CASE STUDY

Business Standard analyses one family's finances and suggests a way forward

VARGHESEs

Manoj (55), Latha (45), Shruti (13)

RESIDE IN	NET ANNUAL INCOME	RATING
Thane, near Mumbai	**₹18 lakh**	**6/10**

STATUS & GOALS

Manoj is a technician in an oil refinery in the Gulf. His wife, Latha, and and daughter, Shruti, live in Thane in their one bedroom-hall-kitchen flat. The family's priority is to fund their daughter's college and post graduation studies, her marriage, and then plan for their retirement.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household	**45,000**	**5,40,000**
Daughter's education	**10,000**	**1,20,000**
Insurance premium	**18,333**	**2,20,000**
Total	**73,333**	**8,80,000**

Monthly income: **₹1,50,000** Net monthly surplus: **₹76,667**

GOALS

DAUGHTER'S COLLEGE EDUCATION AND POSTGRADUATION
(2020-2024) - Inflation 9%

Current value: **₹25 lakh** | Future value: **₹50.72 lakh**

DAUGHTER'S MARRIAGE
(2027)

Current value: **₹10 lakh** | Future value: **₹31.38 lakh**

RETIREMENT PLANNING
(2025, Inflation 7%, Life expectancy - 85 years)

Current annual retirement expenses: **₹5.40 lakh** | Future annual expenses: **₹10.62 lakh** | Corpus required: **₹1.72 crore**

Assets	₹	Liabilities	₹
Savings account	2,65,000		–
Fixed deposits	34,00,000		
PPF	6,50,000		
Post Office MIS	9,00,000		
Mutual funds	3,50,000		
Self-occupied house	65,00,000		
	1,20,65,000		**–**
Net worth	**1,20,65,000**		

FINDINGS

EMERGENCY FUND: Good amounts maintained in savings account and fixed deposits (FDs) to take care of any type of emergency.

LIFE INSURANCE: Manoj has a total insurance cover of ₹27 lakh through various traditional and unit-linked insurance plan (Ulip) plans, while Latha is covered for ₹5 lakh from traditional insurance plans.

HEALTH INSURANCE: The family is covered for a sum assured of ₹3 lakh through family floater plan.

INVESTMENTS: The investments are predominantly in debt, with a small allocation to equity.

LIABILITIES: They don't have any liabilities.

RECOMMENDATIONS

EMERGENCY FUND: The present savings account balance can take care of three months of expenses. Try to convert this account into a flexi FD account.

LIFE INSURANCE: Manoj needs an additional cover of ₹1.25 crore, which can be covered through term insurance plan. The annual premium will be approximately ₹40,000. Latha doesn't need any additional insurance cover.

HEALTH INSURANCE: The present health cover can be increased to ₹5 lakh, along with a top-up cover of ₹10 lakh. The approximate additional premium for this should be ₹15,000.

ACCIDENT INSURANCE: A personal accident policy of ₹50 lakh, with ₹15 lakh as temporary total disability benefit, is recommended for Manoj. It will cost ₹6,500 annually.

PLANNING FOR GOALS

DAUGHTER'S COLLEGE EDUCATION AND POST-GRADUATION (2020-2024): From the present fixed deposits, ₹24.20 lakh need to be invested the ratio of 50 per cent in short-term debt funds and the rest in balanced funds for this goal.

Rate of return assumed: 10.5 per cent post tax on this portfolio

DAUGHTER'S MARRIAGE (2027): ₹10,000 needs to be invested per month in large and multi-cap diversified mutual funds.

Rate of return assumed: 12 per cent post tax in diversified equity funds

RETIREMENT PLANNING (2025): Manoj's Public Provident Fund will be worth ₹35.76 lakh at retirement, considering he invests ₹1.50 lakh a year for 10 years. The balance FDs on reinvestment will be worth ₹16.90 lakh and Post Office MIS maturity when further reinvested in balanced funds will yield ₹25.55 lakh at retirement. The existing mutual funds will be worth ₹10.87 lakh. To cover up the shortfall, ₹41,000 needs to be invested in the ratio of 60 per cent equity and 40 per cent debt in mutual funds.

Rate of return assumed: 8 per cent in PPF, 6 per cent post tax in FDs, 11 per cent in balance funds, 12 per cent in equity funds

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