

CASE STUDY

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



THE HEGDES

Prashant (39), Aishwarya (37), Aryan (7)

RESIDE IN Mumbai	NET ANNUAL INCOME ₹14.64 lakh	RATING 3/10
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> STATUS & GOALS

Prashant works as manager in a business process outsourcing and his wife, Aishwarya, works in the logistics department of an online retail firm. Their lavish lifestyle and penchant for foreign vacations have left them poorer and in debt. Their priority is to fund their son's educational goal and retirement.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household & lifestyle	49,000	5,88,000
Home loan EMI	25,790	3,09,480
Personal loan	11,377	1,36,524
Son's education	4,000	48,000
Insurance premium	8,958	1,07,500
Annual vacation	10,000	1,20,000
Total	1,09,125	13,09,504

Monthly income: ₹1,22,000 Net monthly surplus: ₹12,875

> GOALS

SON'S EDUCATIONAL FUNDING (2026-2030) (inflation 9%) Current value: ₹18 lakh Future value: ₹57 lakh	FOREIGN TRIP EVERY TWO YEARS (2017 onwards) (inflation 10%) Current value: ₹2.50 lakh Future value: ₹3 lakh
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RETIREMENT PLANNING

(2026) (Annual inflation 7%, annual rate of return on corpus 9%)
(Life expectancy - 85 years)

Current annual retirement expenses (considering household expenses and mediclaim premiums): ₹5.88 lakh	Future annual expenses: ₹12.37 lakh	Corpus required: ₹3.21 crore
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Assets	₹	Liabilities	₹
Savings account	63,000	Home loan	9,80,000
Fixed deposits	55,000		
EPF	2,89,000		
Equity mutual funds	3,16,000		
Insurance cash value	4,15,000		
Self-occupied property	95,00,000		
	1,06,38,000		9,80,000
Net worth	96,58,000		

> FINDINGS

EMERGENCY FUND: Emergency funds not maintained. Savings account does not even contain one month of expenses

LIFE INSURANCE: Prashant is covered for ₹27 lakh, while Aishwarya has a life cover of ₹9 lakh. Both are underinsured

HEALTH INSURANCE: Family is covered through Prashant and his wife's employer-provided group health insurance scheme, for a sum assured of ₹3 lakh

INVESTMENTS: Investment size is very small and that too in tax-saving schemes such as EPF and ELSS

LIABILITIES: Currently servicing a home loan taken in 2009 with an balance of ₹9.80 lakh due as well as a personal loan of ₹5 lakh taken recently for home improvement and a foreign trip

> RECOMMENDATIONS

EMERGENCY FUND: Need to move ₹2 lakh from equity funds to ultra-short debt funds for creating a three-month contingency fund along with the existing savings account and fixed deposit

LIFE INSURANCE: Prashant needs a life cover of ₹1.75 crore, while his wife should take a cover of ₹50 lakh. The total premium for online term plans for a 20-year tenure will be approximately ₹40,000

HEALTH INSURANCE: They should take a family floater policy of ₹5 lakh sum assured. The premium for this will be ₹12,000

ACCIDENT INSURANCE: A personal accident policy of ₹50 lakh, with ₹10 lakh as TTD benefit, is recommended for Prashant. Aishwarya should take a cover of ₹25 lakh, with ₹5 lakh TTD. The annual premium will be approximately ₹10,000

> PLANNING FOR GOALS

SON'S EDUCATIONAL FUNDING (2026-2030): An amount of ₹16,000 needs to be invested every month for 15 years in balanced mutual funds for this goal. Expenses need to be reduced to enable this

Annual rate of return assumed: 11% on this portfolio for this duration

FOREIGN TRIP EVERY TWO YEARS (2017 ONWARDS): The family is advised to focus on clearing their existing liabilities and reduce their expenses and postpone any foreign trip to 2020

RETIREMENT PLANNING (2026): The couple's EPF will be worth ₹25 lakh in the year of retirement and to make up the shortfall, they need to invest ₹1.16 lakh per month for 11 years in a 60 per cent equity and 40 per cent debt mutual funds portfolio, not possible at present. The couple has to seriously plan on reducing their expenses and focus on savings and investments. They might have to postpone their retirement

Annual rate of return assumed: 8% in EPF, 11% on the suggested mutual funds portfolio