

Mutual Funds Cost Savings Ideas

A Practical Guide for Indian Investors

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A word before we begin: When you invest in a mutual fund, your money works in two directions — one part grows your wealth, and another part silently drains away through costs and charges. Most investors focus only on returns. Smart investors also track costs. This guide explains every cost associated with mutual fund investing and, more importantly, how you can reduce or eliminate most of them — without compromising on quality.

1 Why Costs Matter More Than You Think

Imagine you invest ₹10 lakh in a mutual fund that earns 10% per year. Sounds great. But if the fund charges you 1.5% annually, your effective return is only 8.5%. Over 20 years, the difference between 10% and 8.5% is not a small number — it runs into lakhs of rupees.

This is the "silent killer" of mutual fund wealth creation — costs that quietly compound against you, year after year. SEBI (Securities and Exchange Board of India) has been continuously working to reduce these costs, and as a result of the landmark **SEBI (Mutual Funds) Regulations, 2026** announced in December 2025, investors now have stronger protections and clearer disclosures than ever before.

Let us now go through every major cost category, understand what it means, and see how you can minimise each one.

2 Direct Plans vs. Regular Plans: The Single Biggest Saving

What is the Difference?

Every mutual fund scheme in India is available in two versions — a **Regular Plan** and a **Direct Plan**. The underlying portfolio is identical. The fund manager, the stocks held, the investment strategy — all the same. The only difference is the cost.

- **Regular Plan:** You invest through a distributor, agent, or bank. The fund house pays the distributor a commission — typically 0.5% to 1.5% per year — out of the fund's assets. This commission is built into the expense ratio, making it higher.
- **Direct Plan:** You invest directly with the AMC (Asset Management Company) — through their website, app, or platforms like MF Central, Groww, Kuvera, or Zerodha Coin. No intermediary. No commission. Lower expense ratio.

Illustration from SEBI's own investor education portal:

Invest ₹1,00,000 in a fund earning 10% annually.

- **Regular Plan** (Expense Ratio 1.5%) → Effective return = **8.5%**
- **Direct Plan** (Expense Ratio 0.5%) → Effective return = **9.5%**

Over 10 years, this 1% difference compounds to a meaningful gap in your final corpus.

How Much Do You Actually Save?

For a typical actively managed equity fund, the difference between Direct and Regular plan expense ratios is around **0.5% to 1.25% per annum**. For debt funds, it is lower — around 0.3% to 0.7% per annum.

On a ₹10 lakh portfolio earning 12% over 20 years:

Plan Type	Approx. Expense Ratio	Corpus After 20 Years
Regular Plan	1.75%	₹54.7 Lakh (approx.)

Direct Plan	0.50%	₹74.1 Lakh (approx.)
Extra Wealth from Direct Plan	—	~₹19 Lakh

SubbuS Tip: ₹19 lakh extra — for doing nothing different except choosing where to invest. If that is not a compelling reason to switch to Direct Plans, I do not know what is.

Should Everyone Switch to Direct Plans?

Direct Plans work best for investors who:

- Are reasonably confident about choosing suitable funds on their own
- Can stay disciplined and not panic-redeem during market falls
- Are comfortable with online platforms and basic financial concepts

If you genuinely need personalised guidance — say you are investing a large retirement corpus and need help with asset allocation, tax planning, and rebalancing — a good fee-only financial planner (who charges a flat fee, not a commission) can offer far better value than a Regular Plan distributor, while still allowing you to invest in Direct Plans.

How to Invest in Direct Plans

- Directly on the AMC's official website (e.g., hdfcmf.com, nipponindiaim.com)
- MF Central (mfcentral.com) — the industry-wide portal
- Platforms such as Kuvera, Groww, Zerodha Coin, Paytm Money (all offer Direct Plans at zero platform fee or minimal charge)
- BSE StarMF or NSE NMF portals

3 The Total Expense Ratio (TER): Understanding What You Pay Every Day

What is TER?

The Total Expense Ratio (TER) is the annual fee charged by the fund house to manage your money. It covers fund management fees, administrative costs,

marketing, legal costs, audit fees, and the distributor commission (in Regular Plans). It is expressed as a percentage of the fund's daily Net Asset Value (NAV) and is deducted on a daily basis — meaning the NAV you see every day is already net of this charge.

Think of it this way: if a fund earns 12% and charges a 1.5% TER, your NAV grows as if the fund earned 10.5%. You never see the 12% in your hands.

