



**Top up your wealth
by SIP Top-up**

Systematic Investment Plans (SIPs) offered by mutual funds need no introduction. They are quite popular among retail investors - a convenient way to invest regularly. But often, inertia sets in and SIPs do not mirror the rise in income. The industry's new feature Top-up takes care of just that.

What is SIP Top-up?

SIP top-up allows investors to increase their installments by a fixed amount at pre-determined intervals. Most mutual funds offer the facility to automatically increase SIP amount in multiples of Rs 500 quarterly, half-yearly and annually. Investors have the option to discontinue the facility by mentioning the maximum limit of SIP amount or the period.

To better understand how the process work in the SIP top-up feature and how different it is from regular SIP, let's look at a hypothetical case study.

Rahul and Ajay start monthly SIP in a mutual fund. Rahul chooses regular SIP, while Ajay opts for SIP top-up wherein his SIP amount will increase by Rs 1,000 on a yearly basis for the next five years. At the end of the sixth year, Ajay increased his investments on an incremental basis (Table 1) to total of Rs 2.52 lakh compared with Rahul's Rs 72,000.

Table 1: SIP top-up process

Year	Rahul - Regular SIP		Ajay - SIP with top-up facility			
	Monthly SIP amount (₹)	Total SIP in the year (₹)	Monthly SIP amount (₹)	Top-up amount (₹)	Monthly SIP amount including top-up (₹)	Total SIP in the year (₹)
1	1000	12000	1000	-	1000	12000
2	1000	12000	1000	1000	2000	24000
3	1000	12000	2000	1000	3000	36000
4	1000	12000	3000	1000	4000	48000
5	1000	12000	4000	1000	5000	60000
6	1000	12000	5000	1000	6000	72000
Total		72000				252000

Benefits

- **Useful when current surplus is low:** Investors with initial low surplus for investment can use the SIP top-up facility to gradually invest more to achieve goals.
- **Auto route to increase savings:** This feature works on auto pilot to increase savings in sync with rise in income.
- **Achieve goals faster:** With incremental investing, wealth grows faster with the help of compounding, thereby helping investors to attain goals faster.
- **Convenience:** It helps investors avoid the paper work associated with increasing SIP contribution during the tenure.
- **Maintenance:** It reduces the necessity for creating and tracking multiple SIPs in the same scheme.

Increase savings in tandem with income

Annual rise in salary is the most welcomed and motivating factor in one's earning life. Rising surplus year on year lures us to spend more, but we often procrastinate when it comes to savings. Commonly, our savings do not rise in tandem with annual income hike. This decelerates our wealth-building process and may result in delay in achieving our life goals.

Let's consider a hypothetical case (table 2) which shows how investors lose out on the opportunity of creating wealth if they don't increase investments in sync with their income.

Table 2: Case study

Year	Scenario A				Scenario B		
	Annual income (₹)	Monthly SIP amount (₹)	Total yearly investment (₹)	Value at the end of the period (₹)	Monthly SIP amount (₹)	Total yearly investment (₹)	Value at the end of the period (₹)
1	10 lakh	10000	1.20 lakh	1.30 lakh	10000	1.20 lakh	1.30 lakh
2	11 lakh	10000	1.20 lakh	2.79 lakh	11000	1.32 lakh	2.91 lakh
3	12 lakh	10000	1.20 lakh	4.50 lakh	12000	1.44 lakh	4.91 lakh
4	13 lakh	10000	1.20 lakh	6.47 lakh	13000	1.56 lakh	7.33 lakh
5	14 lakh	10000	1.20 lakh	8.73 lakh	14000	1.68 lakh	10.24 lakh
					Difference		1.50 lakh

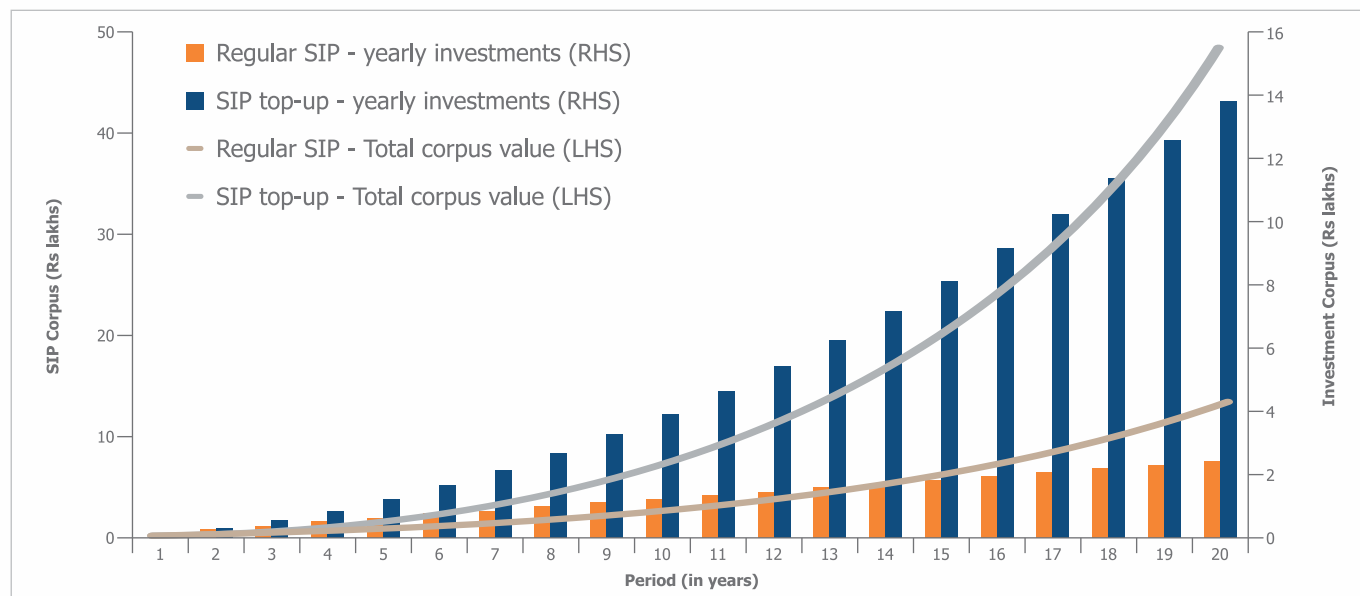
Assuming annualised returns of 15%. For illustration purpose only.

