WISE advice

a joint initiative between HDFC MF and Wealth Forum



Wise Advice Case Competition 2018

A CASE STUDY DRAWN WITH CONTRASTING PERSONALITIES

A SCENARIO OF EMPLOYMENT RISK AND INCOME VARIABILITY

CHAMPION ADVICES FROM INSIGHTFUL ADVISORS

HDFC MUTUAL FUND BHAROSA APNO KA

WealthForum TV



WISE advice

a joint initiative between HDFC MF and Wealth Forum

PAGE 3 | A CHALLENGING COMPETITION

PAGE 9 | JURY ROUND

PAGE 12 | THE TOP 5

PAGE 13 | 5 WISEST ADVISORS: RESPONSE FROM GAURAV JAIN

PAGE 36 | 5 WISEST ADVISORS: RESPONSE FROM KHUSBOO AGRAWAL

PAGE 52 | 5 WISEST ADVISORS: RESPONSE FROM KUPPA VIJAY KRISHNA

PAGE 92 | 5 WISEST ADVISORS: RESPONSE FROM NANDITA JAISWAL

PAGE 129 | 5 WISEST ADVISORS: RESPONSE FROM NEETI SETHI



India's most challenging competition for financial advisors

Who are the wisest advisors in India?

The Wise Advice Case Competition is an exciting annual challenge for advisors to look at a case study with real life implications and ask themselves how and what they would advice.

It also offers advisors the opportunity to see how their advice would stack up against their peers and to learn from each other.



The Wise Advice case competition is open to all individuals in the financial intermediation business - distributors, advisors, wealth managers, employees of financial planning and wealth management firms. There are no restriction on number of individuals who can participate from the same firm.

There is no word limit for the response but the challenge for participants is to strike a good balance between brevity and verbosity. Advisors needed to pay attention to not only the advice but also how it was presented.

Feather in the cap

The 3rd edition of the Wise Advice Case Competition drew the best quality responses yet – with as many as 45 entries making it to the jury round for independent evaluation of case solutions. The corresponding numbers for 2016 and 2017 were 20 and 35 respectively.

Winners were awarded with Wise Advisor trophies at the 9th annual Wealth Forum Platinum Circle Advisors Conference on Aug 30 and 31, 2018. The winning advice was shared with conference participants.

For the winners, it is a huge feather in their cap to present to clients and prospects - having been adjudged the among the wisest advisors in India, by the advisory fraternity, in India's most challenging competition for financial advisors!



Our eminent jury:

A three member independent jury was asked to evaluate the entries and decide who the Wisest Advisors are.

Reviewing 45 high quality responses, complete with tables and annexures to support well crafted recommendations, was indeed a painstaking effort for our jury.

We are indeed grateful for their incredible effort.



Bharat Phatak
Wealth Managers, Pune



Mukesh Dedhia
Ghalla Bhansali, Mumbai



Col Sanjeev Govila
HFI Wealth, Delhi

Evaluation parameters:

When drafting the response to the case study, advisors had to address three aspects:

1. What will you advise?
2. Why will you advise this?
3. How will you advise them?

The jury evaluated the responses based on the following parameters:



Wise Advice Case Competition 2018	
Parameter	**Max Score**
The approach	**25**
Higher points for advisors who enable the investor to make an informed choice rather than making the choice for them	
The solution	
Solutions for stated goals	**35**
Higher points for sensible solutions that find a way to address ALL aspirations	
Solutions for unstated goals/needs	**20**
Higher points for covering unstated goals and proposing sensible solutions for them	
The presentation	**20**
Higher points for clear and logical flow, which will be easy for investors to understand and act on	
Total	**100**

The case

20 years ago, when Alka fell in love with Shobhit Mehra, her IIM-A batchmate, what attracted her to him was his grounded nature, which was in sharp contrast to her dreamy disposition, her mind always in the clouds, in a wonderful world of its own.

Opposites attract they say, which led to their marriage 17 years ago – a satisfying and fulfilling one for the most part.

