CASE STUDY

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

SARANs

Dheeraj (44), Father (72), Mother (70)

RESIDE IN	NET ANNUAL INCOME	RATING
Pune	**₹9** lakh	**7/10**

STATUS & GOALS

Dheeraj is a professor with a reputed college in Pune. He is single and lives with his parents in their self-owned house in the city. He doesn't intend to get married and his focus is to create an adequate fund for his parents' medical needs. He also wants to take his parents shortly for a tour to Europe.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household & lifestyle	26,000	3,12,000
Home loan EMI	10,746	1,28,952
Insurance premium	7,083	85,000
Parents' medical expenses	4,000	48,000
Annual vacation	4,167	50,000
Total	**51,996**	**6,23,952**

Net monthly surplus: ₹23,004

GOALS

CREATING PARENTS MEDICAL FUND
(2015)
Amount considered:
₹ 10 lakh

EUROPE TOUR WITH PARENTS
(2016) (inflation 10 per cent)
Current value: **₹4 lakh**
Future value: **₹4.40 lakh**

RETIREMENT PLANNING
(2036) (inflation 7 per cent, Rate of return on corpus 9 per cent)
(Life expectancy – 85 years)

Current annual retirement expenses (considering household expenses, vacation and mediclaim premiums): **₹3.62 lakh**
Future annual expenses: **₹15 lakh**
Corpus required: **₹2.52 crore**

Assets	₹	Liabilities	₹
Savings account	1,38,000	Home loan	3,15,000
Fixed deposits	6,45,000		
EPF	7,13,000		
PPF	4,37,000		
Equity mutual funds	3,25,000		
Insurance cash value	3,78,000		
Self-occupied property	63,00,000		
	89,36,000		**3,15,000**
Net worth	**86,21,000**		

FINDINGS

EMERGENCY FUND: Adequate amounts maintained in savings account and fixed deposits for contingency

LIFE INSURANCE: Dheeraj is covered for ₹13 lakh through traditional insurance plans

HEALTH INSURANCE: Parents are covered for ₹2 lakh each, while Dheeraj is covered for ₹5 lakh worth of health insurance. Parents' cover is inadequate

INVESTMENTS: Major investments are in property and debt, with a small allocation to equity

LIABILITIES: Currently servicing a home loan taken in 2008 with a balance dues of ₹3.15 lakh

RECOMMENDATIONS

EMERGENCY FUND: Savings account balance can be maintained, while ₹2 lakh from FDs can be converted to a flexi FD for contingency requirements

LIFE INSURANCE: Since Dheeraj's parents are the only dependents and considering the existing investment corpus back-up, the existing cover is adequate

HEALTH INSURANCE: Parents' cover need to be enhanced to ₹5 lakh each. Dheeraj needs to take a super-top cover of ₹10 lakh for himself. The additional annual premium towards both these policies will be approximately ₹25,000

ACCIDENT INSURANCE: A personal accident policy of ₹25 lakh, with ₹5 lakh as temporary total disability benefit, is recommended for Dheeraj. The annual premium will be approximately ₹4,000

PLANNING FOR GOALS

CREATING PARENTS' MEDICAL FUND (2015) : From existing FDs ₹4.5 lakh can be earmarked for this goal. Additionally, ₹21,500 need to be invested every month in liquid funds for 24 months to create the balance corpus.

Annual rate of return assumed: 6.5 per cent post tax in liquid fund as per Dheeraj's tax slab.

EUROPE TOUR WITH PARENTS (2017) : This goal can be achieved once the goal of creating a medical fund is achieved in 2017. ₹2 lakh from existing equity funds can be earmarked for part funding by moving that amount into short term debt fund. For the shortfall, ₹20,000 needs to be invested every month in ultra-short term debt funds for 12 months from 2017 and goal can be achieved in 2018.

Rate of return assumed: 7 per cent post tax in ultra-short term debt funds as per Dheeraj's tax slab.

RETIREMENT PLANNING (2036) : Dheeraj's Employees' Provident Fund (EPF) and Public Provident Fund (PPF) will be worth ₹1.03 crore and ₹55 lakh, respectively, at retirement considering he invests ₹1 lakh each year in PPF from 2018 onwards. His invested property will be worth ₹3.84 crore. He will comfortably achieve his retirement goal.

Annual rate of return assumed: 8 per cent in EPF & PPF, 9 per cent on property

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