




Tax and retirement planning


Explore tax-efficient avenues that match your financial goals

An Investor Awareness & Education Initiative


Simplify tax planning by investing in ELSS




Here we go again. The deadline for submitting tax-saving investment proofs is nearing. And I am, as always, confused about where to invest.



No such worries for me. I am already investing in an ELSS, which offers tax benefit and has the potential to offer good returns.




But isn't investing in equities risky? I have heard of many people losing their hard-earned money.





Equities are risky for those who mistake it for a casino. But if done keeping in mind one's financial goals and risk profile, it is one of the best investment vehicles.



Here's a conversation between Anil and Ajay




Anil and Ajay are old friends who meet after a long time. They are discussing tax-saving avenues, as the financial year is closing.



Ajay clears Anil's misconceptions regarding equity investing and shows how to effectively use ELSS as a tax-saving tool and an investment option.



Sounds impressive. But I don't have any idea about how to invest in equities, let alone reap tax benefits from it.



I was also in the same situation a few years back. Then, I came across the simple process of investing in equities through ELSS via an SIP, which removes the complexities associated with self-investing, builds a corpus over the long term, and provides tax benefit!

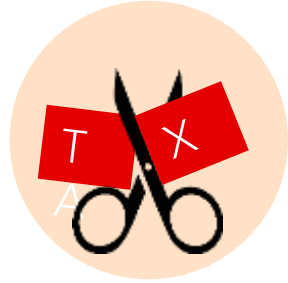
Systematic investment in ELSS helps build wealth over the long term with tax benefits

ELSS: Equity-linked savings scheme; SIP: Systematic investment plan

Do's & Don't: Don't procrastinate, plan ahead

Most common mistake in tax planning and how to approach it

- ◆ Investing a lump sum for tax saving towards the end of the year



- ◆ Tax planning should not be a last-minute activity
- ◆ A tax-saving plan at the start of the year will put investors in a better position to estimate cash flow and liabilities that will be due in the coming months
- ◆ Investors will also be able to allocate small sums periodically through the year when they start early

For illustration purpose only, Source - CRISIL
It is recommended to consult a financial advisor before making an investment decision

Do's & Don't: Understand options available for Tax exemptions

The Income Tax Act provides several options – investment as well as non-investment-linked – to save tax

Section of the Income Tax Act	Particular	Tax exemption limit
Investment-linked		
80C	Employee Provident Fund	Rs 150,000
	Life Insurance Policy	
	ELSS	
	National Pension System (NPS)	
	FDs (5 years)	
	National Savings Certificate (NSC)	
	Sukanya Samridhi Yojana	
	Senior Citizen Savings Scheme	
	Public Provident Fund (PPF)	
80 CCD (1B)	NPS	Rs 50,000 (over Rs 1.50 lakh under 80C)
Non-investment-linked		
80D	Medical insurance	Rs 25,000
80E	Education loan interest	No limit
24B	Payment of interest on home loan	Rs 200,000

For illustration purpose only, Source - CRISIL

It is recommended to consult a financial advisor before making an investment decision

Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully

Do's & Don't: Use tax-efficient avenues to match financial goals

Equity-based instruments

- ◆ ELSS: 10% tax on long-term capital gains exceeding Rs 1 lakh (ELSS subject to 3 years lock-in period)
- ◆ ULIP: Taxable on contribution of more than Rs 2.5 lakh per annum



Debt-based instruments

- ◆ PPF: Tax exempt at contribution, accumulation and withdrawal
- ◆ NSC: Interest income taxed at income tax slab rates applicable
- ◆ Tax-saving FDs: Interest income taxed at income tax slab rates applicable

For illustration purpose only, Source - CRISIL

It is recommended to consult a financial advisor before making an investment decision

Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully

Do's & Don't: evaluating lock-in period of tax-saving investments

Equity-based instruments

- ◆ ELSS: Lock-in period of 3 years. Full amount can be withdrawn after three years from date of allotment
- ◆ Insurance/ULIP: No surrender charges after five years



