WISE ADVICE CASE STUDY

JULY 2019

FINANCIAL PLAN OF

MR. RAMESH IYER & MRS. UMA IYER

Contents

Dear Mr. Ramesh and Mrs. Uma, we are grateful for this opportunity to work on your financial plan and are happy to embark on this journey with you. We endeavour to make this experience equally fulfilling for you. As your financial advisor, we treat your information with the highest level of confidentiality and would kindly request that you treat this material as private and confidential.

PREMISE:

NAME	AGE	OCCUPATION
Ramesh Iyer	50	Vice President, Manufacturing, Private Auto Components Firm
Uma Iyer	46	English Teacher, International School
Shruti	20	Student
Sekhar	18	Student

Your family is well settled and secure in terms of earning and outflows. Shruti has completed two years of her under graduation in New Zealand. Sekhar is about to start his under graduation next month in New Zealand. You have accumulated assets, both in terms of liquid and fixed. The current financial situation for your family looks comfortable for peaceful retirement. Ramesh's dream is to retire at his ancestral farmhouse, 20 Kms away from Salem City. However, he is suddenly enthusiastic about starting an eco-friendly resort in his 25-acre farm. He has carved out a role for Uma as well to support him in this venture. Uma is not too keen on both quitting their jobs and is worried about the family's financial security.

The main objective of doing this plan is to provide your family a practical and well thought out solution. Through this plan, we have tried answering the following questions:

1. How to address Uma's concerns and ensure family's financial security?
2. Should Ramesh start his dream project? If yes, when is the right time to start it? If the venture doesn't take off, what should be the next step?
3. Should Uma also quit her job to support Ramesh's passion?
4. What about Uma's career and her aspirations?
5. How to balance Uma's anxiety and Ramesh's aspirations?

This financial plan would let both of you share the responsibilities and make an informed decision. It will give you clarity on your current financial position and what it takes to fulfil your aspirations.

GOALS:

This plan has been prepared with the intention of aligning your existing assets, savings and income to meet your goals. We have listed down both the stated and unstated financials goals below.

Stated Financial goals:

Present (2019) → Starting an eco-tourism venture (Immediate) → Vacation (Yearly) → Shruti & Sekhar's College Education (2019-2025) → Shruti& Sekhar's Wedding (2024 & 2026)

Unstated financial goals:

Present (2019) → Safety Corpus → Emergency Reserve → Travelling to New Zealand → Providing for lifestyle expenses → Estate Planning

APPROACH:

This plan has been prepared to address your situation in a holistic manner.

- We have evaluated four different scenarios
- Your financial goals have been prioritised and wealth mapping has been done accordingly
- Your options have been listed down
- Our advice

We encourage you to study the proposals outlined in the plan and make an informed decision in accordance with them.

Scenario 1
- Starting the venture at the earliest

Scenario 2
- Starting the venture after 2 years

Scenario 3
- Starting the venture after 5 years

Scenario 4
- Not starting the venture

CASH FLOW ANALYSIS:

A detailed analysis of your existing cash flows has been produced in the table below:

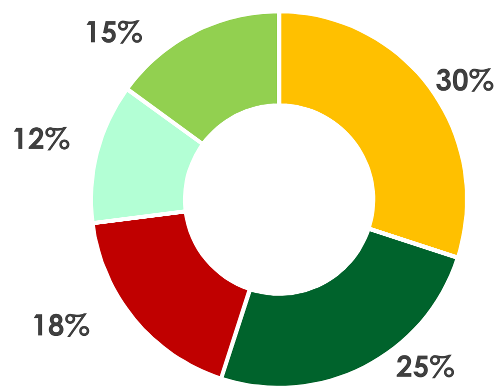
CASH FLOW	MONTHLY (Rs.)	ANNUAL (Rs.)
Sources of Income - Salary (Post Tax)		
Ramesh	7,50,000	90,00,000
Uma	1,50,000	18,00,000
Net Income	**9,00,000**	**1,08,00,000**
Expenses	(1,50,000)	(18,00,000)
Gross Savings	**7,50,000**	**90,00,000**

Your main source of income is salary. In managing your personal finances, the best practice is to determine your savings and then incur expenses. There is an annual savings potential of **Rs.90 Lakhs** of post-tax monthly income. Your children's college fees of Rs.50 Lakhs annually have not been considered as part of your expenses in the above table. If we consider that, the savings ratio would be around **37%,** which is a **moderate savings ratio**.

NET WORTH ANALYSIS:

ASSET ALLOCATION:

ASSET CLASS	AMOUNT (RS.)	WEIGHT
Farm & Farmhouse – Salem	3,00,00,000	30%
House at Chennai	2,50,00,000	25%
Mutual Funds:		
Equity	1,80,00,000	18%
Debt	1,20,00,000	15%
Provident Fund (PF)	1,50,00,000	12%
TOTAL	10,00,00,000	100%



Notes:

Your assets are currently spread across real estate, mutual funds and PF. You have adequate diversification in your investment portfolio. Your mutual fund portfolio is well balanced across equity and debt asset classes. There are no loans outstanding and you are completely debt free.

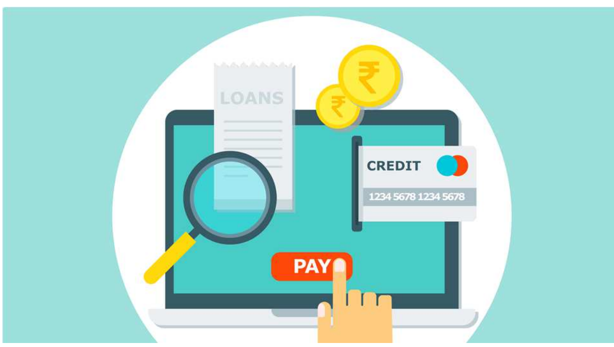
Your Net Worth amounts to **Rs. 10 Crores**

RISK PROFILE:

Your family's risk profile is arrived at by understanding your financial goals, age, income and investments. We have considered a **balanced risk profile** for you by taking into consideration your existing investments and asset allocation. This plan factors in market risks and aligns low risk investment to immediate goals. Your asset allocation should be managed in a dynamic fashion taking your risk appetite, financial goals and market cycles into account.

It is important to understand that starting your own venture is a **risky decision**. We have considered risk management as an essential part of the solution. We have clearly stated in below sections the risks involved in starting the venture and suggested ways to manage them effectively.

CREDIT SCORE:



We recommend you maintain a **healthy credit score of above 750**.

