

CASE STUDY



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

THOMASEs

Biju (31), Kavita (31)

RESIDE IN	NET ANNUAL INCOME	RATING
Dahisar, Mumbai	₹11.80 lakh	3/10

► STATUS & GOALS

Biju is a senior waiter on a cruise liner in Singapore, while his wife, Kavita, runs a small restaurant with a partner. Biju works for eight months in a year on ship and the couple don't have their own house yet. They invested in an under construction property six months back in Karjat and hope to sell it and buy their own house in Mira Road.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household	37,000	4,44,000
House Rent	12,000	1,44,000
Insurance premium	9,583	1,15,000
Total	58,583	7,03,000

Monthly income: ₹98,333 Net monthly surplus: ₹39,750

► GOALS

BUYING A 2BHK FLAT

(2018) – Inflation considered 9 per cent

Current value:	Future value:
₹60 lakh	₹71.28 lakh

RETIREMENT PLANNING

(2035, Return expected 9 per cent, inflation 7 per cent) (Life expectancy – 85 years)

Current annual retirement expenses:	Future annual expenses:	Corpus required:
₹4.44 lakh	₹17.18 lakh	₹4.37 crore

Assets	₹	Liabilities	₹
Savings account	4,00,000	Home loan	0
Fixed deposits	3,00,000		
Under-construction property	5,00,000		
Mutual funds	1,15,000		
	13,15,000		0
Net worth	13,15,000		

► FINDINGS

EMERGENCY FUND: Sufficient funds maintained in savings account and fixed deposits to take care of any emergency.

LIFE INSURANCE: Biju and Kavita are covered for ₹10 lakh and ₹5 lakh, respectively through money back insurance plan.

HEALTH INSURANCE: There is no medical cover for the couple.

INVESTMENTS: Considering their years of service and good income, the investment corpus is very small.

LIABILITIES: No liabilities.

► RECOMMENDATIONS

EMERGENCY FUND: The couple needs to maintain ₹1 lakh in a savings account and move the rest of the money (₹3 lakh) into liquid funds (Kavita's funds) and NRE deposits (Biju's funds) according to the taxation aspect of each of them.

LIFE INSURANCE: Biju and Kavita need to take a term insurance cover of ₹50 lakh and ₹25 lakh, respectively. Premium for the same should be around ₹15,000.

HEALTH INSURANCE: The couple should take a family floater cover of ₹5 lakh, which will cost them approximately ₹9,000 a year.

ACCIDENT INSURANCE: Kavita needs to take a ₹25-lakh personal accident policy, with ₹5 lakh as TTD, which will cost ₹4,000 per annum. Biju is adequately insured by his employer for any accidental-related claims.

► PLANNING FOR GOALS

BUYING A 2BHK FLAT (2018): The couple's existing investments and next one year of surplus will go towards payment of balance ₹10 lakh for their under-construction property in Karjat. Assuming that they start a recurring deposit (RDs) of ₹35,000 a month from 2016 till 2018, they will have ₹9 lakh approximately in 2018. Since the Karjat property possession is expected towards the end of 2016, they may not be able to sell it in 2018, as it will attract short-term capital gains tax. The couple should postpone their goal to 2020, which will provide them sufficient time to create a good corpus by investing their surpluses, as well avoid tax on sale of their Karjat property. The sale proceeds can be used for buying their flat in Mira Road.

Rate of return assumed: 7 per cent post tax in RDs, 9 per cent on property.

RETIREMENT PLANNING (2035): Since the most of the existing investments will get utilised for buying the new house in Mira Road, investments for retirement will have to be done afresh. Currently, they need to invest ₹44,000 in a ratio of 70 per cent in equity and 30 per cent in debt mutual funds portfolio to achieve their retirement corpus, which is not possible. The couple will have to work on reducing their expenses, currently on the higher side so the resultant savings can be invested for retirement. They need a focussed-approach towards better cashflow management else retirement date will need to be postponed.

Rate of return assumed: 12 per cent on the mutual funds portfolio.