ASK US

VIDYA BALA

Q. I am working in the merchant navy. I wish to invest ₹50 lakh but have no idea about where to put the money. My plan is to make a long-term investment that can assure me of good returns. I hear SIP is a good option but I am afraid of losing money. Kindly assist me.

ATINDERPAL BAJWA

A. If you are investing for the long term, it is a good idea to add some equity exposure through mutual funds. Systematic investment plan (SIP) is not an investment by itself. It is a way of channelling your investments systematically into mutual funds. It can be in equity or debt funds. While it is true that you may have short-term losses, investment in equity funds' SIP helps you to invest through market ups and downs. Consider investing 50-60% of your corpus in fixed deposits and quality corporate deposits of top-rated companies. You can deploy the rest in equity index funds and multi-cap funds, either through SIPs or through systematic transfer plans (STPs) where you invest in liquid funds and then transfer every month to the respective equity funds. You can do the SIP/STP over the next 12-18 months. Have a holding period of not less than five years for the equity funds.

Q. I am currently working in a company, with a CTC of ₹4 lakh. I want to invest a part of my monthly salary in some good pension scheme. Which pension scheme can give me over ₹10,000 per month? I am currently 24 and may retire around the age of 55-60.

ASHOK RAJ

A. Since you are just 24, you should look at building a corpus that will help you post retirement. Choosing a traditional pension product will curtail the optimal growth of your wealth. Also, the ₹10,000 per month that you are talking of may be too little after 30-35 years, if you consider inflation. An assessment of how much you need post retirement can be made a little later when your other life aspirations receive clarity and are met. Until such time, it is best to start saving whatever you can in tax-efficient, inflation-beating, market-linked products.

Since you are young, you can consider investing in market-linked pension products like the National Pension System (NPS). You can also consider quality mutual funds to invest in, as your income increases. When you reach your retirement age, you can always use this corpus to invest in an immediate annuity plan where you can start receiving the pension immediately.

Q. I am 32 years old and plan to retire after seven years. I want to buy a house or plot (to build a house) with a home loan. I found that I have to pay hefty interest on it. I am not sure of my second career and where I will settle down. Please advise if it is a good idea to buy a house now without knowing about my next career location. I can increase my savings up to ₹15,000 per month. Please suggest the best option to save money for a house without taking risk.

SIKANDAR KHATRI

A. If you plan to have a 'second' career, then we assume you're not really retiring. However, if you are not going to have a full-fledged career then you should be saving to create a corpus for the period of uncertainty. Paying high EMIs now will not allow you to save up. Besides, you have also stated that you do not know where your next career location will be. Unless you are clear about where you will work for the next 15-20 years, don't rush into a buying a house now. A loan is a risk if you do not plan on a full-fledged job that will help you pay the EMI comfortably. Use the ₹15,000 per month on additional saving to build a corpus that you will need when you are between jobs.

(*The author is a personal finance expert)*

Readers can send in queries on personal finance and investing to moneywise@thehindu.co.in. Our experts who write on personal finance will answer these queries. Moneywise will not give specific recommendations for investment in a particular mutual fund scheme, share or fixed deposit.

When you need cash in a flash

Both personal loans and cash via credit cards come with their own baggage

GAURAV AGGARWAL

Despite the best of financial planning and regular investing, unforeseen exigencies can always land one in a financial crisis.

To deal with such situations, the first two options that usually come to mind are taking a personal loan or using a credit card. However, both of these options have their pros and cons and are not always optimum for all situations.

Here is a comparison of the features of personal loans and credit cards to help you choose the best option.

Loan amount

Banks and NBFCs (non-banking finance companies) usually offer personal loans anywhere from ₹50,000 to ₹25 lakh. However, the actual loan amount will depend on the credit score, monthly income, job profile, etc. Additionally, lenders also prefer total EMI (equated monthly instalment) commitments of borrowers, including that of the fresh personal loan, to be within 40% of their monthly income.

