the death of the policyholder and no sum assured is to be paid to the policyholder on surviving the policy tenure.

The problem with other policies are they are “Insurance + Investment” type product. Now one would not enjoy the taste of a South Indian thaali at a restaurant serving authentic North Indian Food, likewise a fusion of Insurance and Investment would not give you the best of the results.

It fascinating to see a gradual shift in people's way of approach towards buying Insurance. All thanks to the media for spreading financial awareness and educating people that Life insurance should be purely insurance and not a mixed product. Both the things should be kept separate.

Insurance should be considered only as a cover against risk of death or health and investments should be considered for wealth creation and achievement of future goals. Better to keep things simple. As they say, effectiveness comes with simplicity! Simpler the product, the more effective would be its results!

# TAX EXEMPT, VENKATESAN

## Why you should consider NPS investments this fiscal year?

It's the new financial year—the right time to plan your investments for the entire fiscal. And this includes tax planning too.
There are two factors to keep in mind: saving taxes and building a large corpus of wealth to meet various goals. More specifically, it can come handy during retirement.

In India, the National Pension System (NPS) can be helpful in this regard. NPS is an important social security benefit for salaried employees. It allows you to have a steady stream of income even after retirement. Besides, the scheme offers good tax benefits.
Here is why you should consider NPS investments in this fiscal year.

**NEW TAX BENEFITS**
40% of the withdrawal of the corpus tax-free
Returns or Interest on NPS is Tax-Free
Withdrawals after the age of 60 are taxed

**EXTRA TAX EXEMPTION**
Tax Exemption Limit = Rs. 1.5 Lakh
EXTRA Tax Deduction = Rs. 50,000
Combined Exemption Limit =Rs. 2 Lakh

**CHEAPEST PENSION PLAN**
Fund Management Charges
NPS > All Pension Plans
Returns are more or less same

**CAPITAL PROTECTION**
Equity Exposure Limit = 50%
Safer Investments, Good Returns.

**MULTIPLE ASSET OPTIONS**
Assets - Equity, Debt, Government Securities, etc.
Greater Scope of delivering Higher Returns
Equity-related NPS schemes returns= 24%(FY 2015)
Government Securities returns= 20%(FY 2015)

## What is the National Pension System?

The NPS is a voluntary retirement savings scheme that the government launched it in 2009 to allow all employees to get a regular pension in their old age. Since 2004, all central and many state government employees received a mandatory pension benefit. But the NPS extended this benefit to all employees (including the unorganized sector) in 2009. However, NPS never reached to the masses, with most investors opting for other Pension schemes. As a result, there are only 96 lakh NPS subscribers who have invested Rs 88,000 crore.

## Why you must consider investing in NPS

NPS offers excellent tax benefits. Both salaried and self-employed individuals can claim tax benefits on Tier I NPS account, under Section 80C of the Income Tax Act 1961. Tier II NPS account does not enjoy any exemptions. These include:

### 1 EXTRA TAX EXEMPTION

Your contribution towards NPS is eligible for income tax deduction under Section 80CCD. What makes it different from other investments under the Section is that NPS does not count under the Rs 1.5 lakh limit. You can avail an EXTRA tax deduction of Rs 50,000. Therefore, your combined exemption limit increases to Rs 2 lakh (instead of Rs 1.5 lakh previously).

### 2 NEW TAX BENEFITS

Add to this, in the recently announced Union Budget 2016, the Finance Minister introduced measures to make the NPS even more tax-friendly. The budget proposed to make 40% of the withdrawal of the corpus tax-free. Traditionally, NPS has been an Exempt-Exempt-Taxable (E-E-T) financial instrument. Meaning, your investments/contributions bring tax exemptions; the returns or interest you earn on NPS is tax-free; only a portion of your withdrawals after the age of 60 are taxed. Recently, the government increased the tax-free limit on these withdrawals. This makes NPS more tax-friendly.

### 3 CHEAPEST PENSION PLAN

NPS has one of the lowest fund management charges associated with it compared to all Pension plans available in India. This is more so when you compare it with similar Pension-related Mutual Funds and Insurances. At the same time, the returns are more or less on the same lines as similar products.

### 4 MULTIPLE ASSET OPTIONS

As an NPS investor, you can choose which assets you want your money to be invested in – Equity, Debt, Government Securities, etc. Your returns are then market-linked, unlike PPF investments whose rates are fixed by the government. This allows the NPS investment to have a greater scope of delivering higher returns. In fact, Equity-related NPS schemes delivered 24% returns in FY15 while those investing in Government Securities returned around 20%.

