Case 2: Ms. Urvashi (Reference Date: 1st April, 2017)

Ms. Urvashi, aged 34 years, is employed in a senior position in a Mumbai-based firm. She has a son Suryansh aged 14 years and a daughter Dhruvi aged 9 years. She is the sole guardian of her children pursuant to her recent divorce. She is currently residing in a rented house. Suryansh has just passed 8th standard while Dhruvi is studying in 3rd standard. She has approached you, a CFP^{CM} practitioner, for preparing a Financial Plan for her family. She has plans to retire early from service at her age of 55 years. She shares the following financial information with you:

Salary Income (2017-2018)		Annual (Rs. lakh)
Basic Salary	:	25.00
Employer's contribution to NPS	:	2.50
HRA	:	5.00
Other allowances and reimbursements	:	3.00

Regular Outgoings:		Monthly (Rs.)
Basic Household Expenses	:	40,000
Services availed	:	18,000
School Fees	:	25,000
House Rent	:	35,000
Power, Telecom & Fuel	:	12,000
Car Loan EMI	:	18,275

Outgoings towards investment and insurance:		(Rs.)
Equity Mutual Fund[1]	:	25,000 (Systematic Investment Plan - SIP)
Debt Mutual Fund[2]	:	15,000 (Systematic Investment Plan - SIP)
Insurance Premium[3]	:	38,759
Health Insurance Premium[4]	:	27,631
Car Insurance Premium	:	8,637

Assets: (Valued on 31st March, 2017)		(Rs. lakh)
Equity Mutual Fund schemes	:	15.45
Debt Mutual Fund schemes	:	5.79
Equity Shares in Demat Account	:	23.92
Equity Linked Saving Scheme[5]	:	3.85
Public Provident Fund (PPF) A/c[6]	:	6.59
Gold & Diamond Jewellery	:	10.75
Car[7]	:	4.50
Bank Account (Salary)	:	3.82
Fixed Deposits[8]	:	6.00
Deposit with House Owner	:	3.00

[1] Diversified open-ended growth equity schemes; started 3 years ago with initial investment of Rs. 1 lakh; monthly SIP

[2] Long-term long duration debt schemes with growth option, started 2 years ago, initial investment of Rs. 1 lakh; monthly SIP

[3] Total Cover Rs. 1.5 crore across three policies of Rs. 50 lakh each, all term plans having cover up to Urvashi's age of 50, 53 and 58 year respectively; annual premium

[4] Total cover Rs. 20 lakh on two policies, one is floater Rs. 10 lakh cover, the other in Urvashi's name; annual premium

[5] Invested Rs. 1 lakh in each of the previous three financial years in March every year

[6] Account opened on 21st December 2009

[7] Purchased on 1st March 2014 by availing a loan for Rs. 10 lakh (80% loan to value, 6-year, 9.5% p.a.)

[8] Six Fixed Deposits each of Rs. 1 lakh at 7.75% p.a. interest, maturing on 1st date of months from April to September 2017, all deposits created from 15th September 2015 to 20th October 2015 on weekly intervals

Liabilities: (Outstanding on 31st March, 2017) (Rs. lakh)

Car loan : 5.70

You, in consultation with Urvashi, have crystallized the following financial goals, for which the strategy is to be devised and presented to Urvashi:

1. Purchase a house in the next three years costing currently Rs. 1.25 crore; provide for own funds, transfer and stamp duty expenses to the extent of 30% of market value
2. Create a pool account and manage the same to plan for basic education of both children till their respective 18 years of age; current costs are Rs. 1.5 lakh p.a. till age 14 and Rs. 2 lakh p.a. thereafter till age 18, such expenses escalate at 10% p.a.
3. Create a corpus for higher education of both children at their respective age of 18 years; Rs. 25 lakh is the outlay in current terms for each child, such costs escalate at 8% p.a.
4. Create a combined corpus for the professional courses to be pursued by children with current outlay of Rs. 25 lakh each required at their respective age of 22 years, such costs escalating at 9% p.a., such corpus sustaining till the marriage of both the children tentatively at their respective age of 27 years; marriage costs at Rs. 20 lakh per marriage, escalating at 7% p.a.
5. Retirement Corpus for post-retirement income stream equivalent to 60% current expenses arrived at by omitting rent, EMI and school fees and considering provisions for gifting a lump sum (value then) Rs. 1 crore combined to her children when Urvashi attains 75 years of age; a further provision of donating lump sum (value then) Rs. 1 crore to a charitable trust on reaching age 85.
6. Create a fund in 10 years for a family world tour at an estimated Rs. 10 lakh at current costs, such costs escalating at 5% p.a.