Debt-based instruments

- ◆ PPF: Lock-in period of 15 years; partial withdrawal permitted after six years
- ◆ NSC: No withdrawal prior to maturity, but investments can be used as collateral to avail loans from banks
- ◆ Tax-saving FDs: Premature exits permitted, subject to applicable charges

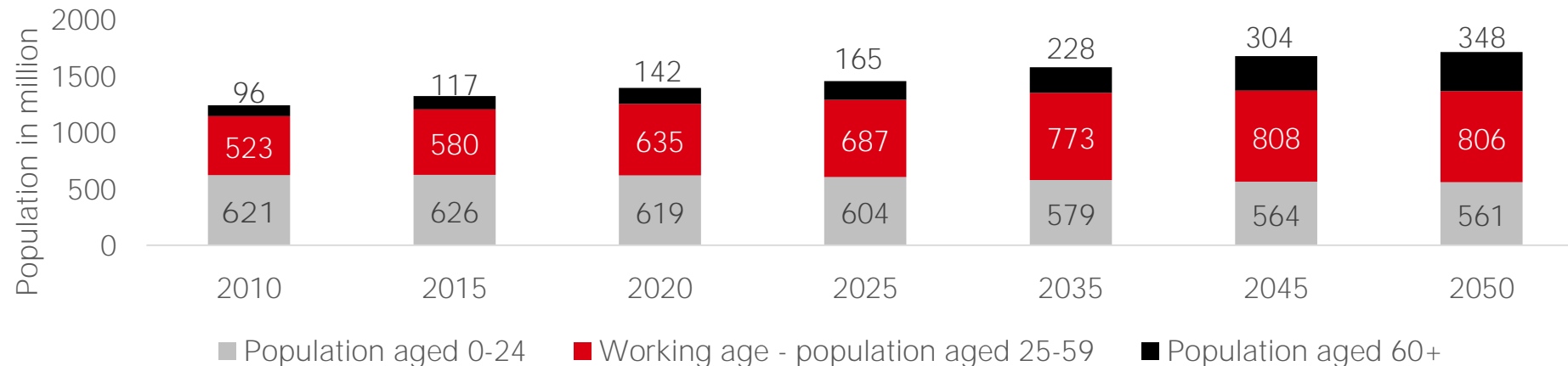
For illustration purpose only , Source - CRISIL
It is recommended to consult a financial advisor before making an investment decision
Past performance may or may not be sustained in the future.

Invest as per your risk appetite and age

The costliest mistake that investors make in investment and tax-saving decisions is not investing as per their risk appetite and age

The investment duration should ideally be in inverse proportion to age, i.e. the younger the investor, the longer timeframe the investment horizon should be, and vice versa

- India has a demographic advantage over most major economies. The country has a relatively young population, with an average age of less than 30 years. The country will continue to have a large young population in the foreseeable future



- By a basic thumb rule, a young investor has a higher risk profile, i.e. ability to take higher risks and, thus, generate higher returns on his/her investments
- In this case, ELSS funds, with their mandate to invest in equity, allow investors to use this demographic advantage to their benefit, while also saving on tax in the process

Source: United Nations data , CRISIL

It is recommended to consult a financial advisor before making an investment decision

Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully

Traditional instruments – pros

- Key attraction of traditional debt-based instruments is safe
- Apart from tax deductions, investors use debt instruments to meet their financial goals. As debt offers relatively stable returns, it is easier for investors to predict the end value of the corpus
- Another advantage is that a change in interest rate only affects the interest component and not the invested amount. As a result, there is minimal risk of negative returns

Illustration

Suppose Anil requires Rs 1 lakh annually to meet his son's educational expenses five years from now. He can aim to realize this by investing Rs 73,000 annually in a five-year FD. This way, he may be able to meet his objective and also save on tax every year.