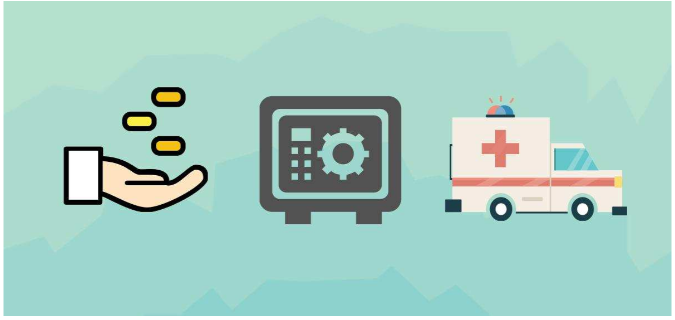
Healthy credit score would enable you to borrow at a competitive rate in future. Making the payments on time and verifying the accuracy of the credit report are some of the steps to keep a track on your credit score. If you are taking any loans in future, timely payments have to be ensured.

RISK MANAGEMENT:

Financial risks need to be addressed, as they could arise from underperformance of investments, loss of income, large unplanned or emergency expenses.

CONTINGENCY:

Emergencies can result in unforeseen expenses. Without a fund dedicated only to meet such expenses your financial goals may be compromised. A contingency fund can help you handle these situations by minimizing financial strain. We have recommended maintaining a **Contingency Reserve of Rs.25 Lakhs** to meet any emergency expenses as part of this plan. Whenever the contingency fund gets depleted, this reserve needs to be replenished.



Your contingency reserve should be bifurcated into personal and medical reserves. Since you are nearing retirement, it is a good idea to have a separate corpus for medical emergencies. **The reserve needs to be continuously reviewed and topped up considering inflation and other needs.**

PERSONAL RESERVE
Rs. 10 Lakhs from existing Debt Mutual Funds

MEDICAL RESERVE
Rs. 15 Lakhs from existing Debt Mutual Funds

Please note that above reserves are meant for family emergencies and requirements. If you start a venture, please create a separate **business emergency corpus** from business funds as required.

INSURANCE:

An essential component of financial planning is to cover risk. Insurance is one way of preparing for uncertainty. What an adequate insurance cover is, would depend on multiple factors such as your family structure, age, income, expenses and goals.

The details of your existing life insurance policies are shown below:

- Your employer provides you with group term life and health insurance. We propose that you continue with the insurance provided by your employer and port to an individual plan at least one month before quitting your job or retiring.
- Your life and health are your family's biggest asset and it is important that your family is insured financially from any uncertainties. Despite being covered by your employer for health and life, we recommend you consider taking the following insurance policies.
- We suggest you take **travel insurance** whenever you travel or visit your children in New Zealand. Travel insurance can help cover medical expenses or financial losses one might incur while travelling. A typical plan will cover accidents and sickness, airport mishaps (baggage loss, flight delays or cancellation, loss of passport) and emergency financial assistance.
- We are assuming that your children would be covered for medical expenses by their respective universities. However, in addition, we recommend taking an **international student's health insurance** cover. International Health Insurance is important to avoid the financial challenges of unexpected medical expenses, and to ensure that they have access to immediate and proper medical care whenever required.

TERM INSURANCE	
Cover	Rs. 3 Crores (Ramesh); Rs. 1 Crore (Uma)
Premium	Rs. 85,000 p.a. + Rs. 20,000 p.a.
Product	Pure Term Insurance
Purpose	Provides financial security to your dependents at minimal cost

PERSONAL ACCIDENT INSURANCE	
Cover	Rs. 50 Lakhs each
Premium	Rs. 10,000 p.a. each
Product	As a standalone policy
Purpose	Provides financial security to you & your dependents at minimal cost

HEALTH INSURANCE	
Cover	Rs. 15 Lakhs + top up Rs. 10 Lakhs
Premium	Rs. 46,000 p.a.
Product	Family Floater
Purpose	Manages financial risks of high hospitalization costs

CRITICAL ILLNESS INSURANCE	
Cover	Rs. 25 Lakhs each (Rs. 15 Lakhs rider + Rs 10 Lakhs stand-alone)
Premium	Rs. 85,000 (Ramesh) & Rs. 45,000 (Uma)
Product	As a combination of rider to your term policy and as standalone policy
Purpose	Manages financial risks of expensive medical treatments

- Appropriate insurance covers have been arrived at after taking into consideration your **financial dependents, spending patterns, financial goals, existing assets and aspirations.**
- We are recommending **Rs.3 Crores term cover for Ramesh and Rs.1 Crore for Uma.**
- The annual premium payment option on your insurance policies is normally the most cost-effective option.
- It is imperative that both of you review health insurance covers periodically, to account for any changes in your lifestyle or medical inflation.
- Top up health insurance plan acts as an extra shield to your existing health insurance policy (base policy). In case the medical expenses exceed your existing cover, top up plan can be used to claim the additional medical expenses. Please note that the base policy will act as your deductible for top up plan.
- Please note that the premiums might change based on the medical tests done. We have assumed the term insurance and critical illness insurance premiums for a non-smoker up to 65 years for both of you.
- Health and personal accident insurance can be continued for lifetime. Premiums might accordingly increase for your health insurance.

ASSUMPTIONS:

- To prepare an effective financial plan, we have laid down some assumptions considering the prevailing trends, facts, and figures.
- 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 a financial advisor is professionally managing them. The return assumptions should be reviewed every year considering changes in tax treatment and market conditions.
- The assumptions for future return (post applicable taxes) are taken as:

Real Estate	5% CAGR	Long Term Debt	6.5% p.a.
Savings Bank	3% p.a.	Equity Instruments (<10 years)	11% CAGR
PF	7.5% p.a.	Equity Instruments (>10 years)	9% CAGR
Short Term Debt	5% p.a.		

- The future values for the financial goals have been computed based on the inflation rates mentioned below –
    - General - India : 6% p.a.
    - New Zealand Education : 2% p.a.
    - Currency Depreciation : 4% p.a.
    - Wedding Expenses : 8% p.a.
    - Medical : 10% p.a.

- Increase in Ramesh's and Uma's income has not been considered (in Scenario 2 & 3) on a conservative note. We have assumed that monthly expenses will remain at Rs.1.5 lakhs for next 2 and 5 years (Scenario 2 & 3).
- We have assumed that the pension income is not inflation adjusted. We have not considered Gratuity for your retirement corpus due to lack of information.
- We have assumed that the project has been vetted by Ramesh and PE fund manager for viability. Hence, we have not discussed about this in detail in the plan.
- Exchange rate has been assumed as- NZ$/INR= 46
- We have assumed that Shruti's UG final year and Sekhar's whole UG fees has not yet been provided.
- We have assumed that Shruti and Sekhar would consider pursuing their PG immediately after UG. Also, we have assumed that PG education is for 2 years.
- The calculation for your Human Life Value has been made assuming an average life expectancy of 85 years for both Ramesh and Uma.
- The calculation for Retirement Corpus has been made assuming an average life expectancy of 85 years for Ramesh.
- All information relating to your investments, insurance policies, cash flows and values of the financial goals have been arrived at based on the data provided by you. We are assuming a continuation of these conditions and projections through the course of the plan.