Today at age 43, both have created very different career paths for themselves in Mumbai.

Shobhit joined a Big Five consulting firm and has risen to become head of its Risk Solutions Group while Alka has become an acclaimed fiction writer.

Their son Rahul (13) and daughter Meera (10) study at a premier International school, not far away from the comfortable 3 bedroom house they own and live in, at Santacruz (East), a Mumbai suburb.



Recent weeks have seen some strife in the



Mehra household as their opposite natures are pulling them in different directions on some important decisions.

Alka has set her heart on a recently constructed apartment building in the premium Bandra (West) suburb, which has splendid 4 bedroom sea-facing apartments, and both the children cannot stop talking about their potential new "dream home".

An apartment there will cost Rs. 10 crores, while they can't expect more than Rs. 4 crores from the sale of their existing house, leaving a gap that Shobhit thinks is just too much of an unnecessary risk on their finances.

The move will mean wiping clean their accumulated portfolio which is currently worth Rs. 3 crores (all in equity and balanced funds) and then taking up a home loan of another Rs. 3 crores, which will mean servicing large EMIs at a time when expenses are mounting.

Shobhit runs over the math once again for Alka, who is getting more irritable by the minute by what she sees as a risk manager

talking to her rather than a caring husband and father.

His take-home pay after deductions works out to Rs. 6 lakhs per month which pays for their monthly expenses of Rs. 2 lakhs, their annual international vacation that typically costs Rs. 8 lakhs and the annual school fees that currently stand at Rs. 8 lakhs per child per annum.

Until last year, Shobhit was servicing EMIs on their Santacruz apartment, which took up another Rs. 1.5 lakhs per month. He finally became debt free only recently and is uncomfortable about taking on a large home loan at this stage in his career, when uncertainties in his profession are quite high – at least in his view.

His annual bonus (in the range of Rs.25-30 lakhs pre-tax in the last 2 years) is what he has been investing in recent years.

Alka's earnings as a writer have been erratic – great in some years when she produces a gem, and almost non-existent in others as royalties die down from yesteryear bestsellers and the writers block prevents her from creating another masterpiece for a while.





Her earnings have hitherto been partly invested – contributing meaningfully to the current portfolio corpus of Rs. 3 crores - and partly spent on acquisitions that Shobhit would normally not consider – like the Mercedes SUV in their garage.

Her income tax returns in recent years shows a wide range of professional income – from Rs. 21 lakhs to Rs. 108 lakhs per annum.

Shobhit's view is that this is the time for them to be saving up for their children's overseas higher education, for their marriage expenses and for their own retirement.

Taking on a home loan that denies all those savings seems irresponsible to him. Alka's view is that he is being far too pessimistic about everything and therefore denying his family the life style that she believes they deserve and can afford.

He still has a good 20 years of work left in him and so does she. What is the point of only thinking about tomorrow and denying yourself happiness today?



And then of course there is the issue of having no guest room in their present house which always creates issues when either of their parents come over, as one of the kids lands up sacrificing their room for that duration.

Why can't we go to a bigger house, she asks. And, its not as if the money is going down the tube – the Bandra apartment is premium property, being bought in a buyer's market – it will only appreciate over time, she feels.

Alka dismisses Shobhit's concerns about professional uncertainties – she says his risk management consultancy job has made him only focus on the downside, thus denying them the upsides that they seek.

His CV can get him a job in any financial or other services oriented company, should he ever need to move out from consulting.

Moreover, she points out to the fact that professionals peak in their income generation between 45 and 60 – which means there is immense scope for him to make a lot more money than he currently makes.

On her part, she is willing to be less erratic with her writing commitments – she says if it means paying down a home loan for a house she yearns for, she will happily put in that extra effort which she didn't see a need to until now, to augment family income and savings.

Shobhit believes that hoping for a mercurial income stream to suddenly become steady and strong borders on wishful thinking, however strong the intent may be.

