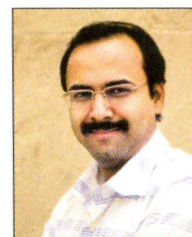


# Prioritizing the Needs

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The concept of Financial Planning is still in nascent stages in India. Financial Planning is a comprehensive exercise, in which a Financial Planner needs to understand the situation from the client's point of view. It's not just about a few calculations and arriving at fancy figures, it's also about prioritizing the future goals from the client's point of view.

The following case elucidates the above fact. Please note that this is not an Ideal Financial Plan or a guide for Financial Planning. Everyone has their own style of making the Financial Plan but never the less the underlying idea is still the same, of planning for achievement of client's present and future goals in the most prudent manner.

## Case Facts:

### Client's Profile

Mr. Rajeev Chatterjee, aged 40 years, is a marketing manager in a private company. His post tax take home salary is Rs.7.10 Lacs. His spouse Shailja, aged 38 years, is into teaching profession having a net annual income of Rs.2.40 Lacs. There are no medical and retirement benefits offered by their employers. Family's annual expenses are Rs. 3.00 Lacs per annum.

### Dependents

Name	Relationship	Age	Financially Dependent Yes / No
Master Mayank Chatterjee	Son	12 yrs.	Yes
Mr. B.S. Chatterjee	Father	66 Yrs	Yes
Mrs. D. Chatterjee	Mother	63 Yrs	Yes

### Life and Health Insurance

Rajeev has a life insurance cover of Rs.2.20 lacs whereas Shailja is covered for Rs.2 Lacs. Besides, Rajeev has a pension plan policy without any life cover. Against all these policies they are paying a premium of Rs.86,000/- per year. They have a mediclaim policy for Rs.1.50 lacs each in the name of Rajeev, Shailja and Mayank for which the annual premium is Rs.6,475/-. All the family members including parents are in good health.

### Misc Information

They have not saved any money till now other than premiums paid for insurance and pension plans. They bought a car last year against which they are paying an EMI of Rs.6,333/- . The Loan will expire in May'2012.

### Goals

Short Term Goals	Target Date	Cost Today
1. Buying a house	Dec' 2009	Rs.20,00,000
2. Funding for son's regular education	2010 – 2018	Rs.20,000
3. Buying a bigger car	2009	Rs.10,00,000

Intermediate Goals	Target Date	Cost Today
1. Higher Education for son	Jan' 2017	Rs.5,00,000
2. Son's marriage expenses	Jan'2020	Rs.2,00,000
3. Domestic vacations with family	Every year	Rs.25,000

Long Term	Target Date	Cost Today
1. Self retirement	July' 2024	100% of pre-retirement expenses.
2. Buying a computer stationery shop	2020	Rs. 30,00,000

### Analysis

The initial cash flow analysis suggested that it is not practical to achieve all the financial goals with the current savings, income and expenses figures. Income is Rs.9.5 Lacs, whereas savings at the end of year after expenses, insurance premiums and existing EMI on Car is Rs.4.80 Lacs. This amount is not sufficient to meet down payment for house and car, since other investments are also required to be made for retirement, education, etc. Further, savings left after planning for other goals is not enough to plan for buying a computer shop. Emergency fund requirements, increased life insurance cost were also not taken into account by the client. It is very natural for a client to have a long list of financial goals with limited means to achieve them. The matter was explained to Mr. Rajeev who understood the facts and was willing to re-assess and prioritize his financial goals.



## Revised Goals

Short Term	Target Date	Cost Today	Action Taken
House	Dec' 2012	Rs.20,00,000	Deferred by 3 yrs.
Funding for son's regular education	2010 – 2018	Rs.20,000	Maintained
Buying a bigger car	2013	Rs.10,00,000	Deferred by 4 yrs.

Intermediate	Target Date	Cost Today	Action Taken
Higher education for son	Jan' 2017	5,00,000	Maintained
Son's marriage	Jan' 2020	2,00,000	Maintained
Domestic vacations with family	Every Year	25,000	Maintained

Long Term	Target Date	Cost Today	Action Taken
Self retirement	July' 2029	100% of pre-retirement expenses.	(Retirement extended by 5 years. Now proposed to retire at 60 years of age.)
Buying a computer stationery shop	2020	Rs. 30,00,000	(not planned as of now. To plan when cash flows improve)

Others	Target Date	Cost Today	Action Taken
Creating an emergency fund for 3 months expenses	Immediate	75,000/-	New
Proper life and health insurance planning	Immediate		New

## Assumptions

Inflation	: 5%
Growth in income	: 5% every year.
Net return on equity investments	: 12%
Net return on Debt investments	: 7%
Life expectancy	: 75 years
Retirement age	: 60 years

## Insurance

Keeping in mind his revised financial goals, cash flow constraints, and existing coverage, additional insurance cover is recommended as below :

Name	Term life cover	Accident insurance cover	Total
Rajeev	20 Lacs	25 Lacs	45 Lacs
Shailja	10 Lacs	10 Lacs	20 Lacs

Health insurance cover is suggested to be maintained.

## Cash Flow

First year cash flows	Rs.
Income	9,50,000
Expenses	3,00,000
Savings for retirement	1,40,321
Savings for Son's higher education	60,073
Savings for Son's marriage	17,318
Domestic Vacation cost	25,000
Life Insurance Premiums (existing)	86,000
Health Insurance premiums (existing)	6,475
Fresh life insurance policy premiums	20,000
Car EMI	76,000
Savings for son's regular education	24,176
Surplus	1,94,637

During the first year, after expenses and savings for planned financial goals, there is a net savings of Rs.1.94 Lacs.

## Emergency Fund

Considering current monthly expenses of Rs.25,000/- per month, an emergency fund corpus of Rs.75,000/- (3 months expenses) is to be created by surplus savings.

## Asset Allocation

Investments for long term goals were suggested to be made in the ratio of 50% equity and 50% debt, which included the following:

- For retirement: 1.40 Lacs per year for next 20 years
- For son's higher education: 60,000/- per year for next 8 years
- For son's marriage: 17,300/- per year for next 11 years

Other savings which includes regular expenses for son's education and domestic vacation is recommended to be invested in cash equivalents and other debt investments. Every year, any surplus left is to be invested in floater funds to create funding for proposed upfront payments for house and car.

## Investment Recommendations

Equity investments should be made in diversified equity mutual funds through SIP mode. Debt investment should be made in NSC, PPF & Floater funds of mutual fund schemes.

Debt investments should be preferred, as much as possible, in the name of Shailja, since her tax liability is lower than Rajeev as interest received will attract taxes.

## House and Car

By deferring purchase of house by 3 years and car by 4 years, Rajeev will in a position to save the required amount for down payment and regular EMI payments for House and car.

## Review

There are bound to be changes in circumstances going forward. Annual review is to be done to ensure that the proposed plan is effective. It is also important to see opportunities when cash flows increase so that it can be allocated towards planned purchase of computer shop.