

Case – B:

(Reference Date: 1st April 2017)

Gurpreet, aged 43 years, having twins Roshan and Geet of age 14 years, is a software engineer in a company based in Mumbai. His spouse passed away recently. Both his children study in the 8th Standard. His average monthly household expenses are Rs. 1.40 lakh, which include rent of Rs. 45,000 on the rented apartment, but exclude car loan EMI and all insurance premiums. He has approached you, a CFP^{CM} practitioner, for preparing a financial plan for his family. He has shared the following financial information with you:

Gurpreet's Assets & Liabilities (As on 31st March, 2017)

<u>Assets</u>		(Rs. Lakh)
Equity MF schemes portfolio	:	26.47
Balanced MF schemes portfolio	:	9.78
Equity shares portfolio ¹	:	55.92
Gold Jewelry	:	2.17
Gold ETF ²	:	3.21
PPF A/c. ³	:	7.87
Equity linked savings scheme (ELSS) ⁴	:	22.75
Physical Gold (coins/bars)	:	11.25
Car	:	4.80
Liquid fund scheme	:	10.25
Corporate bonds of M/s.XYZ Ltd. ⁵	:	8.50
Bank account – Gurpreet ⁶	:	103.25

<u>Liabilities</u>		(Rs. Lakh)
Car loan ⁷	:	5.01
Credit Cards	:	0.72

<u>Salary Income (Annual)</u>		(Rs. lakh)
Basic Salary	:	30.00
Dearness Allowance	:	9.00
HRA	:	4.80
Special Allowance	:	0.90
Variable Salary (Bonus)	:	6.00
Employers' contribution to PF	:	3.60

¹ Securities at cost Rs. 35.62 lakh. Last purchase made in March, 2016

² Invested Rs. 1.6 lakh on 17 July 2006 in the NFO of Gold ETF

³ Account maturing on 1st April, 2023

⁴ Invested Rs. 1,00,000 every year for 6 years from 2005 to 2010

⁵ Investment in 5-year bonds is stated at face value, purchased on Issue on August, 18, 2013; coupon rate 11% p.a. payable half-yearly on 1st October and 1st April every year

⁶ Received Rs. 80 lakh towards insurance claim on the life of his deceased wife

⁷ Taken in August 2015 at 11% p.a. on reducing monthly balance basis for a term of 4 years

Other cash outflows (Annual)**(Rs.)**

Term Plan Insurance premium	:	62,857 (Total Cover Rs. 1.50 crore)
Endowment Insurance premium ⁸	:	1,75,527 (Sum assured Rs. 30 lakh)
Health Insurance Premium	:	27,631 (Annual – 2 policies/ Total cover Rs. 20 lakh)

Goals:

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

1. Send both the children to a Boarding School immediately – Outlay Rs. 5.15 lakh per child per annum – for 4 years – To be met year on year basis by investing a suitable corpus today.
2. Buy a house – within one year – Outlay of Rs. 1.50 crore – Take a loan not exceeding Rs. 50 lakh with full repayment coinciding with retirement.
3. Send Roshan for Higher Education abroad after he completes boarding education. The estimated outlay is Rs. 1.50 crore then.
4. To send Geet for a course in fashion technology of 4 years duration after she completes boarding education. The current cost is Rs. 10 lakh per year, escalating at 8% p.a.
5. Retirement Corpus – To be accumulated in 17 years – Corpus to sustain inflation-adjusted income equivalent to current Rs. 80,000 monthly for 25 years post-retirement.
6. Undertake a World Cruise Trip with both children on their completing higher education/ professional course. The Trip costs in US Dollars 50,000 per person at current exchange rate of 66.76 INR/USD. Average annual Rupee depreciation vis-à-vis USD of 2% and cost escalation of Trip at 3% p.a. is expected.
7. To accumulate funds for marriage of his children, each marrying sometime after their respective age of 25. Each marriage costs today Rs. 25 lakh, such costs escalate by 7% p.a.
8. Suitable Estate Planning to cover all his physical and financial assets.

Life Parameters

Gurpreet's expected life : 85 years

Assumptions regarding pre-tax 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 (> 1 year)	:	7.25% p.a.
8) Public Provident Fund/EPFO	:	7.75% p.a.

Assumptions regarding economic factors:

1) Inflation	:	5.00% p.a.
2) Expected return in Risk free instruments	:	5.50% p.a.

⁸ Term of 20 years, Purchased on 15th March, 2007.

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		
2003-04	109	2007-08	129	2011-12	184	2015-16	254		
2004-05	113	2008-09	137	2012-13	200	2016-17	264		