Period	Investment in 5-year FD	Tax savings assuming 30% tax slab (if money not invested)	Period	Maturity value assuming interest rate of 6.50%*
Year 1	73,000	21900	Year 6	100,016
Year 2	73,000	21900	Year 7	100,016
Year 3	73,000	21900	Year 8	100,016
Year 4	73,000	21900	Year 9	100,016
Year 5	73,000	21900	Year 10	100,016

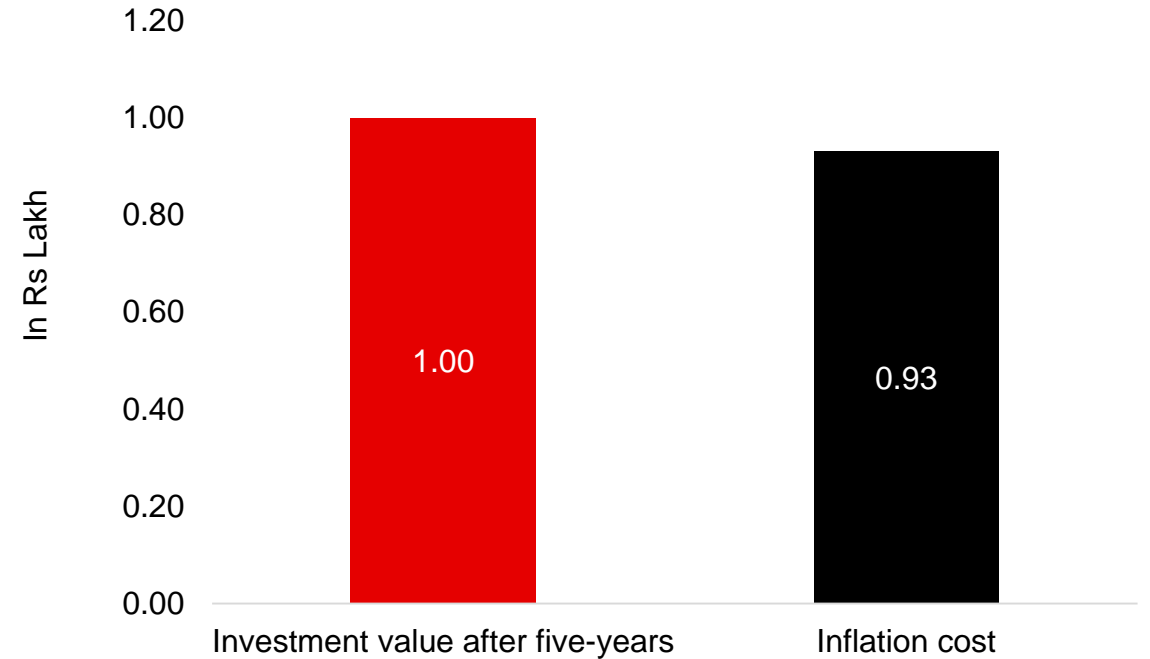
Source – CRISIL, *SBI fixed deposit rate for 5 years, with effect from February 15, 2023

For illustration purpose only

Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully

Traditional instruments – cons

- While fixed-income investments aims to provide the benefit of capital protection and relatively stable returns, the returns can be inadequate, after factoring in inflation
- This highlights the biggest drawback of traditional investments – their inability to act as return enhancers. Hence, there is a need to look at instruments that offer better inflation-adjusted returns
- If we look at the earlier illustration, even though Anil's Rs 73,000 investment in FD grew 6.50% to Rs 1 lakh, the inflation, considering the same amount, grew about 5% to Rs 93,000, resulting in a meagre inflation-adjusted return of Rs 7,000



For illustration purpose only Source – CRISIL, Assuming inflation of ~5% (5-year average inflation rate for fiscals 2017-22 CPI)
Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully

ELSS – A good combo to save tax and build potential wealth over the long term

- Is a tax saving scheme that predominantly invests in equity securities
 - Managed by fund managers with experience and backed by research
 - Diversified portfolio across sectors and market capitalisation
- Investors need to hold units for at least three years to claim a tax rebate
 - Longer investment horizon increases the probability of higher risk-adjusted returns for the investor
- Withdrawals from ELSS after the three-year lock-in period are tax-free up to Rs 1 lakh in a financial year
- Flexibility to invest on monthly basis through systematic investment plans
 - Minimum investment can be as low as Rs 500 per month
 - Reduces market volatility and averages out the cost for the investor
- Investments are subject to market risk, and, hence, investors must consider their age and risk appetite

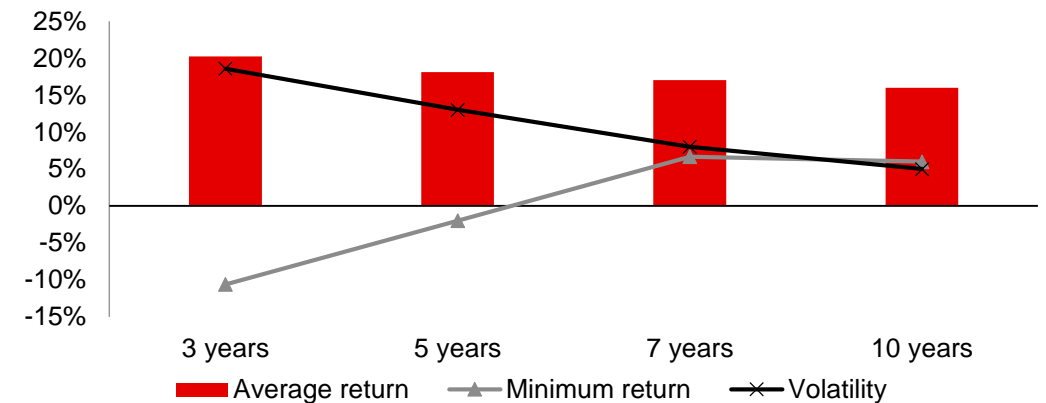
Source – CRISIL, Past performance may or may not be sustained in the future.

Return and risk characteristics

- An ELSS is for investors who have an investment horizon of at least three years. As can be seen by the scheme's return and risk characteristics, investors who stay invested over longer holding periods are rewarded
- Being an equity product, ELSS funds are volatile only in the short term. As seen in the graph, volatility decreases and minimum returns increase with an increase in the investment horizon.
- Thus, young investors such as Ajay, who have a longer time horizon and greater risk tolerance, stand to gain the most from ELSS.

Performance (%)*	3 years	5 years	7 years	10 years
ELSS funds *	27.02	10.35	12.87	14.60
Nifty 50	26.39	11.38	12.23	11.80
Nifty 500	27.66	10.29	12.32	12.59

Annualised returns as of March 31, 2023



Data as of March 31, 2023, for calendar year
Returns are annualized, calculated on a daily rolling basis of a weighted average index of CRISIL-ranked ELSS funds from June 2001 till March 2023.
Volatility represented by standard deviation

For illustration purpose only, Source - CRISIL

- The ELSS category is represented by CRISIL-ranked 35 ELSS funds. Returns for ELSS schemes are based on average of CRISIL-ranked ELSS funds. Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully.

