

Case C

Case: Ms. Sahanubhuti Vanaspati (Reference Date: 1st April, 2011)

Ms. Sahanubhuti Vanaspati, aged 34 years, is working in Mumbai. She has a daughter Shambhavi aged 12 years and she is the sole guardian of her daughter pursuant to the death of her husband Manohar. She is currently residing in a rented house. Her daughter is studying in the 6th Standard. She has approached you, a CFP^{CM} practitioner, for preparing her Financial Plan. She has shared the following financial information with you:

<u>Salary Income:</u>		<u>Annual (Rs. lakh)</u>
Basic Salary	:	36.00
HRA	:	6.00
Conveyance Allowance	:	1.50
Variable Salary	:	7.50
<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 & Fuel	:	12,500
Car Loan EMI	:	25,585
<u>Other Monthly & Annual cash outflows</u>		
SIP – Equity Mutual Fund	:	15,000(Monthly)
SIP – Balanced Mutual Fund	:	10,000(Monthly)
Insurance Premium (Term Plan) ¹	:	38,759
Health Insurance Premium ²	:	27,631
<u>Assets</u>		<u>Market Value (Rs. lakh) as on 31st March, 2011</u>
Equity Mutual Fund portfolio	:	32.45
Balanced MF scheme investment	:	12.79
Debt MF	:	5.98
Demat Account - Shares	:	21.92
PPF A/c. (maturing 1 st April, 2017) ³	:	6.59
Gold & Diamond Jewellery	:	15.75
Car ⁴	:	7.50
Bank Salary Account	:	2.82
Savings Bank account – Sahanubhuti ⁵	:	33.26
Deposit with House Owner	:	3.00

¹ (Annual – 3 policies/ Total Cover Rs. 1.45 crore)

² (Annual – 2 policies/ Total cover Rs. 20 lakh)

³ Balance as on 31st March, 2011

⁴ Car purchased out of a loan availed of Rs. 14 lakh on 1st March 2008, interest being charged on reducing monthly balance for a term of 6 years.

⁵ Includes Rs. 20 lakh received from life insurer of Manohar.

Money Back Insurance Plan ⁶ : 5.00
 Liabilities Outstanding (Rs. lakh) as on 31st March, 2011

Car loan : 7.99

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

1. Send her daughter to a Boarding School – Immediately – Outlay Rs. 1.80 lakh p.a. (present cost) – for 6 years – To be met on year to year basis by investing a suitable corpus – education costs are escalating at 10% p.a.
2. Buy a house –Outlay of Rs. 70 lakh – Look for a ready-to-occupy house immediately.
3. Invest suitably for the Higher Education of Shambhavi – Higher Education starts after 6 years – present cost Rs. 2.5 lakh p.a. for a term of 5 years – higher education costs are escalating at 8% p.a.
4. To invest monthly for Shambhavi’s wedding when she completes 25 years of age. The estimated present cost of marriage is Rs. 15 lakh, and cost escalation for marriage is 7% p.a.
5. Retirement Corpus at age 60 years – Corpus to sustain an annuity of Rs. 60,000 p.m. (current cost) inflation linked for a post-retirement life of 25 years.
6. A World Tour– after 11 years – Outlay of Rs. 8 lakh at current prices, cost escalation of 8% p.a. is expected.
7. A suitable Estate Planning to cover all her physical and financial assets.

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:

- 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		

⁶ Sum Assured of Rs. 5 lakh, Term of 15 years, Annual Premium of Rs. 45,565, Purchased on 18th September, 2006.