

Case D: Sachin Dev (Reference date: 2nd April, 2011)

Sachin Dev has approached you, a CERTIFIED FINANCIAL PLANNER^{CM} practitioner, for preparing a comprehensive Financial Plan to accomplish his financial goals. From your initial meeting, you have gathered the following information:

Sachin Dev, aged 40 years, is self employed. His wife Poonam, aged 39 years, has recently joined a government organization. She has a post-tax income of Rs. 5.5 lakh p.a. (pre-tax Rs. 6 lakh). She is expected to retire at the age of 58 years. They stay in a rented house at Delhi. They have two children, Nakul aged 14 years and Umang, aged 8 years. Nakul is studying in 8th standard while Umang is studying in 2nd standard. Sachin's net annual Income from his business is Rs. 9 Lakh. The family's monthly household expenses, excluding housing loan EMI are approximately Rs. 50,000 per month, out of which Rs. 10,000 is for Sachin's self-consumption. Sachin had earlier worked with several companies for 15 years before starting his own firm, a recruitment agency. In this venture, Sachin has to travel extensively, sometimes abroad as well, in connection with his dealing with MNCs. Recently, he has been doing well in his business and in last two years had earned Net Profit of Rs. 10 Lakh and Rs. 15 Lakh annually.

Sachin had taken a housing loan of Rs. 12 Lakh disbursed on 1st April 2007. They are presently paying EMI at the end of every month beginning from the month of disbursement. The loan is at a fixed interest of 8.5% p.a. for first 3 1/2 years and 9.25% p.a. thereafter (reducing monthly balance basis) with tenure of 12 years. He has paid 6 annual premiums till date regularly for his ULIP policy. He has also taken a family floater policy of health insurance which covers him and his two sons. He has paid 11 annual premiums till date regularly for his money-back insurance plan. The money back policy provides for 25% of the basic sum assured to the insured as survival benefit after 4th, 8th, 12th years from the start of the policy.

Sachin's parents are senior citizens and live in the house owned by Sachin in Gurgaon. His parent's source of income is by way of interest received from their joint Senior Citizen Savings Scheme account and Sachin is also supporting his parents financially to the extent of Rs. 10,000/- p.m. Joint Senior Saving Scheme (Maturity: November 1, 2010) was having Rs. 12,31,425 as closing balance at the time of maturity. Sachin's younger brother, Rahul is self-employed, is living with his parents.

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

Assets:

House	Rs. 55 lakh
Agricultural Land	Rs. 10 lakh
Car	Rs. 3.25 lakh
Gold ornaments with Poonam	Rs. 4.5 lakh
Diversified Equity MF Scheme (Sachin)	Rs. 3.0 lakh
Diversified Equity MF Scheme (Poonam)	Rs. 4.50 lakh

PPF A/c ¹ (Sachin)	Rs. 5.50 lakh
PF ² (Poonam)	Rs. 2.45 Lakh
Unit Linked Pension Plan ³ (Sachin)	Rs. 4.00 Lakh
Family Floater Policy ⁴ (Sachin)	Rs. 6.00 lakh
Money Back Policy ⁵ (Sachin)	Rs. 5.00 lakh
Equity shares of Kunj Chemicals Ltd.	Rs. 2.50 lakh
PO MIS A/c (Jointly in the names of Nakul & Umang)	Rs. 4.50 lakh
Kisan Vikas Patra	Rs. 2.50 lakh
Life Insurance Policy (Sachin)	Rs. 15.00 lakh
Post Office Recurring Deposit (Nakul & Umang)	Rs. 2.50 lakh
Cash in Hand	Rs. 0.80 lakh

Liabilities:

Credit Card Outstanding	Rs. 1.5 lakh
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Sachin also invested Rs. 6 lakh in an Agriculture land at his native village Joginderpur in 2001-02. Joginderpur has a population of about 8,000 as per the Census 2001 and the nearest urban place is at a distance of 15 km. Sachin's father is also having a house in his name in his hometown.

Goals:

1. To make provision for their children's higher education expenses at their respective age of 21 years. Such expenses are Rs. 8 lakh for each child at current prices.
2. To make provision for children's marriage expected at the end of 10 years and 16 years from now; presently valued at Rs. 10 lakh each.
3. Accumulate a corpus for the couple's old age, needed 18 years from now
4. To go on a vacation to Europe with family for in February 2013.
5. He wishes to purchase a new car for Rs. 11 lakh

Life Parameters:

Sachin's expected life	:	75 years
Poonam's expected life	:	73 years

Assumptions regarding long-term pre-tax returns on various asset classes:

1. Equity & Equity MF schemes/ Index ETFs : 11.00% p.a.

¹ balance on 31st March, 2011, maturity on 1st April 2017

² balance on 31st March, 2011

³ 20-year term, the annual premium being Rs. 20,500, the next premium due on 1st Dec 2011

⁴ Annual premium of Rs. 12,000

⁵ 16-year term, the annual premium being Rs. 20,250

- 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.

Assumptions regarding economic factors:

- 1. Inflation : 5.50% p.a.
- 2. Expected return in Risk free instruments : 6.50% p.a.
- 3. Real Estate appreciation : 8.00% p.a.
- 4. The telegraphic transfer buying and selling rate of US\$ adopted by the Bank is as follows:

	Buying(1US\$)	Selling (1US\$)
12/09/2001	43	45
11/10/2001	44	46
30/03/2010	46	48

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		