

CASE STUDY

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



THE OGLES

Hrishikesh (49), Neelam (44), Haresh (16)

RESIDE IN	NET ANNUAL INCOME	RATING
Pune	₹16.56 lakh	5/10

> STATUS & GOALS

Hrishikesh works as a software developer for a known information technology company in Pune, while his wife is a homemaker. He wants to plan for his son's higher educational funding and wants to buy a two-bedroom hall kitchen flat in the near term. Retirement is his last priority

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household and lifestyle	53,000	6,36,000
Son's education	20,000	2,40,000
Insurance premium	5,333	64,000
Medical expenses	4,000	48,000
Total	82,333	9,88,000

Monthly income: ₹1,38,000 Net monthly surplus: ₹55,667

> GOALS

SON'S COLLEGE & POSTGRADUATION FUNDING

(2017 – 2020)

(Annual inflation 9 per cent)

Current value: ₹24 lakh Future value: ₹32.60 lakh

BUYING A 2BHK PROPERTY

(2017)

(Annual inflation 7 per cent)

Current value: ₹85 lakh Future value: ₹91 lakh

RETIREMENT PLANNING

(2027) (Annual inflation 7 per cent, Annual rate of return on corpus 9 per cent) (Life expectancy – 85 years)

Current annual expenses: ₹6.84 lakh Future annual expenses: ₹14.40 lakh Corpus required: ₹2.90 crore

Assets	₹	Liabilities	₹
Savings account	6,32,000		
Fixed deposit	24,65,000		
EPF	5,29,000		
Insurance cash value	2,85,000		
Equity mutual funds	1,65,000		
Self-Occupied Property	61,00,000		
	1,01,76,000		
Net worth	1,01,76,000		

> FINDINGS

EMERGENCY FUND: Huge amounts maintained in savings account and fixed deposits for short-term requirements and emergencies

LIFE INSURANCE: He is covered for ₹9 lakh, while wife does not have any life cover

HEALTH INSURANCE: Hrishikesh's employer provides a family floater cover of ₹5 lakh. He doesn't have any separate health cover

INVESTMENTS: Almost the entire investment portfolio is in debt assets, indicating conservative risk profile

LIABILITIES: No loans

> RECOMMENDATIONS

EMERGENCY FUND: He needs to maintain ₹2.5 lakh for emergency. ₹1.5 lakh can be maintained in joint savings account and the rest can be held in liquid funds

ACCIDENT INSURANCE: He should take a ₹50 lakh accident policy, with a ₹15 lakh Temporary Total Disability benefit. The annual premium for this will be ₹8,500 approximately

LIFE INSURANCE: Hrishikesh needs a life insurance cover of ₹2 crore for 11 years' term. Online term insurance will cost him approximately ₹50,000 per annum

HEALTH INSURANCE: The couple need to take a separate health policy, with individual covers of ₹5 lakh and ₹3 lakh for self/spouse and son, respectively. The annual premium for this will be about ₹20,000

> PLANNING FOR GOALS

SON'S COLLEGE & POSTGRADUATION FUNDING (2017 – 2020) :

From their fixed deposits and savings account surplus, they need to invest ₹19 lakh in short-term debt fund and ₹6 lakh in balance fund to fund their son's education

Annual rate of return assumed: 6.5 per cent to eight per cent returns in debt funds according to period of holding, 10 per cent in balanced funds for this term

BUYING A 2BHK PROPERTY (2017): Their existing 1BHK flat will fetch them ₹65 lakh after a year. To cover the shortfall, they will have to take a home loan of ₹25 lakh for a term of 10 years. The equated monthly instalment for this will be about ₹32,000. This purchase will affect their investments for retirement. They need to reconsider this goal at this juncture

Annual rate of return assumed: 9.5 per cent on home loan interest. Seven per cent growth on property in one year

RETIREMENT PLANNING (2027): Hrishikesh's EPF and mutual funds will be worth ₹50 lakh cumulatively at retirement. To bridge the retirement corpus gap, he needs to invest ₹88,000 per month in a mutual fund's portfolio of 60 per cent equity and 40 per cent debt, for a period of 11 years. Presently, he can only invest ₹55,000 per month for this goal. They need to relook at their expenses and try and increase savings and investments for retirement

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