**Case 2: Ms. Urvashi (Reference Date: 1st April, 2019)**

Ms. Urvashi, aged 34 years, is employed in a senior position in a Mumbai-based firm. She has a son Suryansh aged 14 years and a daughter Dhruvi aged 9 years. She is the sole guardian of her children pursuant to her recent divorce. She is currently residing in a rented house. Suryansh has just passed 8th standard while Dhruvi is studying in 3rd standard. She has approached you, a CFP[CM] practitioner, for preparing a Financial Plan for her family. She has plans to retire early from service at her age of 55 years. She shares the following financial information with you:

| **Salary Income (2019-2020)** | | **Annual (Rs. lakh)** |
|---|---|---|
| Basic Salary | : | 25.00 |
| Employer's contribution to NPS | : | 2.50 |
| HRA | : | 5.00 |
| Other allowances and reimbursements | : | 3.00 |

| **Regular Outgoings:** | | **Monthly (Rs.)** |
|---|---|---|
| Basic Household Expenses | : | 40,000 |
| Services availed | : | 18,000 |
| School Fees | : | 25,000 |
| House Rent | : | 35,000 |
| Power, Telecom & Fuel | : | 12,000 |
| Car Loan EMI | : | 18,275 |

| **Outgoings towards investment and insurance:** | | **(Rs.)** |
|---|---|---|
| Equity Mutual Fund[1] | : | 25,000 (Systematic Investment Plan - SIP) |
| Debt Mutual Fund[2] | : | 15,000 (Systematic Investment Plan - SIP) |
| Insurance Premium[3] | : | 38,759 |
| Health Insurance Premium[4] | : | 27,631 |
| Car Insurance Premium | : | 8,637 |

| **Assets: (Valued on 31st March, 2019)** | | **(Rs. lakh)** |
|---|---|---|
| Equity Mutual Fund schemes | : | 15.45 |
| Debt Mutual Fund schemes | : | 7.65 |
| Equity Shares in Demat Account | : | 23.92 |
| Equity Linked Saving Scheme[5] | : | 3.85 |
| National Pension System (NPS) balance | : | 21.87 |
| Public Provident Fund (PPF) A/c[6] | : | 6.59 |
| Gold & Diamond Jewellery | : | 10.75 |
| Car[7] | : | 4.50 |
| Bank Account (Salary) | : | 3.82 |
| Fixed Deposits[8] | : | 6.00 |
| Deposit with House Owner | : | 3.00 |

| **Liabilities: (Outstanding on 31st March, 2019)** | | **(Rs. lakh)** |
|---|---|---|
| Car loan | : | 5.70 |

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[1] Diversified open-ended growth equity schemes; started 3 years ago with initial investment of Rs. 1 lakh; monthly SIP

[2] Long duration debt schemes with growth option, started 3 years ago, initial investment of Rs. 1 lakh; monthly SIP

[3] Total Cover Rs. 1.5 crore across three policies of Rs. 50 lakh each, all term plans having cover up to Urvashi's age of 50, 53 and 58 year respectively; annual premium

[4] Total cover Rs. 20 lakh on two policies, one is floater Rs. 10 lakh cover, the other in Urvashi's name; annual premium

[5] Invested Rs. 1 lakh in each of the previous three financial years in March every year

[6] Account opened on 21st December 2014

[7] Purchased on 1st March 2016 by availing a loan for Rs. 10 lakh (80% loan to value, 6-year, 9.5% p.a.)

[8] Six Fixed Deposits each of Rs. 1 lakh at 7.75% p.a. interest, maturing on 1st date of months from April to September 2019, all deposits created from 15th September 2017 to 20th October 2017 on weekly intervals.

**Goals:**

You, in consultation with Urvashi, have crystallized the following financial goals, for which the strategy is to be devised and presented to Urvashi:

1. Purchase a house in the next three years costing currently Rs. 1.25 crore; provide for own funds, transfer and stamp duty expenses to the extent of 30% of market value.
2. Expenses toward professional courses to be pursued by children with current outlay of Rs. 25 lakh each required at their respective age of 22 years, such costs escalating at 8% p.a.
3. Marriage expenses of Rs. 10 lakh (current cost) for each child at their respective age of 27 years; cost escalation for such expenses is 6% p.a.
4. Retirement at age 55, to provide for current lifestyle at Rs. 1 lakh monthly till her expected life.
5. Vacation fund for alternate year travel starting from next year until she reaches age 74; current annual costs are Rs. 5 lakh escalating annually at 7%.

