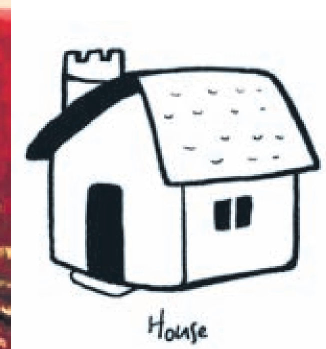
Amit with his wife Neeta and son Atharva

PRADIP DAS



High growth makes equity a safe bet

INFLOW OUTFLOW STATEMENT

PARTICULARS	MONTHLY	ANNUAL
Salary-Amit	42,000	5,04,000
Salary-Neeta	18,000	2,16,000
LTA-Amit	0	12,500
TOTAL INFLOW	60,000	7,20,000
LIVING EXPENSES		
Household-Fixed	8,650	1,03,800
Household-Variable	7,700	92,400
Lifestyle	1,700	20,400
	18,050	2,16,600
Life Insurance	6,100	73,200
Health Insurance	0	0
Total insurance	6,100	73,200
TOTAL EXPENSES	24,150	2,89,800
SURPLUS	35,850	4,30,200
INVESTMENTS		
PPF	3,000	36,000
NET SURPLUS	32,850	3,94,200

TAX CALCULATION FOR AMIT

NET INCOME (ANNUAL)	TAX PAID (ANNUAL)
5,04,000	36,000

Benefits	Amount Invested	Maximum Deduction	Possible Tax Saving
80C			
Insurance	55,200		
PPF	36,000		
EPF	13,200		
	1,04,400	1,00,000	20,000
80D	0	15,000	3,000
80CCF	0	20,000	4,000
			7,000

Taxation

Amit can save Rs 1,500 in taxes, under Sec 80 D, if he pays Rs 7,500 per annum towards health insurance. He can save an additional Rs 4,000 under Sec 80CCF this year if he invests Rs 20,000 in infrastructure bonds. The budget for FY 2011-2012 has extended the benefit on infrastructure bonds for another year. The budget has provided for increase in the starting tax-slab from Rs 1,60,000 to Rs 1,80,000 which will put an additional Rs 2,000 per annum in Amit's income.

THE FACTS

Amit (30) and Neeta (28) Upadhyay are a young couple with a two year old son. They are both working in the BPO Sector in Mumbai. They currently live in a rented accommodation.

INVESTMENTS

They have Rs 16 lakh in fixed deposits. Rahuls' EPF balance is about Rs 1.2 lakh and PPF balance is about Rs 1.62 lakh.

INSURANCE

They have one insurance policy in the name of each of them for a premium of total Rs 6,100 per month. The current risk cover for Amit and Neeta is Rs 3.75 lakh each. They have no personal health insurance, though their company provides a cover of up to Rs 2 lakh to each of them. They do not any liabilities at present.

THE GOALS

Amit and Neeta wish to purchase a house within two years. They have estimated that they will be buying a house worth Rs 40 lakh.

Amit wishes that his son would pursue engineering when he grows up. He desires to fund his graduation and post-graduation accordingly. For this he sees an expense of about Rs 7 lakh in present terms. For his wedding at the age of 27, he wishes to keep Rs 7 lakh in present terms.

They wish to start saving for a comfortable retirement too.

CONTINGENCY FUND

A contingency fund equal to three month expenses needs to be maintained. At present, Rs 50,000 from the existing FD's can be earmarked for this, so there is no need to build a separate contingency fund. This will have to be increased by the amount of three months' EMI, once the payouts start.

INSURANCE

There is a big gap in insurance. Amit as a primary earner, needs to have a cover of at least Rs 60 lakh to cover family expenses and goals. This requirement will go up to the tune of the home loan that he takes. The average premium will be Rs 15,000 for a policy of Rs 60 lakh for a period of 30 years.

Health insurance is another important and ignored area. We recommend a health cover of Rs 3 lakh for the family costing approximately Rs 7,500. This will save him additional tax under Sec80 D.

SON'S EDUCATION AND WEDDING

Monthly SIPs into good diversified equity mutual fund should be started towards the twin goals of son's education (Rs 4,400 pm) and son's marriage (Rs 2,300 pm).

FINDINGS AND RECOMMENDATIONS

The couple is earning well. Their expenses are normal and within their income. As per their current expenses, they generate a surplus of Rs 3.94 lakh. This bides well for them in terms of meeting their goals.

Their networth is Rs 19 lakh. Most of this though is in FDs which is earmarked for purchase of property.

The approximate EMI on a home loan of Rs 24 lakh at 10.25 per cent will be Rs 23,500. This will drastically change their cashflows.

