

CASE STUDY

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



THE MONTEIROs

William (32), Varsha (29)

RESIDE IN	NET ANNUAL INCOME	RATING
Navi Mumbai	₹14.76 lakh	5/10

> STATUS & GOALS

William and Varsha have been married for three years now. They plan to buy their own house this year. William is a software engineer, while his wife, Varsha, works in the operations department of a life insurance company. Their other goals are a foreign tour and retirement

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household and lifestyle	35,000	4,20,000
House rent	15,000	1,80,000
Insurance premium	5,792	69,500
Annual vacation	9,000	1,08,000
Total	64,792	7,77,500

Monthly income: ₹1,23,000 Net monthly surplus: ₹58,208

> GOALS

BUYING 1-BEDROOM HALL KITCHEN FLAT (2016)

Present value:
₹65 lakh

EUROPE TOUR

(2018) (Inflation considered 9 per cent)

Present value: **₹4 lakh** Future value: **₹5.35 lakh**

RETIREMENT

(2039) (Inflation considered 7 per cent)

Present expense: **₹4.29 lakh** Future expense: **₹20.33 lakh** Corpus required: **₹4.72 crore**

Assets	₹	Liabilities	₹
Savings account	1,74,000		
Fixed deposit	7,34,000		
EPF	3,94,000		
Insurance cash value	2,73,000		
Equity mutual funds	5,36,000		
	21,11,000		
Net worth	21,11,000		

> FINDINGS

EMERGENCY FUND: Good amounts maintained in savings account and fixed deposits for contingencies.

LIFE INSURANCE: William is covered for ₹7 lakh, while his wife is covered for ₹4 lakh through traditional insurance policies.

HEALTH INSURANCE: Their employers are covering them for ₹3 lakh. They also have a separate family floater health policy of ₹3 lakh.

INVESTMENTS: Major investments are in fixed deposits, followed by equity mutual funds (MFs). Good diversification according to age.

LIABILITIES: They don't have any liabilities.

> RECOMMENDATIONS

EMERGENCY FUND: They need to convert their savings account into a flexi fixed deposit account and maintain the current balance. Additionally, they can maintain ₹1 lakh in liquid funds.

ACCIDENT INSURANCE: William and Varsha need to take a personal accident cover of ₹25 lakh each with ₹5 lakh Temporary Total Disability cover. This will cost them ₹8,000 per year.

LIFE INSURANCE: William needs to take a life cover of ₹50 lakh, while Varsha should take a ₹25-lakh life cover. A suitable online term plan for a term of 30 years will cost them ₹15,000 per annum.

HEALTH INSURANCE: The health cover can be enhanced to ₹5 lakh during renewal. This will cost them an additional premium of ₹5,000.

> PLANNING FOR GOALS

BUYING 1-BEDROOM HALL KITCHEN FLAT (2016) : Currently, they cannot provide the 20 per cent down-payment required, which comes to ₹13 lakh. They need to negotiate a flexi-payment deal by which they can pay ₹10 lakh now (₹6 lakh from FD and ₹4 lakh from equity funds). A Recurring deposit of ₹50,000 can be done for six months to generate the additional ₹3 lakh. A Loan of ₹55 lakh (joint loan) can be taken, which will result in an equated monthly instalment (EMI) of ₹57,432 for 15 years.

Annual rate of return assumed: Six per cent post tax in RD. Home loan interest – 9.5 per cent

EUROPE TOUR (2018): They need to invest ₹21,000 in ultra-short bond funds for 24 months. Expenses will need to be controlled to ensure adequate surplus and fulfil this goal.

Annual rate of return assumed: Six per cent post tax in ultra-short bond funds

RETIREMENT (2039) : Their Employees' Provident Fund (EPF) will be worth ₹1.16 crore at retirement. For the shortfall, they need to invest ₹28,000 per month in a ratio of 70 per cent and 30 per cent in an equity and debt portfolio, respectively, for 23 years, not possible at this stage. For this goal, they can start investing after two years of their house purchase, when their incomes will increase and surpluses will be available.

Annual rate of return assumed: 11 per cent post tax on mutual funds portfolio

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