



Life Planning

Mohan Kulkarni & Swati Kulkarni



Table of Contents

CURRENT ANALYSIS	3
RECOMMENDATION	7
ACTION PLAN	12
TAX PLANNING	14
ESTATE PLANNING	14
PLAN ASSUMPTIONS	15

Dear Mohan and Swati,

I am pleased to be a part of your life planning exercise and have charted out the plan focusing on your requirements keeping in mind assets available. Creating a plan helps you look at the big picture and guides you in making trade-offs between various situations to realize the dreams closest to your heart.

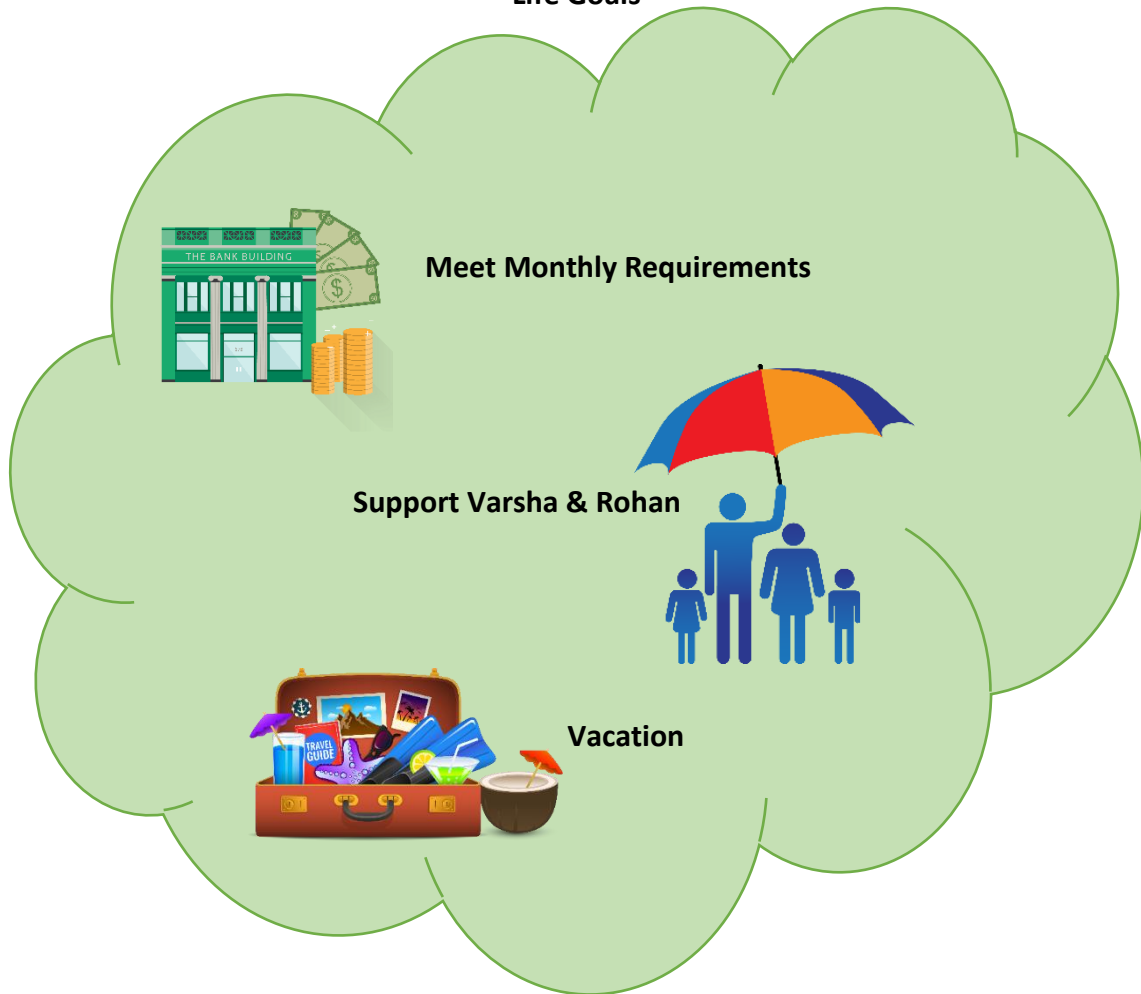
Currently, you are in the retirement phase and have created a corpus to take care of your requirements. However, with the recent turn of events, the dilemma of choosing between finances and emotions is always a tough one. I hope my analysis would aid in meeting your commitments both emotionally and financially.

