

CASE STUDY



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

THE GEORGES

Abraham (41), Theresa (38), Gavin (10), Princy (3)

RESIDE IN Mumbai	NET ANNUAL INCOME ₹22.20 lakh	RATING 7/10
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> STATUS & GOALS

Abraham works as VP – HR in a mid-sized pharma firm in Mumbai, while his wife is a homemaker. Abraham's first priority is his children's educational funding, followed by retirement

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household & Lifestyle	45,000	5,40,000
Home loan	37,611	4,51,332
Car loan	19,122	2,29,464
Children's education	8,000	96,000
Insurance premium	10,667	1,28,000
Annual vacation	5,000	2,00,000
Total	1,25,400	16,44,796

Monthly income: ₹1,85,000 Net monthly surplus: ₹59,600

> GOALS

SON'S COLLEGE & POSTGRADUATION

(2023 – 2027) (Inflation 10%)

Present cost: **₹29 lakh** Future value: **₹73.5 lakh**

DAUGHTER'S COLLEGE & POSTGRADUATION

(2030 – 2034) (Inflation 9%)

Present cost: **₹29 lakh** Future value: **₹1.34 crore**

BUYING A TWO-BEDROOM HALL KITCHEN FLAT

(2016) (Inflation 9%)

Current Value: **₹1.05 crore** Future value: **₹1.15 crore**

RETIREMENT PLANNING (2029)

(return expected 9%, inflation 7%) (Life expectancy – 85 years)

Present expenses: **₹7.40 lakh** Future annual expenses: **₹19 lakh** Corpus required: **₹4.43 crore**

Assets	₹	Liabilities	₹
Savings Account	5,23,000	Home loan	21,00,000
Fixed Deposit	13,43,000	Car loan	8,50,000
PPF	6,45,000		
EPF	7,35,000		
Equity Mutual funds	14,27,000		
Shares	3,27,000		
Self-occupied property	1,85,00,000		
	2,35,00,000		29,50,000
Net worth	2,05,50,000		

> FINDINGS

EMERGENCY FUND: Large amounts of money maintained in savings account and fixed deposits for any type of contingency

LIFE INSURANCE: Abraham is insured for ₹1.30 crore, while Theresa has a cover of ₹6 lakh. Abraham is underinsured

HEALTH INSURANCE: The family is covered for ₹5 lakh through a family floater policy provided by employer. They also have a separate family floater health policy of ₹10 lakh

INVESTMENTS: Very well diversified portfolio of equity and debt. Debt allocation is around 60 per cent

LIABILITIES: The family is servicing a home loan and car loan with total dues of ₹29.50 lakh

> RECOMMENDATIONS

EMERGENCY FUND: An amount of ₹4 lakh can be maintained in Flexi Fixed Deposit and rest of the savings bank balance can be moved to a short-term debt fund

LIFE INSURANCE: Abraham needs to take an additional term insurance policy of ₹1 crore for a 20-year term. The premium for this will be approximately ₹20,000. Theresa doesn't need any additional life cover

HEALTH INSURANCE: Present health cover is adequate. The family needs to review their cover every two years

ACCIDENT INSURANCE: Abraham needs to take a ₹1 crore accident policy, with a ₹15 lakh temporary total disability benefit. The premium for this will be ₹13,000 approximately

> PLANNING FOR GOALS

SON'S COLLEGE & POSTGRADUATION FUNDING (2023 – 2027) :

From the current FDs, ₹7.65 lakh can be invested in 70 per cent equity and 30 per cent debt mutual funds portfolio. Additionally ₹19,500 needs to be invested every month for 12 years in the above portfolio

Annual rate of return: 11 per cent on this portfolio

DAUGHTER'S COLLEGE & POSTGRADUATION FUNDING (2030 – 2034) :

From the balance FDs, ₹4.50 lakh can be invested in a 70 per cent equity and 30 per cent debt mutual funds portfolio. Additionally, ₹14,000 needs to be invested every month for 19 years in the above portfolio

Annual rate of return: 11 per cent on this portfolio

RETIREMENT PLANNING (2035) : Abraham's EPF and PPF will fetch ₹83 lakh and ₹43 lakh, respectively, considering he invests ₹1 lakh every year in PPF. His mutual funds and shares will be worth ₹70 lakh and ₹23 lakh respectively. To cover the shortfall, ₹57,000 per month needs to be invested in a 60 per cent equity and 40 per cent debt mutual funds portfolio for 14 years, not possible at this moment. He can start with ₹25,000 now and increase the amounts gradually every year

Annual rate of return assumed: Six per cent post tax on FDs, 8 per cent on EPF & PPF, 11 per cent on mutual funds and 15 per cent on shares