SEBI's 2026 Regulations: New Transparency Framework

In December 2025, SEBI approved a significant overhaul of how TER is structured and disclosed. Key changes under the **SEBI (Mutual Funds) Regulations, 2026**:

- TER has been redefined as the **Base Expense Ratio (BER)** — covering only the core fund management and operating costs.
- Statutory levies such as GST, Stamp Duty, STT, and SEBI fees are now charged separately as "actuals" over and above the BER. This makes disclosures more honest and fund comparisons more meaningful.
- The old allowance of an extra 0.05% for funds that charged exit loads has been removed.

SEBI's Revised Maximum TER Limits (2026)

Fund Category	Earlier Max TER	Revised Max TER
Index Funds & ETFs	1.00%	0.90%
Fund of Funds (Equity-oriented)	2.25%	2.10%
Close-ended Equity Schemes	1.25%	1.00%

Note: For open-ended active equity funds, TER limits remain on a sliding slab basis based on AUM — see next section.

AUM-Based Slabs: How Expense Ratios Reduce as Funds Grow

SEBI mandates that larger funds charge lower TERs. The logic is simple: as a fund's AUM grows, fixed costs get spread over a larger base, so per-unit costs should fall. This is done on a slab basis:

AUM Slab	Max TER (Equity)	Max TER (Debt)
First ₹500 crore	2.25%	2.00%
Next ₹250 crore	2.00%	1.75%
Next ₹1,250 crore	1.75%	1.50%
Next ₹3,000 crore	1.60%	1.35%
Balance (beyond ₹5,000 crore)	1.50%	1.25%

The actual TER of a fund is the weighted average across all these slabs. So a very large fund (say, ₹50,000 crore AUM) will have a much lower effective TER than a small, new fund.

SubbuS Tip: Before investing, check the fund's TER on AMFI's website (amfiindia.com) or on the AMC's factsheet. Compare TERs across similar funds. Even a 0.25% difference in TER, sustained over 15-20 years, can amount to a significant portion of your final corpus.

4 Exit Load: The Penalty for Leaving Too Soon

What is Exit Load?

An exit load is a charge levied by the fund house when you redeem (sell) your mutual fund units before a specified holding period. It is designed to discourage short-term, in-and-out investing and to protect long-term investors from the disruption caused by frequent large redemptions.

Exit load is typically expressed as a percentage of the NAV at the time of redemption.

Common Exit Load Structures

Fund Type	Typical Exit Load	Holding Period After Which Nil
Equity Funds (Large, Mid, Flexi Cap)	1% of NAV	1 year (365 days)

ELSS (Tax Saving Funds)	Nil (3-year mandatory lock-in)	Locked in for 3 years by law
Debt Funds (Short Duration, etc.)	0.25% to 0.5% or Nil	Usually 6 months to 1 year
Liquid Funds	Graded (0.007% to 0.0045%)	After 7 days, usually Nil
Index Funds / ETFs	Nil or 0.1% (brief window)	Usually within 7-15 days
Balanced Advantage Funds	1% before 1 year	1 year

Example: You invest ₹5 lakh in an equity fund and redeem after 10 months (before 1 year is complete). With a 1% exit load:
Exit Load = 1% × ₹5,50,000 (assumed redemption value) = **₹5,500 deducted** from your proceeds.

How to Avoid Exit Load

- **Hold for the stipulated period:** Most equity funds become exit-load free after 1 year. Simply stay invested.
- **Check before you switch:** A switch from one scheme to another within the same AMC also triggers exit load (and capital gains tax). Always verify the exit load terms before switching.
- **Use FIFO rule to your advantage:** Units are redeemed on a First-In-First-Out (FIFO) basis. If you have been doing SIPs for 2 years, your older units are already exit-load free.
- **Choose index funds or no-load funds for short-term goals:** Several liquid, overnight, and ultra-short-term debt funds charge no exit load.

SubbuS Tip: *Never panic-redeem during a market fall if you are within the exit load period. You pay an exit load AND crystallise a loss — a double blow to your wealth.*

5 Stamp Duty: The Government's Small Take

Since July 2020, a stamp duty of **0.005%** (i.e., ₹5 on every ₹1,00,000 invested) is applied to all mutual fund purchases. This is levied uniformly across equity, debt, hybrid, and ETF schemes — whether you invest via lump sum, SIP, STP, or dividend reinvestment.

