

## **“A Comparative study of ULIP and Mutual Fund investment of salaried people in urban area of Nasik district”**

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### **ABSTRACT**

Ever since the LTCG tax was announced in the Budget, ULIP is gaining popularity due to its tax-free nature. But the taxability of income is not the only parameter on which an instrument should be judged. The study focuses on seven key parameters. These parameters Include liquidity, flexibility, returns, risk factor, cost to be incurred, and taxability of income and ease of choice. ULIPs and mutual funds investment are analysed on these seven parameters, so as to decide which one is a better investment option.

### **INTRODUCTION TO TOPIC**

Every investment is made with some objective or goal. These goals can be short term or long term. Investment instrument should be chosen such a way that it suits your requirements like liquidity, returns, safety of funds, taxability, flexibility, ease of choice etc. Seven commonly used parameters to evaluate any investment option are as follows.

#### **LIQUIDITY**

**Mutual funds totally beats the ULIP on liquidity ground.**

While both mutual funds and ULIP are long-term investments, mutual funds provide liquidity. Mutual fund investor can exit any time, and even make partial withdrawals if required. ULIP on the other hand have a five-year lock-in period, after which partial withdrawals can be made. Nonpayment of premium makes ULIP a costlier deal, as you do not get paid on the basis of the Net Asset Value of the year in which you are getting paid. Rather the money you get is based on the Net Asset Value of the year in which you stopped paying the premium. If you stop paying premium before completion of one year of policy period, investor lose all the money invested in the policy. Some people argue that forcing the policyholder to remain invested for at least five years helps develop the saving habit. On the other hand, Mutual fund investors face no such hurdles. Most tend to withdraw investments within

2-3 years. This fickleness is inimical to wealth creation. The longer you remain invested, the higher can be your returns.

#### RISKYNESS OF INVESTMENT

[Mutual fund provides the facility to track the portfolio of the fund. ULIP is also open but somewhat complex.](#)

As mutual fund companies provide the investors with platform to monitor the performance of the fund therefore Mutual funds are tracked by several organizations. Investors can have insight of their portfolios, allocation to sectors, market segments and even individual stocks of the portfolio. Therefore its easy for an investor to analyze the performance of the fund and thereby ascertaining the risk. As mutual fund investment are quite flexible user can easily switch between poor performing schemes to good performing schemes without incurring extra cost. ULIPs also offer the same platform, but they are not so widely tracked by the institutions and individual investors. Very few investors would know which ULIP fund is best.

#### COSTS

[Mutual funds charges are very low but some online ULIPs charge even cheaper.](#)

High ULIP charges ended way back in 2010. The cost structures of some new ULIPs are so frugal that they almost compete with the low-cost direct plans of mutual funds. Most online ULIPs don't have policy Administration or fund allocation charges. If you don't add the mortality charges, the annual charges of the ULIP from reputed life insurance companies are less than 1.5%. Insurance companies are trying to reduce the impact of the mortality charge. Some insurance companies make an additional contribution to the fund corpus; some companies' pays back entire mortality charges at the maturity by charging high premiums. Equity oriented mutual funds are costlier than debt oriented mutual fund. Equity oriented fund can charge up to 2.5% while ULIP can charge up to 1.35% + mortality charges. This makes mutual funds costlier than ULIP at first look.

#### EASE AND CHOICE

[Mutual fund investor can easily switch between varieties of schemes. ULIPs are available with very few choices, and take time.](#)

Once the KYC formalities are done, you can invest online in any mutual fund without any additional paperwork in few minutes even without the help of any adviser. ULIP on the other hand don't have that luxury. Even after filling the form online and making the payment, the paperwork needs to be done offline. As ULIP provides life cover formalities can include medical tests and even scrutiny of the income tax return of the individual if he has sought a very large life insurance cover. Mutual funds also offer a wider choice to investors. Those looking for stable growth can go for large-cap funds and the more adventurous investors can invest in mid-cap and small-cap schemes. In contrast, some

insurers offer a wide bouquet of ULIP funds, but mostly the choice is between equity, debt and liquid funds.