When family friends Ajay and Renu came over last weekend for dinner, Alka narrated the situation to them and asked them for their inputs.

Ajay mentioned that while he may not have the right answers, he knows somebody who probably will. He calls you – his trusted financial advisor of many years – and asks you to set up a meeting with Alka and Shobhit and see how you can help them make a decision that could possibly work for all.

What advice will you give Shobhit and Alka and why? Please support your advice with necessary plans and numbers. You are aware that beyond numbers, there are conflicting emotions and aspirations that need to be sensitively handled.



The jury round

Here is the list of advisors whose solutions made it to the jury round (in alphabetical order).

Name	Firm Name	City
Abhinay Gupta	TrustPlutus	Bangalore
Akhil Garg	Parity Wealth	Ghaziabad
Ambika & Vaishali	Brand New Day	Guwahati
Amrutha Putta		Hyderabad
Aniruddh Sheth	Wealth Whispers	Mumbai
Anusha Ramamoorthy		Madurai
Bharat Shah	Silverstone	Coimbatore
Brijesh Parikh	PlanetWealth FA	Bhavnagar
Chirag Jain	Plan Ahead	Mumbai
Gaurav Jain / FP Desk	I-thought	Chennai
Ganesh Bhide	Samruddhi Creators	Thane
Hemang Thakker	HP Investment	Anand
Karishma Jain	Bulls Vision	Kolkata
Kaushik Ramachandran	Dyota Solutions	
Khusboo Agrawal	Intl Money Matters	Mumbai
Khusboo Dudhoria	Phoenix Primus	Bangalore
Kuppa Vijay Krishna	Oro Wealth	Mumbai
Lakshmi Mahambre	Shivranjani Sec	Panjim
Manthan Shah	Wish Worth	Surat
Meyyappan M	Mitraz Financial	Bangalore

Name	Firm Name	City
Nandita Jaiswal	Mitraz Financial	Bangalore
Navya Karanth	Intl Money Matters	Bangalore
Neeti Sethi	Acumoney	Bangalore
Neha Shah	Shah & Shah	Mumbai
Pravin Budhauliya	Degree 212	Pune
Priya Shah	Plan Ahead	Mumbai
Purva Bhogaonkar	Bonvista	Nashik
Rahul Agarwal	Advent Financial	Mumbai
Rajiv Guha	K & R Planners	Delhi
Ramaswamy	Easy Inv	Madurai
Ramesh Hegde		Davangere
Rohini Pamarthi	Intl Money Matters	Bangalore
Roopam Goswami	Mitraz Financial	Bangalore
Saravanan	PurplePond Inv	Chennai
Shrikant Parakh	Prudent Inv	
Shrivallabh Patil	Sapient Wealth	Pune
Shweta Jain	Investography	Bangalore
Sneha Jagger	Intl Money Matters	Bangalore
Team Etica	Etica Wealth	Mumbai
Temujin Masukhani	Plan Ahead	Mumbai
Timir Palan	TrustPlutus	Bangalore
V S Varadarajan		Chennai
Vaibhav Shah	Oro Wealth	Mumbai
Vasanthraju T	Flowrich FP	Shivamogga
Vinod Prajapati	Plan Ahead	Mumbai

Based on the jury's scores, we arrived at the top 5 and top 25 lists of India's wisest advisors of 2018.

Here is the list from ranks 6 to 25, with aggregate scores for their responses.

Congratulations to each one of these advisors – it has indeed been a close race, as can be seen from the scrores.

