

Case – A: (Reference date: 2nd April, 2011)

Ashwin Agarwal, aged 34 years, is employed with an oil exploration company since December 2002. He is an engineer by profession and is part of project team that manages oil rigs worldwide. He has to tour extensively in different parts of the world in connection with the company's projects. He has approached you, a CFP^{CM} 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 family's monthly house hold expenses are Rs. 40,000 p.m. (excludes EMI on loans and insurance premium). Ashwin's parents stay in their ancestral house at Bikaner. His father is engaged in a small business. Ashwin however supports his parents financially to the extent of Rs. 10,000 p.m.

Ashwin Agarwal's monthly salary:

Basic Salary	:	Rs. 48,000
Dearness Allowance ¹	:	50% of Basic salary
House Rent allowance	:	Rs. 12,000
Transport Allowance	:	Rs. 4,000
Medical Reimbursement	:	Actual expenses up to Rs. 1,250 per month
Entertainment Allowance	:	Rs. 5,000
PF & Superannuation	:	12% of Basic Salary

Sumedha's monthly salary:

Basic Salary	:	Rs. 30,000
Dearness Allowance	:	30% of Basic salary
House Rent allowance	:	Rs. 8,000
Transport Allowance	:	Rs. 800
Executive Allowance	:	Rs. 7,500
PF & Superannuation	:	12% of Basic Salary

Couple's Assets & Liabilities (As on 31st March, 2011 unless otherwise specified in foot notes)

Assets:

House	:	Rs. 35.00 lakh
Car	:	Rs. 3.50 lakh (Depreciated value)
PPF (maturity on 1st April 2018):	:	Rs. 2.90 lakh
Insurance – Money Back policy ²	:	Rs. 4.00 lakh
Child Plan – Life Insurance ³	:	Rs. 20.00 lakh (Sum Assured)
Gold ornaments	:	Rs. 6.50 lakh
Equity Mutual Fund scheme	:	Rs. 5.07 lakh
Balanced Mutual Fund scheme	:	Rs. 3.28 lakh

¹ 100% of DA received forms part of salary for retirement benefits

² Purchased the 20-year policy on 18th November, 2004; annual premium Rs. 17,864; 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

Debt Mutual Fund Scheme	:	Rs. 1.73 lakh
Portfolio of Equity Shares	:	Rs. 6.32 lakh
Bank fixed deposit ⁴	:	Rs. 2.50 lakh
Cash/Bank Balance	:	Rs. 0.75 lakh

Liabilities:

Home loan ⁵	:	Rs. 12.97 lakh (Principal outstanding)
Car Loan ⁶	:	Rs. 2.93 lakh (Principal outstanding)

Goals:

1. To provide for higher education of Prateek and Aslia. The expenses, at current cost, required for each at their respective age of 18 years, are Rs. 3 lakh and for 4 subsequent years, Rs. 2 lakh p.a.
2. Marriage expenses of Rs. 15 lakh (current cost) for each child at their respective age of 27 years.
3. Retirement corpus at Ashwin's age of 60 to sustain the same lifestyle till their expected life time.
4. A bigger house a year from now, valued at Rs. 65 lakh today.
5. To build a separate fund for vacation expenses of Rs. 2 lakh (current cost) every year starting 10 years from now till Ashwin's retirement.

Life Parameters:

Ashwin's expected life	:	80 years
Sumedha's expected life	:	82 years

Assumptions:

A. Regarding long-term pre-tax returns on various asset classes:

1. Equity & Equity MF schemes /Index ETFs : 11.00% p.a.
2. Balanced MF schemes : 9.00% p.a.
3. Bonds/Govt. Securities/Debt MF schemes : 7.00% p.a.
4. Liquid MF schemes : 5.50% p.a.
5. Gold & Gold ETF : 7.50% p.a.

B. Regarding economic factors (long-term view):

1. Inflation : 5.50% p.a.
2. Risk free rate : 6.50% p.a.
3. Real Estate appreciation : 8.00% p.a.

Cost Inflation Index:

1981-82	100	1986-87	140	1991-92	199	1996-97	305	2001-02	426	2006-07	519	2011-12	785
1982-83	109	1987-88	150	1992-93	223	1997-98	331	2002-03	447	2007-08	551		
1983-84	116	1988-89	161	1993-94	244	1998-99	351	2003-04	463	2008-09	582		
1984-85	125	1989-90	172	1994-95	259	1999-00	389	2004-05	480	2009-10	632		
1985-86	133	1990-91	182	1995-96	281	2000-01	406	2005-06	497	2010-11	711		

⁴ Subscribed on 01.09.2009 @ 10% p.a. with interest compounded quarterly; renewed at same rate and terms for one more year on 01.09.2010.

⁵ Home loan of Rs. 17 lakh taken on 1st November, 2005 at a fixed interest of 7.5% p.a. for a 15-year term. No insurance taken on property.

⁶ Car loan of Rs. 4.50 lakh taken on 1st April, 2009 at a fixed interest of 11.25% p.a. for a 4-year term. Car insured only for Third Party claims.