In the case of credit cards, the issuers set credit limits for each cardholder on the basis of her monthly income and past payment track record.

Cardholders can swipe or avail loan against credit card up to the set limit beyond which they incur an over-limit fee.

This limit gets reduced by the amount spent through the credit card or amount availed as loan against credit card and gets increased as the cardholder repays his credit card debts. Some lenders also offer a special form of loan against credit card, over and above the credit limit of the cardholder, thereby not affecting his credit limit.

The disbursal of conventional personal loans usually takes 2-7 days of making the loan application. However, some lenders offer instant personal loans, disbursing them within the same day of the application. Credit access through a credit card is usually instant. Loan against credit card and EMI conversion are processed within the same day as they do not involve any additional documentation.

Interest rate

Interest rates of personal loans range between 11-24% p.a., depending on the loan amount, monthly income, repayment tenure and employer.

While financing your spends through credit cards is free as long as the entire bill is repaid by the due date, carrying outstanding balance attracts hefty financial charges of up to 47% p.a.

Converting the entire dues or particular transactions into EMIs can cost anywhere from 12% to 25% p.a. While loans against credit card are also offered at similar interest rates, personal loans interest rates outscore them by 1-2.5% p.a. for people having similar credit profiles.

Availing a personal loan can cost processing charges of 0-2.5% of the loan amount. Although, swiping credit cards do not cost any processing charges, taking a loan against credit card or converting your outstanding to EMIs can involve processing charges of up to 3%.

Repayment tenure

While personal loans usually have tenure of 12-60 months, credit card outstanding does not have to be repaid within a pre-determined schedule. One can always opt for the costlier option of revolving credit. However, in the case of EMI conversion, the repayment period can range between three months and 60 months. Similarly, the tenure of loan against credit card usually ranges between 6 months and 5 years.

While some lenders do not penalise pre-payment of personal loans, most charge 2-5% of the outstanding balance as prepayment charges. Some lenders allow prepayment of personal loans only after the repayment of a certain number of EMIs.

Credit card issuers also penalise pre-payment of loan against credit card and EMI conversion by way of pre-payment penalty of up to 3% of the loan amount.

Making a choice

Use your credit card to meet your shortfalls if the amount is too small and too urgent to wait for a week. Opt for EMI conversion if the entire bill amount cannot be repaid by the next due date but can be repaid within 3-6 months. Go for a loan against credit card if it costs less than EMI option.

Personal loan should be preferred when the loan amount is sizeable and one can wait for the disbursal for at least up to a week. Personal loans also carry a lower interest rate than loans against credit cards for the same credit profile. This will also keep the credit limit free for financing daily spends and future exigencies.

(The author is head of unsecured loans, Paisabazaar.com)

Give it a thought!

- Personal loan amount depends on factors such as borrower's credit score
- Issuers set limits for credit cards
- Personal loan disbursement can take up to seven days
- Loans against credit cards are processed within the same day

COVER NOTE: ANNUITY POLICY

Prepare yourself for the golden years

Annuity policies, an important insurance tool to mitigate the risk of living too long

K. NITYA KALYANI

Longer lifespans, higher cost of living, aspirational lifestyles, nuclear families as well as migration of the next generation for careers necessitate rigorous planning of retirement finances.

Enter the annuity, or pension policy, an important insurance tool to mitigate the risk of living too long. Think of it as a substitute for your salary after retiring, as it serves well as one component of your income bolstered by an owned residence, investment income and so on.

Annuity policies are offered in India by life insurance companies, and there are quite a few options from which you can pick your preferred mix.

The premium you pay (purchase price), gets you a pension (annuity) from a date of your choice, called the vesting date. You can pick your retirement date or any other date to be your vesting date, and the premium paying period would normally be until that date.

Just as you can choose the frequency of your premium payment – monthly, quarterly, semi-annual or annual – you can choose the frequency of your annuity payout also. This is called 'Deferred Annuity' and works well for those putting by a periodic premium amount through their working years to get an annuity on retirement.