THE CRUX:

Ramesh is very keen on starting the venture as soon as possible and take it off the ground. He is confident that the existing portfolio and Provident Fund (PF) proceeds would suffice to meet family's financial goals. He is also ready to keep the Chennai property at stake if need be. Whereas, Uma differs from this thought. For her, security comes first.

Ramesh is very aspirational, which is commendable. However, this has a downside. Ramesh is focussing only on his wants and personal achievement needs. Uma is right in pointing out the drawbacks and reasoning out her concerns.

We feel that it is Ramesh's responsibility to make sure Uma's concerns are addressed fully before taking the plunge. **Uma's support is not unconditional**. Hence, Ramesh has to agree for certain conditions to bring the much-needed balance in this situation.

- Existing assets and PF proceeds will only be **used to provide for the family and not for the venture**.
- Both of you may quit your jobs only after the receipt of the **entire PE money upfront and not in a phased manner.**
- Ramesh has to make sure that **Chennai house will not be encumbered in any case.**
- **Only the farm will be allotted** for the eco-tourism venture.

THE VENTURE:

Eco tourism as a business idea:

Eco-tourism is an environmentally responsible way of travelling to a natural location. This can be a sustainable business model both in terms of profit and longevity. It can also be a great way to attract customers since there is an increasing awareness on eco-friendly lifestyle.

UDAN Scheme:

UDAN (Ude Desh ka Aam Naagrik) is an initiative by the government to connect the places under-served and unserved airports. This scheme will make flying affordable for the common man even in small towns like Salem. The Tamil Nadu Chief minister has also announced that a green corridor between Salem and Chennai will soon commence at a cost of Rs. 10,000 crores, which would help reduce the travel time from the present six to three hours

Location:

Geographical landscape of Salem is magnificent as it is surrounded by hills and rivers. Your 25-acre ancestral farm is situated 20 kms away from Salem. It can be an ideal place for an eco-resort initiative.

PE Model:

Private equity funding can provide by far the largest amounts of money, but they have their own limitations. With private equity, one must give up a much larger share of the business. The private equity firm will want to be actively involved, which might mean losing control of basic elements of venture -like setting strategy, business decisions and management control. Ramesh has already done his homework on the viability of the business and identified a PE who is interested in eco-tourism venture. Hence, in this plan we are not focussing in detail about the business model. However, we will be glad to devise a business plan if provided with the necessary information.

FINANCIAL GOAL VALUES:

Your financial goals, both stated and unstated, have been mentioned and explained in the descending order of priority below:

GOAL	PRESENT VALUE (Rs.)	TIMELINE	INFLATION	FUTURE VALUE (Rs.)
Shruti's UG (3rd year)	25,00,000	2019	-	25,00,000
Sekhar's UG	75,00,000	2019-2021	6%*	81,00,000
Shruti's PG	80,00,000	2020	6%*	85,00,000
Sekhar's PG	80,00,000	2022	6%*	95,00,000
Shruti's Wedding	20,00,000	2024	8%	30,00,000
Sekhar's Wedding	20,00,000	2026	8%	34,00,000
Travelling to New Zealand/ Vacation	20,00,000	2020 - 2022	-	20,00,000
Lifestyle Expenses	25,00,000	-	-	25,00,000

Apart from the above, we have also built a **safety corpus for your family**. **Out of these goals, same strategy has been used across all the scenarios for your children's wedding**. The corpus for the wedding goal is being created when Shruti and Sekhar turn 25 respectively. You might also have to plan for your estate.

*Currency depreciation of 4% has been added to the New Zealand's education inflation (2%). Hence, we have considered inflation as 6% for your children's education goals.

SCENARIO 1: STARTING THE VENTURE AT THE EARLIEST

Under this scenario, we have explained **how your financial goals can be met from your existing portfolio**. Ramesh can also start his venture, provided he receives the PE money at the earliest. There by, both **Ramesh's aspiration and Uma's concerns have been given equal importance.** However, we expect a transition period of 3 months that is required for both Ramesh and Uma to complete the notice period before being relieved from your respective jobs, for the full PE funding to get credited, building a team for the venture and to find a tenant for your Chennai house, etc.

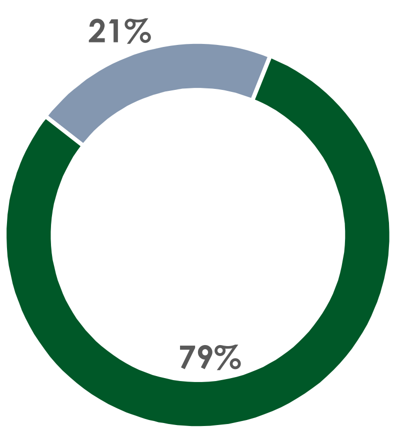
UTILIZING THE CURRENT PORTFOLIO:

PF proceeds received will be invested in debt mutual funds. The remaining debt mutual funds have been allocated towards all your other financial goals. Equity mutual funds have been allocated towards Shruti and Sekhar's Wedding and Wealth corpus.

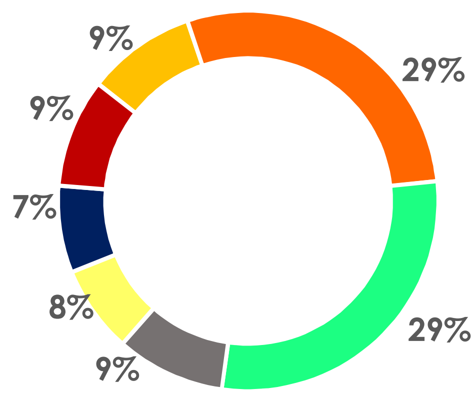
Your revised mutual fund portfolio has been apportioned between debt (**Rs.2.7 Crores - 60%)** and equity (**Rs.1.8Crores-40%)** towards your goals as follows:

PROPOSED GOAL-WISE ALLOCATION PLAN		
PARTICULARS	**SOURCE**	**AMOUNT (RS.)**
Wealth Corpus	Equity	1,43,00,000
Shruti and Sekhar's Wedding	Equity	37,00,000
Shruti's UG	Debt	25,00,000
Sekhar's UG	Debt	77,00,000
Shruti and Sekhar's PG	Debt	78,00,000
Contingency Reserve	Debt	25,00,000
Travelling to New Zealand / Vacation	Debt	20,00,000
Safety Corpus	Debt	20,00,000
Lifestyle Expenses	Debt	25,00,000
TOTAL		**4,50,00,000**

PROPOSED EQUITY ALLOCATION



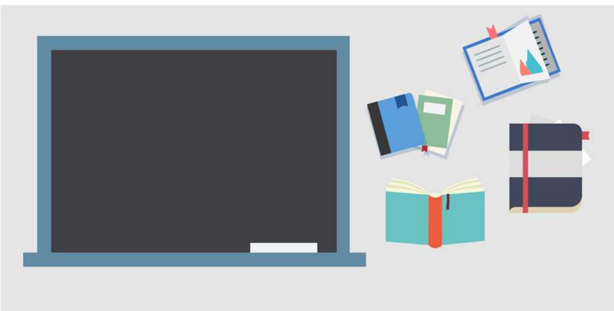
PROPOSED DEBT ALLOCATION



1. SHRUTI AND SEKHAR'S EDUCATION:

Planning for your children's higher education is crucial. The cost of higher education can vary significantly depending on the type and duration of the course. Since their higher education is an ongoing goal, the investments dedicated for the same, shall be moved to the safety of more conservative instruments to ensure capital protection. It is also important to note that the money will be required over a period of two to four years and not all at once.