For transfers of units between two demat accounts, the rate is higher at **0.015%**.

Important: Stamp duty is deducted *before* unit allotment. So if you invest ₹1,00,000, units worth only ₹99,995 are allotted at the applicable NAV.

Stamp duty is **not charged on redemptions** — only on fresh unit issuances.

Practical Impact: On a ₹10,000 SIP monthly, the stamp duty is just ₹0.50 per month. Over 20 years, total stamp duty paid = ₹120. Negligible. But knowing it exists helps you understand why your units allotted are ever so slightly lower than the amount invested.

6 Securities Transaction Tax (STT) on Mutual Funds

STT (Securities Transaction Tax) is a government-levied tax applicable at the time of **redemption of equity mutual fund units**. It is currently charged at **0.001%** of the redemption value.

Key points:

- STT applies only to **equity-oriented funds** (funds that invest 65% or more in equities).
- STT is **not charged on purchase** of equity fund units (only on redemption).
- STT does **not apply to debt funds**.
- STT is a small, unavoidable charge — but its impact on long-term investors is minimal.

SubbuS Note: STT is a statutory cost you cannot avoid. Think of it as the government's nominal participation in your investment journey. At 0.001%, it barely moves the needle on long-term returns.

7 Transaction Charges: Small Fees, Worth Knowing

When you invest through a distributor or via certain platforms, a **transaction charge** may be levied on purchases above ₹10,000:

- **First-time investor** in mutual funds: ₹150 per transaction
- **Existing investor**: ₹100 per transaction

This charge is deducted upfront from your investment — meaning slightly fewer units are allotted. It is paid to the distributor and does not go to the AMC.

How to avoid this charge entirely: Invest directly through AMC websites, MF Central, or Direct Plan platforms. No transaction charges apply on Direct Plans.

8 Actively Managed Funds vs. Index Funds: A Cost Perspective

This is perhaps the most impactful long-term cost decision you will make as a mutual fund investor.

Index Funds: The Low-Cost Alternative

An index fund simply mirrors an index — say Nifty 50 or Sensex. It does not require a team of analysts picking stocks. No expensive fund management. No research costs. The result? Very low expense ratios.

- **Actively managed equity fund (Direct Plan):** Typically 0.5% to 1.0% TER
- **Index fund (Direct Plan):** Typically 0.10% to 0.30% TER
- **ETF (Exchange Traded Fund):** Even lower — often 0.05% to 0.20% TER

Under the new SEBI 2026 Regulations, the maximum TER for Index Funds and ETFs has been further reduced to **0.90%** (though most index funds are well below this ceiling in practice).

The Long-Term Compounding Impact

Fund Type	Gross Return	TER	Net Return	₹10 Lakh after 20 Yrs
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Active Fund (Regular)	12%	1.75%	10.25%	₹68 Lakh (approx.)
Active Fund (Direct)	12%	0.75%	11.25%	₹80 Lakh (approx.)
Index Fund (Direct)	11.5%	0.15%	11.35%	₹81 Lakh (approx.)

SubbuS Perspective: For a first-generation investor with limited time and knowledge, a Nifty 50 index fund (Direct Plan, SIP mode) combines the lowest cost with solid long-term returns and zero dependence on fund manager skill. It is not glamorous — but it works, and it works reliably.

9 Portfolio Turnover Ratio: The Hidden Transaction Cost

This is a cost that most investors never think about — yet it can significantly affect net returns.

The **Portfolio Turnover Ratio (PTR)** measures how frequently the fund manager buys and sells securities within the portfolio. A PTR of 100% means the entire portfolio was replaced once during the year. A PTR of 200% means it was replaced twice.

Why does this matter to you? Every buy and sell within the fund incurs brokerage, transaction costs, and STT — all borne by the fund's NAV and hence by you, the investor. These costs are not captured in the TER but are real.

- High-PTR funds (above 100–150%) incur higher internal transaction costs.
- Under the new SEBI 2026 Regulations, brokerage limits have been significantly tightened: cash market transactions now have a maximum brokerage cap of **0.06%** (down from 0.12%), and derivatives are capped at **0.02%** (down from 0.05%).

Where to check PTR: AMC factsheets and SEBI-mandated monthly portfolio disclosures on the AMC website. AMFI's website (amfindia.com) also lists this. Prefer funds with moderate PTR — it signals a disciplined, low-churn investment style.