Looking ahead: Immediate annuity is suitable if you are just about to retire, and gives a lump sum benefit. • GETTY IMAGES/ISTOCK

Money matters!

- The premium you pay is called the purchase price
- This gets you a pension, which is called annuity
- The vesting date can be your retirement date or any other date

You can also make a one-time lump sum premium payment for an 'Immediate Annuity'. Here, your annuity payment starts, well, immediately.

This is suitable if you are just about to retire and will get a lump sum retirement benefit like a gratuity, your Employee Provident Fund commutation amount or Public Provident Fund account proceeds. You can, of course, do it at any age when you have a lump sum to invest like a sign-on bonus, a golden handshake, or a nice pot of money your favourite uncle left you when he passed away, and use the annuity as a supplemental income.

Start early

As logic would tell you, for a given premium, the longer the premium paying period, the larger the annuity. So, it's worth it to start early, as with all insurance. As a very rough example, a 35-year-old and a 45-year-old will get very different annuities for the same purchase price with their 55th birthday as the vesting date.

Take a target purchase price of ₹2,00,000 a year. If you start at 35, you would receive ₹42,800 per year annuity from age 55. If you start at age 45, your annuity amount from age 55 will be lower at ₹40,900.

An 'Immediate Annuity' for the same purchase price will bring only ₹14,400 as annuity per year. When it comes to options on the length and scope of annuity payments, you have a plethora of choices. The simplest is annuity for life. This means that the annuity payment will go on for the lifetime of the annuitant, and no more benefits will be available from the policy.

You can also choose various combinations and options such as annuity certain for 10 years, or 15 or 20 years and for life after that, annuity for life and return of purchase price to nominee, annuity for life and then to a second annuitant for life and so on.

These options have to be finalised when you begin the policy and the amount you will get under each option reflects both the future value of your premium investment as well as the risk coverage that the annuity policy offers. An annuity for life could well extend to 30 or 40 years after vesting age and that risk of living too long is what the premium is meant for. Given today's realities of longevity, it is a risk you should cover well.

(The writer is a business journalist specialising in insurance & corporate history)

E-PHARMACIES

Get your drugs online

E-pharmacies score over physical stores

NALINAKANTHI V

Buying medicines has got a lot easier, thanks to the advent of e-pharmacies.

Stiff competition from e-pharmacies has led brick-and-mortar pharmacies to offer services such as home delivery at no additional cost. Also, many physical pharmacies offer to procure drugs or brands on demand, in order to woo and retain customers. This is a significant change from the earlier times. Further, the government's attempt to get doctors to prescribe the generic name of drugs instead of just drug brands will also go a long way in empowering customers.

• GETTY IMAGES/ISTOCK

Price

E-pharmacies typically offer discounts of 10-40%. This varies across products. Many pharmacies offer lower discounts on nutritional products and higher ones for prescription drugs.

While e-pharmacies score over the neighbourhood drug store on convenience and pricing, the time taken to deliver is still a challenge. Efforts are on to solve this, but logistical constraints prevail.

However, for those who are under regular medication and can plan their purchases ahead, online pharmacies may offer a good bargain. There are three e-pharmacy models currently in vogue.

The first model is online-only stores. All you need to do here is log into the portal and place an order for the medicine you need. The same is delivered home by the e-pharmacy. Offerings such as Netmeds, 1mg, mChemist, Medlife and PharmEasy are in this category.

In the second model, pharmacy chains such as MedPlus encourage online booking by offering discounts. For instance, the average discount on prescription drugs when you visit a physical store is 10% (for purchases of up to ₹1,000). However, if you order online, you can get up to 20% discount on the maximum price.

Finally, there are those such as Vpharmacist, who help you choose the medicines you require and place an order online. The order is then passed on to a pharmacist located close to the customer's home. The medicines are delivered home and the customer can make the payment upon delivery.