SHRUTI'S UG:



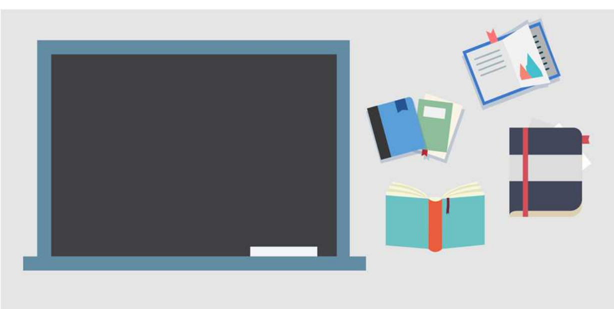
Value of Goal : Rs. 25 Lakhs

Years to Provide : 2019

Note:

Rs. 25 Lakhs from your existing debt mutual fund portfolio can be used towards this goal.

SEKHAR'S UG:



Present Value of Goal : Rs. 75 Lakhs

Future Value of Goal : Rs. 81 Lakhs

Inflation : 6 % P. A

YEARS	INITIAL CORPUS (A)	WITHDRAWAL (B)	RETURN @ 5% (C)	Corpus (A) – (B) + (C)
2019	77,00,000	25,00,000	-	52,00,000
2020	52,00,000	27,00,000	3,00,000	28,00,000
2021	28,00,000	28,00,000	-	-

Note:

Rs. 77 Lakhs from your existing debt mutual fund portfolio can be used towards Sekhar's UG Fees.

PG EDUCATION:

Since we don't know the exact timeline for your children's PG education, we are assuming that they would consider finishing their post-graduation immediately after UG. We have assumed that you would provide 50% of the PG corpus for your children.

SHRUTI'S PG:

Present Value of Goal	: Rs. 80 Lakhs
Future Value of Goal	: Rs. 85 Lakhs
Inflation	: 6%
Year to Achieve	: 2020

PARTICULARS	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2020)
Lumpsum from your existing debt portfolio	1	40,00,000	5%	42,00,000

Note:

A lumpsum of Rs.40 Lakhs from your existing debt portfolio can be used towards Shruti's PG education.

SEKHAR'S PG:

Present Value of Goal	: Rs. 80 Lakhs
Future Value of Goal	: Rs. 95 Lakhs
Inflation	: 6%
Year to Achieve	: 2022

PARTICULARS	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2022)
Lumpsum from your existing debt portfolio	3	38,00,000	5%	44,00,000

Note:

Rs. 38 Lakhs from your existing debt portfolio can be diverted towards Sekhar's PG.

Also, there are various options available to meet the short fall in the PG education corpus. We have listed down the options below:

1. **Working after UG**- If your children choose to work after their UG in New Zealand, they would be able to contribute towards their PG education cost. Average salary per year for science/ commerce graduates in New Zealand is around $67,000. Starting their career after UG would be beneficial in terms of gaining experience in the field of interest. This will also provide a boost while pursuing their PG.
2. **Part time work during UG**- If your children wish to take up part time work while they are pursuing their UG, they can earn a minimum of NZ $566 per week before tax for a 40-hour week. Students earning their own money get lessons on spending wisely. They may be less likely to spend their hard-earned money and learn to delay gratification to pay for necessities, such as rent. At the same time, they can save for their PG education.
3. **Scholarships-** They can also apply for merit scholarships, if eligible.
4. **Education loan-** Benefits of taking educational loan are as follows:
    a. **Interest rate advantage** - Interest rates for education loans are generally lower than any other unsecured loan.
    b. **Moratorium period** - In respect of education loans, lending institutions give a moratorium or holiday period ranging from 6 to 18 months after the completion of the course. Repayment of the principal amount for the availed education loan can start after this period.
    c. **Financial Responsibility** - Allowing them to repay the education loan will help inculcate financial responsibility.

2. SAFETY CORPUS:

We have created a safety corpus to fall back on. This will act as your family's safety net in case of distress. **You would not have to worry about providing for your living expenses and insurance premiums until your venture starts earning profits.**

Following factors have been considered to arrive at the source of income for your family once you move to Salem:

1. **Standard of living** – Cost of living in a smaller city like Salem is 15-20% lesser than Chennai. If you are spending monthly Rs.1,50,000 in Chennai, we can comfortably say that your monthly expenditure would be maximum of Rs. 1,20,000 in Salem. Assuming that both of you are moving to a farmhouse in Salem, most of your expenses might get reduced. For example, fuel expenses, entertainment, shopping, leisurely activities etc.

2. **Pension income**- Ramesh would be receiving monthly pension income of Rs.55,000 from his employer if he retires early, that is Rs.6,60,000 p.a.

3. **Rental income-** If both of you move to Salem, Chennai property can be let out. Considering today's market scenario, you can comfortably get a monthly rental income of Rs.35,000 from your fully furnished 3BHK property. It is important to note that rental income might not get inflation adjusted every year and there is a risk of property remaining vacant for some time.

Given that Ramesh wants to start the venture as soon as possible, Uma has the option to either stay in Chennai and continue with her job till the venture stabilizes or she can move to Salem with Ramesh. As Sekhar will also be moving out soon, Uma can consider moving to Salem now and continue her teaching career in Salem if she wishes. She can also support Ramesh in setting up the resort and then use her network to talk to international schools to send kids on field trips to the resort.

In case Uma decides to continue teaching in Salem, she may be able to earn Rs. 35,000 - Rs. 45,000 monthly, which can be used towards building safety corpus. But we have conservatively not assumed any income from Uma once she moves to Salem.

MONTHLY INCOME TABLE:

We have assumed that your family would be receiving income after quitting your jobs and moving to Salem.

SOURCE	AMOUNT
Rental income	35,000
Pension income	55,000
TOTAL	**90,000**

As shown in the goal wise allocation table earlier, **Rs.20 Lakhs** has been moved to your safety corpus. This would assist in meeting any shortfall in the monthly requirements. We would suggest you adopt a Systematic Withdrawal Plan (SWP) strategy for the same if required.