Life Parameters:

Urvashi's expected life currently estimated : 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.

Cost Inflation Index:

Questions:

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		

1) Urvashi asks if you can show her the actual financial plan made of another client. Under which of the following Code of Ethics you are prohibited to reveal one client's details to others.

[2 marks]

A. Code of Ethics of Professionalism
B. Code of Ethics of Fairness
C. Code of Ethics of Confidentiality
D. Code of Ethics of Integrity

2) You have just defined and discussed with Urvashi the basic terms of the financial plan construction. As per Financial Planner Practice Standards, what should be your next logical step?

[2 marks]

A. To inform Urvashi about the terms of the engagement
B. To collect the quantitative and qualitative information of Urvashi
C. To define the financial goal of Urvashi
D. To apprise Urvashi of your expertise in certain areas to elicit her goals accordingly

3) Urvashi wishes to avail housing loan to the extent of 70% of the value of the desired house in the next 3 years. She wants to fully repay the loan by the time she intends to retire. You consider 8.5% p.a. as the average interest rate on the housing loan to be availed. She asks you by how much EMI on the loan would exceed her current monthly outgo towards house rent.

[3 marks]

A. Rs. 103,653
B. Rs. 44,228
C. Rs. 56,353
D. Rs. 60,703

4) Looking at Urvashi's various insurance policies and the coverage they provide, what is the most appropriate conclusion from the following?

[2 marks]

A. Urvashi needs to take cover against disability and critical illness as she is the only earner in the family; other risks are well covered.
B. Urvashi has to take personal accident cover which is required as she drives her own car.
C. Urvashi's life cover falls drastically after 53 years of age, she needs additional coverage till 60 years of her age.
D. Urvashi needs comprehensive householder policy considering that she is single parent, is employed and is with small children.

5) Urvashi wants to create a Trust that would receive a corpus, in case of any eventuality with her life, towards: (A) a Rs. 1 crore worth house to accommodate both children; (B) their living expenses, inflation-adjusted, currently estimated at Rs. 9 lakh annually till Dhruvi attains 27 years of age. The expenses are supposed to be drawn from Debt instruments. Estimate additional insurance cover required to achieve this.

[3 marks]

A. Rs. 36 lakh
B. Rs. 84 lakh
C. Rs. 180 lakh
D. Rs. 5 lakh

6) Urvashi's net contribution to family in the year 2017-2018 would be after an estimated tax of Rs. 7.5 lakh and 25% of such post-tax income on own consumption. This contribution is expected to increase at 5% p.a. in her service tenure. You estimate Urvashi's income replacement considering investment yield of 8.5% p.a. What additional life cover would be needed?

[4 marks]

A. Rs. 1.16 crore
B. Rs. 52 lakh
C. Rs. 1.90 crore
D. Rs. 1.45 crore

7) You initially arrived at Urvashi's retirement corpus to be accumulated by considering household consumption at current level including services availed, power, telecom, etc. up to her expected life; the corpus invested at 7.5% p.a. yield with average inflation at 5% p.a. On a conservative note, at investment yield of 6.5% p.a. and 5 more years of expected life, what curtailment of expenses in the first year of retirement would be needed?

[3 marks]

A. 22% curtailment
B. 12% curtailment
C. 14% curtailment
D. 10% curtailment

8) Urvashi's retirement corpus as per goal needs to be accumulated by utilizing the Demat account holding along with a separate asset allocation fund. She will invest 70:30 in Equity:Debt for 10 years in this fund by beginning immediately a monthly SIP. After 10 years, the accumulated amount in asset allocation fund and the subsequent monthly investments are rebalanced 40:60 in Equity:Debt for the next 6 years. After initial 16 years, the accumulations in asset allocation fund along with Demat account holdings are redeemed and transferred to a designated retirement fund yielding 6.5% p.a. The quantum of monthly investments maintained in the initial 16 years shall be doubled in the last 5 years, that is, up to retirement. This retirement fund is used for drawing expenses post-retirement. What quantum of initial monthly investment is required?

[5 marks]

A. Rs. 30,500
B. Rs. 63,200
C. Rs. 29,310
D. Rs. 32,100

9) Urvashi has recently heard about Inflation Indexed Bonds (IIB). She is not convinced about the real annual yield of just 1.5% in a recently issued IIB. You explain the features of such Bonds as ______.

[2 marks]

A. The principal amount is protected on maturity, and is repaid inflation adjusted. The annual coupons would be 1.5% of such periodically adjusted principal amount in tune with inflation index.
B. The principal amount would be repaid on maturity just like other bond issues. The annual coupons would be paid at annual inflation rate plus 1.5%.
C. The inflation adjusted principal would be repaid on maturity. The annual coupons however would be 1.5% of the face value of the bond.
D. The principal amount would be repaid on maturity just like other bond issues. The annual coupons would be 1.5% above the cumulative percentage rise in inflation index measured annually.

