



**EDELWEISS**  
MUTUAL FUND



## Step-Up SIP: What Is It and How Does It Work?

A systematic investment plan or SIP has gained immense popularity among investors as a disciplined approach to building wealth and achieving financial goals. This is because they enable investors to allocate a fixed amount, regularly, to mutual funds, and this is typically done on a monthly basis. Snehal has been investing in systematic investment plans since she started working three years ago, with the aim of building a corpus which will enable her to start her own consulting business over the next half decade. When she received a substantial bonus this year, she decided to boost her investment with a step-up SIP.

### What is a Step-up SIP?

Among the various types of SIP, there is one known as a step-up SIP, which may also be referred to as a "top-up SIP." Step-up SIPs, like the one chosen by Snehal, enable investors to incrementally raise their monthly investment, at predetermined intervals. Consequently, as your income increases over time, or you receive a bonus, you can gradually boost your investment and thereby your returns, especially over the longer term.

### How does a Step-up SIP Work?

If you are keen on an SIP with step-up, you can avail the following through these two methods and ensure better SIP return with step-up –

**Percentage basis:** You have the option to augment your investment amount by a set percentage each year. For instance, suppose you initiate an SIP with an initial amount of INR 5,000 in the first year and intend to increase your investment by 10% annually. In the second year, your investment will be INR 5,500. In the third year, your SIP instalment will amount to INR 6,050 and this pattern will persist, thus increasing your corpus in a sustainable manner.

**Amount basis:** This method is more straightforward, as it enables you to raise your SIP amount by a fixed sum each year. For instance, if you begin your SIP at INR 5,000 per year and opt to increase it by INR 2,500 annually, your SIP amount for the following year will be INR 7,500. In the third year, it will be INR 10,000, and so forth.

### What are the benefits of Step-up SIP?

So, why did Snehal consider a step-up SIP mutual fund? Firstly, step-up SIPs are highly adaptable to changing financial situations and therefore, as your income grows or expenses decrease, you can increase your investments to accelerate wealth creation. Further, you can align your SIP with specific financial goals. For instance, if you are saving for retirement or a child's education, or to bootstrap your

firm like Snehal, you can plan step-ups to coincide with anticipated financial milestones. Thirdly, increasing your SIP amount over time harnesses the power of compounding, with larger investments in later years potentially resulting in more significant wealth accumulation. Like regular SIPs, step-up SIPs also instil financial discipline as you commit to investing regularly and increasing your contributions, making you an efficient investor. Finally, in certain mutual funds like Equity Linked Savings Schemes (ELSS), a step-up SIP can help you maximise your tax benefits by investing a higher amount over time.

**What is the difference between regular SIP and Step-up SIP?**

While both regular SIPs and step-up SIPs share the same core concept of investing regularly, there are key differences you should be aware of, such as the fact that, in a regular SIP, the investment amount remains constant throughout the investment tenure. In a step-up SIP, you have the flexibility to increase your investments at specified intervals. Secondly, while regular SIPs are suited for those with consistent financial circumstances, step-up SIPs are ideal for individuals whose income and financial goals may change over time. When compared with regular SIPs, step-up SIPs can potentially result in larger long-term wealth accumulation, due to increased contributions over time.

**Things to keep in mind before starting a Step-up SIP**

Before starting a step-up SIP, assess your financial situation, including income, expenses, and financial goals to determine the optimal percentage or amount by which you want to increase your investment. Further, while step-up SIPs offer flexibility, remember that they should align with your financial capacity. You should also focus on choosing mutual funds that align with your investment objectives and risk tolerance and diversify your portfolio across asset classes for added stability. It is advisable to regularly review your SIP and step-up plan since adjustments may be needed as your financial situation evolves. Finally, if you are investing in tax-saving mutual funds (ELSS) through a step-up SIP, be mindful of the lock-in period and tax implications.

As we have noticed in Snehal's case, a step-up SIP can be a dynamic approach to systematic investing, allowing you to adjust your contributions to match your evolving financial circumstances and goals. However, remember to carefully assess your financial capacity and monitor your investments to ensure that your step-up plan remains in sync with your aspirations and needs for, with the right strategy, it can be a powerful tool for building wealth and securing your financial future.