

# FINANCIAL PLAN

**Mr. Mohan and Mrs. Swati**

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**Wise Advice Case Study  
June 2017**

# INTRODUCTION

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The following financial plan has been designed to help you organize your finances. As financial planners, we treat your financial information with the highest level of confidentiality, and would kindly request that you treat this material as private and confidential.

A holistic financial plan aims to address financial risk, manage cash flows, utilize tax benefits, identify investment options, plan your retirement, and build a wealth estate. This plan offers financial solutions in line with your current financial position and aspirations.

We recommend that you treat this exercise in financial planning as a collaborative effort. We encourage you to study the proposals outlined below and you may choose investment decisions in accordance with them.

## OBJECTIVES:

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We understand that there are four objectives that you wish to achieve through this financial plan. Taking your personal and financial situation into consideration, we have prioritized your goals and listed them below:

1. Ensuring that Varsha and Rohan are financially secure
2. Protecting your family from medical emergencies
3. Managing the Retirement Corpus
4. Providing for annual vacations

## RISK PROFILE AND CAPACITY:

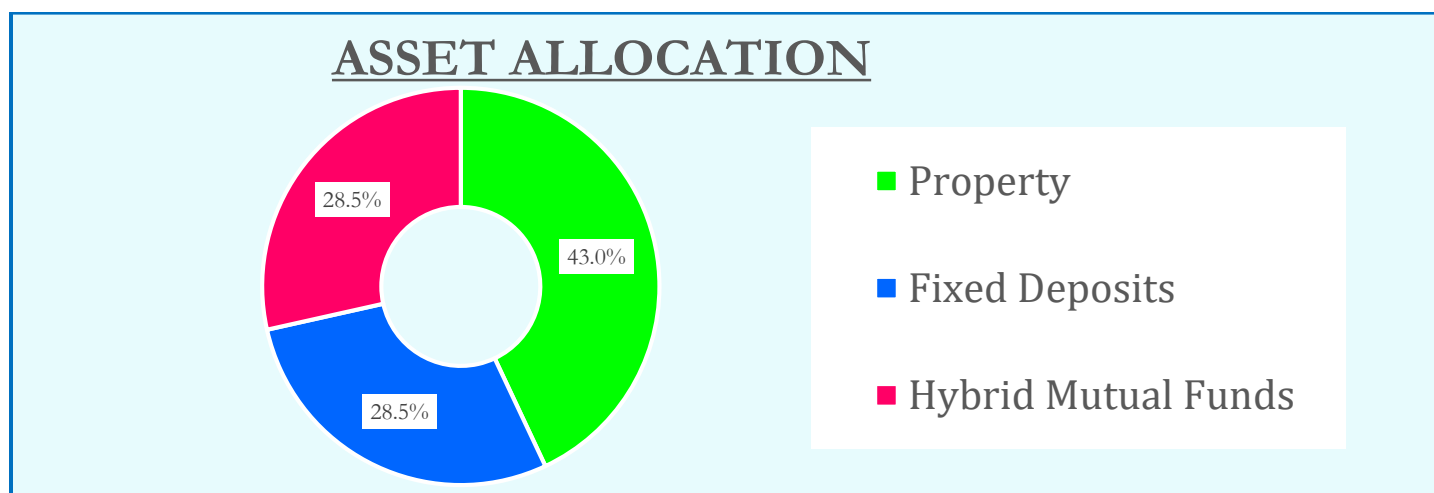
Retirement planning always requires a conservative approach. Your investment decisions towards building a retirement corpus reflects a carefully thought-out structure. However, recent events need to be factored in to revise your asset allocation. You should now be prepared to take a small degree of risk with your investments where justified.

Your requirements indicate that you need to increase your risk capacity to meet them. The investment strategy outlined below has been structured keeping both your risk appetite and requirements in mind. The strategy and investments will be reviewed on a periodic basis to ensure that your investment decisions are as closely aligned with your risk appetite as possible.

