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Investing in equities, increasing income will help Jadhavs meet financial goals

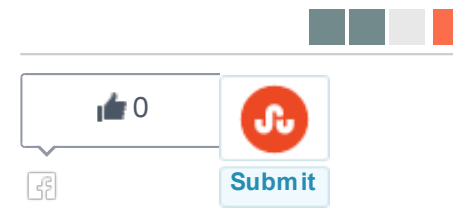
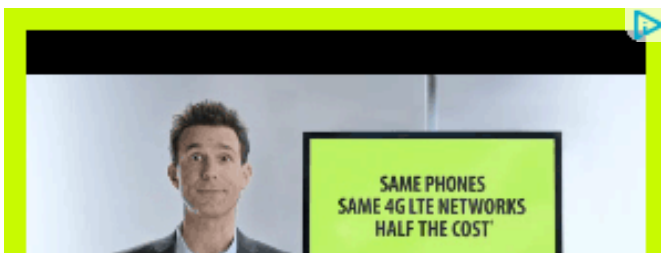
ET Bureau Feb 2, 2015, 08.00AM IST

Tags: [Vivek Jadhav](#) | [investments](#) | [Fincart](#) | [financial goals](#) | [ET Wealth](#)

Approaching a financial planner is one of the best decisions that the Jadhavs have made. The Chennai-based couple's financial portfolio suffers from various flaws: low net worth, no equity exposure, expensive traditional plans, poor risk coverage and investments that are not linked to goals. While most of their financial ills stem from the fact that they have a low salary, the Jadhavs have the time to rectify some of the wrongs because most of their goals are for the long term. The financial planning team at Fincart will help them do this by preparing a road map for them.



(The Jadhavs need to revamp...)





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Existing financial status

NET WORTH OF JADHAVs

Asset	Current value (₹)
Real estate	5 lakh
EPF	2.5 lakh
Gold	2 lakh
Insurance (SV)	75,000
Cash	60,000
Total assets	10.85 lakh



Liabilities	Current value (₹)
Personal loan	53,500
Total	53,500



Vivek Jadhav is a salaried 30-year-old, who lives with his 27-year-old wife, Vidyagouri, in a rented house in Chennai. Vivek brings in a salary of Rs 31,000, while Vidyagouri is a homemaker. The couple spends Rs 7,000 on household expenses and another Rs 7,000 is paid as house rent. They also pay Rs 4,813 as insurance premium, while Rs 5,300 goes as the EMI of a personal loan of Rs 1.2 lakh that Vivek had taken. After including miscellaneous expenses of Rs 5,000, the Jadhavs are left with a minuscule surplus of Rs 1,887.

The couple's current assets include agricultural land worth Rs 5 lakh and Rs 2 lakh worth of gold in physical form. Besides this, Vivek has accumulated Rs 2.5 lakh in his EPF account. The couple has modest goals, which include building a contingency corpus, planning for the education and marriage of their future child, as well as their own retirement. While the Jadhavs should try to enhance their income, for now they should start by increasing their equity exposure and aligning the investment with goals. Before they do this, they will have to revamp their insurance portfolio.

Insurance coverage

The couple currently has three traditional plans from LIC, which offer a low cover. Hence, Fincart recommends that Vivek surrender these policies and, instead, purchase an online term plan worth Rs 1.3 crore, which will result in an annual premium

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Approximate net worth

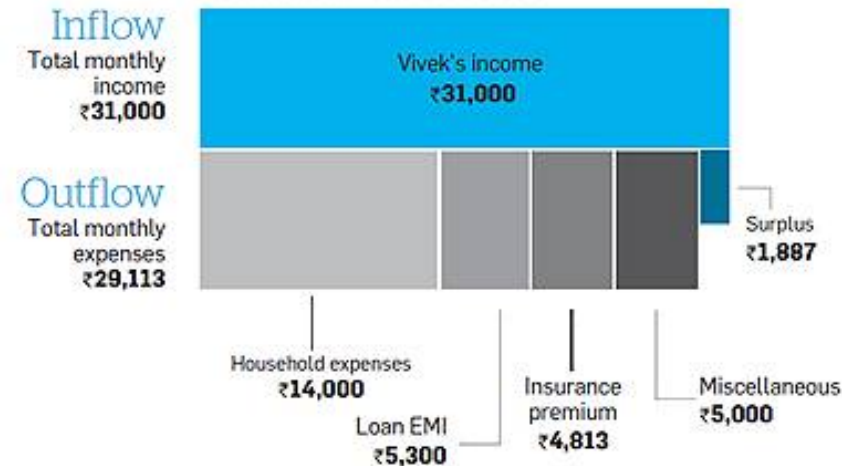
₹10.3 lakh

of Rs 5,720. Since Vidyagouri is not earning, no life insurance is suggested for her.

The Jadhavs are poorly placed when it comes to health insurance as well and have no cover as of now. Hence, they are advised to buy a basic health insurance plan worth Rs 5 lakh, which will cost them Rs 8,373 per annum in premium. The combined monthly premium for the new insurance policies will

amount to Rs 1,174, and this can be funded by their investible surplus.