As life situations are not constant, your plan too needs to be reviewed regularly and updated in accordance with changes in your needs and circumstances.

Given the information provided by you and some standard assumptions, I have worked out two Scenarios – **1 Intuitive Approach – Immediately Buying a Flat for Varsha’s Security** and **2 Constructive Approach – Bifurcating Goals and Making Informed Decisions**. Pros and cons of both the scenarios are discussed in detail in the Recommendation section.

CURRENT ANALYSIS

Life Goals



Immediate Goals – Things that must be done NOW

- 1) Taking Care of Monthly Expenses
- 2) Providing Support to Varsha

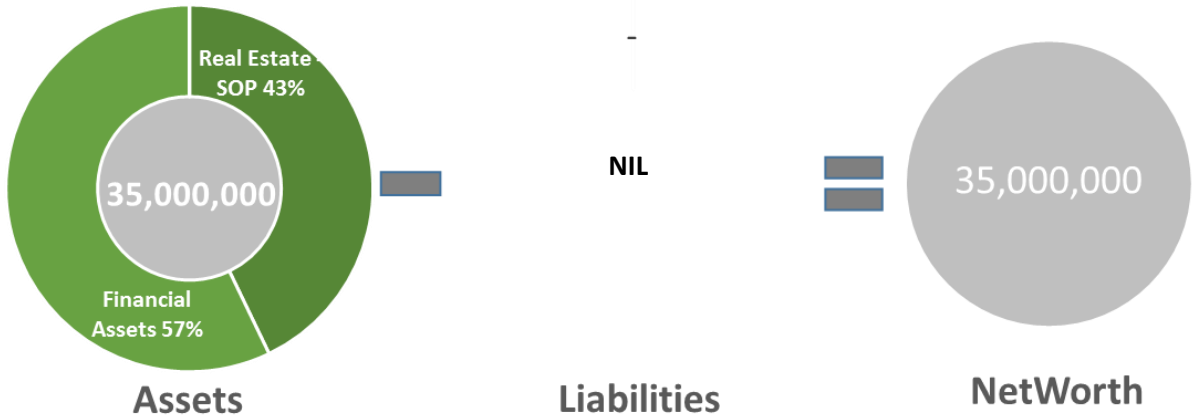
Important Goals – Things to be done Shortly

- 1) Rohan's Schooling
- 2) Medical Corpus for Self
- 3) Medical Insurance for Varsha and Rohan