## NET WORTH ANALYSIS:

Your current investments are in Property, Fixed Deposits and Hybrid Mutual Funds, split as follows: -

ASSET CLASS	AMOUNT (RS.)	WEIGHTAGE
Property	1,50,00,000	43 %
Fixed Deposits	1,00,00,000	28.5 %
Hybrid Mutual Funds	1,00,00,000	28.5 %
<b>TOTAL</b>	<b>3,50,00,000</b>	<b>100%</b>



You are completely debt free, hence your **Net Worth** Amounts to **Rs. 3.50 Crores**.

# STRATEGIC PLANNING:

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The plan has been divided into four sections, to address the key financial objectives. This segment details each section.

## PART 1 – VARSHA'S FINANCIAL INDEPENDENCE

The priority is to ensure that Varsha and Rohan are financially secure. For Varsha to become financially independent, she would need to acquire skills that prepare her for employment. As a part of the plan, an allowance (Rs. 2.1 Lakhs) will be created for this purpose. Working on a two to three-year timeline, Varsha should be able to adapt to the changing job market and settle down in her career. Given how promising her career was, her competence, and her potential, she should be able to easily rise to the challenges in front of her. She will automatically feel a sense of independence and security when she is able to provide for herself and her son.

On the other hand, a well-intentioned action like buying a house in her name, may make her feel more like a burden than an equal contributor to the family. It would be in her best interests to allow her to earn and invest towards her financial goals.

As Varsha is your only legal heir, after your time the property in your name(s) will go to her. There is no ambiguity with respect to this issue. After your time, all Varsha needs is a Legal Heir Certificate and the Death Certificate(s) to have the title transferred to her name. There is no need to create a will as it may attract court fees for probation. By not settling the house immediately, you and Swati retain your right to the house regardless of potential changes to the family structure while simultaneously providing for Varsha after your lifetimes.

Moreover, from a financial perspective investing in real estate is not the best option for the family for the following reasons:

- **Meeting other Financial Goals:**  
By taking out Rs. 60 Lakhs to buy the house, it would put you in a difficult position to comfortably meet the other Financial goals, i.e.; Meeting Monthly Expenses, Providing for Varsha, Annual Vacation expenses and creating a Contingency Reserve.
- **Skew in asset allocation:**  
You already have an investment in property, by purchasing another property worth Rs. 60 Lakhs the skew in favour of property will become even more pronounced. Balancing the asset allocation would become a harder task.
- **Illiquidity:**  
Real estate is an illiquid investment. Essentially, in the event of any emergency Varsha will not be able to leverage the value of the apartment. More importantly, current circumstances demand a more liquid and flexible approach with your investments. So, it does not make sense to lock in a sizeable portion of your retirement corpus in an apartment.
- **Investment Potential:**  
An investment in a property may not deliver the kind of returns that it did in the past. Keeping this in mind, it would actually be riskier to lock funds into an apartment and wait for the value to appreciate than to invest in debt or equity linked instruments.

- **Burden of a Loan:**

In the event that you decide to finance the purchase partly through a loan, this would add undue stress to your current financial situation. As Varsha is yet to settle down career-wise, a home loan would demand either a higher monthly outflow from your retirement corpus or a lower standard of living.

- **Renting as an alternative:**

Currently, it is much cheaper to rent than to buy a house. When Varsha begins working again she may require your support and it would make sense for the family to live under one roof. More importantly, renting will allow for flexibility. Whenever Varsha is ready to move out and manage on her own, she can always rent an apartment close to yours. Further, if Varsha's career takes her to another city, she will not be tied down by the property in her name.

In conclusion, we feel that purchasing the apartment next door, is not in your best interests for both financial and personal reasons.

