CASE STUDY

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

MENONs

Krishnaraj (49), Kavita (47), Shruti (15)

RESIDE IN	NET ANNUAL INCOME	RATING
Mumbai	**₹39.84** lakh	**9/10**

FAMILY PROFILE

Krishnaraj is in the business of trading and exporting chemicals, while his wife, Kavita, is a homemaker. Their daughter, Shruti, is studying in the tenth standard. The family is financially sound and has created good assets over the years. Their primary goal is funds Shruti's college education and marriage. Retirement is not really their priority but still Krishnaraj would like to take it easy once he reaches 65.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household & lifestyle	85,000	10,20,000
Daughter's education	10,000	1,20,000
Vacation & travel	16,667	2,00,000
Insurance premium	32,917	3,95,000
Total	**1,44,583**	**17,35,000**

Monthly income: **₹3,32,000** Net monthly surplus: **₹1,87,417**

GOALS

DAUGHTER'S COLLEGE & POST-GRADUATION FUNDING
(2018-2022) - Inflation 10%

Current value: **₹53 lakh** Future value: **₹88.37 lakh**

DAUGHTER'S MARRIAGE FUNDING
(2025) - Inflation 10%

Current value: **₹25 lakh** Future value: **₹64.85 lakh**

RETIREMENT PLANNING
(2031, Inflation 7%, Rate of return on corpus 9%, Life expectancy - 85 years)

Current annual retirement expenses (considering household expenses, vacation and mediclaim premiums): **₹ 12.20 lakh**

Future annual expenses: **₹36 lakh**

Corpus required: **₹6.07 crore**

Assets	₹	Liabilities	₹
Savings account	4,23,000		
Fixed deposits	25,46,000		
PPF	8,65,000		
Equity mutual funds	4,75,000		
Shares	11,75,000		
Insurance cash value	13,55,000		
Mutual funds	6,43,000		
Invested in commercial property	1,20,00,000		
Invested in residential property	70,00,000		
Self-occupied property	2,10,00,000		
	4,68,39,000		
Net worth	**4,68,39,000**		

FINDINGS

EMERGENCY FUND: Adequate contingency arrangements in the form of savings account and fixed deposits

LIFE INSURANCE: Krishnaraj is covered for ₹1.20 crore through various traditional, unit-linked insurance plan (Ulip)and term insurance policies. Kavita is covered for ₹10 lakh through endowment policies

HEALTH INSURANCE: Each member is covered for ₹10 lakh through individual mediclaim cover. The couple also have a ₹10 lakh critical illness policy

INVESTMENTS: About 79 per cent of allocation is towards property, with debt allocation of 14 per cent and rest in equity

LIABILITIES: No liabilities

RECOMMENDATIONS

EMERGENCY FUND: Being in business, Krishnaraj should maintain a separate contingency fund for his business. For his family's contingency, he needs to maintain around ₹2 lakh in a flexi fixed deposit and ₹3 lakh can be invested in ultra-short bond funds

LIFE INSURANCE: Considering the assets back up, both Krishnaraj and Kavita don't require any additional insurance cover

HEALTH INSURANCE: Krishnaraj should take a super top-up policy of ₹15 lakh for himself and his wife with a deductible of ₹5 lakh. The premium for this will be around ₹9,000

ACCIDENT INSURANCE: A personal accident policy of ₹1 crore, with ₹15 lakh as temporary total disability, benefit is recommended for Krishnaraj. The premium for this should be ₹12,000

PLANNING FOR GOALS

DAUGHTER'S COLLEGE & POST-GRADUATION FUNDING (2018-2022): From the fixed deposits, ₹9.65 lakh should be invested in short-term debt funds, which can take care of three years of college education. For post-graduation, systematic investment plans (SIPs) of ₹32,000 needs to be invested for six years and ₹28,000 for seven years in balance mutual funds.

Rate of return assumed: 8.5 per cent post tax on debt funds, 10 per cent in balance funds for this duration

DAUGHTERS MARRIAGE FUNDING (2025) : SIPs of ₹28,000 need to be invested in 70 per cent equity and 30 per cent debt in MFs. The equity MFs can be a mix of large and multi-cap funds.

Rate of return assumed: 12 per cent on this portfolio

RETIREMENT PLANNING (2031) : Krishnaraj's Public Provident Fund will fetch him ₹75 lakh at retirement, considering that he invests ₹1,50,000 every year. His shares and equity MFs will be worth ₹1.10 crore and ₹29 lakh, respectively. His commercial property will be worth ₹4.76 crore at retirement. He can continue earning rent on his other residential property. In this case, the retirement corpus will exceed the required corpus.

Rate of return assumed: 8 per cent in PPF, 12 per cent in mutual funds, 15 per cent in shares, 9 per cent in property

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