10) For accumulating funds for the goal of world tour, you suggest investing the maturity proceeds of each of the bank fixed deposit on the respective maturity dates in an asset allocation fund. The accumulated amount from this fund is switched to Risk free instruments three years prior to the actual usage for the purpose. What return needs to be generated from the asset allocation fund to achieve the goal?

[4 marks]

A. 11% p.a.
B. 7.5% p.a.
C. 13.25% p.a.
D. 14.6% p.a.

11) Urvashi utilizes fund in her PPF account for creating a combined corpus to meet the professional course expenses of Dhruvi and later to meet her marriage expenses. She would invest Rs. 1.5 lakh in the beginning of every financial year, starting immediately, in the PPF account and extend the account for a term of 5 years with the same discipline of investment. A lump sum equivalent to 50% of the professional course charges then is withdrawn from the PPF account after which it is extended for one more term of 5 years without further contributions. What percentage of sum required for Dhruvi's marriage would be available on the final maturity of the account?

[5 marks]

A. 57%
B. 28%
C. 45%
D. 71%

12) The cash flows required for the basic and higher education expenses of her children are managed in a pool account of existing equity and debt MF schemes. They have current year provisions. You advise to switch today suitable lump sum from Equity to Debt schemes so that Debt schemes withdrawal on yearly basis is enough to meet next 3 installments of basic education expenses of Suryansh and Dhruvi. After 4 years, you again switch from Equity to Debt schemes funds equivalent to Dhruvi's remaining years' basic education expenses. You utilize the remaining balance in Equity schemes to meet in one lump sum Suryansh's higher education expenses. Consider expenses required for a year to be withdrawn at the beginning of the year. What incremental SIP in Equity MF schemes needs to be started immediately to ensure this strategy works?

[5 marks]

A. Rs. 12,860 per month
B. Rs. 19,050 per month
C. Rs. 16,270 per month
D. Rs. 15,120 per month

13) Urvashi, in case of her life contingency, is apprehensive about managing the affairs of her children. You advise her to set up a common Minor Beneficiary Trust for Suryansh and Dhruvi. You put forth the argument in favour as:

[2 marks]

A) Such a Trust shall protect assets transferred and shall manage them as per guidelines issued to the trustee until either or both of her children reach/es a specified age to be defined by Urvashi
B) Such a Trust shall protect and manage assets for her children only until they individually reach majority, i.e. 18 years of age
C) Such a Trust shall not take further resources/assets/inheritances once the benefits have been transferred to it and the guidelines specified by Urvashi for their use
D) Such a Trust shall strictly prevent early distribution of assets before both Suryansh and Dhruvi attain majority, i.e. 18 years of age

14) Urvashi has decided to sell gold jewellery worth Rs. 11 lakh in April 2017. This was acquired for Rs. 2.15 lakh in FY 2003-04. She wishes to invest the proceeds of such sale after deducting tax in 2.50%-SGB (Sovereign Gold Bonds). These SGBs quote at Rs. 2,800 per bond, at a discount of 8.5% to their issue price (issue date: 28-June-2016). How these legs of transactions will reflect in her IT Return for AY2018-19?

[3 marks]

A. Long term capital gains of Rs. 5,63,486 ; Income from other sources Rs. 26,852
B. Long term capital gains of Rs. 5,63,486 ; Income from other sources Rs. 30,055
C. Long term capital gains of Rs. 8,85,000 ; Income from other sources Rs. 27,500
D. Long term capital gains of Rs. 5,82,478 ; Income from other sources Rs. 28,414

15) Urvashi contributes 10% of her Basic Salary to the National Pension System (NPS) Tier 1 account. Her employer also matches this contribution as 10% of her Basic Salary. She additionally contributes every year Rs. 50,000 in NPS Tier 2 account. Consider the interest on Savings Bank Account as Rs. 20,000 and that on Fixed Deposit as Rs. 25,000 during FY 2017-18. She intends to immediately buy Sovereign Gold Bonds (SGB) units for Rs. 10 lakh in a 2.5%-SGB series (issued in June 2016, with coupons payable half-yearly in June and December). The SGBs currently quote at Rs. 2,800 per unit, at a discount of 8.5% to its issued price. Calculate her income tax liability for AY 2018-19.

[5 marks]

A. Rs. 6,46,520
B. Rs. 7,23,770
C. Rs. 6,85,150
D. Rs. 7,46,510