

Five situations when you should review your financial plan -

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Having an adequate amount of money at the right time for what you intend to do is like a dream come true. Tenets of personal finance talk about creation and execution of financial plans for the financial well-being of an individual. But what you plan today may not work next year, as your needs change, your cash-flow changes and sometimes the environment around you changes.

That necessitates review of financial plans at regular intervals – at least once a year. Here are some of the reasons you must consider a financial plan review:

1. Change in income

Salary hike is an annual event in most employment contracts. Increase in salary need not necessarily lead to increase in expenses. Though in initial years, it may be the case as lifestyle inflation catches up. As you continue to rise, more incremental money earned is saved. This needs to be channelised into investments. This can best be done if you are going to review your financial plan.

The linear growth of income for salaried individuals is a history. Many have seen job losses, mid-career shifts and sabbaticals. Financial plans need to be reviewed in such lean periods too.

2. Do you aspire more?

A financial plan comprises financial goals that define one's aspirations and the planned strategy to achieve those. Call it peer pressure or just plain higher aspirations, individuals end up spending more and more. For example, one may plan to buy a hatchback and start saving for the down payment. But as his income grows he may want to opt for a sedan over a hatchback. This means higher income has led to better lifestyle and hence more savings need to be channelized into investments.

Nothing is wrong about aspiring for more, if you are willing to fund it well in advance by increasing your investments. If you are investing in mutual funds using a systematic investment plan, then it is better to increase your SIP investment at regular intervals. If you start Rs 1000 SIP in a mutual fund with an expected return of 12%, then over 10 years you will take home Rs 221930. However, if you increase your SIP just by 10% each year, then you will take home Rs326889.

3. Milestone events

Marriage, the birth of a child, kids' education and post-graduate education, their marriage and so on are some of the key milestone events in many of our lives. All such events call for a review in your financial plan, because then it's not just you who you are planning. You need to plan for your spouse, your kids, your family.

Further, it's not just about investments. It's also about your insurance needs and the need to secure your investments by making a Will. Financial plan review helps you identify gaps if any and take corrective actions. For example, if you have bought an individual health insurance cover on a shoestring budget, it is time to go for a larger family floater health insurance cover if you are getting married.

4. Large purchases and loans

Home purchase is typically a large purchase for most Indians. Given the high property prices, many prefer to go for loans. The home loans create a large cashflow issue in one's financial plan for a long period of time. This needs to be taken into account by reviewing one's financial plan. You should also be reviewing your life insurance covers when you go for large loans.

Education loans co-borrowed by parents for their kid's higher education loans also act as a drain if the kid can't get a job after education. The loans, though, need to be repaid. Such situations need to be built into the financial plans by means of periodic reviews.

5. Lifestyle disease and life-threatening diseases

In the rush to earn more and enjoy more, lifestyle diseases and health conditions come visiting us.

Though a lot of preventive care is available, one can't negate the chance of occurrence of them. They not only lead to a lot of trauma but also monetary implications. It is better to review one's financial plan and buy adequate insurance covers that pay for hospitalisation, critical illnesses.

Life-threatening diseases can put the financial plan upside down. Occurrence of one such condition in the family needs review of financial plan.