Rank	Name	Firm Name	City	Score
6	Shrivallabh Patel	Sapient Wealth	Pune	72.0
7	Navya Karanth	Intl Money Matters	Bangalore	71.7
8	Vaibhav Shah	Oro Wealth	Mumbai	70.3
9	Ambika & Vaishali	Brand New Day	Guwahati	69.0
10	Khusboo Dudhoria	Phoenix Primus	Bangalore	68.3
11	Abhinay Gupta	TrustPlutus	Bangalore	68.0
12	Aniruddh Sheth	Wealth Whispers	Mumbai	68.0
13	Roopam Goswani	Mitraz Financials	Bangalore	68.0
14	Neha Shah	Shah & Shah	Mumbai	66.7
15	Timir Palan	TrustPlutus	Bangalore	66.3
16	Temujin Mansukhani	Plan Ahead	Mumbai	65.3
17	Rohini Pamarthi	Intl Money Matters	Bangalore	64.3
18	Purva Bhogaonkar	Bonvista	Nashik	64.3
19	Team Etica	Etica Wealth	Mumbai	64.3
20	Anusha Ramamoorthy		Madurai	64.0
21	Akhil Garg	Parity Wealth	Ghaziabad	62.3
22	Hemang Thakker	HP Investment	Ananad	62.3
23	Sneha Jagger	Intl Money Matters	Bangalore	61.3
24	Rahul Agarwal	Advent Financial	Mumbai	61.0
25	Vinod Prajapati	Plan Ahead	Mumbai	60.7



The top five Wisest Advisors

The top 5 advisors (in alphabetical order)		
Name	Firm name	City
Gaurav Jain /FP Desk	I-thought	Chennai
Khusboo Agrawal	Intl Money Matters	Mumbai
Kuppa Vijay Krishna	Oro Wealth	Mumbai
Nandita Jaiswal	Mitraz Financial	Bangalore
Neeti Sethi	Acumoney	Bangalore



Our heartiest congratulations to all the 5 award winners whose solutions have been ranked the best five by the jury from a very competitive pool.

Positions 2-5 were closely fought with a score range: 74.7 to 78 but the winner was head and shoulders above the rest, with a score of 86.

Do read the 5 excellent solutions to get practical insights on how to strengthen your advisory skills and match up to the best in the country.

WISE advice

a joint initiative between HDFC MF and Wealth Forum



Gaurav Jain / FP Desk

i-thought, Chennai

HDFC MUTUAL FUND BHAROSA APNO KA | WealthForum TV

WISE ADVICE CASE STUDY

JULY 2018

FINANCIAL PLAN FOR MR. & MRS. MEHRA

TABLE OF CONTENTS

PREMISE....2
OBJECTIVES....2
THE APPROACH....3
CASH FLOW ANALYSIS....4
NET WORTH ANALYSIS....4
TAX PLANNING....5
RISK MANAGEMENT....7
ASSUMPTIONS....9
YOUR OPTIONS....10
SCENARIO 1: BUY THE HOUSE NOW....10
SCENARIO 2: REACHING A COMPROMISE....17
SCENARIO 3: NOT BUYING A HOUSE....18
CONCLUSION....20
KEY ACTION POINTS....21

PREMISE

Alka and Shobhit find themselves at the crossroads of making important and consequential decisions regarding their personal aspirations, responsibilities, and financial security. Alka is keen on moving to a bigger apartment in a more premium location, while Shobhit wants to prioritize their children's higher education, wedding expenses, and their own retirement. Shobhit is inclined to take a more responsible approach and avoid additional risks, while Alka feels that their success and potential can comfortably tide them through.

The objective of this report is to strike a balance between the family's aspirations and financial commitments. Our endeavour is to consider the options available to the family and objectively present the consequences of each decision. We believe that this process will provide decision clarity. Studying the recommendations in the plan could help the family make a well-informed decision.

Financial planning is a deeply personal exercise. We treat your information as private and confidential. To us, planning is a collaborative effort that would require consistent action to become effective.

OBJECTIVES

The primary objective of this plan is to evaluate the implications of moving to a bigger and more premium property in Bandra West. This would involve understanding its impact on your other financial goals such as annual vacations for the family, children's school fees, children's higher education, wedding expenses, and retirement.



THE APPROACH

This plan has been prepared keeping the family's aspirations and financial commitments in mind. We have outlined **three scenarios** that could be adopted.



Scenario 1 - The house is bought now, and a plan has been structured to meet your other financial commitments.

