

CASE STUDY

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



SARAFs

Punit (29), Father (57), Mother (52)

RESIDES IN Ahmedabad	NET ANNUAL INCOME ₹8.16 lakh	RATING 5/10
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> STATUS & GOALS

Punit is an advocate and works for a legal consulting firm in Ahmedabad. His father works for the postal department in Vadodara city and mother is a housewife. Punit wants to get married next year and buy a house in Ahmedabad.

Basic expenses	Per month (₹)	Annual (₹)
House rent	14,000	1,68,000
Household & lifestyle	21,500	2,58,000
Insurance premium	4,250	51,000
Total	39,750	4,77,000

Monthly income: ₹68,000 **Net monthly surplus: ₹28,250**

> GOALS

MARRIAGE

(2016) (Inflation 10%)

Current value:
₹5 lakh

Future value:
₹5.50 lakh

BUYING A FLAT

(2017) (Inflation 9%)

Current value:
₹45 lakh

Future value:
₹53.50 lakh

RETIREMENT PLANNING

(2046) (Inflation 7%, annual rate of return on corpus 9%)
(Life expectancy – 85 years)

Current annual retirement expenses (considering household expenses and mediclaim premiums):
₹2.58 lakh

Future annual expenses:
₹21 lakh

Corpus required:
₹4.24 crore

Assets	₹
Savings account	89,000
Fixed deposits	3,50,000
PPF	50,000
Equity mutual funds	2,43,000
Insurance cash value	45,000
Net worth	7,77,000

> FINDINGS

EMERGENCY FUND: Around two months of expenses maintained in savings account. Additional back-up in the form of fixed deposits

LIFE INSURANCE: Punit has a total cover of ₹52 lakh through term insurance and an endowment policy

HEALTH INSURANCE: Punit's firm covers him for ₹2 lakh. He doesn't have any additional cover. His parents are insured under the government medical scheme

INVESTMENTS: Balanced portfolio, comprising debt and equity

LIABILITIES: No liabilities

> RECOMMENDATIONS

EMERGENCY FUND: Savings account balance can be maintained at the current level. Additionally ₹50,000 from fixed deposits can be maintained in an ultra-short bond fund

LIFE INSURANCE: Considering the present situation of no liabilities and independent parents, the existing insurance cover is adequate

HEALTH INSURANCE: Punit needs to take a separate health cover of ₹3 lakh, which will cost him ₹7,000 a year

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

> PLANNING FOR GOALS

MARRIAGE (2016): Fixed deposits of ₹3 lakh will be worth ₹3.21 lakh in one year. Additionally, he needs to invest ₹18,500 in liquid funds for 12 months, to enable creation of required corpus for marriage

Annual rate of return assumed: 7% post tax in liquid funds, FD

BUYING A FLAT (2017): He needs to move his equity funds to short-term debt funds. Currently, he can only allocate ₹10,000 per month for one year and from the next year, ₹28,000 per month for another one year in ultra-short debt funds. The total corpus from these three investments will be worth ₹8.86 lakh, falling short by a huge ₹44.60 lakh. Punit will have to extend his goal by another one to two years and use all his salary increments to invest for this

Annual rate of return assumed: 7.5% after tax in ultra-short term debt funds

RETIREMENT PLANNING (2046): At this moment, he needs to allocate ₹11,000 per month for 31 years in a 70 per cent equity and 30 per cent debt mutual funds portfolio to meet his retirement corpus. If delayed by five years, he needs to allocate ₹20,000 per month

Annual rate of return assumed: 12% in mutual funds portfolio for that duration