

# CASE STUDY

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



## THE RAOs

Dhirendra (33), Kiran (28)

RESIDE IN	NET ANNUAL INCOME	RATING
Hyderabad	₹16.32 lakh	7/10

### > STATUS & GOALS

Dhirendra works as a cook in a hotel in Dubai, while his wife, Kiran, works in a KPO (knowledge process outsourcing) entity in Hyderabad. They don't have dependents, and very soon, his wife will join him in Dubai. Their primary goals are to pay off their housing loan and plan for retirement.

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household	40,000	4,80,000
Home loan EMI	25,790	3,09,480
Insurance premium	4,167	50,000
Annual vacation	6,000	72,000
<b>Total</b>	<b>75,957</b>	<b>9,11,480</b>

Monthly income: ₹1,36,000      Net monthly surplus: ₹60,043

### > GOALS

#### PAYING OFF HOME LOAN

(2021) (Home loan interest 10 per cent)

Current loan dues:

**₹21.58 lakh**

#### RETIREMENT PLANNING (2038)

(Annual inflation 7 per cent)

(Annual life expectancy – 85 years)

Current annual retirement expenses (considering household expenses and vacation costs):

**₹5.52 lakh**

Future annual expenses:

**₹24.45 lakh**

Corpus required:

**₹5.68 crore**

Assets	₹	Liabilities	₹
Savings account	1,38,000	Home loan	21,58,000
Fixed deposit	2,15,000		
Equity mutual funds	75,000		
Insurance cash value	1,41,000		
Self-occupied property	65,00,000		
	<b>70,69,000</b>		<b>21,58,000</b>
<b>Net worth</b>	<b>49,11,000</b>		

### > FINDINGS

**EMERGENCY FUND:** Adequate amount maintained in savings account and fixed deposits for short-term emergency

**LIFE INSURANCE:** Dhirendra is covered for ₹5 lakh, while his wife is covered for ₹2.5 lakh, through a combination of traditional and unit-linked insurance plan (Ulip) policies

**HEALTH INSURANCE:** Dhirendra's employer provides up to ₹10 lakh health cover for him only. Kiran is also covered by her employer in India, for ₹2 lakh

**INVESTMENTS:** The portfolio size is small as most investments have been used for purchasing their two-bedroom-hall-kitchen property

**LIABILITIES:** Presently, they are servicing a home loan, with current dues of ₹21.58 lakh

### > RECOMMENDATIONS

**EMERGENCY FUND:** The present savings account balance and fixed deposits can be maintained for an emergency

**LIFE INSURANCE:** Dhirendra needs a life cover of ₹1.25 crore, while Kiran needs a cover of ₹25 lakh. Both should take an online term plan for 25 years. The total premium will be approximately ₹24,000

**HEALTH INSURANCE:** If the couple is expected to come back to India, they need to take a health cover of ₹5 lakh floater plan, for which the premium will be approximately ₹10,000

### > PLANNING FOR GOALS

**PAYING OFF HOME LOAN (2021) :** They need to reduce the term of the loan to five years and their equated monthly instalment will be revised to ₹45,851. This can help them to close their loan in five years

**Home loan interest considered:** 10 per cent a year

**RETIREMENT PLANNING (2038) :** They need to invest ₹44,000 per month in mutual funds (MF) in a ratio of 70 per cent equity and 30 per cent debt for 22 years. Presently, they can manage to invest ₹40,000 per month due to allocation of initial surplus to their first goal. Gradually, they can increase the investment amount as and when their income increases

**Annual rate of return assumed:** 12 per cent in the MF portfolio for this duration

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