EXPRESS CLINIC

NAME: **RAJESH KARANDIKAR**

RESIDES IN: PUNE

PROFESSION: SERVICE IN IT INDUSTRY

NET ANNUAL INCOME

(₹ 9,00,000)

STATUS & GOALS

RAJESH AND ASHWINI ARE BOTH IT PROFESSIONALS. ASHWINI IS CURRENTLY ON A CAREER BREAK. SINCE THEY HAVE RECENTLY MOVED FROM A DOUBLE INCOME FAMILY TO A SINGLE INCOME COUPLE, THEY WISH TO HAVE THEIR FINANCES CHECKED AND BE READY TO TAKE ON THE FUTURE RESPONSIBILITY OF PARENTHOOD. THEY ALSO WISH TO PLAN FOR A COMFORTABLE RETIREMENT. RAJESH'S PARENTS, WHO LIVE AT THEIR NATIVE TOWN, ARE PARTIALLY DEPENDENT ON HIM.

NEEDED

A financial plan that will force him to save and also provide good returns for future goals and retirement.

MONTHLY INCOME (Post Tax) **₹75,000**

TOTAL ANNUAL EXPENSES **₹10,02,654**

CURRENT ANNUAL DEFICIT **₹1,02,654**

GOALS

IN ORDER OF PRIORITY

CHILD'S EDUCATION (2029)(Inflation 10%)		CHILD'S MARRIAGE (2039)(Inflation 8%)	
CURRENT VALUE	FUTURE VALUE	CURRENT VALUE	FUTURE VALUE
₹ 25 lakh	₹ 1.39 crore	₹ 15 lakh	₹ 1.29 crore

RETIREMENT PLANNING (2034) (Inflation considered -7%, Life expectancy -85 years)	PRESENT ANNUAL RETIREMENT EXPENSES	FUTURE VALUE	CORPUS REQUIRED
	₹ 2,98,200	₹ 17.50 lakh	₹ 3.50 crore

FINDINGS

CASHFLOW
Annual cashflow at the current expenses and commitments are negative leading to deficit of ₹ 1.03 lakh. There is an urgent need to make the cashflow positive. Expenses look well controlled and do not offer much scope for savings. So Rajesh and Ashwini should look at ways to augment their income.

EMERGENCY FUND
There is practically no balance in savings bank. There is no other liquid investment available to fund any emergency needs. Only fall back is on gold, which will be sold only as a last resort.

HEALTH INSURANCE
Employer provides a health cover of ₹ 4 lakh for self and spouse for which he has to co-pay ₹ 3,500 per annum. Similarly for health insurance of ₹ 2 lakh each for his parents, he has to pay ₹ 12,000 each.

LIFE INSURANCE
There are two money back and one ULIP policy in Rajesh's name with a sum assured of ₹ 3 lakh for which he pays an annual premium of ₹ 35,450. He has a life insurance cover of ₹ 50 lakh and an accident insurance cover of ₹ 25 lakh provided by his employer.

INVESTMENTS
Currently, Rajesh invests ₹ 10,000 per month in total in PPF, in his and his wife's account. He has an ongoing RD of ₹ 5,000 per month which he uses every year to fund the insurance premiums. There are no other investments. He holds gold worth about ₹ 3,19,000 at current rates.

RETIREMENT
Rajesh contributes ₹ 2,998 per month to PF and has opted for an equal amount under VPF. His company also contributes ₹ 3,600 per month towards his superannuation account. His current PPF balance stands at ₹ 20,000. His PF balance is ₹ 86,000.

LIABILITIES
He has an outstanding home loan of ₹ 17.50 lakh with the tenure ending in 2018. His EMI is ₹ 31,542 per month. He has a ₹ 2 lakh of outstanding personal loan with the tenure getting over in 2014. He owes ₹ 1 lakh to relatives.

become available.

DEBT MANAGEMENT: Rajesh has about 51 per cent of his income going towards EMI payments. He should bring down his debt-income ratio to about 30 per cent and try to keep it below 35 per cent at all times. Any bonuses received have to be mandatorily used to retire the personal loan. This will free ₹ 7,000 per month for other goals.