#### FLEXIBILITY

*Investors can switch funds or stop investing, but ULIP buyers are stuck with them.*

A ULIP is a multi-year commitment. The buyer has to keep paying the premium for the full term of the plan. Also, investing in a ULIP is like buying a closed-ended fund that will mature in 15-20 years. ULIP investors are stuck with the same insurer and policy for the full term. In the worst case if the investor could not pay the premium it leads to loss of money invested, pre-dated NAV returns, returns after deducting all the charges, no life cover, surrender charges.

In contrast, there are no such constraints on a mutual fund investor. He can easily shift from a non-performing scheme to a better fund. He can exit anytime he wants or remain invested for the long term. He can make partial withdrawals or make additional investments without any hitch. ULIPs also allow additional top-up investments, but these are treated as single premium payments and mortality charges are deducted from the amount.

The switching facility in ULIPs provides some flexibility. The investor can switch from equity to debt and vice-versa without incurring a tax liability. Insurers claim this makes ULIPs a good rebalancing tool.

#### RETURNS

*In the long run mutual funds always pay better.*

In ULIP whole of your premium not get invested in fund units, some part of premium goes towards mortality charges that is for the insurance cover. It means if you pay Rs.10 only 6 to 7 rupees will be invested in fund and remaining 3 to 4 rupees will be considered as your insurance premium, which will be paid to you only if you claim insurance. Even if we keep aside the mortality charges and examine only the NAV-based returns, mutual funds score over ULIPs. Data from some studies shows that ULIP returns are 100-300 basis points lower than those of mutual funds. The average large-cap ULIP fund grew 15.51% in the past one year whereas the average large-cap mutual fund rose 18.83%. This gap in performance can have a big impact in the long run of 15-20 years.

#### TAXABILITY

*ULIP always had the edge over mutual fund in taxability, but the new LTCG tax has swelled the effect.*

As ULIP capital gains are tax free under Sec 10(10d), it makes ULIP a better deal in terms of taxability. Even before the budget proposed to tax long-term gains from stocks and mutual funds, ULIPs had an edge over equity mutual funds. If balanced schemes or equity mutual funds were held

for less than one year, the short-term capital gains were taxed at 15%. After the new LTCG tax kicks in from 1 April mutual fund investments will become even more costly. Gain from balanced And equity funds will be taxed at 10% but income from ULIPs will be tax free.

The tax-free advantage of ULIPs extends beyond equity funds to the Fixed income space. ULIPs not only offer equity funds but also debt and liquid fund options to investors. Income from fixed deposits is taxed at the marginal rate while LTCG from debt funds are taxed at 20% after indexation. But gains from ULIPs are tax free.

## **OBJECTIVES OF STUDY**

- To compare the ULIP and Mutual fund investment on 7 parameters. (liquidity, flexibility, returns, risk factor, cost to be incurred, taxability of income and ease of choice)
- To find which investment option proves to be better.

## **RESEARCH METHODOLOGY**

Survey method is used for collecting primary data. For conducting a survey questionnaire was used. Sample size for survey was hundred. Target sample was salaried people from urban area of Nasik district from varied age, income group.

Secondary data was mainly collected through magazines, newspapers, books, and research articles.

- Dalal street investment journal
- IRDA insurance exam guide
- NISM mutual fund distributor module
- Economic Times Wealth

## **LITERATURE REVIEW**

Previous research was one of the studies on “ ULIP vs. Mutual funds: Which is better monthly investment plan” Conducted by MeeraDewaan, in May 2017 published in the free press journal . The study was based on monthly income proving investment options.