### KEY ACTION POINTS:

Thus, to ensure Varsha's Financial Independence, we suggest the following course of action:

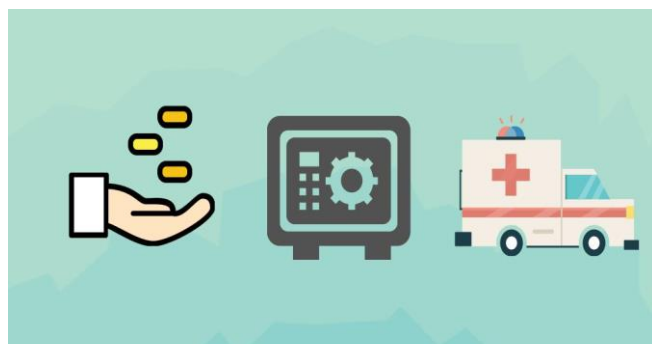
- a. Plan for an Allowance Fund for Varsha (Rs. 2.1 Lakhs): This will help her update herself with the necessary technical and professional skills of an ever-changing job environment.
- b. Assume that in 3 years' time, Varsha will be settled and in a comfortable position to be independent and provide for herself and Rohan.

## PART 2 – RISK MANAGEMENT

### CONTINGENCY AND MEDICAL RESERVE:

Your past experiences have made you aware of the importance of having an emergency fund. Emergencies can result in unforeseen expenses. Without a fund dedicated solely to meet such expenses your financial goals, specifically your retirement corpus may be compromised. An emergency fund can help you handle these situations by minimizing financial strain.

The first step would be to dedicate Rs. 15 Lakhs from your fixed deposits towards the contingency reserve. If any emergency expense needs to be met, we suggest that funds from your contingency reserve are utilized first following which you may dip into your liquid corpus. At age 72, we have created an additional reserve of Rs. 15 Lakhs to meet any unforeseen medical expenses and further strengthen this corpus.



# INSURANCE PLANNING:



## A. HEALTH INSURANCE

We recommend taking health insurance policies for all of you. Since health insurance premiums are calculated based on the oldest member in a group, we suggest that two policies are taken – a Rs. 15 Lakh policy for you and Mrs. Swati and a Rs. 5 Lakh policy for Varsha and Rohan. You may consider taking critical illness insurance as well.

## B. LIFE INSURANCE

We feel that once Varsha settles down financially, she should take a Term Insurance Policy at the earliest opportunity for a value of Rs. 1 Crore for a minimum term of 20 years (until Rohan becomes financially independent). Since Rohan is financially dependent on either you or Varsha, it would make sense to protect his interests through a term life insurance policy. This will ensure that in the event of any unfortunate circumstance, Rohan will be provided for financially.

POLICY TYPE	HOLDER	SUM ASSURED	ANNUAL PREMIUM
Health Insurance	Swati and Mohan	15,00,000	60,000
Health Insurance	Varsha and Rohan	5,00,000	10,000
<b>TOTAL INSURANCE PREMIUM</b>			<b>70,000</b>

The insurance covers need to be reviewed periodically and revised according to the changes in your personal and financial situation. If any opportunity presents itself in the future, Varsha may cover you and Swati under any company sponsored health insurance policy.