**Life Parameters:**

Urvashi's expected life currently estimated : 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 : 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 | | |

1) You are about to present the financial planning recommendations to Urvashi. You have a look at the checklist of things to do at this stage. What would you do that you could have previously missed?
[2 marks]

A. Present your logic on how risks have been mitigated in your recommendations.
B. Disclose any conflict(s) of interest and how they impact your recommendations.
C. Draw a future roadmap to convince Urvashi on how various goals would be achieved with the recommendations being made.
D. Seek Urvashi's approval to the recommendations by presenting instances of your clients who have been benefited in the past.

2) Urvashi wants to understand the rationale of having the periodic review of financial plan that you propose to prepare. Which one shall you avoid to mention?
[2 marks]

A. To find out if adjustments to the earlier recommendations are required due to changes in any personal or economic conditions.
B. To assess the progress towards achieving the goals as per recommendations.
C. To comply with the 6-step financial planning process, the review being the last step.
D. To confirm that the recommendations as agreed are implemented as per roadmap.

3) Urvashi wishes to avail housing loan to the extent of 70% of the value of the desired house in the next 3 years. She wants to fully repay the loan by the time she intends to retire. You consider 8.5% p.a. as the average interest rate on the housing loan to be availed. She asks you by how much EMI on the loan would exceed her current monthly outgo towards house rent.
[3 marks]

A. Rs. 103,653
B. Rs. 44,228
C. Rs. 56,353
D. Rs. 60,703

4) Looking at Urvashi's various insurance policies and the coverage they provide, what is the most appropriate conclusion from the following?
[2 marks]
A. Urvashi needs to take cover against disability and critical illness as she is the only earner in the family; other risks are well covered.
B. Urvashi has to take personal accident cover which is required as she drives her own car.
C. Urvashi's life cover falls drastically after 53 years of age, she needs additional coverage till 60 years of her age.
D. Urvashi needs comprehensive householder policy considering that she is single parent, is employed and is with small children.

5) Urvashi wants to create a Trust that would receive a corpus, in case of any eventuality with her life, towards managing her children's living and educational expenses estimated at Rs. 10 lakh annually, inflation-adjusted, at 8% annual escalation, till her younger child attains 27 years of age. The expenses are supposed to be drawn from Debt instruments. What additional insurance cover do you estimate?
[3 marks]

A. Rs. 23 lakh
B. Rs. 37 lakh
C. Rs. 1.37 crore
D. None, the existing life insurance cover is enough.

6) You, in consultation with Urvashi, adopt a different yardstick for assessing the adequacy of her life insurance. You estimate that Rs. 15 lakh in current terms would be enough to sustain the children's sustenance including their specific goals. Urvashi wishes that this amount be incrementally available year-on-year at 5% escalation to provide income support until the respective age 30 of each child. You estimate drawing this income stream from appropriate mix of debt instruments in which the claim amount would be invested in case of Urvashi's life exigency. What should be the ideal life insurance cover?

[4 marks]

A. Rs. 2.80 crore
B. Rs. 2.06 crore
C. Rs. 2.51 crore
D. Rs. 2.27 crore

7) Urvashi wants to fix her retirement goal by her age of 45 years by buying a 10-year deferred annuity product which shall provide cash flow as per her retirement goal. What funds do you estimate to buy the deferred annuity of yield 6% p.a?
[3 marks]

A. Rs. 2.93 crore
B. Rs. 4.12 crore
C. Rs. 2.17 crore
D. Rs. 2.65 crore

8) Urvashi's retirement corpus as per her goal takes into account current Rs. 1 lakh drawn from 6.5% p.a. yield instruments. She expects her NPS contributions to rise by 5% year-on-year with matching contribution from employer as well. She would invest the maximum permissible subscription in the beginning of every financial year, starting immediately, in her PPF account and would extend the account till her proposed retirement with same discipline. You estimate average returns from NPS and PPF in the investment phase to be 7.5% p.a. and 6.5% p.a., respectively. What proximity of achieving Urvashi's retirement goal do you assess by following this strategy?
[5 marks]