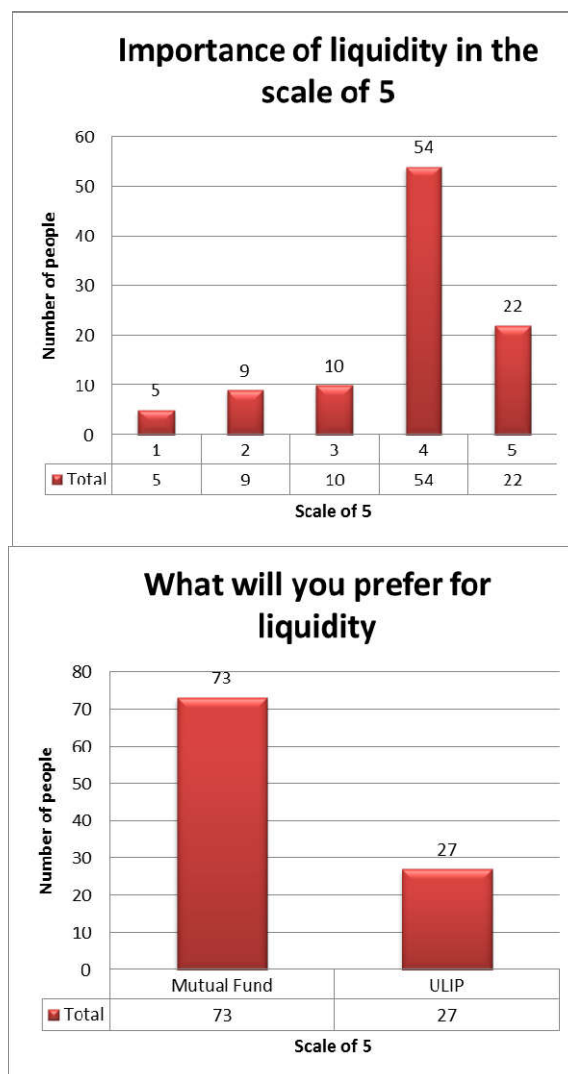
Another research was made on the subject “A Comparative Study on Investors of ULIP and Mutual Fund Products in Indore City” conducted in pre LTCG era by Dr. Abhay Gupta and AnjuAgrawal, Indore. Was published in Pacific Business Review International. This research focuses on risk involved in mutual fund and ULIP investment.

Research based on the topic “Does investing in ULIPs make more sense after LTCG tax on mutual funds?” by Puneet Oberoi, Feb, 2018. This study talks about differences in insurance product and mutual fund product and compare the long term returns and cost involved of both the products. Research paper on Risk and Return Analysis of Mutual Fund Industry in India by Bilal Pandow, published in Asian online journal, in 2017, this paper talks about returns on mutual fund investment and risk associated with it.