10 Fund-of-Funds (FoF): Double Cost, Double Caution

A Fund of Funds (FoF) is a mutual fund that invests in other mutual fund schemes rather than directly in stocks or bonds. While FoFs offer convenience (for example, international fund-of-funds give Indian investors access to global markets), they come with a structural cost disadvantage:

- The FoF itself charges a TER (up to 1.00% for direct plans).
- The underlying funds they invest in also charge a TER.
- You effectively bear a **double layer of costs**.

Under SEBI 2026 Regulations, the maximum TER for equity-oriented FoFs has been reduced from 2.25% to **2.10%** — a step in the right direction, but the layered cost structure remains.

***SubbuS Advice:** Use FoFs only when there is no direct equivalent (e.g., for overseas equity exposure through international FoFs). Avoid domestic FoFs where you could directly invest in the same underlying schemes at lower cost.*

11 New SEBI Investor Protection Measures (2025-26): What Changed for You

SEBI's reforms over 2025-26 have strengthened investor protection significantly. Key developments you should know:

- **Cashbacks and gifts banned:** Distributors can no longer offer gifts, foreign trips, or reward incentives to attract investors into high-commission schemes. This was a major mis-selling tool that has now been eliminated.
- **Scheme comparison mandatory:** Distributors must now provide a scheme-comparison sheet to investors, making it easier to compare costs and features across funds.
- **Daily TER disclosure:** TER must be disclosed daily on the AMC's website — making it far easier to track cost changes in real time.
- **Trail-only commission model:** Distributors earn only a trailing commission (paid from the fund's ongoing assets) — not upfront commissions. This better aligns their interest with yours over the long term.

- **Clear Direct vs. Regular disclosure:** SEBI now mandates full and clear disclosure of the difference between Direct and Regular plans to every investor.

12 A Quick Summary: Your Cost-Reduction Checklist

Cost Type	What It Is	Your Action
Distributor Commission	Built into Regular Plan TER; 0.5%-1.25% p.a.	Switch to Direct Plan
Expense Ratio (TER)	Annual fund management & operating cost	Compare TERs; prefer lower-cost funds for same quality
Exit Load	1% fee on early redemption (within 1 year for equity)	Hold for full exit-load-free period; don't panic-redeem
Transaction Charge	₹100-₹150 on investments >₹10,000 via distributors	Invest directly via AMC/Direct platforms
Stamp Duty	0.005% on purchase; unavoidable	No action needed; barely impacts long-term returns
STT	0.001% on equity fund redemption; statutory	Unavoidable; minimal impact on long-term holders
Portfolio Turnover Costs	Hidden internal trading costs borne by NAV	Prefer low-PTR funds; index funds have near-zero turnover
Double-Layer FoF Cost	TER on FoF + TER on underlying funds	Avoid domestic FoFs; use only where no direct alternative

13 Closing Thoughts: Invest Smart, Not Just Hard

In the world of investing, what you keep is as important as what you earn. Two investors can earn the same gross return from the same market — but the one who manages costs well will retire richer. It is that simple.

The good news is that India's mutual fund regulatory environment, led by SEBI, is among the best in the world when it comes to investor protection and cost

transparency. The SEBI Mutual Funds Regulations 2026 represent a further giant leap in that direction.

As a retired banker who has watched the financial markets across multiple decades, my sincere advice is this: *keep your investing simple, keep your costs low, stay long-term, and let compounding do the rest.*

You do not need to be a genius to build wealth through mutual funds. You just need to be smart about costs — and patient.

SubbuS's Golden Rule of Mutual Fund Investing:

"Best Direct Plan + Lowest Sensible TER + No Exit Load Exit + Long Holding Period = Maximum Wealth at Retirement."

Disclaimer: This article has been prepared by N. Subramanian (SubbuS), a Retired Bank Executive, solely for financial literacy and investor education purposes. The information contained herein is based on publicly available data, SEBI regulations, and AMFI disclosures as of June 2026. It does not constitute financial advice, investment recommendation, or solicitation to buy or sell any mutual fund scheme. Expense ratios, exit loads, and regulatory limits are subject to change — readers are advised to verify current figures from official sources such as SEBI (sebi.gov.in), AMFI (amfiindia.com), and individual AMC websites before making investment decisions. Mutual Fund investments are subject to market risks. Past performance is not indicative of future returns. Please read all Scheme-Related Documents carefully before investing. The author does not hold any SEBI registration as an Investment Adviser or Mutual Fund Distributor.

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