

# CASE STUDY

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



## THE LUISES

Ignatius (62), Marina (57)

RESIDE IN <b>Mumbai</b>	NET ANNUAL INCOME <b>₹20.16 lakh</b>	RATING <b>8/10</b>
----------------------------	---	-----------------------

### > STATUS & GOALS

Ignatius works as a senior manager (technical) in a chemical firm in Mumbai, while his wife, Marina, works with the state electricity board. Their two sons are well-settled and stay abroad. The couple wants to plan for a comfortable retirement and want to travel to different countries every two years.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household and lifestyle	52,000	6,24,000
Insurance premium	2,417	29,000
Medical expenses	5,000	60,000
Annual vacation	10,000	1,20,000
<b>Total</b>	<b>69,417</b>	<b>8,33,000</b>

**Monthly income: ₹1,68,000    Net monthly surplus: ₹98,583**

### > GOALS

#### RETIREMENT (2018)

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

Current annual expenses:	Future annual expenses:	Corpus required:
<b>₹8.04 lakh</b>	<b>₹9.84 lakh</b>	<b>₹1.66 crore</b>

#### FOREIGN VACATION EVERY TWO YEARS TILL AGE 70

(2018 onwards) (Inflation considered 9 per cent)

Current value:	Future value:
<b>₹3.00 lakh</b>	<b>₹3.56 lakh</b>

Assets	₹
Savings account	2,15,000
Fixed deposit	42,18,000
EPF	21,54,000
PPF	13,27,000
Equity mutual funds	14,33,000
Self-Occupied Property	1,50,00,000
	<b>2,43,47,000</b>
<b>Net worth</b>	<b>2,43,47,000</b>

### > FINDINGS

**EMERGENCY FUND:** Adequate amounts maintained in joint bank account and fixed deposits for any emergency

**LIFE INSURANCE:** They don't have any life insurance cover, as all policies have got matured

**HEALTH INSURANCE:** The couple is covered for ₹5 lakh each through a separate health policy. Ignatius' company also offers a ₹3-lakh cover for the couple

**INVESTMENTS:** The investment portfolio is fairly diversified, with a 15 per cent allocation to equities through mutual funds (MFs)

**LIABILITIES:** No liabilities.

### > RECOMMENDATIONS

**EMERGENCY FUND:** The couple need to maintain ₹3 lakh in a joint bank account for any short-term emergency

**LIFE INSURANCE:** Considering adequate back-up from the existing investments, they don't need any life insurance cover at this age

**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 approximately ₹14,000

### > PLANNING FOR GOALS

**RETIREMENT (2018) :** The couple's Employees' Provident Fund (EPF), Public Provident Fund (PPF) and equity mutual funds will be worth ₹40 lakh, ₹21.60 lakh and ₹20 lakh, respectively, at retirement considering an annual investment of ₹1.50 lakh in PPF till age 65. From the existing fixed deposits, ₹16 lakh needs to be invested in MFs in a ratio of 30 per cent equity and 70 per cent debt, which should be worth ₹21.30 lakh. For the shortfall, ₹1.27 lakh need to be invested every month for three years in MFs in the above ratio. This is not possible at present, as the surplus is currently ₹98,000 only

**Annual rate of return assumed:** 8 per cent in EPF & PPF, 12 per cent in equity funds and 8 per cent in debt funds

**FOREIGN VACATION IN EVERY 2 YEARS TILL AGE 70 (2018 ONWARDS):** To fund four foreign vacations which will take place till age 70, the couple need to utilise ₹14 lakh from their FDs and invest that amount in 80 per cent debt and 20 per cent equity in MFs. Every two years the required funds can be withdrawn from this corpus