Inflation, the real Raavan of modern times and how ULIP can help you to counter it

By Magicgyan Team,

What is inflation?
Inflation can be defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every rupee you own buys a smaller percentage of a good or service.

How does inflation affect you?
The effect of inflation is the prices of everything going up over the years.

For example:

	1975	**2000**	**2011**
Bread	50 paise	Rs.11	Rs.18
Milk	Rs.1	Rs.22	Rs.40
Movie ticket	40 paise	Rs.60	Rs.130

The worth of money reduces with rising inflation.

How does inflation affect traditional savings like fixed deposits/ ppf/ bonds etc?
The actual benefits or income from fixed deposit / ppf/ bonds can be minimized by a rising inflation.

For example if we assume inflation which is currently at 6 % rises to about 9%, your fixed deposit / ppf/ bonds at 10% annual return will effectively yield only(10%-9%) = 1% of return. This return would have been (10% -6%) = 4% if the rate of inflation had not changed. Hence the effective yield is very less and can eat into your fixed deposit income.

So what are the other alternatives for beating inflation?
Investing in equities directly can give you good returns over a longer period. However it requires a good understanding of stock markets, lot of research and time for research.

According to a recent report most people lose money buying stocks . Why is that?
The main reason is that most people who purchase stocks are ignorant of the business behind the stock. It's just that they lack the 'financial intelligence' to understand, analyze and buy businesses which often makes investment in stocks a loss making proposition.

How does ULIP help you to in wealth creation?
ULIPs combine the benefits of life insurance with the advantage of market-linked returns to give the investor the best of both worlds. The insurance aspect of a ULIP is also very simple and doesn't require any active intervention by the policyholder.

ULIPS also offer switching facility which can be used to shift your asset allocation proactively. This can be a strategic change to suit your altered financial circumstances or a tactical juggling to gain from a short-term movement in the market

The time for which you want to stay invested has an impact on the risk that you can take. For example, if you have a long-term goal in mind, say, building a corpus for your child's wedding, you can invest in a risky portfolio that will fetch higher returns as the risk reduces over a longer period of time. However, if you need the money in the near future, then you should look for a safer portfolio for your investment.

Advantages of ULIPs
Regular and systematic saving
Flexibility – you can choose your term, insurance cover, pay premiums for a limited period
Transparency – you know what is the amount you are paying for the various benefits
Tax free returns
Switch between various fund options
Tax benefits under Sec 80C

Over a longer period of time of over 10-20 years ULIPs can generate potentially higher returns than traditional savings like fixed deposits/ ppf/ bonds and help you to beat inflation. This is because returns of ULIPs are indirectly linked to returns generated by stock markets. Research has shown that stock markets have performed well in the long run. ULIPs do not face much redemption pressures as investment in insurance is generally for longer term and hence offers room for fund managers to design better, disciplined investment strategies.