Mutual fund-based instruments (ELSS) versus traditional instruments

- In terms of returns, the equity exposure of an ELSS helps it score over fixed income investments such as PPF in the long term.
- As tabled, Rs 75,000 each is assumed to have been invested in the PPF and an ELSS for 10 years ended March 31, 2023, with a fresh investment at the start of each fiscal
- While the PPF investment grew to ~Rs 12 lakh at ~8% average returns, the ELSS garnered ~Rs 16 lakh at ~18%

	PPF			ELSS		
	Beginning balance	Interest rate	Ending balance	Beginning balance	ELSS Funds*	Ending balance
FY14	75000	8.80%	81600	75000	22.23%	91673
FY15	156600	8.70%	170224	166673	50.24%	250409
FY16	245224	8.70%	266559	325409	-6.74%	303476
FY17	341559	8.10%	369225	378476	25.36%	474458
FY18	444225	7.80%	478875	549458	12.57%	618525
FY19	553875	7.90%	597631	693525	5.09%	728825
FY20	672631	7.90%	725768	803825	-23.62%	613962
FY21	800768	7.10%	857623	688962	70.45%	1174335
FY22	932623	7.10%	998839	1249335	20.59%	1506573
FY23	1073839	7.10%	1150082	1581573	-0.04%	1580940

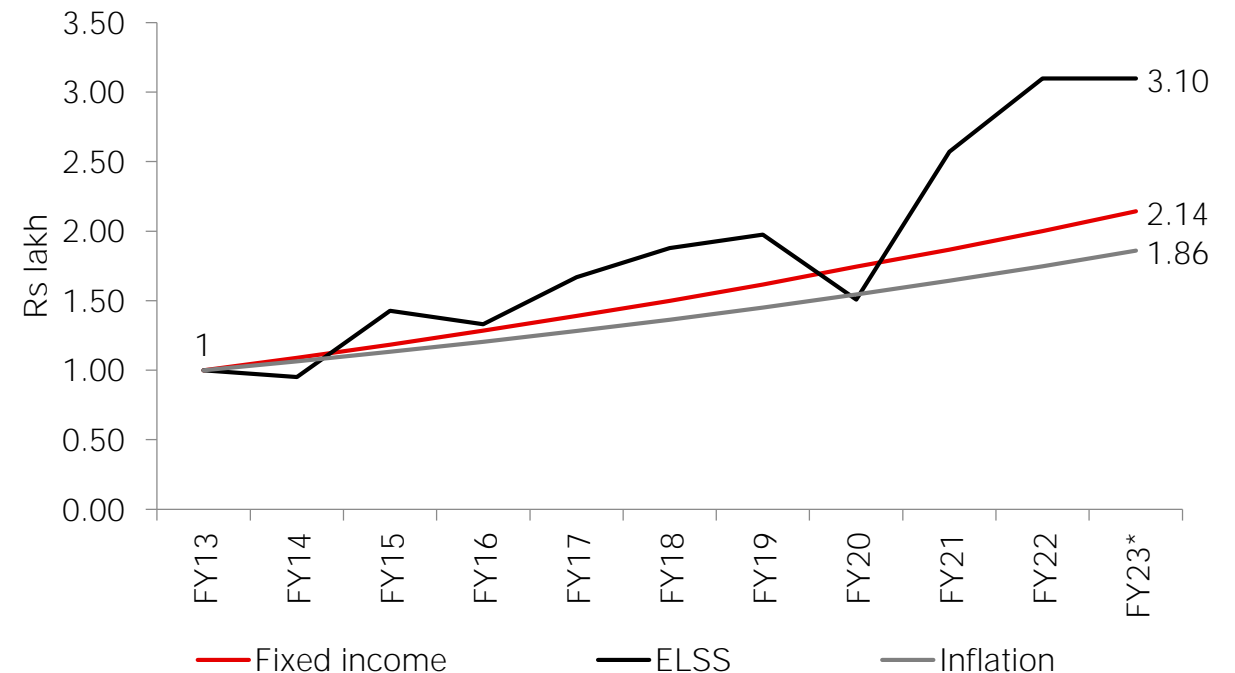
For illustration purpose only, Source – CRISIL, Source for PPF rates - Department of Economic Affairs, Data as of March 2023,

- The ELSS category is represented by CRISIL-ranked 35 ELSS funds. Returns for ELSS schemes are based on average of CRISIL-ranked ELSS funds.
- PPF returns are based on the interest rate announced every year and returns of ELSS or any other mutual funds schemes are market linked.

Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully.

ELSS aims for higher inflation-adjusted returns

- Equity exposure helps an ELSS generate higher inflation-adjusted returns as compared with traditional instruments
- If Rs 1 lakh each is invested in, say, a traditional fixed income product such as a PPF and ELSS at the end of fiscal 2013 for 10 years ended March 31, 2023, the investments would grow to Rs 2.14 lakh and Rs 3.10 lakh, respectively, compared with inflation (Rs 1.86 lakh)
- The ELSS generated 11.97% CAGR and the PPF 7.92% CAGR. On an inflation-adjusted basis, the ELSS* generated a higher CAGR of 5.57% versus PPF's 1.52%



Source – CRISIL, *Data as at March 2023

For illustration purpose only, * The ELSS category is represented by CRISIL-ranked 35 ELSS funds. Performance of ELSS represents averaged CRISIL-ranked ELSS funds, fixed income by PPF and inflation by CPI. PPF returns are based on the interest rate announced every year and returns of ELSS or any other mutual funds schemes are market linked.

Past performance may or may not be sustained in the future. Mutual fund investments are subject to market risks. Read all scheme-related documents carefully.

SIPs through the year

- SIPs allow investors to park funds in an ELSS, starting with Rs 500 per month, at regular intervals. They help investors benefit from rupee cost averaging and, thus, offset volatility in the equity market
- SIPs also negate the need to time the market since they rely on time spent in the market to generate returns (read: discipline). Thus, investors can invest in SIPs throughout the year

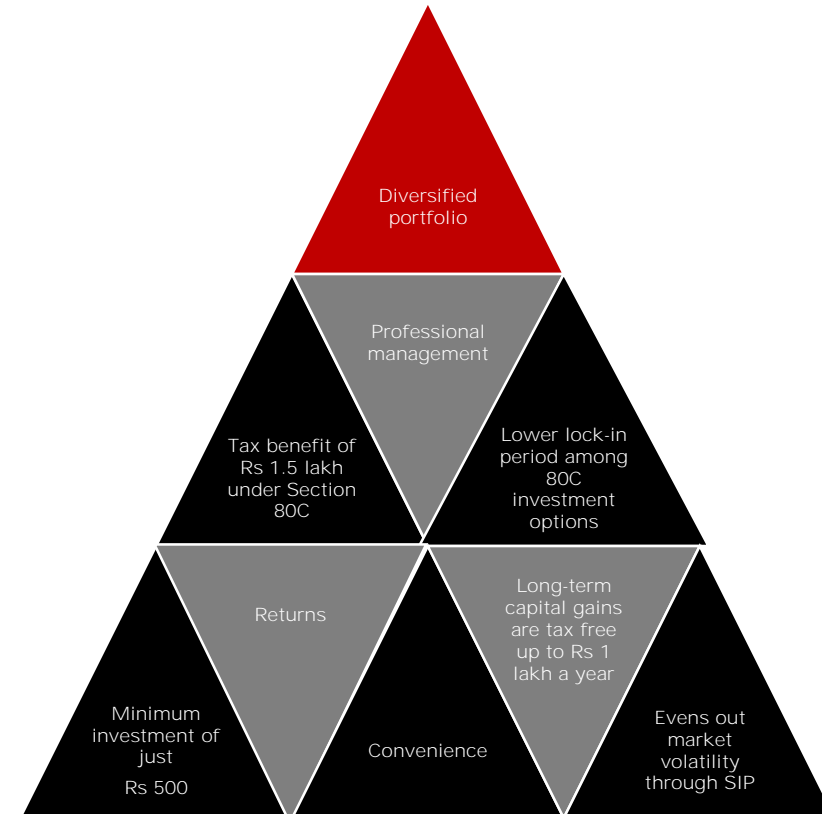
ELSS funds*				
Period	SIP start date	Total amount invested (Rs)	Market value (Rs)	SIP returns (%)
3 years' SIP	30-Apr-20	18,000	20,368	8.65
5 years' SIP	30-Apr-18	30,000	38,167	9.87
7 years' SIP	29-Apr-16	42,000	58,340	9.44
10 years' SIP	30-Apr-13	60,000	1,03,250	10.62

* The ELSS category is represented by CRISIL-ranked 35 ELSS funds. Performance of the ELSS is represented by a weighted averaged fund performance index created for ELSS funds, SIP returns are annualized. Past performance may or may not be sustained in the future.