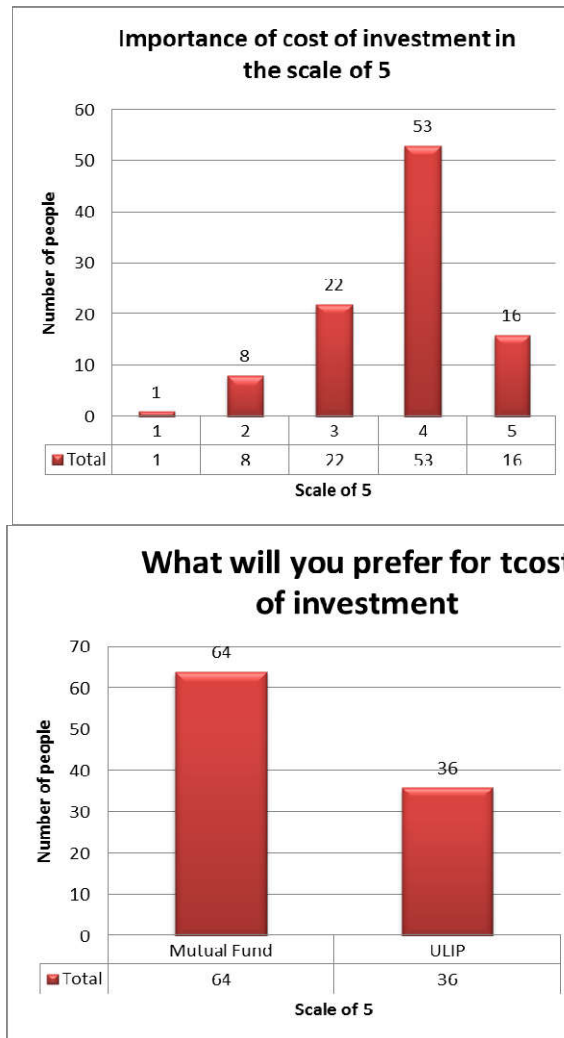
## DATA ANALYSIS

On the basis of survey following results are obtained

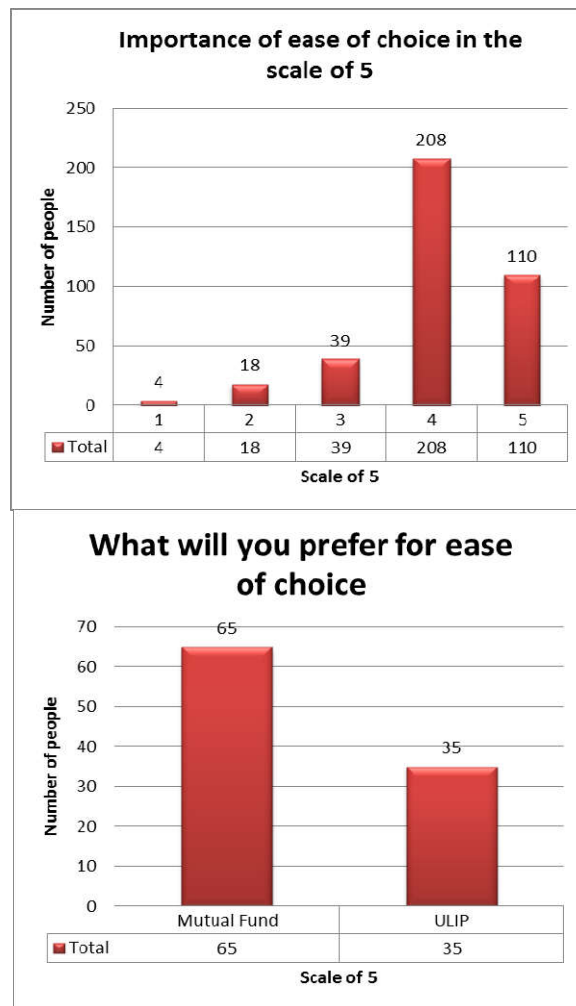
As discussed above ULIP and Mutual Fund investment are compared on seven parameters. Following is the summary of the results obtained for various parameters.



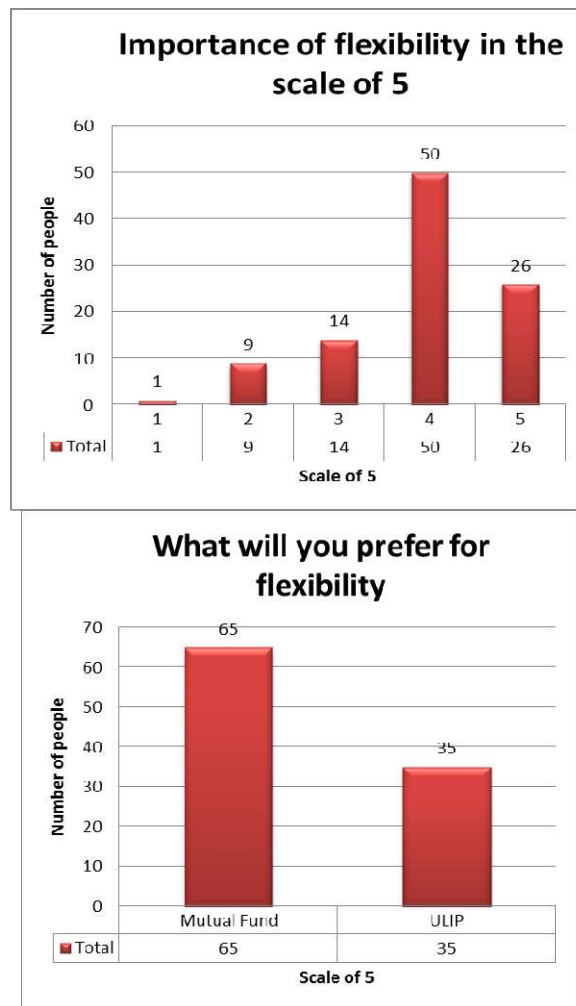
54 % of the population liquidity of investment option is important. 73% of population prefer mutual fund for liquidity purpose.