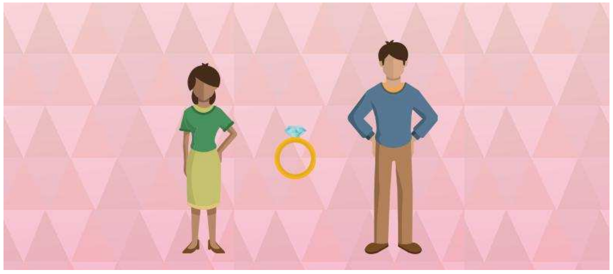
WEALTH CORPUS:

Rs.1.43 Crores has been moved to wealth corpus as mentioned in the goal-based allocation table. This will continue to remain in equity, and **it would grow to Rs. 1.95 Crores in three years.**

- If need be you may use this reserve to meet the shortfall in Shruti and Sekhar's PG education.
- If you don't contribute towards your children's PG education, the portfolio can continue to be part of the wealth corpus.
- If your venture doesn't go well, this corpus can act as your retirement corpus.
- You will be able to get inflation adjusted inflow of **Rs. 65,000 (in today's value), per month until age 85 (Ramesh's age) from this corpus at 8% CAGR.**

3. SHRUTI AND SEKHAR'S WEDDING:

SHRUTI'S WEDDING:



Present Value of Goal : Rs. 20 Lakhs

Future Value of Goal : Rs. 29 Lakhs

Inflation : 8 %

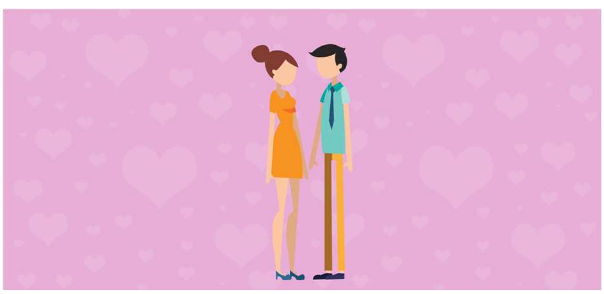
Timeline to Achieve : 5 Years

PARTICULARS	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2024)
Existing equity mutual funds	5	20,00,000	11%	33,70,000

Note:

Shruti would be 25 in year 2024. Rs. 20 Lakhs from your existing equity mutual fund portfolio can be assigned towards this goal.

SEKHAR'S WEDDING:



Present Value of Goal : Rs. 20 Lakhs

Future Value of Goal : Rs. 34 Lakhs

Inflation : 8 %

Timeline to Achieve : 7 Years

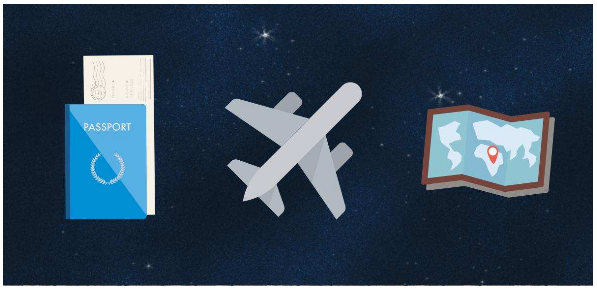
PARTICULARS	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2026)
Existing equity mutual funds	7	17,00,000	11%	35,30,000

Note:

Sekhar would be 25 in year 2026. Rs. 17 Lakhs from your existing equity mutual fund portfolio can be assigned towards this goal

The value of both the wedding goals can be reviewed and enhanced once there is more clarity on the future inflows/income of the family.

4. TRAVELLING TO NEW ZEALAND/ VACATION:



<u>Target Corpus</u> : Rs. 20 Lakhs

Both of you may want to travel to New Zealand to meet your children and or they might want to visit you. Approximate cost to travel to New Zealand is around NZ $1200 (INR 55,200) per person for a two-way trip. Hence, we have created this corpus which can be used for travelling for the next three years. **Rs.20 Lakhs from your existing debt mutual fund portfolio can be kept in a separate scheme/folio and be used for the same**. If you choose to not travel to New Zealand, the same corpus can be used to meet your vacation goal. But given the time and effort the new venture might demand from both of you, vacation for next three years may not be feasible.

5. LIFESTYLE EXPENSES:

Recurring expenses might come up every now and then. It can be something like setting up the farmhouse in Salem, buying a smart phone, replacing your appliances or buying a new vehicle. It is necessary to plan for these expenses and create a corpus. **Rs.25 Lakhs from your existing debt mutual fund portfolio can be set aside for this purpose.**

SUMMARY:

Under this scenario**<u>, if the venture is successful, all your financial goals can be met</u>**. Your family will have enough income from the venture to start building your retirement corpus. **<u>Significant wealth can be created</u>** if the business does well. However, we are not assuming it anywhere in the plan and it has not been used for any familial obligations.

<u>If the venture doesn't go well, only the farm will be at stake.</u> Since the farm is being contributed by Ramesh into the eco-resort venture by way of equity, if the resort loses money, the PE would want to liquidate the farm to monetize its investments. In this case, all the goals can be met except PG education being met partially**. Both of you might have to shift back to Chennai** and Uma can pick up a teaching job again and Ramesh can look for some consultancy assignments which will contribute towards the retirement corpus shortfall.

We have assumed that you would retire when Ramesh turns 55. Ramesh will receive a pension income of Rs.55,000 (today's value). Shruti and Sekhar would be living abroad. Hence, we have considered Rs.1 Lakh in today's value for your monthly requirement, post retirement. The required retirement corpus is Rs.**3.8 Crores** as shown below. Safety corpus, if left unused would grow to Rs.**2.2 Crores in 5 years**. The shortfall in the corpus can be built through Uma's income/ Ramesh's consultancy income as mentioned above.

Present Value of Monthly Requirement	: Rs.1 Lakh
Future Value of Monthly Requirement	: Rs.1.3 Lakhs
Inflation	: 6 %
Timeline to Achieve	: 5 Years
Target Corpus	: Rs. 3.8 Crores

Advantages and disadvantages for both Ramesh and Uma are listed below:

Advantages:

- ✓ Ramesh can start his dream project. He will have the first mover advantage
- ✓ The family has a chance at moving from mass affluent to seriously affluent
- ✓ Funding the venture through Private Equity
- ✓ Existing Mutual Fund Portfolio, PF and the Chennai property will not be utilised in any situation for the venture
- ✓ Security of the family is ensured
- ✓ Emergency reserve and safety corpus has been created
- ✓ Uma also has a chance to continue her career at Salem

Disadvantages:

- × Contingent on receiving PE Funding
- × Uma has to forgo her career in Chennai
- × Loss of income until the venture picks up
- × If the venture doesn't do well the farm will be at stake

GOAL STATUS:

GOAL	IF VENTURE IS SUCCESSFUL	IF VENTURE DOESN'T GO WELL
	STATUS	
Shruti's UG	On Track	On Track
Sekhar's UG	On Track	On Track
Shruti's PG	On Track	50% Funding
Sekhar's PG	On Track	50% Funding
Shruti's Wedding	On Track	On Track
Sekhar's Wedding	On Track	On Track
Travelling to New Zealand/ Vacation	On Track	On Track
Lifestyle Expenses	On Track	On Track

Note: In addition to the above goals, **safety/wealth corpus** is also created.