Important Goals – BUT can be done later

- 1) Financial Security for Varsha
- 2) Vacation

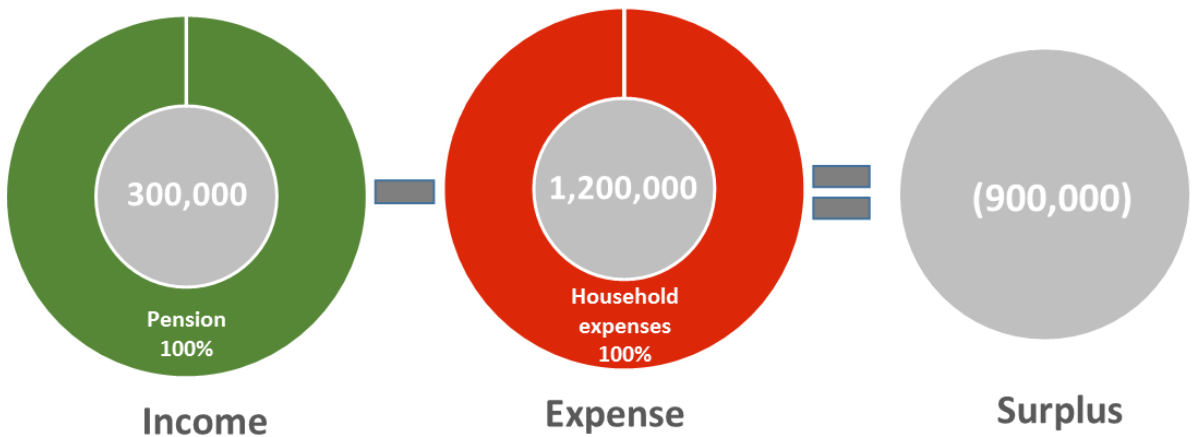
Net – Worth



**Personal assets include self-occupied property*

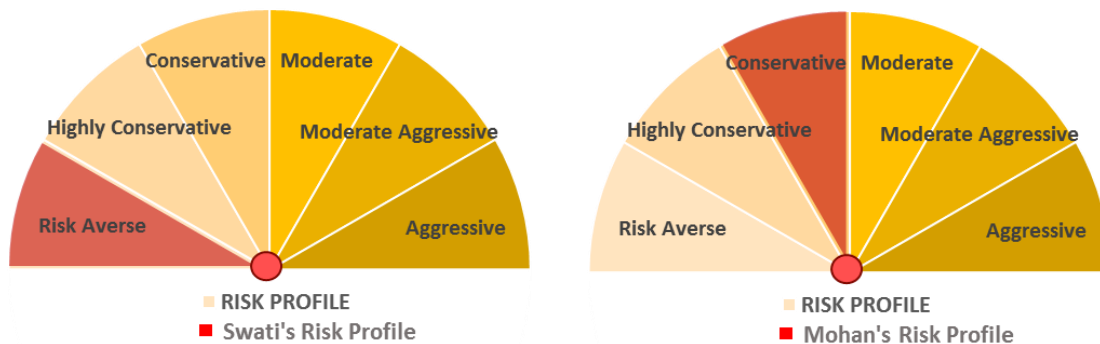
Assets		Current Value
Residential House		15,000,000
Hybrid Mutual Funds		10,000,000
FD		10,000,000
Total		35,000,000
Liabilities		NIL
Net-Worth		35,000,000

Annual Cash Flow



As you are in your post – retirement phase, the income generated is only through pension whereas the inflation – linked expenses are 4 times higher. The deficit in the cash flow is being met through your investment portfolio.

Risk Profiling



Based on the information shared I can infer that **Swati is risk averse while Mohan is a conservative investor.**

Risk Averse investors seek complete capital protection. They are not comfortable with taking any sort of risk on their portfolios. However, conservative investors seek reasonable but relatively stable growth. They understand that some exposure to growth assets is needed to beat inflation in the long run. Some fluctuations are tolerable, but investors in this category may not be comfortable with high degree of volatility in their portfolio. Conservative investors with time horizons of ten years or more typically have portfolios with a mix of higher risk investments such as equities and lower risk investments such as bonds and cash.

Investor who are risk averse are comfortable investing 100% - 90% in stable assets and 0% - 10% in growth assets. Conservative investors on the other hand are comfortable with an exposure to growth assets in the range of 20% - 30% and balance in stable assets. **Considering, your requirements, risk appetite and time horizon, we recommend having a 30% exposure to growth assets.**

Although our recommendation falls under your comfort zone, Swati may not be comfortable with the same. Keeping her concerns in mind, it is important for her to realize that the inflation lies at 6% today and will eventually eat into the corpus completely. Post retirement period will last 20-30 years and given the time frame, exposure in growth assets is extremely important to let your corpus grow else in ~ 10 - 15 years you could be dependent on Varsha to meet your monthly requirements.

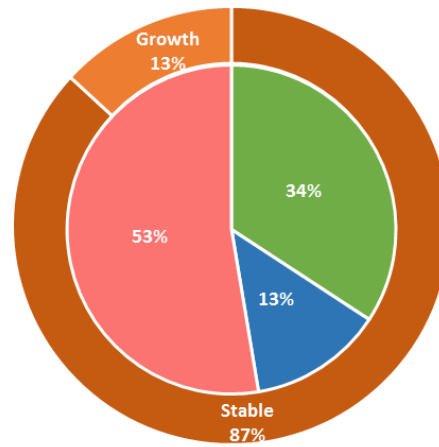
Investment Analysis

Current Asset Distribution



**Self – Occupied House excluded*

Financial Asset Distribution



■ MF - Hybrid - Debt ■ MF - Hybrid - Equity ■ FD

Currently, your entire portfolio is invested in financial assets. Exposure to growth assets is 13% and stable asset class is 87%. Your growth exposure is through the Debt Hybrid MFs assumed to have 30% exposure to equities. You need to increase your exposure to growth assets in a staggered manner and bring it up to 30% in the next 1-2 years. Increasing your exposure slowly over a period of 12-24 months will help in averaging out risk and staying invested for long will negate the risk of capital erosion.