At present their child is not of school going age. Once his schooling starts in about a years', time, there will be a big increase in the expenses.

They should plan as keeping in mind their sons schooling next year onwards as well as the home loan which they intend to take in the next year.

NETWORTH STATEMENT

ASSETS	
Two-wheeler	25,000
Liquid	0
INVESTMENT ASSETS	
Savings Bank	10,000
DEBT INVESTMENTS	
FD	16,00,000
PPF	1,62,220
EPF (Amit)	1,19,843
EPF(Neeta)	0
TOTAL ASSETS	19,07,063
LIABILITIES	NIL
NETWORTH	19,07,063

PROJECTED INFLOW-OUTFLOW (POST HOME LOAN)

PARTICULARS	MONTHLY	ANNUAL
Salary-Amit	45,360	5,44,320
Salary-Neeta	19,440	2,33,280
LTA-Amit	0	12,500
TOTAL INFLOW	64,800	7,77,600
LIVING EXPENSES		
Household-Fixed	9,342	1,12,104
Household-Variable	8,316	99,792
Lifestyle	1,836	22,032
Schooling		35,000
	19,494	2,68,928
INSURANCE		
Life Insurance	6,100	73,200
Health Insurance	0	0
TOTAL INSURANCE	6,100	73,200
TOTAL EXPENSES	25,594	3,42,128
SURPLUS	39,206	4,35,472
INVESTMENTS		
PPF	3,000	36,000
NET SURPLUS	36,206	3,99,472
PROPOSED OUTFLOW		
Health Insurance		7,500
Life Insurance		15,000
EMI (As per Goals)	23,500	2,82,000
SIP-(Education)	4,374	52,488
SIP-(Retirement)	2,518	30,219
SIP-(Wedding)	2,338	28,059
		4,15,267
NET SURPLUS/DEFICIT		-15,795

Caveat

Once their son starts going to school and their home EMI starts, there will be a shortfall in the cashflow. Thus, one of the goals will have to be compromised till there is an increase in income. Insurance both life and health is not to be compromised under any circumstances. Perhaps, the SIP towards the wedding goal can be discontinued and re-started when income goes up.

RETIREMENT

Amit and Neeta want to retire at the age of 58. We are assuming the life expectancy for both as 80. If they get a salary raise of 8 per cent every year till they retire, their EPF contributions will give them the bulk of the corpus required for retirement (combined corpus of about Rs 1.44 cr) If Neeta decides to take a career break, it will affect their retirement corpus creation as well as Amit's insurance requirements. To meet the gap, they need to start a SIP of Rs 2,500 towards retirement funding.

RETIREMENT GOAL

CURRENT ANNUAL EXPENSES
2,16,600

TIME TILL RETIREMENT
28 YEARS

FV OF CURRENT EXPENSES
14,40,138.39

1ST YEAR EXPENSE AT TIME OF RETIREMENT
14,40,138.39

SPENDING PHASE POST RETIREMENT
22 YEARS

INVESTMENT RATE	INFLATION RATE
8 PER CENT	7 PER CENT

RETIREMENT CORPUS REQUIRED
2,87,84,799

CURRENT RETIREMENT ASSETS

PPF*	14,47,159
EPF**	1,44,49,621
Total	1,58,96,780

NET ACCUMULATION REQUIRED
1,28,88,019

SIP **2,518**

PPF*: Assuming existing corpus grows at 8 per cent and only the minimum of Rs 500 is invested annually till retirement.

EPF**: Total of EPF final balance for Amit and Neeta assuming annual growth of 8 per cent in salary till retirement and EPF rate of return of 8.5 per cent

(ALL FIGURES IN RUPEES)

Plan by **Kiran Telang, Member, Financial Planners' Guild-India**

EXPRESS TIPS

TIP 1
It is essential to maintain contingency fund equal to 3 months expenses so that unforeseen circumstances can be dealt without touching the regular investments for goals.

TIP 2
Demise of the primary earner can derail any financial plan. The dependents might have to compromise on life style and key life goals. So ,it is necessary to have adequate life cover.

TIP 3
Hospitalisation for any major disease can set back the family finances drastically. Hence, health insurance is a must which takes care of medical expenses as well as provides tax benefit.

TIP 4
Equity gives best returns over longer period. The risk in equity is mitigating by diversifying in different companies and funds. Any long term goal must have an exposure towards equity.

TIP 5
SIP in Mutual Fund is an easy and efficient medium to save in a disciplined way for long term. Look for funds that have a good track record and have performed well consistently.

TIP 6
To live an independent and happy retired life, it is essential to make ample financial provisions, by way of retirement planning. Always account for inflation in the contributions towards retirement corpus.