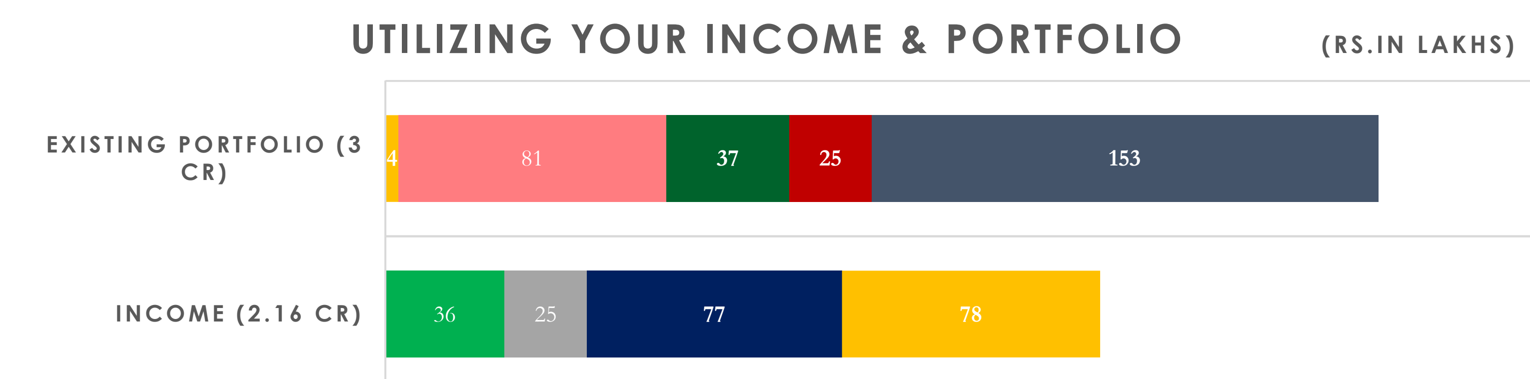
SCENARIO 2: STARTING THE VENTURE AFTER 2 YEARS

In case the PE funding is not available upfront, Ramesh might have to wait for a year or more to start the venture. Hence, we have shown you this scenario, where both of you work for another two years. Your family will be able to meet **Shruti's third year UG fees, Sekhar's UG fees and both of their PG corpus from your combined income**. You can also build a wealth corpus from the PF proceeds and existing portfolio. You may continue using your bonus towards vacation and lifestyle expenses for the next two years.

UTILIZING YOUR INCOME & CURRENT PORTFOLIO:

Your Income for 2 years is estimated at Rs.2.16 crores and expense will amount to Rs.36 lakhs. **Net Income of Rs.1.8 Crores** have been allocated towards **Shruti and Sekhar's UG and part of Sekhar's PG**.

Rs.1.8 Crores from the existing equity mutual funds have been allocated **towards wealth corpus and Shruti and Sekhar's Wedding**. **Rs.1.2 Crores** from the existing debt mutual funds have been allocated towards **Shruti and Sekhar's PG, contingency reserve and wealth corpus**. PF proceeds have not been included below as you would be receiving it only on retirement that is after 2 years.



	Income (2.16 cr)	Existing Portfolio (3 cr)
Expense	36	
Shruti's UG	25	
Sekhar's UG	77	
Sekhar's PG	78	4
Shruti's PG		81
Shruti and Sekhar's Wedding		37
Contingency Reserve		25
Wealth Corpus		153

WEALTH CORPUS

After providing for your other financial goals, as shown above, remaining money in your portfolio would grow as shown below:

PARTICULARS	YEARS	ANNUAL INVESTMENT	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2021)
Existing Mutual Fund Portfolio	2	-	1,53,00,000	9%	1,82,00,000
PF	2	-	1,50,00,000	7.5%	1,73,00,000
GRAND TOTAL			**3,03,00,000**		**3,55,00,000**

- Rs.1.53 Crore from the existing mutual fund portfolio can be directed here.
- This investment can be split across equity and debt instruments in the ratio of 60:40 respectively. Equity investments can continue to grow and in case of any emergency you may utilise the debt portion of the portfolio.
- PF balance will accumulate to a much larger corpus considering the monthly contribution towards PF until employment. Therefore, the PF balance would be more than Rs.1.73 Crores and this balance will augment the retirement corpus. It is important to review your EPF balance regularly.
- Similar to scenario 1, you will have a monthly income of Rs.90,000 from your pension and rental income after you quit the job and move to Salem to start the venture. The above corpus will assist in meeting any shortfall in the monthly requirements. We would suggest you adopt a Systematic Withdrawal Plan (SWP) strategy for the same if required.
- You may withdraw money for your **vacation** and **lifestyle expenses** from this corpus after two years.
- You will be able to get inflation adjusted inflow of **Rs. 1,15,000** (today's value) per month until age 85 (Ramesh's age) from this corpus at 8% CAGR. This amount might be little lesser/provide for lesser years, if you withdraw the corpus for vacation and other lifestyle expenses.

SUMMARY:

Under this scenario, your family would be comfortable in providing for your children's education. Uma's anxiety would be reduced to a great extent. However, Ramesh might not have the first mover advantage. He might be unhappy with the current job since he is not able to start the venture earlier. His emotional needs and aspirations have been delayed for family's financial security. Nevertheless, he still has the chance to meet his aspirations.

