

CASE STUDY

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



THE BOSES

Sumit (40), Nalini (38), Shaurya (7)

RESIDE IN	NET ANNUAL INCOME	RATING
Mumbai	₹37.80 lakh	9/10

> STATUS & GOALS

Sumit works as a technical director with a multi-national company, while his wife, Nalini, is a home maker. They intend to start investing for their son's education expenses. They also want to buy additional property for investment

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household and lifestyle	74,000	8,88,000
Son's education and activities	15,000	1,80,000
Insurance premium	9,667	1,16,000
Annual vacation	20,000	2,40,000
Total	1,18,667	14,24,000

Monthly income: ₹3,15,000 Net monthly surplus: ₹1,96,333

> GOALS

SON'S COLLEGE & POSTGRADUATION FUNDING (2027-2031) (Annual inflation 9 per cent)	BUYING ADDITIONAL 2-BHK PROPERTY (2017) (Annual inflation 9 per cent)
Current value: ₹70 lakh Future value: ₹2.30 crore	Current value: ₹1.20 crore Future value: ₹1.31 crore

RETIREMENT

(2036) (Annual inflation 7 per cent, annual rate of return on corpus 9 per cent) (Life expectancy – 85 years)

Current annual expenses: ₹11.40 lakh	Future annual expenses: ₹44 lakh	Corpus required: ₹9 crore
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Assets	₹	Liabilities	₹
Savings account	4,75,000		
Liquid funds	3,50,000		
EPF	21,76,000		
Insurance cash value	3,74,000		
Equity mutual funds	49,45,000		
Shares	2,65,000		
Self-occupied property	1,59,50,000		
	2,45,35,000		
Net worth	2,45,35,000		

> FINDINGS

EMERGENCY FUND: Sumit has maintained about six months' of expenses in his savings account and liquid funds

LIFE INSURANCE: He is covered for ₹2 crore, while his wife is covered for ₹5 lakh

HEALTH INSURANCE: Sumit's employer covers his family for ₹10 lakh sum assured, while he also has a separate ₹5-lakh health policy for his family

INVESTMENTS: The investment portfolio is very well diversified, with a higher allocation to equity, which is good at his age

LIABILITIES: He recently completed the home loan repayment and is free of any liabilities

> RECOMMENDATIONS

EMERGENCY FUND: Sumit should maintain ₹2 lakh in a flexi fixed deposit account and ₹1.5 lakh in liquid funds. The rest he can move into ultra-short bond funds

ACCIDENT INSURANCE: He should take a ₹2-crore accident policy, with a ₹15-lakh temporary total disability benefit. The premium for this will be about ₹22,000

LIFE INSURANCE: Sumit needs an additional insurance cover of ₹2 crore. He needs to take an online term plan for 20 years, for which the premium will be about ₹40,000. Wife does not need insurance cover

HEALTH INSURANCE: He should take a super top-up floater policy of ₹15 lakh, with ₹5 lakh deductible. The annual premium will be about ₹7,000

> PLANNING FOR GOALS

SON'S COLLEGE & POSTGRADUATION FUNDING (2027-2031):

The couple need to invest ₹55,000 per month in a portfolio of large- and multi-cap funds for a period of 15 years for this goal

Annual rate of return assumed: 12 per cent for this duration in mutual funds portfolio

BUYING ADDITIONAL PROPERTY (2017): They need to move ₹30 lakh from equity funds to ultra-short funds now, which will be worth ₹31.50 lakh next year. Systematic Investment Plans of ₹1.30 lakh a month need to be started in liquid funds for a period of one year, which will be worth ₹16 lakh. Home loan of ₹83 lakh will have to be taken for 15 years, for which the equated-monthly investment will be ₹86,670

Annual rate of return assumed: Five per cent after tax in liquid and ultra-short funds, home loan interest – 9.5 per cent

RETIREMENT (2036) : Sumit's Employees' Provident Fund will fetch him ₹3.70 crore if he continues working till age 60. His equity mutual funds and shares will be worth ₹1.93 crore and ₹43 lakh, respectively, at retirement. His invested property will be worth ₹6.72 crore. Overall, he will have a surplus corpus

Annual rate of return assumed: Eight per cent on EPF, 9 per cent on property, 12 per cent on the mutual funds portfolio, 15 per cent on shares