SIP SAHI HAI
An Investor Education Initiative

HSBC Global Asset Management

SIPs for the salaried

For the salaried, automating SIPs, increasing them with annual appraisals and investing in an ELSS can help build wealth over the long term

Most of us know the joy of salary getting credited to our accounts. Having worked for the full month, salaried people keenly look forward to the payday. But, unfortunately, this joy doesn't last long. By the time the first 10 days in a month are over, many of us find ourselves again desperately waiting for the next pay cheque. Little surprise, investing towards your financial goals also takes the backseat in such a scenario.

A typical salary-earner has a number of expenses lined up at the start of the month that consume a big share of his salary: electricity bill, house rent, school fees, groceries, EMIs, etc. The amount that is left is then needed for discretionary expenses, such as clothes and accessories, leisure, buying other household stuff and so on. This results in diminished savings and hence investments. So, while most salaried do understand the need for saving and investing, they often find themselves unable to walk the talk.

But there is hope. With planning and forethought, one can begin saving while not compromising on your lifestyle. The first and the primary element of your strategy will be automating your investments and saving before spending. Rather than save what you are left with at the month-end, decide a certain percentage that you would like to save, such as 10, 15, or 25 per cent (or even more!). Now set up automatic SIPs in the funds of your choice, depending on the tenure of your goals. These SIPs will be deducted from your account on your chosen date, which should be within the very first week of a month. This way, you can invest before you spend.

Naturally, this will create some pressure on you as your usual expenses are yet to be met but now you have less money in hand. This short-term anxiety is actually good. It will force you to reassess your expenses, keep a tab on them, postpone the negotiable ones and discard the frivolous ones. Over time, your expenses will fall in line with your 'reduced' income. If you first try to reduce your expenses, that may not work because you may not know intuitively which expenses are more important and which are less; for us, all are expenses are 'absolutely non-negotiable'.

If you start with a low percentage of saving, such as 10 per cent, you should also think of raising it over time. This shouldn't be difficult to do with your annual appraisals. Increasing your SIPs yearly does magic to your investments. If you do an SIP of Rs 10,000 monthly in an equity fund that returns 12 per cent, in 30 years, you will have a corpus of Rs 3.08 crore. However, if you also increase your SIP by 10 per cent yearly, you will have Rs 7.99 crore. This is especially useful for those who may not have the required amounts to invest towards their goals. By increasing their SIPs annually, they can bridge the gap.

Salaried people can also take advantage of SIPs in equity-linked savings schemes (ELSS), also called tax-saving funds. Since tax-saving funds belong to Section 80C, investments up to Rs 1.5 lakh in them are exempt from tax. ELSS are multi-cap in nature, so they can very well act as one of your main mutual funds. By earmarking the corpus in an ELSS to one of your long-term goals, such as retirement, you can not just save tax but also build wealth. ☑