

# ULIPs v/s Mutual Funds

## The Choice Is Straightforward!



### What are ULIPs?

- ULIPs are **insurance** plans which provide capital appreciation by investments in various schemes in debt and equity markets

### Key Negatives

- **Complex Structures:** “More complex the product, higher is the associated cost” proves to be true as ULIPs typically have a lot of hidden costs associated with them which no salesman will tell you
- **High associated costs:** Although ULIPs sound like a good idea to start with, one feels the pinch after a couple of years when the high costs associated with such structured products become more apparent
- **Tax advantage turns into disadvantage:** The tax benefits cease to exist when an individual wants to get out of a ULIP before three years i.e any contribution made towards the policy during the financial year (in which the plan is terminated) is not eligible for a deduction under section 80C; not to mention the deductions that have already been taken in the previous years would be added back as the income of the individual in that particular year of policy termination
- **Highly illiquid:** Switch over between ULIPs of different insurance companies is not possible in case their performances are below par making them highly illiquid and restrictive in nature; not in case of mutual funds
- **Death benefit:** In case of ULIPs, policy holders gets **either** the sum assured or the value of the units s/he holds, whichever greater in case of death  
In case of mutual funds + term insurance, one avails the benefits of **both**; fund value and the sum assured in case of death  
In case an insurance company offers both the benefits, it is very likely that the premium allocation charges will be higher than usual

### What Should You Do Instead?

- Investment in diversified mutual funds to avail investment benefit
- Avail term insurance to insure oneself

### Why Term Insurance

- A term insurance allows an individual to take higher amount of cover with lower premiums
- No premium allocation costs; simply pay for taking life cover

### Why Equity Funds

- High liquidity as switching between schemes of different fund houses becomes easy
- Less upfront costs
- Investing in Index funds for long time frames proves to be a prudent option due to low cost structures and index linked returns

Assume annual premium of Rs.1lac, Age=24, Sum assured = Rs.10lac

<b>ULIPs vis-a-vis Mutual Funds &amp; Term Insurance</b>					
Policy Term	ULIP Cost	Mortality Costs	Total cost incurred in ULIP	Mutual Fund Cost	Term Plan Premium
10 years	Rs.57,500	Rs.13,820	<b>Rs.71,320</b>	Rs.22,500	Rs.31,000
15 years	Rs.77,500	Rs.21,120	<b>Rs.98,620</b>	Rs.33,750	Rs.46,500
20 years	Rs.97,500	Rs.32,420	<b>Rs.1,29,920</b>	Rs.45,000	Rs.62,000

*The above charges are excluding the administration fees and fund management charges (1.0%– 4.0%) in case of ULIPs.*

*In case of mutual funds, typical expense ratios are around 1.0% - 2.5%.*

ULIPs typically provide investors the option to invest in

- *Liquid funds*
- *Debt or bond funds*
- *Balanced Funds*
- *Equity Funds*

Investing in debt and liquid funds proves to be a bad idea for the long term as capital appreciation is very low barely beating inflation

### **Conclusion**

- Large upfront costs, highly illiquid nature and difficult exit option make ULIPs a faulty insurance product
- Instead, availing a pure term plan suffices one's insurance need
- A minimum cover of 10\*(Annual salary) should be taken as anything below that proves to be quite inadequate
- For long term investments, it is best that one avail a diversified equity fund or an index fund
- Policy holders get the benefit of both; capital appreciation and sum assured in case of death in a term insurance + mutual fund



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