## PART 3 – MANAGING THE RETIREMENT CORPUS

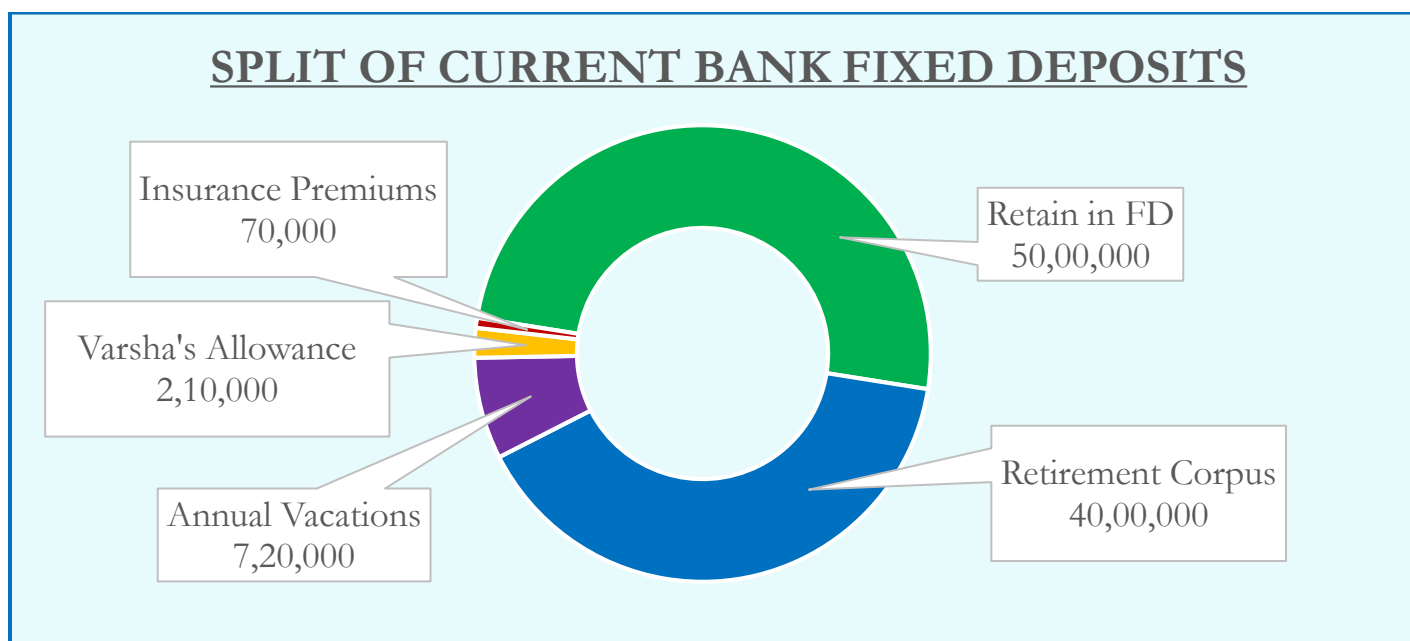
### OVERVIEW:

We foresee that Varsha may require two to three years' time to stand on her own two feet. We therefore recommend that you plan for an inflation adjusted monthly outflow for Rs. 1 Lakh (in today's value) for the next three years. After three years, we will work towards generating an inflation adjusted outflow of Rs. 85,000 (Rs. 75,000 towards monthly expenses and Rs. 10,000 as a buffer) in today's value.

### MANAGING THE EXISTING FIXED DEPOSITS

A course correction with respect to your asset allocation is necessary at this juncture. We understand that having a fixed deposit provides a sense of security since your capital remains protected. Keeping Swati's needs in mind, we recommend renewing a portion of the fixed deposit, even if at a lower interest rate. Looking at the larger picture, your long-term financial security may be compromised if the entire deposit is renewed, as you will only be able to withdraw the interest.

As an alternate, we propose renewing the deposit for Rs. 50 Lakhs and redeploying the other half towards your goals per the chart below:



## PORTFOLIO REBALANCING:

As previously mentioned, the portfolio requires rebalancing. The Investments in Hybrid Mutual Funds shall be reviewed and rebalanced as per the allocations mentioned below:

