

Case – A:

(Reference date: 1st April, 2019)

Ashwin, aged 34 years, is employed with an oil exploration company since December 2013. He is an engineer, and works in a team that manages oil rigs worldwide. He tours extensively in this connection. He has approached you, a CFP practitioner, for preparing his Financial Plan. He is staying in his own house at Vadodara. His wife Sumedha, aged 31 years, is working in a private sector bank as Manager. They have a son Prateek aged 4 years, and a year old daughter Aslia. The monthly house hold expenses of the family are Rs. 70,000 p.m. which exclude loan repayments and insurance premium. The parents of Ashwin stay in their ancestral house at Bikaner. His father is engaged in a small business.

Remuneration details of Ashwin for the Financial Year 2019-2020 (monthly figures)

Basic Salary	:	Rs. 60,000
DA or Dearness Allowance ¹	:	50% of Basic salary
House Rent allowance	:	Rs. 15,000
Conveyance Allowance	:	Rs. 7,500
Entertainment Allowance	:	Rs. 7,500
PF & Superannuation	:	12% of Basic Salary

Remuneration details of Sumedha for the Financial Year 2019-2020 (monthly figures)

Basic Salary	:	Rs. 40,000
Dearness Allowance (DA)	:	30% of Basic salary
House Rent allowance	:	Rs. 10,000
Conveyance Allowance	:	Rs. 3,000
Executive Allowance	:	Rs. 7,500
NPS contribution by employer	:	10% of Basic Salary + DA

Joint Assets & Liabilities as on 31st March, 2019

<u>Assets:</u>	<u>(In Rs. lakh)</u>
House	: 75.00 (municipal value)
Car	: 3.50 (depreciated value)
EPFO account of Ashwin	: 14.69
NPS account of Sumedha	: 2.82
PPF account of Ashwin	: 6.20 (account matures on 1st April 2026)
Insurance – Money Back policy ²	: 4.00 (sum assured)
Child Plan – Life Insurance ³	: 20.00 (sum assured)
Gold ornaments	: 6.50
Sovereign Gold Bonds ⁴	: 2.90 (quoted value)
Equity Mutual Fund schemes ⁵	: 11.87 lakh

¹ 100% of DA received forms part of salary for retirement benefits; DA not part of PF contribution

² Ashwin purchased the 20 year policy on 18th November, 2012; annual premium Rs. 26,864; 20% of sum assured (SA) payable on survival each on expiry of 5th, 10th and 15th years and 40% of SA payable with accrued bonuses on survival of the term

³ Purchased by Ashwin on the life of Prateek on his 3rd birthday for a term of 20 years; annual premium Rs. 44,347

⁴ Sumedha purchased 100 units @Rs.3,150 in September 2016 Series, maturity date 30th Sep, 2024, coupon @2.75% p.a. payable on half yearly basis on 30th March and 30th September every year

Balanced Mutual Fund scheme	:	3.28 lakh
Debt Mutual Fund Schemes ⁶	:	7.67 lakh
Portfolio of Equity Shares	:	18.32 lakh
Term deposits of Sumedha	:	3.50 lakh
Joint Cash/Bank Balance	:	2.25 lakh

<u>Liabilities:</u>		<u>(In Rs. lakh)</u>
Home loan ⁷	:	15.40
Car Loan ⁸	:	2.67

Goals:

1. To provide for higher education of Prateek and Aslia. The expenses, at current cost, required for each child for 4 years; Rs. 8 lakh at their respective age of 18, and Rs. 3 lakh p.a. for 3 subsequent years; cost escalation 8% p.a.
2. Marriage expenses of Rs. 18 lakh (current cost) for each child at their respective age of 27 years; cost escalation for such expenses is 7% p.a.
3. Retirement corpus when Ashwin completes 60 years of age; to sustain the same lifestyle till their expected life time.
4. A bigger house 3 years from now, valued at Rs. 1.40 crore today; a new car in January 2020 worth Rs. 10 lakh then.
5. To start building a separate dedicated fund for annual vacation expenses of Rs. 2 lakh (current cost) to be utilized during 15 years until Ashwin retires; cost escalation 6% p.a.

Life Parameters:

Life expectancy of Ashwin	:	80 years
Life expectancy of Sumedha	:	82 years

⁵ Four schemes out of which one is diversified large cap growth fund (Rs. 5.71 lakh), one is mid & small cap fund (Rs. 3.83 lakh), and two are sector specific funds on Banking (Rs. 1.26 lakh) and Information Technology (Rs.1.07 lakh)

⁶ Two schemes, one is short term debt fund in Growth option (current value Rs. 2.59 lakh) acquired by Sumedha through Rs. 10,000 monthly SIP continued for 2 years, the last SIP on March 1, 2019; the other is Gilt fund subscribed by Ashwin in New Fund Offering (May 20, 2016) for Rs. 2 lakh in Growth option with further contributions of Rs. 1 lakh each on Feb 11, 2017 and on June 17, 2018

⁷ Home loan of Rs. 20 lakh taken on 1st November, 2013 to acquire a house of 1050 sq.ft. built up area valued at Rs. 40 lakh then. Loan details: fixed interest of 8% p.a., tenure 15 years, first EMI paid on 1st December, 2013. Loan shared in 60:40 ratio, major share by Ashwin

⁸ Car loan of Rs. 5 lakh taken on 1st April, 2017 at a fixed interest of 11% p.a. for a 4-year term. First EMI paid on 1st April, 2017.

Assumptions regarding gross returns in various asset classes:

- 1) Equity & Equity MF schemes/ Index ETFs : 11.00% p.a.
- 2) Balanced MF schemes : 9.50% p.a.
- 3) Bonds/Govt. Securities/ Debt MF schemes : 7.50% p.a.
- 4) Liquid MF schemes : 6.00% p.a.
- 5) Gold and linked investments : 6.00% p.a.
- 6) Real Estate appreciation : 6.50% p.a.
- 7) Bank/Post Office Term Deposits : 6.50% p.a. (for tenure exceeding 1 year)
- 8) Public Provident Fund/EPFO : 7.75% p.a.

Assumptions regarding economic factors:

- 1) Inflation : 4.50% p.a.
- 2) Expected return in Risk free instruments : 5.00% p.a.

Cost Inflation Index:

FY	CII								
2001-02	100	2005-06	117	2009-10	148	2013-14	220	2017-18	272
2002-03	105	2006-07	122	2010-11	167	2014-15	240	2018-19	280
2003-04	109	2007-08	129	2011-12	184	2015-16	254	2019-20	289
2004-05	113	2008-09	137	2012-13	200	2016-17	264		