RECOMMENDATION

Scenario I – Intuitive Approach – Immediately Buying a Flat for Varsha’s

Security

Goals	Year of Goal Requirement	Today’s Value(Rs)	Current Corpus Required (Rs.)	Revised Corpus Considering Available Funds (Rs.)	Annual Inflation
Monthly Requirement	2017 onwards	1,00,000	2.03 Cr	<u>1.04 Cr +</u> <u>*32.42 L =</u> <u>1.37 Cr</u>	6%
Flat Purchase for Swati	2017	60,00,000	60,00,000	60,00,000	-
Annual Vacation	2017 – 2030	4,00,000 (Yearly)	44,00,000	NIL	6%
Recommended Goals					
<i>Medical Corpus for Mohan and Swati</i>	<i>2017</i>	<i>35,00,000</i>	<i>35,00,000</i>	<i>35,00,000</i>	<i>-</i>
<i>Medical Insurance for Varsha and Rohan</i>	<i>2017 – 2018</i>	<i>35,000</i>	<i>35,000</i>	<i>35,000</i>	<i>6%</i>
TOTAL FUNDS			3,42,35,000	2,32,42,000	

*Present Value of future pension

Observations

- 1) You will be able to meet your goals as stated above earning a post-tax return of 8.5%pa on your financial portfolio.
- 2) To keep up with the rising medical costs, you are recommended to maintain a medical corpus for the two of you and pay for medical insurance for a Sum Assured of Rs. 10 L and Rs. 5 L for Varsha and Rohan for next two years. It has been assumed that Varsha will be able to borne these expense 2 years hence.
- 3) Presently, to provide emotional and financial security to Varsha you want buy a flat in her name. Keeping this goal as priority, available funds have been distributed towards other goals.
- 4) To take care of your monthly requirements of Rs. 1L, you need a corpus of Rs. 2.03 Cr. However, as stated above, post consideration for medical requirements for entire family and taking into consideration your pension income, retirement corpus available with you is only Rs. 1.37 Cr. This

would mean that you can take care of your expenses only for 10.5 years from now; post which you would have to depend on Varsha. Alternatively, you have 3 options stated below:

- a. Either reducing your monthly expenses to Rs. 67,000 or
 - b. Reverse Mortgage on self – occupied house, 10 years from now. However, the viability of the same must be looked into; or
 - c. In 8 years, sell the house you currently stay in, move to a smaller house and use the balance corpus to fund retirement.
- 5) Vacation goal cannot be met. Here again, you might be dependent on Varsha if a need arises.
- 6) Apart from the above goals, you are also required to fund the deficit in regular cash flows in a structured manner with a focus on taxability of asset allocations for the next 22 years through regular dividend/interest income.
- 7) You are recommended to maintain a liquid corpus of Rs. 15 lakhs at all times which can be utilized in case of any emergency.

Note: There is no buffer available in the above approach.

Scenario II – Constructive Approach – Bifurcating Goals

You are recommended to divide your goals as:

- 1) Immediate – To be done NOW**
- 2) Important – To be done Shortly**
- 3) Important – BUT can be done later**

Post analysis of your emotional and financial situation, following goals are clubbed in each of the above –mentioned categories:

1) Immediate Goals

- a. **Taking Care of Monthly Expenses** – Investment planning to be given utmost priority to take care of your requirements till your lifetime. Here, understanding risk and rewards become extremely important. You need to look at the next 20-30 years of your post – retirement life and not just the next 5 - 10 years. Additionally, tax planning must be inbuilt in so that taxes do not eat on to your returns.
- b. **Providing Support to Varsha** – Given the situation, Varsha needs both Emotional and Financial Support. Short term requirement of Varsha can be borne by you but long term, she needs to plan for herself. To make her independent you should look at paying towards some short-term courses wherein upon completion of the same, she can find a job and take care of her monthly expenses in the next 2 years.

2) Important Goals

- a. **Medical Corpus for Self** – With rising cost of medicals and sedentary lifestyle, it is not easy to derive a number for medical corpus which is intended to take care of medical emergencies post – retirement. However, post analysis of your current financials, you can maintain a medical corpus. However, given that you both are healthy now, you could look at taking a health insurance cover of Rs. 10L each additionally till the time premiums are affordable. Additionally, you must aim at healthier life style including exercise in your daily routines and do preventive health check-ups annually (additional tax benefits received on preventive health check up to Rs. 5,000 u/s 80D).
- b. **Medical Insurance for Varsha and Rohan** – A health cover of Rs. 10L and Rs. 5L respectively for Varsha and Rohan respectively must be taken immediately. This will help cover any medical needs that may arise. You can pay for the premiums initially but in the next couple of years she should be able to take care of this on her own as this will also provide additional tax benefits to her.