(The writer is an independent financial consultant)

LOOSE CHANGE

RAVIKANTH

"Let's avoid this! Contains 40% wheat, 30% sugar, 2% salt, 14% inflation..."

Bank fixed deposit rates

Bank Name	Highest Slab	1-year tenure	3-year tenure	5-year tenure
	Interest Rates (%)			
SMALL FINANCE BANKS				
Suryoday Small Finance Bank	8.75	8.35	8.75	8.25
Equitas Small Finance Bank	8.30	8.00	8.30	7.00
ESAF Small Finance Bank	8.50	8.50	7.30	7.30
Jana Small Finance Bank	8.60	8.50	8.50	8.00
Fincare Small Finance Bank	9.00	8.00	9.00	8.00
Utkarsh Small Finance Bank	9.00	8.50	8.00	8.35
Ujjivan Small Finance Bank	8.50	8.10	7.50	7.00
North East Small Finance Bank	8.75	8.00	7.25	6.75
AU Small Finance Bank	8.10	7.01	8.00	7.77
Capital Small Finance Bank	7.75	7.50	7.50	7.35
PUBLIC SECTOR BANKS				
Indian Bank	6.90	6.75	6.75	6.90
Syndicate Bank	6.70	6.50	6.50	6.50
Bank of Maharashta	6.00	6.00	5.75	5.50
State Bank of India	6.80	6.80	6.60	6.50
Andhra Bank	6.80	6.80	6.75	6.75
Canara Bank	6.50	6.50	6.40	6.40
Bank of India	6.50	6.50	6.50	6.50
Union Bank of India	6.75	6.75	6.40	6.45
Indian Overseas Bank	6.80	6.60	6.80	6.80
Corporation Bank	6.90	6.80	6.50	6.50
Allahabad Bank	6.75	6.70	6.45	6.45
IDBI Bank	7.10	7.10	6.85	6.85
Central Bank of India	6.60	6.60	6.45	6.45
United Bank of India	6.50	6.50	6.25	6.00
Bank of Baroda	6.60	6.45	6.45	6.45
Punjab National Bank	6.75	6.75	6.75	6.50
UCO Bank	6.50	6.50	6.40	6.40
PRIVATE SECTOR BANKS				
Karnataka Bank	6.90	6.90	6.80	6.80
South Indian Bank	7.30	7.25	7.30	7.00
Federal Bank	7.25	7.00	7.00	7.00
Axis Bank	7.20	7.10	7.00	6.75
Karur Vysya Bank	7.00	7.00	7.00	7.00
City Union Bank	7.00	7.00	6.85	6.85
Catholic Syrian Bank	6.75	6.75	6.50	6.50
Yes Bank	7.85	7.25	7.25	7.25
ICICI Bank	7.10	6.70	7.10	7.00
HDFC Bank	7.30	7.00	7.30	7.25
Kotak Mahindra Bank	6.90	6.75	6.75	6.25
IDFC First Bank	8.00	8.00	7.50	7.50
DCB Bank	8.00	7.00	8.00	7.75
RBL Bank	7.75	7.70	7.50	7.50
Bandhan Bank	7.65	7.35	7.65	7.65
Dhanlaxmi Bank	7.00	7.00	6.50	6.50
IndusInd Bank	7.50	7.50	7.35	7.35
Tamilnad Mercantile Bank	7.10	7.10	6.75	6.75
FOREIGN BANKS				
Citibank	6.00	5.50	6.00	6.00
Deutsche Bank	8.00	6.50	7.00	8.00
HSBC Bank	6.00	5.00	6.00	5.00
DBS Bank	7.25	7.25	6.75	7.00
FD rates as on August 22, 2019		N.A.	N.A.	N.A.