A. Rs. 1.23 crore
B. Rs. 1.57 crore
C. Rs. 1.50 crore
D. Rs. 1.32 crore

9) Urvashi is investing through systematic investment plan (SIP) in equity and debt mutual fund schemes instead of taking direct exposure to equity shares and corporate bonds. Which of the following risks are sought to be reduced in her investment mode?
[2 marks]

A. Concentration risk and liquidity risk
B. Market Risk and interest rate risk
C. Systemic Risk
D. Credit risk, governance and compliance risk

10) Urvashi wants to set aside a portion of her equity portfolio for the marriage of her children as per goal. You advise to redeem a part of such apportioned portfolio 3 years before the marriage of Suryansh and invest in secured debentures of coupon 6.5% p.a. with 3 years' maturity. The same strategy shall be repeated for Dhruvi's marriage expenses. The interest is cumulated and payable on respective maturity of each series of debentures. What do you estimate as the size of the equity portfolio to be carved out today to meet marriage goal expenses using this strategy?
[4 marks]

A. Rs. 8.16 lakh
B. Rs. 11.16 lakh
C. Rs. 11.32 lakh
D. Rs. 9.37 lakh

11) Urvashi wants a lump sum to be invested immediately toward a vacation fund as per her goal. She would additionally contribute a certain fixed amount this year coinciding with receipt of her bonus and would repeat it every year until her proposed early retirement. Consider such contributions in June every year and withdrawal toward vacation to be in December. You consider a portion from equity shares in her demat account, being ETFs equal in value to Rs. 12.78 lakh today, to dedicate as lump sum immediate investment for the goal. You consider annual contributions to the same ETFs. What annual contributions should be directed to achieve this goal?
[5 marks]

A. Rs. 6,28,518
B. Rs. 4,49,932
C. Rs. 4,37,562
D. Rs. 4,08,671

12) Urvashi wants to fund from her equity mutual fund schemes, the professional courses of her children as per goals. You advise to rearrange her equity mutual fund schemes into four different strategic theme equity funds to give a combined return of 12.5% p.a. Also, regular monthly investments are started immediately in the same funds. As per a risk-off strategy made, half of the funds required for each child's professional course will be redeemed three years and one year prior to actual requirement in an assured return instrument of 6.5% and 5%, respectively. What do you estimate as the size of monthly investments in rearranged theme equity schemes in the next 12 years to achieve goals using this strategy?

[5 marks]

A. Rs. 6,716
B. Rs. 75,149
C. Rs. 27,603
D. Rs. 1,11,341

13) Urvashi, in case of her life contingency, is apprehensive about managing the affairs of her children. You advise her to set up a common Minor Beneficiary Trust for Suryansh and Dhruvi. What do you put forth as your argument?
[2 marks]

A. Such a Trust shall protect assets transferred and shall manage them as per guidelines issued to the trustee until either or both of her children reach/es a specified age to be defined by Urvashi
B. Such a Trust shall protect and manage assets for her children only until they individually reach majority, i.e. 18 years of age
C. Such a Trust shall not take further resources/assets/inheritances once the benefits have been transferred to it and the guidelines specified by Urvashi for their use
D. Such a Trust shall strictly prevent early distribution of assets before both Suryansh and Dhruvi attain majority, i.e. 18 years of age

14) Urvashi has 7,500 shares of an unlisted company in physical form which he acquired in private equity offering at Rs. 10 per share in March 2012. She has got an offer to transfer these for a consideration of Rs. 4.25 lakh. What would be the tax liability of this transaction alone for AY 2020-21?
[3 marks]

A. LTCG tax of Rs. 1,09,200
B. LTCG tax of Rs. 63,898
C. STCG tax of Rs. 36,400
D. STCG tax of Rs. 72,800

15) Urvashi does not want to continue with her investment in debt mutual fund scheme. You observe that the initial investment was made at NAV of Rs. 17.521 on March 1, 2016 and SIP of 36 months is continued on 15th of each month since April, 2016. The current NAV at which the fund value is quoted in her assets is Rs. 26.238. What would be the tax liability for the redemption transaction alone for AY2020-21 if all the units in the debt mutual fund scheme are redeemed at this NAV today?
[5 marks]

A. Rs. 26,000
B. Rs. 30,960
C. Rs. 23,130
D. Rs. 33,830