### 5 CAPITAL PROTECTION

The government set a 50% limit on the NPS' equity exposure. This limits the scheme's volatility and risk exposure. So, your investments in NPS can be considered safer options that also provide good returns.

# HOW MUCH IS TOO MUCH?

Investments are made for peace of mind and for a better future. Investments are made with an idea of planning to meet future expected expenses. But along with investments comes an important factor called Risk. Risk is involved in everything, in all the transactions one does with their money. Right from keeping it idle at home, to keeping in bank, investing in bank FDs, investing in equity markets and so on. Financial Risk is everywhere. But I would say that's not risk, if you know what the investment is about.

***"Risk comes from not knowing what you're doing" as quoted by Warren Buffett.***

Almost all the troubles that an investor faces throughout his investment journey is of either taking too much of risk or taking too little risk!

People aren't much keen to take risks in their investment portfolios. However, financial risk is inevitable when it comes to dealing with investments. For few, when they invest in SENSEX, they do not want to think about the risks involved, they simply want returns. They trade based on some tips or information that they came across. Now, on the inevitable day when one of these or all of these investments fails to match up to your set dreams, you may wish that you would have taken time out to understand the investments & risks involved before investing.

Risk comes in various flavours like some is objective and some is emotional. Objective risks can be measured in terms of money, while emotional risks involves worry, stress, and uncertainty.

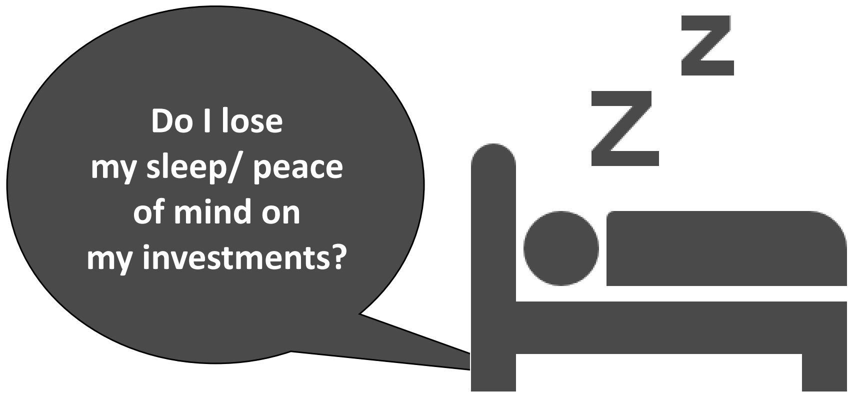
One inescapable thumb rule goes: Higher the risks goes hand in hand with Higher expected returns. With lower risks comes comparatively lower returns and vis-a-versa. Obviously nobody invests to lose money! Everybody wants to earns superior returns. But that involves a cost. If one is willing to take lower risk for mental peace then the result would be similar that's average returns. Investing is an area in which you get paid for embracing a certain level of uncertainty and discomfort. That's when one enjoys the benefits of taking considerable risk (with proper understanding of the financial asset) as the fruits of taking that risk makes it worth it.

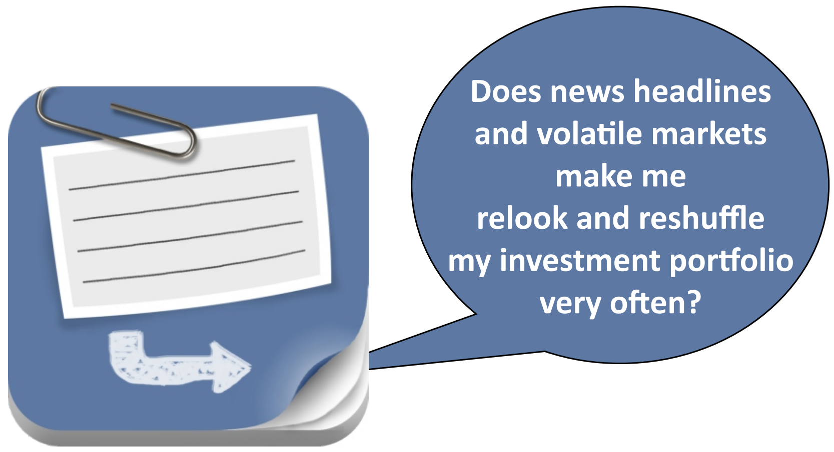
When things are going well and everybody seems to be making money, it's easy to invest. Emotional risk is low. As prices keep going higher, financial risk does the same. Conversely, when the market has been doing poorly, fear is much stronger than greed. Yet this is the very time in the market cycle when financial risk is relatively low.

