



# CASE STUDY

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

## THE MANIANS

Shyam (35), Kamini (32), Shruti (6)

| RESIDE IN | NET ANNUAL INCOME | RATING |
|-----------|-------------------|--------|
| Thane     | ₹15.84 lakh       | 5/10   |

### > STATUS & GOALS

Shyam works as a senior manager – sales for a known automobile firm, while his wife is a homemaker. He is saddled with all kinds of loans and wants to become debt-free as soon as possible. He also wants to plan for his daughter's educational needs, followed by retirement

| Basic expenses (₹)    | Per month (₹)   | Annual (₹)       |
|-----------------------|-----------------|------------------|
| Household & lifestyle | 50,000          | 6,00,000         |
| Home loan             | 26,865          | 3,22,380         |
| Car loan              | 6,374           | 76,488           |
| Personal loan         | 12,748          | 1,52,976         |
| Daughter's education  | 8,000           | 96,000           |
| Insurance premium     | 15,000          | 1,80,000         |
| Annual vacation       | 6,000           | 72,000           |
| <b>Total</b>          | <b>1,24,987</b> | <b>14,99,844</b> |

Monthly income: ₹1,32,000      Net monthly surplus: ₹7,013

### > GOALS

#### WANT TO BE DEBT-FREE BY 2021

Current outstanding loans:  
**₹25.85 lakh**

#### DAUGHTER'S COLLEGE & POSTGRADUATION FUNDING

(2027–2031)  
(Inflation considered 9%)

Current Value: **₹20 lakh**      Future value: **₹70 lakh**

#### RETIREMENT PLANNING (2040)

(Inflation 7 per cent, Rate of return on corpus 9 per cent)  
(Life expectancy – 85 years)

Current annual expenses: **₹6 lakh**      Future annual expenses: **₹32.56 lakh**      Corpus required: **₹6.57 crore**

| Assets                 | ₹                  | Liabilities   | ₹                |
|------------------------|--------------------|---------------|------------------|
| Savings account        | 4,50,000           | Home loan     | 17,00,000        |
| Fixed deposit          | 1,25,000           | Car loan      | 2,85,000         |
| EPF                    | 4,27,000           | Personal loan | 6,00,000         |
| Insurance cash value   | 5,18,000           |               |                  |
| Equity mutual funds    | 1,75,000           |               |                  |
| Self-occupied property | 92,00,000          |               |                  |
|                        | <b>1,08,95,000</b> |               | <b>25,85,000</b> |
| <b>Net worth</b>       | <b>83,10,000</b>   |               |                  |

### > FINDINGS

**EMERGENCY FUND:** Nearly four months' of expenses maintained in savings account and fixed deposits

**LIFE INSURANCE:** Shyam has a life cover of ₹32 lakh through traditional insurance policies, while Kamini doesn't have any life cover. Shyam is underinsured

**HEALTH INSURANCE:** The family is covered for ₹5 lakh through family floater policy provided by employer. No other health cover

**INVESTMENTS:** Major allocations are towards insurance policies, with a small allocation to equity mutual funds

**LIABILITIES:** Shyam is currently servicing three loans with total dues of ₹25.85 lakh

### > RECOMMENDATIONS

**EMERGENCY FUND:** Shyam needs to maintain ₹2 lakh in a joint savings account. Remaining ₹2.50 lakh can be maintained in liquid funds

**ACCIDENT INSURANCE:** Shyam 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

**LIFE INSURANCE:** Shyam should take term insurance cover of ₹2.5 crore for a 20 years term. The premium for this will be approximately ₹40,000. Kamini doesn't need insurance

**HEALTH INSURANCE:** The couple need to take a separate family floater plan of ₹3 lakh, along with a super top-up policy of ₹10 lakh. The total premium for this will be around ₹15,000

### > PLANNING FOR GOALS

**WANT TO BE DEBT-FREE BY 2021:** Shyam needs to surrender his low-yield traditional insurance plans and use its proceeds and a part of fixed deposits to pay off his personal loan. He needs to then start a recurring deposit of ₹19,000 for 12 months and use its proceeds to pay off the car loan as well. Next he needs to bring down his monthly expenses by ₹10,000 and increase his home loan EMI to ₹43,000. This will reduce his loan tenure to four years and he can be debt-free by 2021

**Annual car & home loan interest:** 10 per cent, Personal loan interest – 11 per cent, RD return – 6 per cent post tax

#### DAUGHTER'S COLLEGE & POST-GRADUATION FUNDING

**(2027–2031):** Once the car loan and personal loan are paid off by next year, Shyam should start investing ₹19,000 per month in balanced mutual funds for a period of 16 years for this goal

**Rate of return assumed:** 11 per cent in balance mutual funds

**RETIREMENT PLANNING (2040):** Shyam's EPF (Employees' Provident Fund) will fetch ₹2.32 crore at retirement provided he doesn't withdraw his EPF in between. To make up for the shortfall, he needs to invest ₹27,000 per month in a mutual funds portfolio of 60 per cent equity and 40 per cent debt, which is not possible at least for the next four years. Starting 2020, he needs to allocate his entire home loan EMI (equated monthly instalment) savings of ₹43,000 for this goal

**Rate of return assumed:** 8 per cent on EPF, 11 per cent on mutual funds portfolio

*Plan by Steven Fernandes, certified financial planner, chief planner, Proficient Financial Planners*