Cost of investment is very important for 16% of the population in rest of the population 44% (a major % of population) thinks that cost of investment is important but considering other factors. 64% of population prefers mutual funds over ULIP in terms of cost of investment.

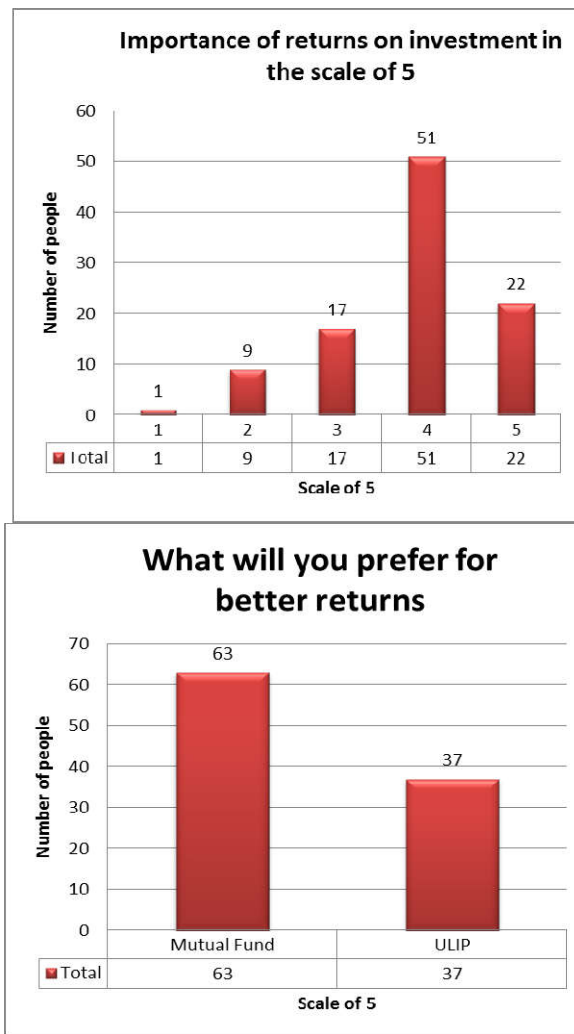


52% a major % of the population thinks that ease of choice is important. 65% of the population prefer mutual fund for ease of choice.

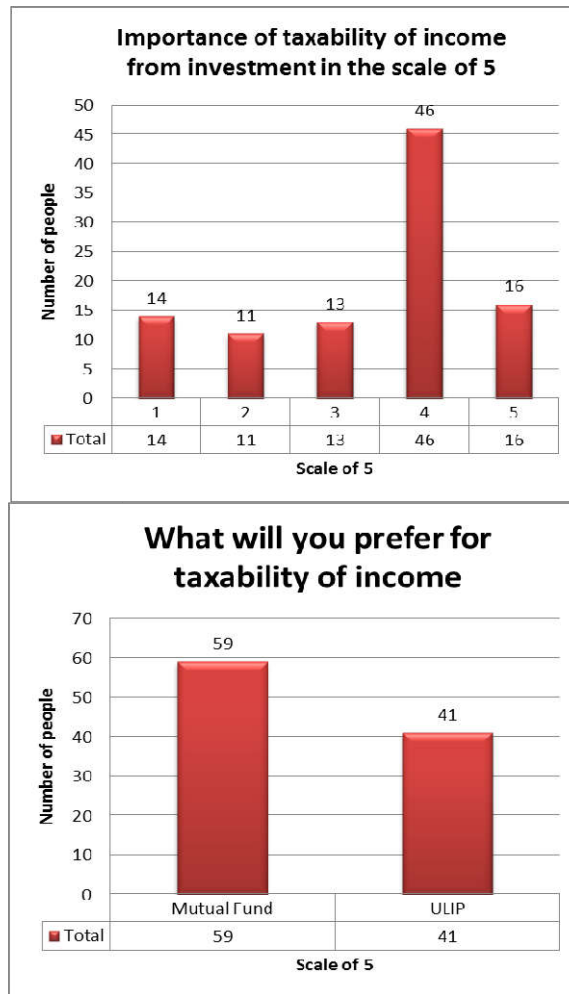


According to 84% of the population flexibility of investment is very important. 65% of the population prefer mutual fund for flexibility.