- c. **Rohan's Schooling** – Rohan will be 3 years old next year and it will be time for him to go to school. You must plan for Rohan's schooling for the first 3-5 years post which Varsha would have gained experience and should be drawing a decent salary to take care of this on her own.

4) Important – BUT can be done later

- a. **Vacation** – After taking care of the above requirements, you will still be able to meet your vacation goal but at reduced values. You can opt for Rs. 2.5L Annual vacation or for Rs. 5L vacation once in 2 years.
- b. **Varsha's Financial Security** – Cash flow is always more important than cash. Once Varsha starts earning, she will automatically feel more confident and start building her own corpus. Your aim should be to aid in achieving this financial freedom for her. As she is your only daughter, all your assets will eventually go to her. Hence you should not look at buying an additional house for her right now as this would be a strain on cash flow with no substantial income coming in.

Goals	Year of Goal Requirement	Today's Value(Rs)	Revised Values (Rs.)	Current Corpus Required (Rs.)	Annual Inflation
Monthly Requirement	2017 onwards	1,00,000	75,000	1.52 Cr	6%
Flat Purchase for Swati	2017	60,00,000	-	-	-
Annual Vacation	2017 – 2030	4,00,000 (Yearly)	2,50,000	27,52,000	6%
Recommended Goals					
<i>Medical Corpus for Mohan and Swati</i>	2017	35,00,000	35,00,000	35,00,000	-
<i>Medical Insurance for Varsha and Rohan</i>	2017 – 2018	35,000	35,000	35,000	6%
Recommended Goals to Support Varsha & Rohan					
<i>Varsha's Short Education Course</i>	2017	3,00,000	3,00,000	3,00,000	-
<i>Emergency Corpus – To Provide for Varsha's Expenses for 2 Years</i>	2017-2018	3,00,000	6,00,000	6,00,000	6%
<i>Rohan's Schooling</i>	2018 – 2023	1,00,000 (Yearly)	5,66,000	5,66,000	10%
Total				2,29,53,000	

***Present Value of future pensions considered**

Observations

- 1) You will be able to meet your goals as stated above, earning a post-tax return of 8.5%pa on all your savings and investments until retirement.
- 2) Apart from the above goals, you are also required to fund the deficit in regular cash flow in a structured manner with a focus on taxability of asset allocations for the next 22 years through regular dividend/interest income.
- 3) You are recommended to maintain a liquid corpus of Rs. 15 lakhs at all times which can be utilized in case of any emergency.

Note: Buffer in the Plan

If there is any turn of event which is not favourable to the plan; inflation is higher than planned or returns are lower than required; then the self – occupied house will form as a buffer and you could look at liquidating the same in the future.

Once Varsha start's earning, for her's and Rohan's financial security, she should look at investing her savings to build a corpus for her future goals. This must be done in a tax – efficient way. Additinally, it is of utmost importance that she takes life insurance so that Rohan will not have to suffer both emotionally and financially in case eventualities were to occur.

ACTION PLAN

High – Level Actionable Points:

- Acquire the recommended insurances.
- Create & maintain an emergency corpus equal to 3-6 months of your expenses always.
- Reinvestment of FD as per goal requirements and your risk profile