EMERGENCY FUND: Ensuring liquidity to meet basic expenses and EMIs should be his first goal. He should discontinue VPF contribution and move it into a RD to help build his emergency fund. This will give annual surplus of about ₹ 16,000, which can be invested in a FD. In about 3 years at a rate of return of 9 per cent, these investments will build up to about ₹ 1, 43,000.

Express Tip: Always keep 3-6 months of expenses as liquidity. Do not forget to include EMIs in the expenses.

HEALTH INSURANCE: He has a good health cover provided by his employer. He should ensure continuity of this cover even when changing jobs.

Express Tip: Health insurance is primarily required to avoid using funds allocated to other long term goals.

LIFE INSURANCE: Rajesh is adequately covered due to the life insurance cover provided by his employer. In its absence, he has just ₹ 3 lakh, which will not meet his basic liabilities. When resources permit take an adequate term plan.

Express Tip: Good insurance cover provided by employer is a great perk, but ensure continuity.

CHILD GOALS: The current situation does not permit any investments. If the child is born after a year, a sum of ₹ 13,600 per month for 18 years needs to be invested for education and ₹ 2,500 per month for 19 years, for marriage.

RETIREMENT FUNDING: An investment of ₹ 10,000 per month after three years in PPF till retirement should grow to about ₹ 55.84 lakh. EPF should add ₹ 1.17 crore, superannuation another ₹ 34.36 lakh, insurance policies ₹ 12 lakh. The balance corpus needed is ₹ 1.30 crore, needing ₹ 5,500 a month till retirement at 15 per cent return.

Express Tip: All long term products should be aligned towards the retirement corpus

RECOMMENDATIONS

In light of the deficit cash flow situation, goal mapping can only be considered as a theoretical exercise. It will have to be reworked when funds

CONCLUSION

It is very important to keep cashflows in check. Patiently thinking over ways of increasing inflows should help the couple tide over the current cash crunch. In the long term they need to be careful in getting into debt and check their cashflow before signing on the dotted line. Overstretching in case of debt can create problems in all other areas of your financial life.

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LEGAL

New vehicle insurance law will limit the liability

The new Motor Vehicles Insurance Act is likely to incorporate several provisions like doing away with the unlimited liability in the third party motor insurance claims

RITU KANT OJHA

THINKSTOCK

THERE would soon be a separate Motor Vehicles Insurance Act (MVIA) that will do away with the controversial "unlimited liability" clause applicable in the current Motor Vehicles Act, 1988 (MVA). All the insurance-related provisions including insurance of motor vehicles, payment of compensation, and commissions would be deleted from the MVA and incorporated into the new Act which would be formulated and later administered by the Ministry of Finance.

The new Act is likely to limit the liability of the insurer in the third party claims and ensure that the cases are disposed off within two years.

The Ministry of Road Transport and Highways had appointed a committee under a former bureaucrat S Sundar to review the current MVA. The committee which submitted its report in January 2011 had recommended the ministry enactment of a separate Bill called Motor Vehicles Insurance Act to be formulated and adm_inistered by the Ministry of Finance.

The recommendations were accepted by the ministry and a letter sent to the Ministry of Finance requesting to initiate action for the enactment of a "suitable legislation to provide for MV Insurance Act". The Ministry of Finance has decided that a legislation would be formulated for the MV Insurance Act by the Department of Financial Services and has constituted a committee to this effect.

The committee would be chaired by the chairman and managing director of Oriental Insurance, RK Kaul. Representatives from General Insurance Council, Insurance and Regulatory Development Authority, Ministry of Road Transport and Highways and other legal experts would be part of the committee. The committee is likely to furnish its inputs by December 14.

The new Act is likely to incorporate several new provisions like doing away with the unlimited liability in the third party motor insurance claims. "There is no other country except some Scandinavian countries that still follow the unlimited liability clause," said a senior finance ministry official.