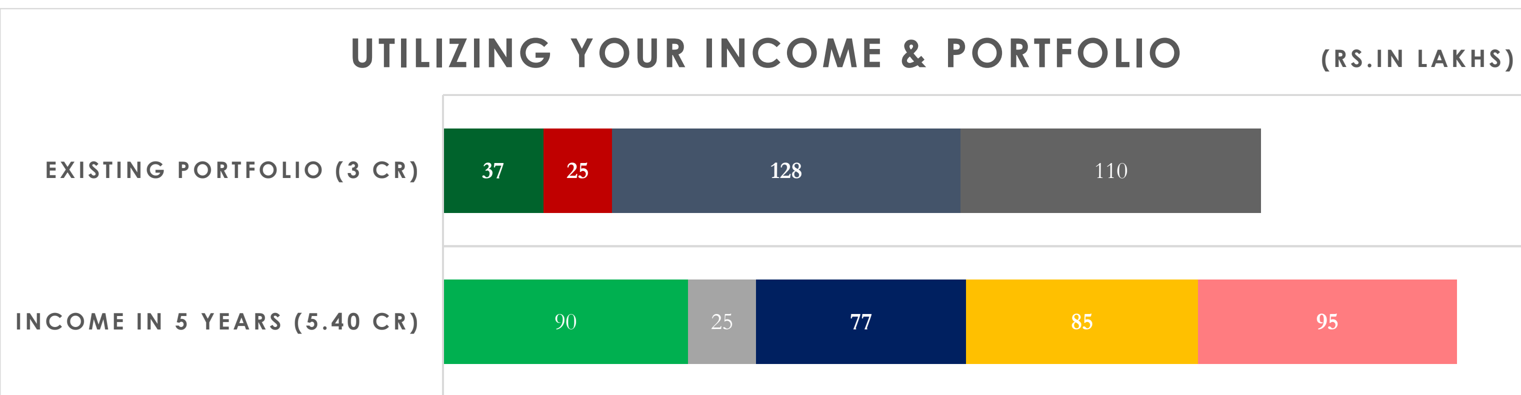
SCENARIO 3: STARTING THE VENTURE AFTER 5 YEARS

Under this scenario, Ramesh's aspiration has been postponed to 5 years from now. Uma wanted to postpone the idea by 5 years, when all the financial goals have been met. Postponing the idea will mainly give the family sufficient time to accumulate adequate wealth over the period. **This corpus can be used to fund your venture since PE funding might not be available for you after 5 years**. Your family will be able to meet **Shruti's third year UG fees, Sekhar's UG fees, Shruti's and Sekhar's PG corpus from your combined income**. As a family, you can also build a wealth corpus. You may continue using your bonus towards vacation and lifestyle expenses for the next five years.

UTILIZING YOUR INCOME & CURRENT PORTFOLIO:

Your Income for 5 years is estimated at Rs.5.4 crores and expense will be Rs.90 lakhs. Out of **Net** Income of Rs.4.5 Crores, **Rs.2.82 Crores** have been allocated towards **Shruti and Sekhar's UG and PG**. Net Savings of **Rs.1.68 Crores (Rs. 33.6 Lakhs p.a.)** has been invested towards wealth corpus.

Rs.1.8 Crores from the existing equity mutual funds have been allocated towards **wealth corpus and Shruti and Sekhar's Wedding**. **Rs.1.2 Crores** from the existing debt mutual funds have been allocated towards **contingency reserve and wealth corpus.** PF proceeds have not been included below as you would be receiving it only on retirement, that is after 5 years.



	Income in 5 years (5.40 cr)	Existing Portfolio (3 cr)
Expense	90	
Shruti's UG	25	
Sekhar's UG	77	
Shruti's PG	85	
Sekhar's PG	95	
Shruti and Sekhar's Wedding		37
Contingency Reserve		25
Wealth Corpus		128
Retirement corpus		110

RETIREMENT CORPUS:

If both of you opt to continue remaining in the employment further at this point, you can retire in five years' time comfortably to maintain the desired standard of living. Based on the conservative projections on how your investments will grow over the period**, a corpus of Rs.3.8 Crores** can be built towards this corpus. We have considered a monthly expense of **Rs. 1 Lakh as you would be receiving pension income of Rs. 55,000 from your employer.**

Present Value of Monthly Requirement	: Rs.1 Lakh
Future Value of Monthly Requirement	: Rs.1.3 Lakhs
Inflation	: 6 %
Timeline to Achieve	: 5 Years
Target Corpus	: Rs. 3.8 Crores

PARTICULARS	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2024)
Existing Mutual Fund Portfolio	5	1,10,00,000	9%	1,70,00,000
PF	5	1,50,00,000	7.5%	2,15,00,000
GRAND TOTAL		**2,60,00,000**		**3,85,00,000**

- Rs.1.10 Crore from the existing mutual fund portfolio can be directed towards building the retirement corpus. This investment can be split across equity and debt instruments in the ratio of 60:40 respectively.
- PF balance will accumulate to a much larger corpus considering the monthly contribution towards PF until employment. Therefore, the PF balance would be more than Rs.2.15 Crores and this balance will augment the retirement corpus. It is important to review your EPF balance regularly.
- Rental income after 5 years (once you move to Salem) will also provide monthly inflows.
- You will be able to get inflation adjusted inflow of Rs. 1,00,000 per month (in today's value) until age 85 (Ramesh's age) from this corpus at 8% CAGR.

WEALTH CORPUS:

PARTICULARS	YEARS	ANNUAL INVESTMENT	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2024)
Investments in Equity & Debt Instruments	5	33,60,000	1,68,00,000	9%	2,01,00,000
Existing Mutual Fund Portfolio	5	-	1,28,00,000	9%	1,97,00,000
GRAND TOTAL			**2,96,00,000**		**3,98,00,000**

- Rs.33.60 Lakhs from the savings can be invested annually.
- Rs.1.28 Crore from the existing mutual fund portfolio can be directed towards building the retirement corpus.
- Both the above investments can be split across equity and debt instruments in the ratio of 60:40 respectively.
- **This corpus can be used to fund your venture** since PE funding might not be available for you after 5 years.

SUMMARY:

Under this scenario, your family would be very comfortable in providing for your children's education and create significant amount of wealth. However, Ramesh might miss out on funding the venture through PE. He might have to pitch in his own money. Also, it could possibly be late to start the venture at age 55. Similar to Scenario 2, he might be unhappy with the current job since he is not able to start the venture immediately.

SCENARIO 4: NOT STARTING THE VENTURE

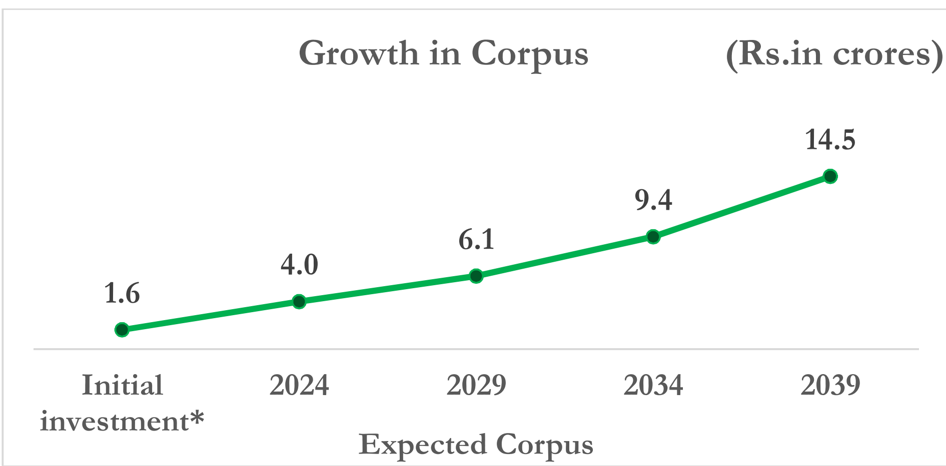
This scenario gives an alternative approach, where you can think of taking up a different direction for your future. As a sign of acknowledgement to years of hard work and delivering financial responsibilities, both of you can choose to retire peacefully. You may spend your retirement years leisurely in the farmhouse or travel and be with your children. Your family will be able to meet **all your financial goals** from your combined income Considering the surplus that can be built over the five years' timeline, you may choose to live a stress-free retired life rather than entering into a new venture that requires enormous amount of time and effort.