### A. Equity Component

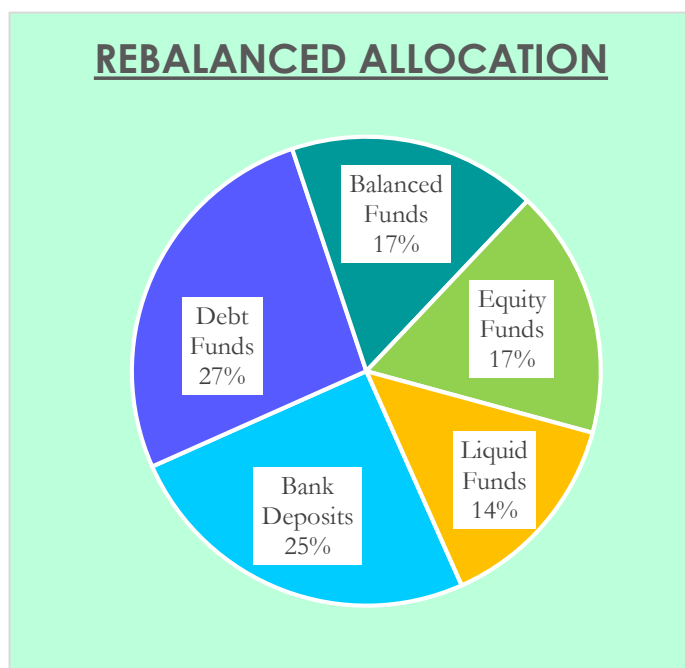
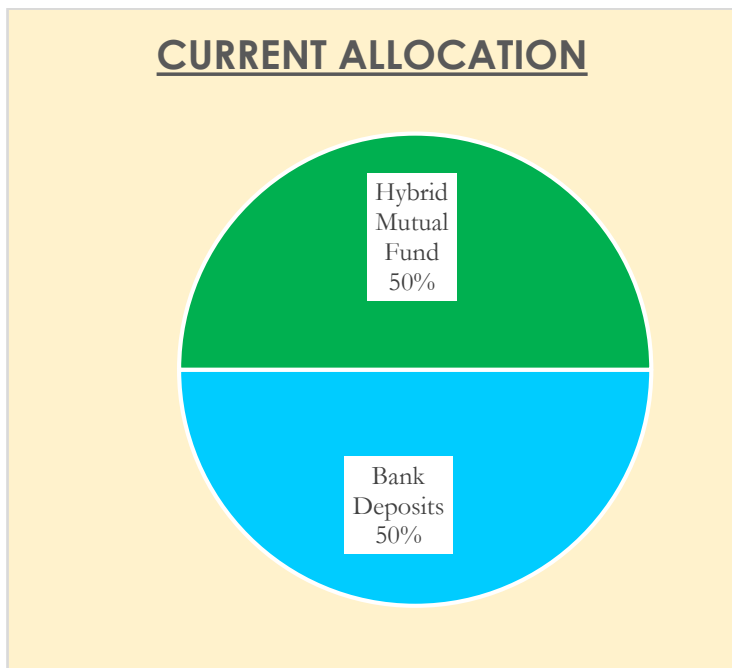
As on date, the equity exposure in your overall portfolio stands at 12.5%. To beat inflation, a higher allocation towards equity is crucial, therefore the exposure will need to be increased. The right decisions in equity can boost the portfolio and power it with the growth it requires to sustain itself. The Equity Component can consist of investments in Focused Large Cap Funds. This will help deliver stable investment returns over longer periods of time.

### B. Debt Component

Debt exposure will constitute 60% of the investment portfolio through investments in Fixed Deposits (worth Rs. 50 Lakhs) and balance through Debt and Liquid Funds.

### C. Balanced Component

Swati's concern regarding equity investments is valid and needs to be addressed. Balanced Funds invest in a mix of debt and equity which brings stability to the portfolio and delivers inflation beating returns in a tax efficient manner.





## STRATEGY: SYSTEMATIC WITHDRAWAL PLAN (SWP)

Based on your risk appetite and requirements, we feel that an SWP (systematic withdrawal plan) from a mix of ultra-short term funds and liquid funds would be the best fit to meet the monthly expenses. Liquid funds invest in very short term debt instruments. Typically, there will be little or no volatility in a liquid fund and it can earn up to 6% to 7% interest p.a. Ultra-short term funds invest in instruments with slightly higher maturities and typically provide returns of 0.5% more than a fixed deposit.

A Systematic Withdrawal plan can transfer a fixed amount of money from this corpus into your savings bank account every month. We propose following a SWP in a 3-year cycle, at the end of every cycle the SWP amount can be reviewed and adjusted for inflation.

The management of assets in the first cycle from 2017 – 2020 has been shown below:

INVESTIBLE CORPUS	YEARS	AMOUNT INVESTED (Rs.)	ASSUMED RETURN	ESTIMATED VALUE (2020)
Equity Funds	3	34,36,000	12 %	48,27,333
Balanced Funds	3	34,36,000	10 %	45,73,316
Debt Funds	3	53,08,000	7 %	65,02,528
		<b>1,21,80,000</b>		<b>1,59,03,177</b>
Vacation Corpus + Yearly Insurance + Varsha's Allowance	3	10,00,000	-	-
Liquid Funds	3	18,20,000	-	-
Remain in Fixed Deposits	3	50,00,000	-	50,00,000
<b>GRAND TOTAL</b>		<b>2,00,00,000</b>		<b>2,09,03,177</b>

The investible corpus of Rs. 1.7 Crores (Rs. 1.2 Crores in SWP Strategy + 50 Lakh in Fixed Deposits) have been split in the proportion of 60:20:20 in favour of debt, balanced and equity assets. Thus, the initial split shall be Rs. 34.36 Lakhs in Equity and Balanced and Debt will value at Rs. 103 Crores, comprising of Debt Funds Rs. 53 Lakhs and FD for Rs. 50 Lakhs.