Source – CRISIL. The above data is for information only. Data as at March 2023

An ELSS offers many benefits including building a retirement kitty

- A word of caution: Investors must remember that as returns are market-linked, they are prone to volatility. Hence, an ELSS may not be suitable for very risk-averse investors. Also, investors must remain invested for at least three years to claim tax benefits
- In India, it is common for young investors to not take retirement planning seriously. This is because investors entering the workforce usually make the mistake of believing there will be time to do so in the years ahead
- What's more, many investors who plan for their retirement rely on fixed income investments for this purpose
- Since retirement planning is a long-term goal, you can aim to effectively meet it by investing in an ELSS
- If Amish wants to build a retirement kitty of some amount at the retirement age of 60, he can achieve it by investing certain money on a monthly basis in an ELSS for the next 30 years



Source – CRISIL

Past performance may or may not be sustained in the future. Past performance may or may not be sustained in the future.

Times are changing and we can't ignore retirement planning



Source – CRISIL, ** According to Census 2011 data
Past performance may or may not be sustained in the future.

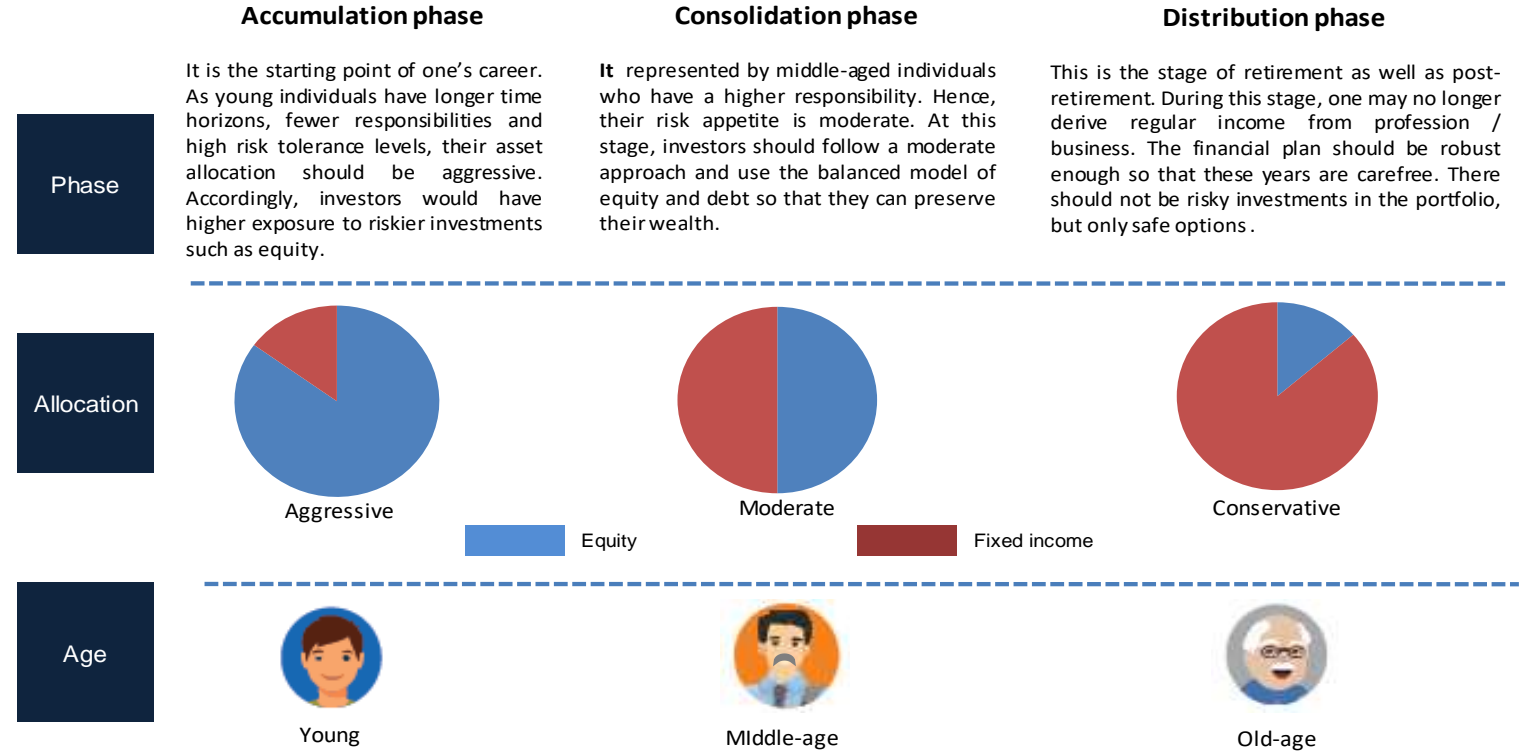
A ready reckoner on retirement planning

- Start early – No time is considered too soon to begin retirement planning. The sooner you start, the more time you give the funds to grow through compounding
- Decide how big a retirement kitty you want – This amount varies among investors. At a bare minimum, the retirement kitty needs to be big enough to pay for essential living expenses, which could include expenditure for medical treatment. Additional funds can then be used for specific goals that the investor may have, such as donations to charitable causes and foreign vacations
- Invest according to your risk profile – Determine the optimum mix of investments according to your risk profile that will help the retirement kitty grow optimally.
 - A young investor has greater risk-taking ability and a longer investment horizon. Accordingly, allocate more funds to equity, which acts as a return enhancer
 - Middle-aged investors, who have greater responsibilities and reduced risk tolerance, should invest in a prudent mix of equities and fixed income instruments