Below is detailed cash flow for the next 5.5 years

Goals	2017	2018	2019	2020	2021	2022
Medical Corpus for Self	3,500,000	-	-	-	-	-
Vacation	250,000	265,000	280,900	297,754	315,619	334,556
Rohan's Schooling	-	110,000	121,000	133,100	146,410	161,051
Varsha's Sort Term Course	300,000	-	-	-	-	-
Emergency Corpus	600,000	-	-	-	-	-
Total - (G)	4,650,000	375,000	401,900	430,854	462,029	495,607
Assets	2017	2018	2019	2020	2021	2022
MF-Hybrid-Debt	6,500,000	-	-	-	-	-
MF-Hybrid-Equity	3,500,000	-	-	-	-	-
FD	10,000,000	-	-	-	-	-
Total Assets (A)	20,000,000	-	-	-	-	-
Cash flow	2017	2018	2019	2020	2021	2022
Pension Income	175,000	300,000	300,000	300,000	300,000	300,000
Total Inflow (I)	175,000	300,000	300,000	300,000	300,000	300,000
Household expenses	525,000	954,000	1,011,240	1,071,914	1,136,229	1,204,403
Recommended Insurance Premium	16,128	17,096	-	-	-	-
Total Outflows (O)	541,128	971,096	1,011,240	1,071,914	1,136,229	1,204,403
Cash flow Deficit (D)	(366,128)	(671,096)	(711,240)	(771,914)	(836,229)	(904,403)
Assets after Meeting Goal and Cash Flow Deficit (A-G-D)	14,983,872	14,574,590	14,700,291	14,871,993	14,837,853	14,699,061
NET ASSETS Value (End of yr.) growing at 8.5%	<u>15,726,822</u>	<u>15,813,431</u>	<u>15,949,815</u>	<u>16,136,112</u>	<u>16,099,071</u>	<u>15,948,481</u>

*Cash flow projections based on assumptions and may differ from actuals

**Figures for 2017 pertaining to seven months

Goal Mapping and Reinvestment of the Available Assets

Requirements	Available Asset Mapped		Reinvestment Recommendation			
	FD	MF	Bank Balance	Liquid	Debt	Equity
Medical Corpus for Self	3,500,000	-	-	500,000	2500000	500,000
Vacation	2,752,000	-	-	500,000	1,752,000	500,000
Rohan's Schooling	566,000	-	-	100,000	466,000	-
Varsha's Sort Term Course	300,000	-	-	300,000	-	-
Emergency Corpus	600,000	-	300,000	300,000	-	-
Monthly Requirements	2,247,000	10,000,000	-	400,000	6,847,000	5,000,000
Medical Insurance	35,000	-	35,000	-	-	-
Total	10,000,000	10,000,000	335,000	2,100,000	11,565,000	6,000,000

Insurance

Name	Cover	Coverage Amount	Approximate Premium
Varsha & Rohan	Health Cover	Rs. 10 Lakhs and Rs. 5lakhs	16,500
TOTAL			16, 500

TAX PLANNING

- Tax planning involves trying to accomplish all of the other elements of your financial plan in the most tax-efficient manner possible.
- It is very important that one should balance liquidity, stability & growth with goals for the entire year, because, per unforeseen situation, things cannot be changed accordingly.
- Upon confirmation on the recommendations we shall discuss the product wise investment details considering options to minimise taxes and cover deductions under various tax heads wherever applicable.

ESTATE PLANNING

We recommend that you have an estate plan in place even if you have one daughter and you would want to devolve all onto her.

In India, if one were to die without a will, the entire estate shall get administered as per the law of the religion to which the person belongs. This could mean that the estate would not get distributed as per the wishes of the person. Additionally, if there is no will or trust and no estate planning done; and someone comes into probate with a dispute about the estate then a court case will have to be done to claim the estate by your beneficiaries which would involve both emotional and financial stress.

We recommend you to have an estate plan for the following reasons:

- Preserve your wealth for later generations.
- Make sure your wishes are carried out when you can no longer manage your affairs. It's important to have both a power of attorney and a living will.
- Be able to support your favorite charity or cause even after your life. Distribute assets in a timely fashion, with a minimum legal hassle.
- Minimize taxes and expenses that can go along with transferring assets.
- Protect your family's privacy with an estate plan through various tools like Wills, Trusts etc.

PLAN ASSUMPTIONS

The calculations and projections provided in the plan are based on the following assumptions:

- ❖ General inflation considered at the rate of 6% p.a
- ❖ Education inflation considered at 10% p.a.
- ❖ Return of 8.5% p.a. considered till life expectancy.
- ❖ Life expectancy is assumed to be 85 years for Mohan and Swati.
- ❖ Swati's assumed to be as old as Mohan i.e. 63 years old.
- ❖ Varsha is assumed to be 30 years old to calculate approx. insurance premium.
- ❖ The retirement corpus required has been calculated to provide for expenses (until life expectancy) from 2017 onwards & all expenses post 2017 is assumed to be provided for from this corpus.
- ❖ All values taken as income, expenses & assets are current values.
- ❖ Returns assumed for the below – stated assets are:
 - a. MFs: 8%
 - b. FD Reinvestment: Portfolio rate i.e. 8.5%
 - c. Growth Assets: 12%
 - d. Stable Assets: 7%