The overall corpus shall be periodically reviewed to maintain the Debt: Balanced: Equity ratio. The Fixed Deposits shall not appreciate as the interest generated shall be used to meet monthly expenses.

## MANAGING THE CORPUS IN SWP STRATEGY:

As mentioned, the SWP plan has been prepared in three year cycles, by managing the funds across multiple investment avenues.

The below table shows how the money would be channelled over time:

TIMELINE	DEBT	BALANCED	EQUITY	LIQUID	TOTAL
2017 - 2020	1,03,08,000	34,36,000	34,36,000	28,20,000	2,00,00,000
2020 - 2023	1,02,12,528	32,83,316	48,27,333	25,80,000	2,09,03,177
2023 - 2026	97,20,571	27,05,094	67,82,055	33,30,000	2,25,37,720
2026 - 2029	1,07,82,903	36,00,480	38,48,299	56,80,000	2,39,11,681
2029 - 2032	97,96,805	47,92,238	31,19,082	45,75,000	2,22,83,135
2032 - 2034	88,76,282	23,78,469	23,82,086	80,00,000	2,16,36,847
<b>At Age 80 (2034)</b>	<b>94,37,967</b>	<b>28,77,948</b>	<b>29,88,089</b>		<b>1,53,04,003</b>

Thus, in 2034 (Age 80) you will be left with a substantial corpus of Rs. 1.53 Crores after having withdrawn close to Rs. 2.7 Crores (to meet your expenses, fund your vacations, etc.) over the period of 17 years.

This can then be used to:

- Meet the monthly expenses for the remaining period of yours and Swati's lifetime comfortably by using the same strategy.
- Apportion a part of this corpus to create a medical reserve to meet any emergency expenses that may be incurred.
- Channel a portion as a fund for Rohan's future.

Any remaining balance after yours and Swati's time can be passed on to Varsha and Rohan.

