

Case – E: (Reference Date: 2nd April 2011)

Mahesh and Neelam Desai approached you, a CFP^{CM} practitioner for preparing a Financial Plan to achieve their financial goals. Mahesh Desai, aged 45 years, is working in Bangalore for an MNC, at a managerial level. His wife Neelam, aged 42 years, is working in a Private Company and has a post-tax income of Rs. 4 lakh p.a. Mahesh's gross salary is likely to grow at 7% p.a. and Neelam's gross salary is likely to grow at 6% p.a. They are married for 22 years now. The couple has two children - daughter Sapna, aged 18 years, pursuing her Graduation in Economics, and son Varun, aged 16 years, studying in 12th standard. Varun intends to become a Doctor.

The family's monthly household expenses are Rs. 40,000 excluding EMI on loans and Insurance premiums. Mahesh has two siblings. Mahesh and his family stay with his mother. His father passed away due to severe heart attack on 15-Dec-2010, at the age of 75 years, leaving a house (Value on 15th Dec 2010 Rs. 25 lakh) in which they are currently staying.

Mahesh has a term insurance of Rs. 20 lakh (for 20 years), the term expires 5 years from now. Both are covered under Group Medical Insurance by their respective employers. They additionally have a Rs. 4 Lakh family floater policy.

Salary Breakup of Mahesh for FY 2011-12

Components	Annually (Rs)
Basic	4,16,000
House Rent Allowance	2,70,000
Dearness Allowance	1,50,000
Transport Allowance	40,000
Medical Reimbursement	30,000
Entertainment Allowance	42,000
Total	9,48,000

The couple's assets as on 31-3-2011 are;

1. Cash in Hand Rs. 10,000
2. Bank balance Rs. 50,000
3. Diversified Equity Mutual Fund units at market value Rs. 5.70 lakh
4. Equity Shares at market value Rs. 15.25 lakh
5. Debt oriented Mutual Fund units at market value Rs. 9.17 lakh
6. PPF A/c balance Rs. 4.25 lakh (Mahesh), Rs. 3.15 lakh (Neelam), both maturing on 1st April 2016
7. ELSS Mutual Fund, Rs. 75,000 each (Face Value) invested in March, 2010 and March, 2011.
8. A separate house is in the joint name of Mahesh and Neelam with 50% ownership of each. This house has two floors and is let out for rent of Rs. 8,000 p.m. each floor. Present Market Value of this House is Rs. 70 Lakh¹
9. Gold Ornaments at market value Rs. 6.35 lakh
10. Car at market value Rs. 2.60 lakh
11. 300 Gold ETF units purchased on 17th Oct 2006 @ 983 per unit

¹ Mahesh and Neelam had jointly taken a housing loan of Rs. 30 Lakh to purchase the house costing Rs. 37.50 Lakh on 1st April 2004. They pay an EMI of Rs. 16,349 each, EMI date being last day of the month. The loan is for 15 years at a fixed rate of interest of 10.25% p.a.

12. Fixed Maturity Plan of Mutual Fund Rs. 4 lakh (Face Value) maturity date 1st April, 2012.
13. Money back insurance plan of 20 year term with sum assured of Rs. 5 Lakh²
14. Unit linked insurance plan of 10 years with sum assured of Rs. 5 lakh³, premium due in December, four instalments paid till date

Liabilities as on 31-3-2011 are:

Housing loan outstanding : Rs. 21.36 Lakh

Goals & Aspirations:-

- 1) Plan for Varun's medical education expenses spanning a period of 5 years, required at the end of one year from now which is likely to be Rs. 5 lakh p.a. (then cost) and increasing thereafter at 8% p.a., for the next 4 years.
- 2) Plan for Sapna's goal of Post Graduation degree from abroad which is likely to cost Rs.25 lakh in present terms required after three years, such expenses escalating by 10% p.a.
- 3) Create a separate fund to provide every year post-retirement till his lifetime, annual holiday expenses, cost-escalated, amounting to Rs. 75,000 in current terms, such expenses increasing at the rate of 7% p.a.
- 4) To accumulate funds for marriage of Varun and Sapna. For Varun they will require in present terms Rs. 10 lakh when he attains 26 years and for Sapna they would require Rs. 15 lakh when she attains 25 years, marriage expenses are escalating by 7.5% p.a.
- 5) Build a retirement corpus for inflation-adjusted expenses in the couple's post-retirement period at 75% of pre-retirement expenses, retirement to be considered on Mahesh's age of 60 years.

Life Expectancy

Mahesh : 80 years
Neelam : 78 years

Assumptions 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.

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.

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		

² Annual premium of Rs. 23,750. Paid 16 annual premiums till date before due date. The policy provides 25% of basic sum assured to insured as survival benefit after 5th, 10th, 15th years from the start of the policy.

³ Annual premium of Rs. 35,000 p.a.