Investor in scenario A doesn't increase investments despite rise in his income. While in scenario B, he increases his monthly investments by Rs 1,000 each year (Rs 12,000 on yearly basis). As seen in the table, in scenario A, investor will miss out additional gains of Rs 1.5 lakh by not increasing investments in line with income at the end of 5th year.

More power of compounding with top-up

Increasing investments at a regular interval tends to speed-up the wealth-building process, as the impact of power of compounding is more over a period of time. For instance, if an investor starts a regular monthly SIP of Rs 1,000 in an equity mutual fund for 20 years with an assumed annualised growth rate of 15%, his/ her total investment of Rs 2.40 lakh would grow to Rs 13 lakh. On the other hand, if he/she tops up the same monthly investment with only Rs 500 per month on a yearly basis, his/ her total investment of Rs 13.80 lakh grows to nearly Rs 49 lakh in 20 years (chart 1).

Chart 1: Topping up power of compounding



Assuming annualised returns of 15%. For illustration purpose only.

Achieve your goals faster

Topping up SIP can help investors attain their goals faster than regular SIP thanks to the power of compounding. Alternatively, the top-up facility also helps investors who do not have enough current surplus to achieve the same goals over a targeted period.

Here's another hypothetical case study: Thirty-year old Sameer is a professional and wants to build a retirement kitty of Rs 5 crore by the time he is 60.

Scenario 1: If Sameer starts regular SIP, he would need to invest Rs 9,000 (Table 2) on a monthly basis in an equity mutual fund to attain retirement goal of Rs 5 crore, assuming 15% annualised returns.

Scenario 2: He opts for SIP top-up facility with an annual increase of Rs 500 in a monthly SIP amount to build the retirement kitty.

Table 2: Case study

		Scenario 1	Scenario 2 (A)	Scenario 2 (B)
Monthly SIP		₹ 9000	₹ 9000 with annual top-up of ₹ 500	₹ 6000 with annual top-up of ₹ 500
Corpus value at the age	40	₹ 0.23 cr	₹ 0.28 cr	₹ 0.20 cr
	45	₹ 0.55 cr	₹ 0.69 cr	₹ 0.51 cr
	50	₹ 1.18 cr	₹ 1.54 cr	₹ 1.14 cr
	55	₹ 2.45 cr	₹ 3.27 cr	₹ 2.45 cr
	60	₹ 5.07 cr	₹ 6.82 cr	₹ 5.13 cr

Assuming annualised returns of 15%. For illustration purpose only.

SIP top-up helps Sameer in two ways

- If he starts with a monthly SIP of Rs 9,000 (same as in the case of regular SIP), he can achieve his goal of Rs 5 crore sooner at the age of 58. If he continues with the facility, he can garner Rs 6.82 crore at the end of his 60th year.
- To realise his retirement goal of Rs 5 crore at the end of the 60th year, he can even reduce the initial monthly investment to Rs 6,000 (compared with Rs 9,000 in case of regular SIP) with annual top-up of Rs 500. This would help Sameer build long-term wealth, even though he lacks the initial surplus.

To reiterate, increasing one's regular investments in sync with rise in income is a prudent strategy to achieve financial goals. Mutual fund investors should use the top-up facility to reach financial goals.

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Email Us
customercare@miraeasset.com



Call Us
1800-2090-777 (Toll Free)
Mon-Fri: 9.30am to 5.30pm



Internet
www.miraeassetmf.co.in

Mirae Asset Global Investments (India) Pvt. Ltd.

CIN - U65593MH2006FTC165663

Unit No. 606, 6th Floor, Windsor Building, Off C.S.T. Road, Kalina, Santacruz (E), Mumbai - 400 098.