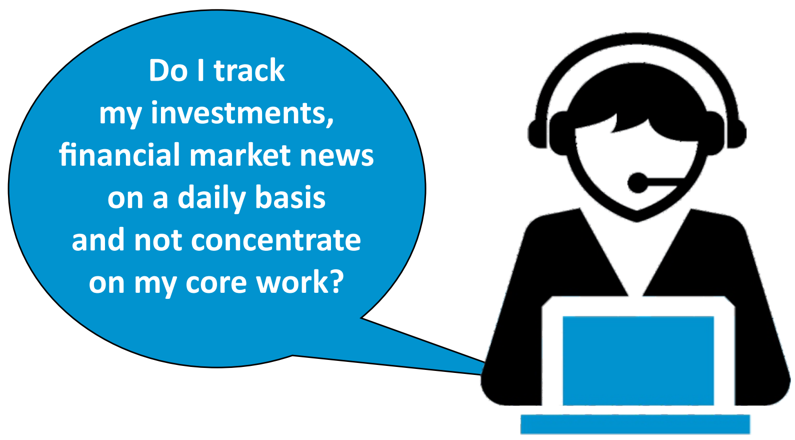
In practical terms, this means that if you follow your emotions to get in and out of the market, you will do the wrong things. Fear and greed will lead you astray. The best investors are those with the patience and the perspective to do the opposite of what the masses are doing.
There are certain basic principles of knowing the risk like:

- Risk is normal when it comes to financial investments
- Stocks and bonds are unpredictable in short term.
- Markets are bound to be highly volatile on events like budget, monetary policy, any global event whether bad or good. At times investors believe that entire future depends on the headlines of the day. In fact the best way to avoid investment mistakes is to keep yourself away from the noise if it's for short term uncertainties.

In spite of following the above principles, how can one find out whether he is taking too much of emotional risk with his investments? You may know by asking these questions to yourself:




If you answer yes to even one of the above questions, then probably you have taken on too much of risk and need to sit down and understand your current financial status and financial goals or else leave it to your professionals, your financial advisor can help you allocate your assets, rebalance your portfolio, also minimizing taxes, expenses and risks arising out the portfolio. With this you may reduce the stress level of managing finances but you can't complete delegate your emotional stress to your advisor. You need to start managing the emotional side of risk by yourself.

# START SIP RIGHT AWAY IN APRIL

April marks the beginning of a new financial year. This is the time to start planning your investments for the entire year. And this includes starting all your Systematic Investment Plans (SIPs).

Often, people delay this planning by a few months. Many still invest in the latter part of the year, right before they file their taxes. That may not be prudent. This fiscal year, start your investments – and your SIPs – right away in April.

Here are some things to know:

## 1 MORE TIME TO INVEST

By starting right away in April, you have all 12 months available to use wisely. You can plan better for the months ahead. Budget your big-ticket expenses as well as investment needs. This should include your regular investments to achieve financial goals as well as tax-related investments. After all, you have a semblance of idea about your financial needs right away in April. By planning your taxes as well as investments, you can stay organized.

## 2 SPREAD OUT YOUR INVESTMENTS

Every experienced investor has a portfolio of assets – Stocks, Mutual Funds of various kinds, Bonds, etc. You may be investing thousands and lakhs of rupees in each of these. With only a few months, you may end up investing a huge lumpsum. However, if you start in April, you have the time to invest in small amounts every month in each of these assets. This way, you have the time and flexibility to invest better.

## 3 LOWER YOUR MONTHLY OUTGO

When you spread out your investments, you automatically reduce your monthly outgo. If you had to invest Rs 50,000 every month to meet your target in 4 months, you may only have to invest Rs 20,000 in 10 months – that's less than half your earlier monthly outgo.

## 4 NO LIQUIDITY WORRIES, GREATER FLEXIBILITY

By investing lower amounts every month, you have more money to spare. While you may not have liquidity concerns, what this extra money does is give you the sense of flexibility. If required, you can even increase your monthly spending.

## 5 ACHIEVABLE TARGETS

Alternatively, with more money to spare, you can look at increasing your savings and investments each year. So, not only do your existing goals become achievable, but you can also achieve more goals easily.

## 6 BE PREPARED FOR EMERGENCIES

If nothing, you can use this extra money to improve your emergency fund. You can easily start an additional SIP in a Liquid Fund each month. Not only does it earn better returns than a Savings Bank account, but it also can be used during emergencies. You may not have to liquidate your investments.

## 7 RUPEE-COST AVERAGING

With a SIP, you buy a certain number of MF units every month at the prevailing rate. This continues irrespective of the market condition – whether it is rallying or falling. This means, you may end up buying MF units at lower rates too. This brings the average cost of your total investment lower. With more months in hand, you have the potential to take better advantage of 'Rupee-cost averaging'.



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