RETIREMENT CORPUS:

We have assumed that Ramesh would retire by age 55 and shown you the retirement corpus. Uma may still continue to work as she would be 51 years old. Similar to Scenario3, **Rs.3.8 Crores** can be built from your existing portfolio and PF proceeds. This calculation has been shown in Scenario 3.

WEALTH CORPUS

The following table shows how the savings will grow over 5-year milestones until 2039.



*Includes Existing MF portfolio (Rs.1.28 Cr) and Annual investments from 2019 till 2024 (33.6 Lakhs) growing at 9%

Note:

From 2019, annual investments of Rs.33.6 Lakhs from the savings can be invested in a mix of equity and debt instruments to build a wealth corpus until you retire. This can be split across equity and debt instruments in the ratio of 60:40 respectively. Rs.1.28 Crores from the existing mutual fund portfolio is expected to grow in addition to the annual savings investment. Any surplus or windfall income may be used to augment the wealth corpus.

SUMMARY:

Under this scenario, your family would be able to create **enormous amount of wealth**. However, Ramesh's aspiration is being compromised. Uma's concerns would be addressed, and she can continue her career. Your family would have met all the financial goals and also have the advantage of growing wealth and have a peaceful retirement.

TAX SAVING PLAN:

Sec. 80 C	Deduction of Rs. 1.5 Lakhs.	From life insurance premiums, PF, NPS, ELSS etc.
Sec. 80 D	Applicable deduction - Rs.25,000	Preventive health check ups & medical insurance premiums
Sec. 16	Rs. 50,000	For Salaried individuals only

- Under all the scenarios, the suggested medical insurance can be claimed under Section 80D. Within the limit of Rs. 25,000, preventive health check-up of Rs. 5,000 can be claimed.
- From FY 2019-20, salaried individuals are eligible for a standard deduction of Rs. 50,000.

Scenario 1:

Ramesh would be receiving pension income and Uma might be receiving Salary income. Both of you may invest under S.80C to claim the benefits. You may claim the premium for the term insurance policy. The shortfall may be invested in ELSS funds and PPF.

Scenario 2, 3 & 4:

Both of you would fall under 30% tax bracket until you continue your employment. Your EPF contribution would suffice to meet your Sec.80C benefits. You may also claim the premium for the term insurance policy.

ESTATE PLANNING:

Estate planning is an integral part of financial planning. Estate planning makes sure that the assets are transferred to beneficiaries, helps to avoid conflicts among family members, benefits by paying less amount of taxes on your estate. The objective behind the estate planning is to help you examine your financial needs and assets in order to make sure that your family are provided for in the best possible way after death. We recommend you explore the option of creating a trust or a will.

YOUR OPTIONS:

Scenario 1

- Ramesh can be his own boss.
- Uma's concerns have been partially addressed.
- Financing is through Private Equity.
- Children's UG Education and wedding is funded fully.
- 50% of PG education met.
- Safety corpus has been created to fall back on.

Scenario 2

- Ramesh's aspiration gets delayed by 2 years.
- Uma's concerns have been addresssed fully.
- Uma can quit her job and contribute her skills towards the venture.
- Children's UG and PG education can be funded comfortably.
- PE funding might not be available.
- Ramesh might have to face competition, investment and gestation risk.

Scenario 3

- Ramesh's aspiration gets delayed by 5 years.
- Uma's concerns have been addressed fully.
- Children's UG and PG education can be funded comfortably.
- PE funding might not be available.
- Ramesh will have to face competition, investment and gestation risk.
- Wealth corpus can be built.

Scenario 4

- Ramesh's aspiration has been sacrificed for a stress free life.
- Uma's concerns are addressed.
- Peace of mind.
- Significant Wealth corpus can be created.
- Upgraded Lifestyle.
- Unfulfiled ambitions.

OUR ADVICE:

The plan has been carefully designed keeping all the requirements in mind. We have explained four different scenarios to address the personal and financial dimensions associated with your family's aspirations and needs.

Our advice for the family would be that Ramesh **starts the venture as soon as the Private Equity Funding is received.** Ramesh has to agree for all the other conditions stated in the crux of the plan.

- ✓ Existing assets and PF proceeds will only be used to provide for the family and not for the venture.
- ✓ Ramesh has to make sure that Chennai house will not be encumbered in any case.
- ✓ Only the farm will be allotted for the eco-tourism venture

Ramesh may **start the venture at the earliest** as explained under **Scenario 1**, provided all the above conditions are met, there by addressing Uma's concerns.

However, if there is a delay in receiving the PE money, both of you might have to **wait until Ramesh receives the funding** and continue working till then. Your financial position would change accordingly as explained in the plan.

It is important for Ramesh to understand that his personal aspiration can have a very huge impact on his family. Hence, it is necessary to ensure family's financial security. Uma would be happy to join him once the financial security has been assured for the family. We have made sure that both of your personal and emotional needs are addressed and supported them with calculations. Together both of you can fulfil the whole family's aspirations. We also recommend reviewing your plan at frequent intervals to assess implementation, progress and incorporate any structural changes.

KEY ACTION POINTS:

- Insure yourself and your family in terms of health and life
- Create emergency and medical reserve as recommended
- Bifurcate your portfolio in line with your goals. Amount required towards each goal should be in separate folios/ separate schemes
- Portfolio for safety corpus needs to be constructed as suggested

REFERENCES:

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Science course in NZ	https://www.auckland.ac.nz/en/study/study-options/find-a-study-option/bachelor-of-science-bsc.html
Pay Scale	https://www.payscale.com/research/NZ/Location=Auckland/Salary/by_Degree
Min wage for students- UG in NZ	https://www.govt.nz/browse/work/workers-rights/minimum-wage/
Salary for teacher in Salem	https://www.indeed.co.in/salaries/High-School-Teacher-Salaries,-Salem-TN
Inflation in New Zealand	https://www.rbnz.govt.nz/monetary-policy/inflation
Insurance Premium	ismart quote app by ICICI Prudential Life insurance
Critical illness insurance	https://www.apollomunichinsurance.com/optimavital/index.html?icid=HI_OV_INDI
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Health insurance	https://www.starhealth.in/