Jadhavs' cash flow



Funds needed to achieve goals

Goal	Years to achieve (yrs)	Future cost (₹)	Resources used	Further investment (₹/ month)
Emergency corpus	-	1.21 lakh	Cash, gold	-
Child's education	18	60 lakh	-	4,501
Child's marriage	25	68.5 lakh	-	1,825
Retirement	25	5.3 crore	EPF, Insurance, real estate	4,500**
Investible surplus needed				10,828
Additional cost of insurance				1,174
Total				12,000

* The surplus will rise to ₹12,000 after surrendering the insurance policies and prepaying the loan.
** Though investment needed for this goal is ₹7,282, the low surplus means the Jadhavs will have to start by investing ₹4,500 and increase it with 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

Before we chart out a financial course for the Jadhavs, they are advised to prepay their expensive personal loan, of which Rs 53,500 is outstanding. They can use the surrender value of their insurance policies, amounting to Rs 75,000, to do this.

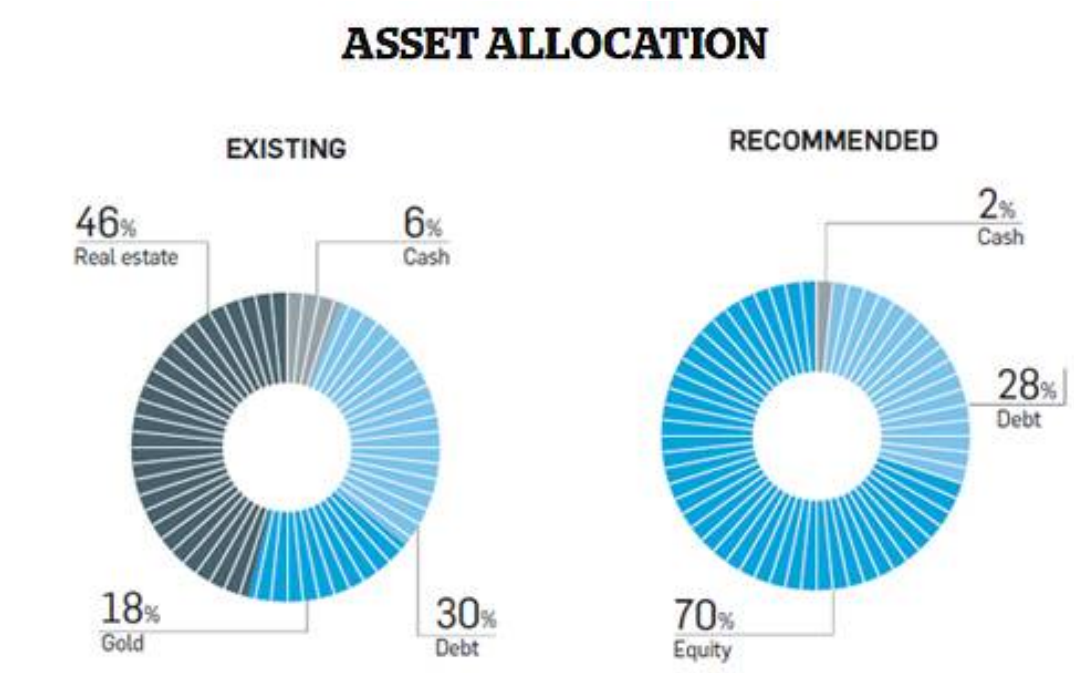
This means that they will save on the EMI outgo of Rs 5,300, which can be added to the surplus. They will also save Rs 3,639 each month on the insurance premium and this, too, can boost the surplus amount, which will rise to Rs 10,826.

Now, the Jadhavs can start planning for their goals, the first of which is building an emergency corpus equal to their six months' expenses. This will amount to Rs 1.21 lakh and can be funded by allocating their cash holding of Rs 60,000 in their bank account. Since this is not enough, they can allocate their gold holding to this goal for now. When their income rises, they can replace the gold with money and invest it in an ultra short-term debt fund. The gold can then be assigned to the goal of their child's marriage.

Next is the goal of saving for their future child's education. For this, they estimate a need of Rs 60 lakh in 18 years. To achieve this goal, the couple will have to start a fresh SIP of Rs 4,501 in a balanced fund for the specified period. To achieve the objective of their child's marriage in 25 years, the Jadhavs will require a sum of Rs 68.5 lakh. For this, they will need to initiate another SIP of Rs 1,825 in an equity fund.

Finally, the couple needs to plan for its retirement in 25 years' time since Vivek wants to quit working when he is 56. To fund the sunset years and maintain their current lifestyle, the Jadhavs will need Rs 5.3 crore. To meet this goal, they are advised to allocate the EPF investment, which is likely to grow to Rs 68.5 lakh in the given period. They should also use their plot of land, which can yield Rs 2.1 crore. Besides, the surrender amount

from insurance policies that they save after prepaying the loan can be invested for this goal, and will fetch Rs 3.6 lakh in the given time.



However, they will still fall short of the desired amount by Rs 2.48 crore. To build this corpus, they will need to invest Rs 7,282 in an equity fund. Since they don't have sufficient amount currently, they should start by investing Rs 4,500 and increase the amount with the rise in income. This will help them build the necessary corpus in the given time period.

(Financial planning by Fincart)

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