

Case – D:

(Reference Date: 1st April 2019)

Mahesh and Neelam approached you, a CFP^{CM} practitioner for preparing a Financial Plan to achieve their financial goals. Mahesh, aged 45 years, is working in Bengaluru for a multi national corporation in a managerial capacity. His wife Neelam, aged 42 years, is working in a private company and has gross annual income of Rs. 5 lakh. The gross salary of both Mahesh and Neelam is likely to grow annually at 7%. They are married for 20 years now. They have two children, daughter Sapna, 18, pursuing her Graduation in Economics, and son Varun, 16, studying in 12th standard. Sapna intends to pursue a doctorate in economics from a foreign university. Varun wants to become a Doctor.

The family spends Rs. 60,000 per month on household expenses, which exclude EMI on loans and Insurance premiums. The education expenses are annually Rs. 2.5 lakh. They stay in a house valued at Rs. 75 lakh, the house being in the name of his father who passed away recently in December 2018. Mother stays with the family in the same house.

Mahesh has a term insurance of Rs. 50 lakh (term 20 years, annual premium Rs. 13,985), the term expires 15 years from now. Mahesh and Neelam are covered under Group Medical Insurance by their respective employers. They additionally have a Rs. 10 Lakh family floater policy (Mahesh pays annual premium Rs. 20,386).

Salary Breakup of Mahesh for Financial Year 2019-20

Components	Annually (Rs)
Basic	7,16,000
House Rent Allowance	1,80,000
Dearness Allowance	2,50,000
Transport Allowance	96,000
Medical Reimbursement	15,000
Entertainment Allowance	60,000
Total	13,17,000

Assets as on 31st March 2019:

1. Cash in Hand Rs. 50,000
2. Bank balance Rs. 2,50,000
3. Diversified Equity Mutual Fund units at market value Rs. 12.78 lakh.
4. Equity Shares at market value Rs. 25.83 lakh.
5. Debt Mutual Fund units at market value Rs. 12.17 lakh, scheme nature is of short term debt.
6. PPF A/c balance Rs. 8.25 lakh (Mahesh), Rs. 3.15 lakh (Neelam), both maturing on 1st April 2023.
7. Equity Linked Saving Scheme (ELSS Mutual Fund, growth option), Rs. 75,000 invested on March 20, 2017 at NAV Rs. 14.81 and Rs. 75,000 invested on February 3, 2019 at NAV of Rs. 16.95. NAV on 31st January 2018 was Rs. 15.56. The current NAV is Rs. 16.26 per unit.

8. A separate house in joint ownership of Mahesh and Neelam with respective shares of 75% and 25%. This house has two floors and is let out each floor separately for a monthly rent of Rs. 12,000. Rent increases annually at real estate appreciation rate. Present Market Value of this House is Rs. 1 crore¹
9. Gold Ornaments at market value Rs. 8.35 lakh.
10. Car at market value Rs. 2.60 lakh.
11. 100 units of Sovereign Gold Bonds (SGB) of duration around 8 years subscribed on issue on 28th September 2016 at Rs. 2,987 per unit; market price quoted on 31st March 2019 is Rs. 2861; interest @ 2.50% p.a. payable on 31st March and 30th September. First coupon on 31st March 2017. Maturity on 30th September, 2024.
12. Government Securities (Gilt) MF Scheme; open ended scheme; Invested Rs. 4 lakh in New Fund Offering on 23rd January 2017; NAV on 31st March 2019 is Rs. 11.642.
13. Money back insurance plan of 20 year term on the life of Mahesh with sum assured of Rs. 5 Lakh²
14. Unit linked insurance plan (ULIP aggressive allocation; 70% to equity) of 10 years in the name of Mahesh with sum assured of Rs. 5 lakh³

Liabilities as on 31st March 2019:

Housing loan outstanding: Rs. 20.89 Lakh

Goals & Aspirations:

- 1) Plan for medical education of Varun for a term of 6 years, beginning a year from now, estimated to be annually Rs. 10 lakh (current costs) with cost escalation at 8% p.a.
- 2) Plan for post graduation and doctorate of Sapna from abroad, estimated to cost Rs. 1 crore over the next 4 years.
- 3) Create a separate fund to provide holiday expenses annually in the retirement years, amounting to Rs. 1.25 lakh in current terms and escalating at 7% p.a.
- 4) To accumulate funds for marriage of Sapna and Varun when they individually reach 28 years of age. At current costs, they will require Rs. 15 lakh and Rs. 10 lakh respectively at current cost escalating annually at 7%.
- 5) Build retirement corpus to be available when Mahesh completes 60 years, to provide for equivalent household expenses today and required until Neelam survives.

Life Expectancy:

Mahesh	: 80 years
Neelam	: 82 years

¹ Mahesh and Neelam had jointly taken a housing loan of Rs. 30 Lakh in the ratio of their ownership of the house which cost them Rs. 47.50 Lakh on 1st April 2012. The loan is for 15 years at a fixed rate of interest of 9.25% p.a. They pay EMI proportionate to their ownership on the last day of every month.

² Annual premium Rs. 28,875, due in March every year, paid 16 premiums. The policy provides 25% of basic sum assured each on 5th, 10th, 15th years, and on maturity of the policy. (Reversionary Bonus accrued up to 15 years is Rs. 2,43,100)

³ Annual premium of Rs. 35,000 p.a. due in end of April every year; six installments paid till date, this year premium due. (current unit balance 15,554.221 units, NAV: Rs. 16.56 per unit)

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	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		