CASE STUDY

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

THE BHANDARIS
Ramkrishna (36), Mallika (33)

RESIDE IN	NET ANNUAL INCOME	RATING
Mangaluru	₹**9.60** lakh	**5/10**

> STATUS & GOALS

Ramkrishna is a software engineer while his wife works as an accountant in a real estate firm In Mangaluru. They live in a joint family along with Ramkrishna's parents. They plan to buy their own home next year and also plan for retirement

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household and lifestyle	25,000	3,00,000
Car loan	10,623	1,27,476
Insurance premium	4,833	58,000
Annual vacation	5,000	60,000
Total	**45,456**	**5,45,476**

Monthly income: ₹80,000	Net monthly surplus: ₹34,544

> GOALS

BUYING A TWO BEDROOM HALL KITCHEN FLAT
(2017) (annual inflation 9%)

Current Value:	Future value:
₹**40 lakh**	₹**43.60 lakh**

RETIREMENT PLANNING (2034)
(Return expected 9 per cent yearly, annual inflation 7 per cent)
(Life expectancy – 85 years)

Current annual retirement expenses:	Future annual retirement expenses:	Corpus required:
₹**3.60 lakh**	₹**13 lakh**	₹**3.02 crore**

Assets	₹	Liabilities	₹
Savings Account	2,15,000	Car loan	4,50,000
Fixed Deposit	7,34,000		
EPF	3,87,000		
Post MIS	4,00,000		
Equity Mutual funds	3,83,000		
	21,19,000		4,50,000
Net worth	**16,69,000**		

> FINDINGS

EMERGENCY FUND: Adequate amounts maintained in savings account and fixed deposits (FDs) to take care of any short term emergency

LIFE INSURANCE: Ramkrishna is covered for ₹13 lakh, while his wife is covered for ₹3 lakh through traditional insurance plans

HEALTH INSURANCE: The couple is covered through Ramkrishna's employer for a sum assured of ₹2 lakh. Parents are not covered

INVESTMENTS: Most investments are in safe and fixed-income assets with a small allocation to equity through equity-linked savings schemes

LIABILITIES: They are currently servicing a car loan with an outstanding loan of ₹4.5 lakh

> RECOMMENDATIONS

EMERGENCY FUND: They can maintain ₹1 lakh in a joint savings account and move the rest into a flexi fixed deposit

LIFE INSURANCE: Considering the expense replacement method, Ramkrishna needs to take a cover of ₹50 lakh, while Mallika needs to cover herself for ₹25 lakh. Suitable online term plans will cost them ₹13,000 approximately

HEALTH INSURANCE: The couple should take a separate family floater health policy with a sum assured of ₹3 lakh. Parents should be covered by a separate floater senior citizens policy for ₹3 lakh. Total premium outgo will be approximately ₹22,000

ACCIDENT INSURANCE: A personal accident policy of ₹25 lakh with a temporary total disability of ₹5 lakh is suggested for both Ramkrishna and Mallika. Annual premium outgo for this will be around ₹8,000

> PLANNING FOR GOALS

BUYING A 2BHK FLAT (2017): They need to prepay their car loan next year using the Post Monthly Income Scheme maturity. A total of ₹34,000 needs to be invested for the next 12 months in liquid funds for down payment. Additionally, utilise ₹5 lakh from FD and ₹2 lakh from mutual funds (MFs) to create a down payment of ₹12. 5 lakh. They will have to take a joint home loan of ₹31 lakh for which the equated monthly instalment will be ₹33,300 for 15 years

Annual rate of return assumed: 6 per cent post tax on liquid funds. Home loan interest – 10 per cent

RETIREMENT PLANNING (2034) : The couple's provident fund will be worth ₹68.4 lakh, considering they won't withdraw it till retirement. To cover up the shortfall they need to invest ₹30,000 a month for next 19 years in MFs (70 per cent equity and 30 per cent debt), which is currently not possible due to utilisation of surplus for other goal. They should invest their annual bonuses and increments for this goal and scale up the investments every year

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