Source:paisabazaar.com

Home loan interest rates

Name of Lender	Upto 30 lakh	Above 30 lakh & upto 75 lakh	Above 75 lakh
	Loan amount (₹) (In %)		
PUBLIC SECTOR BANKS			
State Bank of India	8.35-8.75	8.60-9.05	8.70-9.20
Bank of Maharashtra	8.50-9.00	8.50-9.00	8.50-9.25
Canara Bank	8.50-8.60	8.50-8.70	8.50-8.75
Bank of Baroda	8.45-9.45	8.45-9.45	8.45-9.70
Punjab National Bank	8.50-8.70	8.50-8.70	8.55-8.75
UCO Bank	8.50	8.50-8.60	8.65-8.75
Indian Overseas Bank	8.50	8.60	8.75
Oriental Bank of Comm.	8.55-8.65	8.55-8.65	8.55
United Bank of India	8.40-8.55	8.40-8.55	8.40-8.55
Andhra Bank	8.50-8.55	8.50-8.55	8.60-8.65
Punjab & Sind Bank	8.50	8.50	8.75
Syndicate Bank	8.35	8.35	8.35
Union Bank of India	8.60-8.95	8.60-8.95	8.65-9.25
Bank of India	8.45-9.35	8.45-9.35	8.45-9.35
Corporation Bank	8.60-8.80	8.60-8.80	8.60-9.05
Indian Bank	8.70-8.80	8.80-8.90	8.95-9.05
Central Bank of India	8.30	8.30	8.30-8.55
IDBI Bank	8.60-9.20	8.60-9.20	8.90-9.20
Allahabad Bank	8.40-9.40	8.40-9.40	8.45-9.40
PRIVATE SECTOR BANKS			
ICICI Bank	8.70-9.10	8.70-9.20	9.20-9.30
Karnataka Bank	8.90	8.90	9.00
Bandhan Bank	12.41-13.33	12.41-13.33	12.41-13.33
Axis Bank	8.80-10.50	8.95-9.45	9.00-9.45
Yes Bank	9.85-13.00	9.85-13.00	9.85-12.50
Kotak Mahindra Bank	8.65-9.00	8.65-9.00	8.65-9.00
Karur Vysya Bank	8.80-11.55	8.80-11.55	8.80-11.55
Dhanlaxmi Bank	9.90	9.90	9.90
HSBC Bank	8.85-9.15	8.85-9.15	8.85-9.15
IDFC First Bank	<=12.30	<=12.30	<=12.30
Standard Chartered	>=9.41	>=9.41	>=9.41
Lakshmi Vilas Bank	10.05	10.05	10.05
Citi Bank	9.35-10.35	9.35-10.35	9.35-10.35
DBS Bank	<=9.50	<=9.50	<=9.50
City Union Bank	10.25-13.25	10.75-13.25	11.25-13.25
Tamilnad Mercantile Bank	8.95-9.20	8.95-9.20	8.95-9.20
Jammu & Kashmir Bank	8.75	8.75	8.75-9.10
RBL Bank	10.30-12.15	11.65-12.15	11.65-12.15
HOUSING FINANCE COMPANIES (HFCS)			
HDFC Ltd.	8.40-8.95	8.75-9.30	8.80-9.35
PNB Housing Finance	9.25-11.50	9.25-11.50	9.25-11.50
Indiabulls Housing Finance	8.80-12.00	8.80-12.00	8.80-12.00
LIC Housing Finance	8.80-9.05	8.95-9.15	9.05-9.15
Hero Housing Finance	>=9.75	>=9.75	>=9.75
Piramal Capital & Housg.	>=9.00	>=9.00	>=9.00
IIFL	>=10.25	>=10.25	>=10.25
Bajaj Finserv	8.80-11.15	9.05-11.15	9.05-11.15
Reliance Home Finance	9.75-13.00	9.75-13.00	9.75-11.00
Aditya Birla Capital	9.00-12.50	9.00-12.50	9.00-12.50
GIC Housing Finance	9.10-12.50	9.10-12.50	9.10-12.50
Repco Home Finance	>=9.25	>=9.25	>=9.25
Tata Capital	>=9.25	>=9.25	>=9.25

Source:paisabazaar.com