## MEETING THE MONTHLY INFLOW:

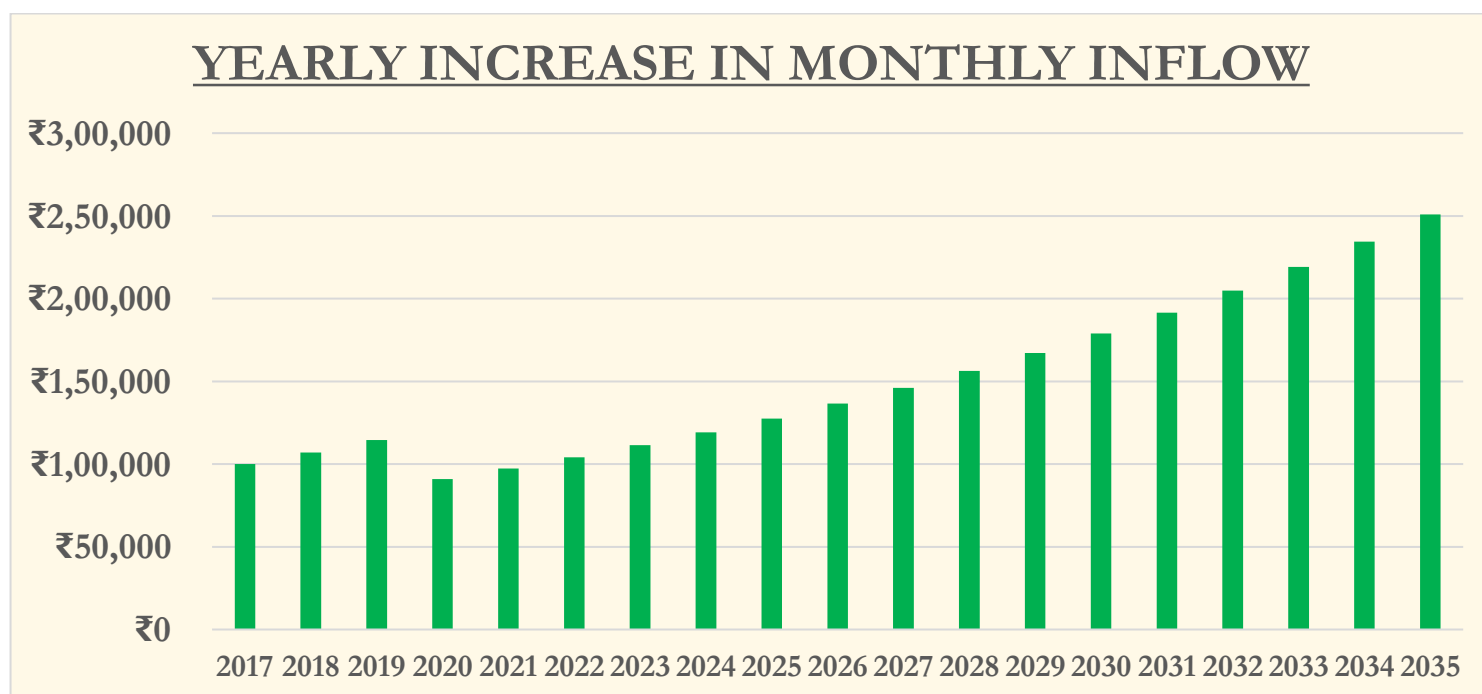
Your monthly inflow will be met through the income received from your superannuation fund, the interest from the fixed deposits and from the SWP as follows:

INCOME SOURCE	ANNUAL AMOUNT	MONTHLY
Fixed Deposit Interest	3,25,000	27,000
Superannuation Fund (Uncommuted)	3,00,000	25,000
Inflow from SWP Strategy	5,76,000	48,000
<b>TOTAL</b>		<b>1,00,000</b>

### Note:

The above monthly inflow shall be increased by 7% on a yearly basis to meet inflation.

From 2020, the monthly inflow has been inflation adjusted to Rs. 85,000 in today's value (Rs. 75000 + Rs. 10,000 buffer), as we assume that Varsha would be financially independent by then. This graph shows how the monthly inflow will increase over the years to meet inflation:



## PART 4 – ANNUAL VACATION

Based on your current financial position, it would be prudent to lower the priority of this goal. Since there are now four of you, you may either choose to do a domestic holiday every year within a budget of Rs. 2 Lakhs or you could opt for a foreign trip once in two years for a budget of Rs. 4 Lakhs. This strategy can be followed for the next three to four years, until Varsha settles down career-wise.

To accommodate this need, Rs. 7.2 Lakhs from your fixed deposits can be transferred into liquid or ultrashort term funds as mentioned in the previous section. Every alternate year up to Rs. 4 Lakhs can be withdrawn.

After Varsha settles down financially, you and Swati can continue to take annual vacations abroad. For a three-year period, an investment of Rs. 10.8 Lakhs in liquid and ultra-short term funds can fund annual vacations of Rs. 4 Lakhs. This allowance is included in the SWP scheduled for your expenses. The final withdrawal in 2029 will be for Rs. 4 Lakhs.

## TAX PLANNING:

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We feel that it is important for you to utilize tax efficient strategies while planning your finances. Firstly, we recommend splitting your gross income in such a way that both you and Ms. Swati fall below or within the 5% income tax slab. To do this, we propose allocating the Fixed Deposits in Swati's name. The interest earned on this would constitute her income. After applicable deductions, she would fall under the 5% bracket. The income from your superannuation fund would be in your name, you may further lower your tax liability by claiming deductions from payments made towards the health insurance premiums. *It is possible for you to have no tax liability.*

Further to this we have suggested investing in equity and balanced mutual funds as they are exempt from long-term capital gains. While selecting debt, liquid and ultrashort term funds, it is important to choose the growth option instead of the dividend option, as DDT is deducted close to 28% whereas you would fall under the 0% or 5% tax bracket.