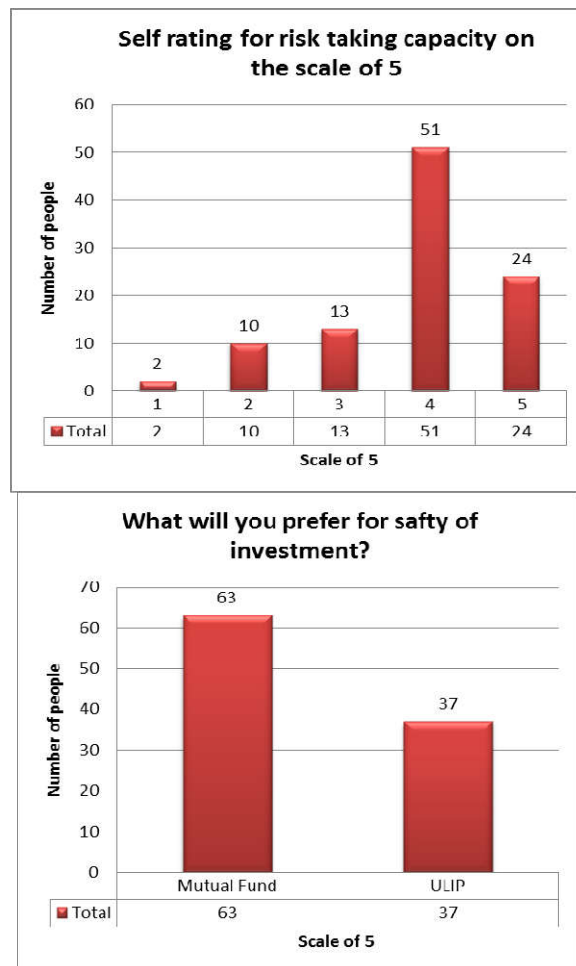




29% of the population gives high importance to returns on investment. 53% of population rates the returns on the scale of 4. 63% of population prefer mutual fund for better returns on investment.



24% and 54% of the population rates taxability of income on the scale of 5 and 4 respectively. 59% of the population prefer mutual fund for taxability of income from investment.



75% population has above average risk taking capacity. As both the investment options are equity based risk involved is at a higher side. But the past research says that if you stay invested for longer duration loss occurring out of downside of the market gets minimized. So this is applicable to both investment options.

## CONCLUSION

In this study ULIP and Mutual Fund investment are compared on seven different parameters using questionnaire method of survey. Survey is conducted for the sample size of 100 salaried employees from urban area of Nashik district. On the basis of literature review and survey conducted mutual fund investment is proved to be the better investment option over ULIP, when compared on liquidity, taxability, flexibility, ease of choice, risk factor, returns on investment and cost of investment. Salaried people from urban area of Nashik district prefer mutual fund over ULIP on almost all the parameters. The study also shows that majority of population is well aware about options available under mutual fund.

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## ANNEXTURE

Questionnaire

### Questionnaire

- 1) Name
- 2) Age
- 3) Gender
- 4) Monthly salary
  - < 10000
  - 20000 to 39999
  - 40000 to 59999
  - 60000 and above
- Scale the following aspects of investment option on the scale of 5  
1 – Not important at all, 2 – Not important, 3 – Not so important, 4- Important, 5 – Very important
- 5) Liquidity
- 6) Flexibility

- 7) Taxability of income
- 8) Ease of choice
- 9) Returns on investment
- 10) Cost of investment
- 11) Safety of sum invested
- 12) What will you prefer for liquidity?
  - Mutual fund
  - ULIP
- 13) What will you prefer for cost of investment?
  - Mutual fund
  - ULIP
- 14) What will you prefer for ease of choice?
  - Mutual fund
  - ULIP
- 15) What will you prefer for flexibility?
  - Mutual fund
  - ULIP
- 16) What will you prefer for returns on investment?
  - Mutual fund
  - ULIP
- 17) What will you prefer for taxability of income from investment?
  - Mutual fund
  - ULIP
- 18) What will you prefer for safety of sum invested?
  - Mutual fund
  - ULIP