

## **Case – D:**

(Reference Date: 1st April 2017)

Mahesh and Neelam approached you, a CFP<sup>CM</sup> practitioner for preparing a Financial Plan to achieve their financial goals. Mahesh, aged 45 years, is working in Bengaluru for an MNC, at a managerial level. His wife Neelam, aged 42 years, is working in a Private Company and has gross income of Rs. 5 lakh p.a. The gross salary of both Mahesh and Neelam is likely to grow at 7% 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. Sapna intends to pursue her post-graduation and doctorate in economic sciences from a foreign educational institution. Varun has inclination to become a Doctor.

The family's monthly household expenses are Rs. 60,000 excluding EMI on loans and Insurance premiums. Mahesh's family along with his mother are currently staying in a house which was owned by his father, who passed away in December 2016. The house is valued at Rs. 75 lakh today.

Mahesh has a term insurance of Rs. 50 lakh (for 20 years, annual premium Rs. 13,985), the term expires 15 years from now. Both are covered under Group Medical Insurance by their respective employers. They additionally have a Rs. 10 Lakh family floater policy (annual premium Rs. 20,386 paid by Mahesh).

### **Salary Breakup of Mahesh for FY 2017-18**

Components	Annually (Rs)
Basic	7,16,000
House Rent Allowance	1,80,000
Dearness Allowance	2,50,000
Transport Allowance	96,000
Medical Reimbursement	15,000
Entertainment Allowance	60,000
Total	13,17,000

### **The couple's assets as on 31st March 2017**

1. Cash in Hand Rs. 50,000
2. Bank balance Rs. 2,50,000
3. Diversified Equity Mutual Fund units at market value Rs. 12.78 lakh
4. Equity Shares at market value Rs. 25.83 lakh
5. Debt Mutual Fund units at market value Rs. 12.17 lakh
6. PPF A/c balance Rs. 8.25 lakh (Mahesh), Rs. 3.15 lakh (Neelam), both maturing on 1st April 2021
7. ELSS Mutual Fund scheme (growth option), Rs. 75,000 invested on March 20, 2015 at NAV Rs. 14.81 and Rs. 75,000 invested on February 3, 2017 at NAV of Rs. 16.95. The current NAV is Rs. 16.26 per unit
8. A separate house in joint ownership of Mahesh and Neelam with respective shares of 75% and 25%. This house has two floors and is let out for rent of Rs. 12,000 p.m. each floor Present Market Value of this House is Rs. 1 core<sup>1</sup>
9. Gold Ornaments at market value Rs. 8.35 lakh
10. Car at market value Rs. 2.60 lakh

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<sup>1</sup> Mahesh and Neelam had jointly taken a housing loan of Rs. 30 Lakh in the ratio of their ownership of the house which cost them Rs. 47.50 Lakh on 1<sup>st</sup> April 2010. The loan is for 15 years at a fixed rate of interest of 9.25% p.a. They pay EMI proportionate to their ownership on the last day of every month

11. 100 units of Sovereign Gold Bonds of 8-year maturity subscribed on 28th December 2016 at Rs. 2987 per unit; market price quoted on 31<sup>st</sup> March 2017 is Rs. 2861; interest @ 2.50% p.a. payable semi-annually on 30 June and 31 December
12. Government Securities (Gilt) MF Scheme; open ended scheme; Invested Rs. 4 lakh in New Fund Offering on 23rd March 2015; NAV on 31 March 2017 is 12.642
13. Money back insurance plan of 20 year term on the life of Mahesh with sum assured of Rs. 5 Lakh<sup>2</sup>
14. Unit linked insurance plan (aggressive allocation; 70% to equity) of 10 years in the name of Mahesh with sum assured of Rs. 5 lakh<sup>3</sup>

### **Liabilities as on 31st March 2017**

Housing loan outstanding : Rs. 20.89 Lakh

### **Goals & Aspirations**

- 1) Plan for Varun's medical education expenses for 6 years, beginning a year from now, estimated to be annually Rs. 10 lakh (current costs) with cost escalation at 8% p.a.
- 2) Plan for Sapna's Post Graduation from abroad after three years, estimated to cost lump sum Rs. 75 lakh (current costs) cost escalation at 10% p.a.
- 3) Create a separate fund to provide holiday expenses annually throughout their retired life, amounting to Rs. 75,000 in current terms and escalating at 7% p.a.
- 4) To accumulate funds for marriage of Varun and Sapna. At current costs, they will require Rs. 10 lakh and Rs. 15 lakh respectively for the marriages of Varun and Sapna when they individually reach 28 years of age; such expenses escalate at 7% p.a.
- 5) Build a retirement corpus for inflation-adjusted current household expenses, retirement on Mahesh's age of 60 years, expenses required till Neelam's survival.

### **Life Expectancy**

Mahesh : 80 years  
Neelam : 82 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.

<sup>2</sup> Annual premium Rs. 28,875, due in March every year, paid 16 premiums. The policy provides 25% of basic sum assured each on expiry of 5th, 10th, 15th years, and on maturity of the policy. (Reversionary Bonus accrued: Rs. 2,43,100)

<sup>3</sup> Annual premium of Rs. 35,000 p.a. due in end of April every year; six installments paid till date, this year premium due. (current unit balance 15,554.221 units, NAV: Rs. 16.56 per unit)

**Cost Inflation Index:**

A)

<b>FY</b>	<b>CII</b>	<b>FY</b>	<b>CII</b>	<b>FY</b>	<b>CII</b>	<b>FY</b>	<b>CII</b>	<b>FY</b>	<b>CII</b>
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		