If at any point, you wish to consider moving the fixed deposits into a more tax efficient avenue, you may consider Ultrashort term funds as an alternative. Essentially, they invest in short-term debt securities and are relatively stable. However, no two UST Funds are the same and fund managers may employ different strategies to generate returns. Therefore, while selecting a fund, it is important for you to choose one with low maturities and high quality papers to meet your financial needs.

# ASSUMPTIONS:

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The financial plan has been constructed based on the information provided by you.

The below returns are assumed based on the current economic scenario and market conditions. The returns for financial instruments have been assumed taking into consideration that they are being professionally managed by a financial advisor.

## **The assumptions for future return are taken as -**

- Debt Mutual Funds : 7% P.A.
- Balanced Funds : 10% CAGR
- Equity Mutual Funds : 12% CAGR
- Liquid Funds : 6% P.A.
- Fixed Deposits : 6.5% P.A.
- Ultra-Short Term Funds : 7% P.A.

Inflation towards your expenses has been calculated at 7% P.A.

Returns and calculations have been made for indicative purposes only.

Annual vacations have been planned for until you (Mr. Mohan) turns 75.

## **Sources:**

Health Insurance Premiums – [policybazaar.com](http://policybazaar.com)

# INVESTMENT PLAN SUMMARY:

- The investment plan incorporates the following goals and recommends initiation of action towards achieving them:

GOAL	PLAN
<b>Varsha's Independence</b>	<ol style="list-style-type: none"> <li>1. Build an Allowance Fund for Varsha for her job preparation.</li> <li>2. Plan for Financial Stability by 2020.</li> </ol>
<b>Risk Management</b>	<ol style="list-style-type: none"> <li>1. Contingency and Medical Reserve of Rs. 15 Lakhs channelled through Current Fixed Deposits.</li> <li>2. Additional Reserve of Rs. 15 Lakhs at Age 72 through corpus.</li> <li>3. Health Insurance of Rs. 15 Lakhs annual cover for you and Swati.</li> <li>4. Health Insurance of Rs. 5 Lakhs for Varsha and Rohan.</li> </ol>
<b>Managing the Retirement Corpus</b>	<ol style="list-style-type: none"> <li>1. Fixed Deposits – 50 Lakhs</li> <li>2. Debt Funds – 53.08 Lakhs</li> <li>3. Equity Funds – 34.36 Lakhs</li> <li>4. Balanced Funds – 34.36 Lakhs</li> <li>5. Follow 3-year SWP plan to comfortably meet the expenses and remain with a sizable corpus at age 80.</li> </ol>
<b>Annual Vacations</b>	<ol style="list-style-type: none"> <li>1. Plan for bi-yearly holiday of Rs. 4 Lakhs or yearly holiday of Rs. 2 Lakhs until 2021.</li> <li>2. From 2022, withdraw Rs. 4 Lakhs per annum through the investment corpus for overseas vacations.</li> </ol>

# CONCLUSION:

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We have prepared a detailed strategy to address the various personal and financial dimensions associated with your objectives. The current portfolio has been rebalanced in such a manner that it retains its stability and security. At the same time, the increase in equity exposure can deliver the necessary returns to meet your other needs.

It is important to stay invested even when markets are rising. Stable equity mutual funds with long-term growth potential can be selected for your investment needs. Investments can be deployed in a phased manner taking advantage of any market opportunities.

Debt instruments can generate regular income and should form an essential part of your portfolio. Maintaining liquidity in your portfolio is of equal importance, as this will provide the required financial flexibility.

The plan has been carefully designed keeping all your requirements in mind. However, for a plan to be successful it should be monitored regularly, reviewed periodically, and implemented consistently. Any significant change to your personal or financial situation should be factored in your plan, to ensure that you always have enough.

We are grateful for this opportunity and are happy to embark on this journey with you. We endeavour to make this experience equally fulfilling for you.