Stepping up investment plans, supplementing income will help Singhs meet goals

Jan 19, 2015, 08.00AM IST

Tags: SIP | PPF | LIC Bima Gold | investment | Fincart | financial planning | ET Wealth | EPF | EMI

(The Singhs will have to step...)

The Singhs need to revamp their investment plan. In their 30s, they have five major goals to achieve, a portfolio that comprises 100 per cent debt, a low net worth of Rs 6.23 lakh, and a salary that is not too high. Hampered by these handicaps, they will need to alter their investment strategy immediately and try to increase their income if they want to fulfil all their goals. Assisting them in this process is the financial planning team of Fincart, which has prepared a detailed plan for them. This includes the important step of increasing the equity component of their portfolio. This is because at their age and given their long-term goals, the couple needs to have a higher equity exposure to help their

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money grow faster. Here's how they can proceed.

NET WORTH OF SINGHs

Asset	Current value (₹)

Existing financial status

Balbir Kaur is 31 years old and is in service, while her 34-year-old husband

SPOTLIGHT

House that

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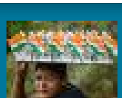
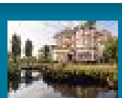
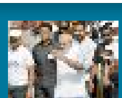




EPF	3.7 lakh
Gold	1.5 lakh
PPF	48,000
Fixed deposit	60,000
Insurance (SV)	44,627
Total assets	**6.73 lakh**

Liabilities	**Current value (₹)**
Car loan	50,000
Total	**50,000**

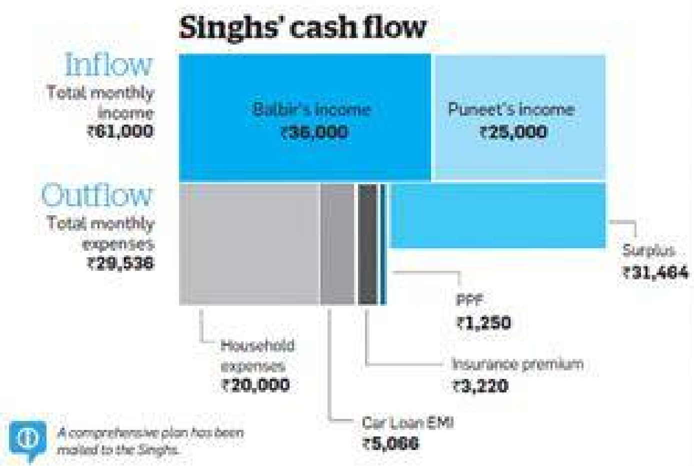
has a business of his own. The couple stays in a rented house in Delhi with their three-year-old son, Jivraj. While Balbir brings in a monthly income of Rs 36,000, Puneet earns Rs 25,000 a month. Of the combined income of Rs 61,000, nearly Rs 20,000 goes towards household expenses, while Rs 5,066 is being paid as EMI for a car loan, of which Rs 50,000 is the outstanding amount. Besides this, they pay Rs 3,220 as insurance premium and Rs 1,250 is invested in the PPF. This leaves them with a monthly surplus of Rs 31,464, which needs to be invested with prudence if they want to achieve all their goals.

The couple's financial objectives include building an emergency corpus, saving for the down payment of a house, amassing funds for their son's education and marriage, and saving for their own retirement. While three of their goals are long-term in nature, the first two need immediate attention. However, before the Fincart team lays out a plan for them, it will assess their insurance portfolio.

Insurance coverage

The couple has shown a degree of awareness when it comes to insurance, though they have made the typical mistake of confusing insurance with investment. So, they have bought too many expensive, traditional plans. They have nine endowment policies and a Bima Gold plan from LIC. Fincart suggests that they surrender the nine policies as they offer a very low cover for a high premium. As for the Bima Gold, they can convert it into a paid-up plan and allocate the maturity amount to one goal. This will also free up the premium and increase the investible surplus.

Balbir has also bought a life insurance term plan worth Rs 50 lakh for herself, while her husband has no cover currently. So, Fincart advises Puneet to purchase a term plan for Rs 75 lakh, which will cost them Rs 9,448 annually. As for health insurance, they have a family floater plan worth Rs 3 lakh. The Fincart team advises them to buy a super top-up plan worth Rs 12 lakh with a Rs 3 lakh deductible. This will cost them Rs 3,708 a year. The total premium cost, after revamping the insurance portfolio, will reduce by Rs 1,157, which can be added to the surplus, bringing it a total of Rs 32,621.



Funds needed to achieve goals

Goal	Years to achieve (yrs)	Future cost (₹)	Resources used	Further investment (₹/month)
Emergency Fund	3 mths	1.5 lakh	Fixed deposit	29,808*
Down payment for house	3	5 lakh		12,308
Jiwraj's education	14	75.9 lakh	Insurance	18,421
Jiwraj's marriage	23	94.8 lakh	-	7,167**
Retirement	29	7.2 crore	EPF, PPF	21,872**
Investible surplus needed				30,728
Additional cost of insurance				-
Total				30,728#
Surplus				1,892

The surplus will rise to ₹32,621 after surrendering the insurance policies.
* Investment for this goal is for three months.
** Investment for these goals will begin only when there is a rise in income.
Annual rate of return assumed to be 12% for equity funds, 8% for debt funds.
Inflation assumed to be 8%.

Road map for the future

After taking care of the insurance needs, the Singhs can focus on their goals, the first of which is building a contingency corpus. Fincart suggests having a fund worth six months' expenses, which will amount to nearly Rs 1.5 lakh. They can accumulate this by allocating their fixed deposit worth Rs 60,000, and investing another Rs 29,808 for three months in an ultra short-term debt fund. This will give them the desired corpus.

SINGHS' GOOD MOVES...

Having a high rate of saving.

Opting for a term insurance plan to cover life.

AND THE BAD ONES...

Not buying adequate health insurance.

Purchasing traditional, expensive insurance as investment.

Having a high debt component and no equity exposure.

This means that the couple can start planning for their other goals only after three months. Their first goal is amassing Rs 5 lakh for the down payment of a house worth Rs 31.5 lakh that they want to buy in three years. For this, no existing resource has been allocated and they will have to start a fresh SIP of Rs 12,308 for three years. After this period, the couple will have to take a loan of Rs 26 lakh for 20 years, which will result in an EMI of Rs 26,000 at 10.5 per cent.

After this, they can focus on the second goal of their son's education, for which they will require nearly Rs 76 lakh in 14 years. They can allocate the maturity value from the LIC Bima Gold to this goal. In addition to this, they will have to start a fresh SIP of Rs 18,421 in an equity fund. This will help them amass the required amount in the given time frame.

Since after three years, they will start the EMI payment for the home loan, the couple will not be left with sufficient surplus to fund their remaining two goals of Jivraj's marriage and their own retirement. Hence, they will have to wait for a rise in income before they can start planning for these.

For Jivraj's marriage in 23 years, they have estimated a need of Rs 94.8 lakh. In order to achieve this goal, they will have to invest in an equity fund via an SIP of Rs 7,167. As for their retirement in 29 years, the Singhs will require Rs 7.2 crore to maintain their current lifestyle. To achive this, they can allocate their EPF and PPF investments, which will yield Rs 1.2 crore in the given time frame. To make up for the shortfall, they will have to start an SIP of Rs 21,872 in an equity fund.

However, they will have to review their financial position as well as the investment needed for these goals once they increase their income and are ready to invest.

Financial planning by Fincart.

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