 - Investors nearing retirement, who can't tolerate heavy losses, must allocate most of their funds to safe fixed income investments
- Monitor and rebalance – Allocation to risky assets should be gradually reduced as you grow older

Source – CRISIL

Follow a glide path

- To optimise the retirement planning process, investors must follow a glide path wherein allocation to equities is gradually reduced with the advancement of age. This maps the reduction in risk appetite accurately with the change in invested asset class
- This is also known as lifecycle-based investment, wherein the retirement planning is split into three phases - accumulation, consolidation and distribution



Source – CRISIL, For illustration purpose only, It is recommended to consult a financial advisor before taking any investment decisions
Past performance may or may not be sustained in the future.

Disclaimer

HSBC Asset Management

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only with an intent to provide market overview and should not be construed as an offer or solicitation of an offer for purchase of any of the funds of HSBC Mutual Fund. All information contained in this document (including that sourced from third parties), is obtained from sources, which HSBC/ third party, believes to be reliable but which it has not been independently verified by HSBC/ the third party. Further, HSBC/ the third party makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information. The information and opinions contained within the document are based upon publicly available information and rates of taxation applicable at the time of publication, which are subject to change from time to time. Expressions of opinion are those of HSBC only and are subject to change without any prior intimation or notice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed or recommended in this report and should understand that the views regarding future prospects may or may not be realized. Neither this document nor the units of HSBC Mutual Fund have been registered in any jurisdiction. The distribution of this document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. .

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

© Copyright. HSBC Asset Management (India) Private Limited 2023, ALL RIGHTS RESERVED.

HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai – 400 063, India.
investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co.in