

CASE STUDY

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



THE RAOs

Nikhil (44), Smita (42), Shaurya (11)

RESIDE IN	NET ANNUAL INCOME	RATING
Thane	₹19.20 lakh	9/10

> STATUS & GOALS

Nikhil is project head with a mid-sized information technology company, while his wife is a homemaker. Having practised financial prudence all throughout his life, he has been able to create a good corpus at this age. Primary goals are son's educational funding and retirement.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household and lifestyle	61,000	7,32,000
Son's education	6,500	78,000
Insurance premium	8,500	1,02,000
Annual vacation	20,000	2,40,000
Total	96,000	11,52,000

Monthly income: ₹1,60,000 Net monthly surplus: ₹64,000

> GOALS

SON'S COLLEGE & POSTGRADUATION FUNDING

(2023– 2027) (annual inflation considered 9 per cent))

Current Value: ₹45 lakh Future value: ₹98.28 lakh

BUYING A SECOND PROPERTY

(2017) (annual inflation considered 9 per cent)

Current Value: ₹60 lakh Future value: ₹65.40 lakh

RETIREMENT (2032)

(annual inflation 7 per cent, annual rate of return of 9 per cent on corpus) (Life expectancy – 85 years)

Current annual expenses: ₹9.72 lakh Future annual expenses: ₹28.69 lakh Corpus required: ₹5.79 crore

Assets	₹
Savings account	3,41,000
Fixed deposits	36,74,000
EPF	28,32,000
Equity mutual funds	31,43,000
Shares	27,43,000
Self-occupied property	1,13,00,000
	2,40,33,000
Net worth	2,40,33,000

> FINDINGS

EMERGENCY FUND: Sufficient liquidity maintained in savings bank account and fixed deposit for any kind of contingency

LIFE INSURANCE: Nikhil has a total life cover of ₹1.60 crore, while his wife is covered for ₹3 lakh through a combination of term insurance and traditional policies

HEALTH INSURANCE: The family is covered for ₹5 lakh through family floater policy provided by employer. Additionally, they have a separate ₹5 lakh health policy

INVESTMENTS: The couple have created a very good diversified and sizable portfolio comprising of debt and equity

LIABILITIES: No Liabilities

> RECOMMENDATIONS

EMERGENCY FUND: Nikhil should convert his savings account into flexi fixed deposit (FD) account and maintain ₹2.5 lakh in that account. The rest he needs to maintain in a liquid plus fund for short-term emergency

ACCIDENT INSURANCE: Nikhil should 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: There is a shortfall of ₹75 lakh in life cover for Nikhil, while Smita doesn't need any additional life cover. A suitable online term plan for a 15-year term will cost ₹18,000

HEALTH INSURANCE: The present health cover can be enhanced with the help of a super top-up plan of ₹15 lakh, with ₹5 lakh as deductible. The annual premium for this will be ₹12,000

> PLANNING FOR GOALS

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

For this goal, an amount of ₹38 lakh needs to be invested in a 60 per cent equity and 40 per cent debt combination of mutual funds (MFs). From the FDs, an amount of ₹7 lakh needs to be added to the existing MFs corpus. This can take care of son's educational needs

Annual rate of return assumed: 11 per cent on the MFs portfolio

BUYING A 2ND PROPERTY (2017) : Use ₹26 lakh from FDs, ₹5 lakh from shares and start Systematic Investment Plan of ₹60,000 in liquid funds for one year to create a down payment of ₹38.40 lakh. For the shortfall of ₹30 lakh, home loan for 10 years can be taken, for which the equated-monthly instalment will be ₹35,300

Annual rate of return assumed: Six per cent in liquid funds, home loan interest at 9.75 per cent

RETIREMENT (2032): Nikhil's EPF and shares will be worth ₹1.85 crore and ₹2.56 crore. His invested flat will be worth ₹2.38 crore. He will have a surplus corpus at retirement

Annual rate of return assumed: Eight per cent on EPF, 9 per cent on property, 15 per cent on shares portfolio