

Case – C:

(Reference Date: 1st April, 2019)

Ms. Sahanubhuti, aged 34 years, is working in Mumbai. She is likely to be the sole guardian of Shambhavi, her only daughter aged 12 years, due to an ongoing divorce proceeding with Manohar, to whom she has been married for 13 years. The divorce terms are not fully settled, exposing Sahanubhuti to a potential future financial liability of Rs. 20 lakh. She is currently residing in a rented house. Her daughter has just passed in the 6th Standard. Sahanubhuti does not have much family support and she wishes to marry sometime during the next two years her long-time colleague Viren, who is never married and is aged 30 now. She has approached you, a CFP^{CM} practitioner, for preparing a Financial Plan for her family. She has shared the following financial information with you:

<u>Salary structure (April 2019 to March 2020)</u>	:	<u>Annual Amounts (Rs. lakh)</u>
Basic Salary	:	12.00
HRA	:	7.20
Conveyance Allowance	:	3.00
Special Pay	:	8.98
Variable Salary	:	8.00
Employee contribution to Provident Fund	:	1.44
Employer contribution to Provident Fund	:	1.44
<u>Regular Outgoings</u>		<u>Monthly (Rs.)</u>
Basic Household Expenses	:	40,000
Services availed	:	12,500
School Fees	:	12,500
House Rent	:	35,000
Power, Telecom and Fuel	:	12,500
Car Loan EMI	:	25,585
<u>Other Monthly & Annual cash outflows</u>		<u>(Rs.)</u>
Equity Mutual Fund (Index Fund)	:	15,000 (Monthly systematic investments)
Balanced Mutual Fund	:	10,000 (Monthly systematic investments)
Life Insurance Premium ¹	:	54,324
Health Insurance Premium ²	:	27,631
<u>Assets (as on 31st March, 2019)</u>		<u>Market Value (Rs. lakh)</u>
Equity Mutual Fund schemes	:	32.45
Balanced Mutual Fund schemes	:	12.79 (50:50 in Equity : Debt)
Debt Mutual Fund schemes	:	5.98
Demat Account ³	:	21.92

¹ Annual premium, 2 policies, one term and the other money back, total cover Rs. 55 lakh.

² Annual premium, 2 policies, total cover Rs. 20 lakh.

Provident Fund	:	9.93
Public Provident Fund (PPF) A/c. ⁴	:	6.59
Gold & Diamond Jewelry	:	15.75
Car ⁵	:	7.50
Cash in Bank (Salary Account)	:	2.82
Bank deposits ⁶	:	33.26
Deposit with House Owner	:	3.00
Money Back Insurance Plan ⁷	:	5.00

<u>Liabilities</u>	<u>(as on 31st March, 2019)</u>	<u>(Rs. lakh)</u>
Car loan	:	7.99

Goals:

You, in consultation with Sahanubhuti, have identified the following financial goals for her family and the preliminary Roadmap to achieve them:

1. Send her daughter to a Boarding School this year to complete her studies up to 12th Standard. The outlay is Rs. 4 lakh p.a. current costs, escalating annually at 8%.
2. Buy a house having three bed rooms costing currently Rs. 1.65 crore, sometime after two years after remarrying with joint finances from Viren.
3. Invest suitably for the higher education of Shambhavi, such studies are contemplated for 5 years at current annual cost of Rs. 15 lakh, escalating at 8% p.a.
4. To invest for accumulating marriage funds for Shambhavi over the next 15 years, estimated at Rs. 30 lakh currently, such costs escalating at 7% p.a.
5. Expected retirement at her age 60, to include joint financing of retirement corpus to fund retirement expenses equivalent to Rs. 90,000 current and required inflation adjusted throughout until Viren survives.
6. Vacation fund for alternate year travel starting a couple of years from now until her age 80, current annual costs are Rs. 4 lakh escalating annually at 6%.
7. A suitable Estate Planning to cover all her physical and financial assets.

³ Includes 100 units of Sovereign Gold Bonds (issue price of Rs. 2,967 in January 2017, coupon 2.5% p.a., maturity 8 years, current price Rs. 2650); and 500 bonds of M/s. ABC Ltd. (face value Rs. 1,000 subscribed in issue on 27th March 2016, coupon 9.25% p.a. payable semi-annually over 7 years, listed on exchanges, current price 980).

⁴ Account opened on 14 April 2008.

⁵ Car purchased out of a loan availed of Rs. 14 lakh on 1st March 2016, interest being charged on reducing monthly balance for a term of 6 years.

⁶ Includes Rs. 10 lakh deposited by Manohar, under protest, pursuant to an interim court order in divorce proceedings.

⁷ Sum Assured (SA) of Rs. 5 lakh, Term of 15 years, Annual Premium of Rs. 45,565, Purchased on 18th September, 2014, terms of money back: 15% of SA at the end of 3rd/6th/9th & 12th year of survival and 40% at maturity.

Life Parameters

Life expectancy of Sahanubhuti : 85 years

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 (> 1 year) : 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	FY	CII	FY	CII	FY	CII	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		