The premiums for the third party insurance are still decided by the government which, insurers complain, are very low considering the unlimited liability risk that they cover causing the motor insurance business become a loss making venture. "Several of the current provisions make the motor insurance business unviable for the insurers. The premium administered by the government is not enough. Plus a complainant can file a claim anywhere in India which increases the cost for the insurer," said G Sreenivasan, CMD, United India Insurance.

> "Current provisions make the motor insurance business unviable for the insurers. The administered premium is not enough"
>
> **G SREENIVASAN**
> CMD, UNITED INDIA INSURANCE

According to an estimate, the total motor insurance claims liability in the country is over Rs 17,000 crore. The new Act would introduce several new provisions. "There should be a cap of Rs 10 lakh on the 'no-fault principle' and Rs 20 lakh on the 'fault principle'," the Sundar committee had noted. The third party claims are known to take several years to get finally settled.

To address this issue committee has recommended that the Motor Accident Appellate Tribunal (MACT) and civil court must endeavor to dispose off a case within two years from date of filing and not to grant adjournments unless sufficient cause and reasons of adjournments have been recorded in writing.

There is likely to be provision for interim compensation of Rs 1 lakh in case of death or permanent total disablement and Rs 50,000 in case of permanent partial disablement, resulting from loss of a limb or sight of either eye or grievous hurt leading to such disablement. to the victim within three months from the date of filing of application

The rate of interest on the amount of compensation be linked to 200 basis points above the bank rate as notified by the Reserve Bank of India to introduce certainty and uniformity regarding the interest on amount payable as compensation. The Act would enable the insurer to make an endeavor to settle the claims out of court/Tribunal directly with the claimant by mutual consent. ♦

— ritukantojha@expressindia.com

INVESTMENTS

Tap the short term debt opportunity

Investors can look to invest some of their surplus in these funds to make money in the short term

BEKXY KURIAKOSE

THE recent weakness and turbulence in the global and domestic equity markets have brought into limelight debt funds for their relative stability and low volatility. There are several debt products which can be considered for investment in such uncertain times and generate superior tax adjusted returns as compared to traditional sources of fixed income investments like FDs, bonds etc.

Short term debt funds provide an interesting opportunity in such an environment. After months of high inflation and continuous rate hikes by RBI, the market seems to be at an inflexion point. Key macroeconomic indicators like GDP, IIP are showing visible signs of slowdown in the economy.

Recent weekly inflation has shown some fall. If this continues, it's very well possible that RBI would maintain current stance and discontinue hiking rates. This would lead to interest rates stabilising at current levels.

Banking system liquidity has remained tight since past one year however since November the stress increased further due to currency withdrawals on account of festive season and government's revenue/expenditure mismatch as also intervention in forex markets to support rupee. This has also been a key contributor to elevated short term rates. However RBI stepped in to comfort markets by announcing OMOs (Open market Operations) whereby they would buy government securities from market players. To date this has helped to infuse some liquidity.

The other notable fact is that if one studies the entire yield curve spectrum across gilts, bonds and short term money market instruments, the highest levels seem to be in the short term space in the 3 month to 3 year category. Ten year benchmark G sec is currently trading in a range of 8.50 per cent to 8.60 per cent. Five year AAA corporate bonds are trading in a range of 9.40 per cent to 9.50 per cent.

However one year CD is trading in a range of 9.60 to 9.80 per cent and 6 month to 1 year CPs are trading in a range of 9.50 per cent to 11 per cent. Hence from a risk adjusted return perspective short term debt instruments offer lower interest rate volatility as compared to medium to long gilts and bonds but at the same time one can get attractive yields.

Extending this logic to debt funds, short term debt funds which would invest in a basket of such instruments like money market instruments and corporate bonds can be looked at for investment opportunities. These funds can benefit from any fall in rates going forward and generate attractive portfolio yield as well. These funds typically have average maturity ranging from 6 months to 2 years.

As compared to liquid and ultra short term debt funds these funds carry higher average maturity and higher MTM (Mark to market) risk, however they have on an average lower average maturity and lower MTM as compared to gilt funds and income funds. I

Investors who do not have any exposure to short term funds can look to invest some of their surplus in these funds now to benefit from high short term rates for a period of at least three months or more. ♦

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