Scenario 2 - A compromise is made on the house **– you may choose to either delay the purchase or buy a smaller house**.

Scenario 3 - T**he house is not bought**.

The idea behind projecting these three scenarios is to allow you to weigh the pros and cons behind your decisions. It will help you understand not only the financial implications, but also the personal aspirations and responsibilities that come with your decisions.

Central to your financial well-being is your ability to deal with risk. In each case, we identify the potential risks that might arise and arrive at suitable ways to address them.

To start with, we shall look at certain aspects of your finances that are important to ensure your financial well-being. This will involve studying your cash flows patterns, reviewing your current investments, evaluating the various elements of financial risk, ensuring tax efficiency and laying down the assumptions on which the plan is being created.

CASH FLOW ANALYSIS

Shobhit has a steady source of income whereas Alka's income fluctuates. Alka's career growth is linked to both her creativity and productivity. Her potential to generate income is significant but need not necessarily be steady. Meanwhile, Shobhit's career progression has so far been promising. However, he is concerned about job security and future growth potential.

The following table illustrates the potential sources of income for the family and the investible amount available (per annum) post-taxes and expenses:

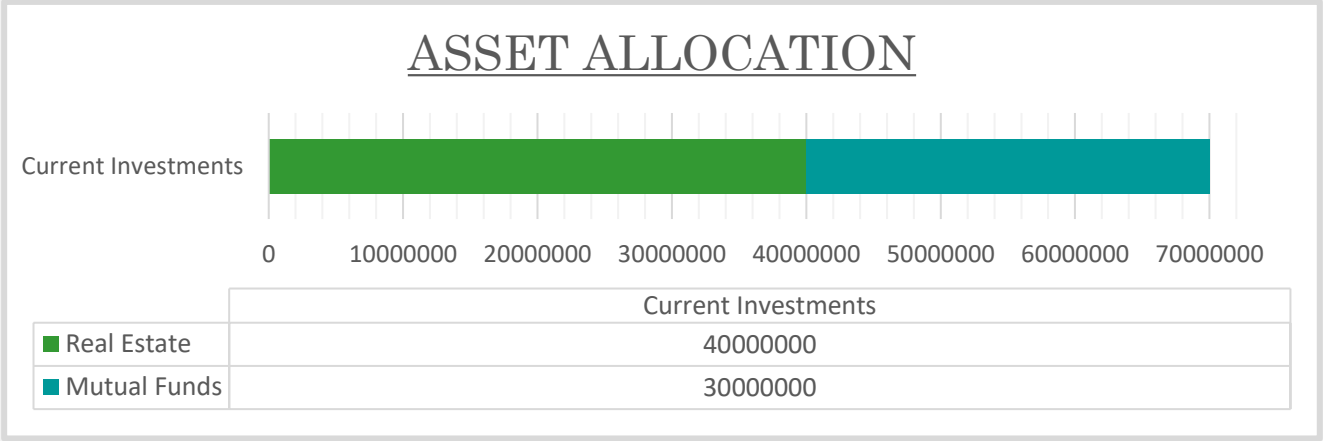
Source	Potential P.A.	Investible Income P.A.
Shobhit's Salary	72,00,000	48,00,000
Shobhit's Bonus	25,00,000 – 30,00,000	16,00,000
Alka's Income	21,00,000 – 1,08,00,000	20,00,000 - 47,00,000

Note: Bonus amount of Rs 25- Rs 30 lakhs is pre – tax. Tax rate assumed @34.32%

Alka's financial responsibilities will depend on her investible income. Based on Alka's past annual inflows, we are assuming her income to reach a median level of Rs. 47 Lakhs over the next 3 to 5 years.

NET WORTH ANALYSIS

Your assets are spread across mutual funds (equity and balanced funds), provident funds, and real estate (property in Santacruz).



The value of your retirement benefits (provident funds, gratuity, superannuation, etc.) have not been included in the above asset allocation.

You are currently debt free and there are no loans outstanding.

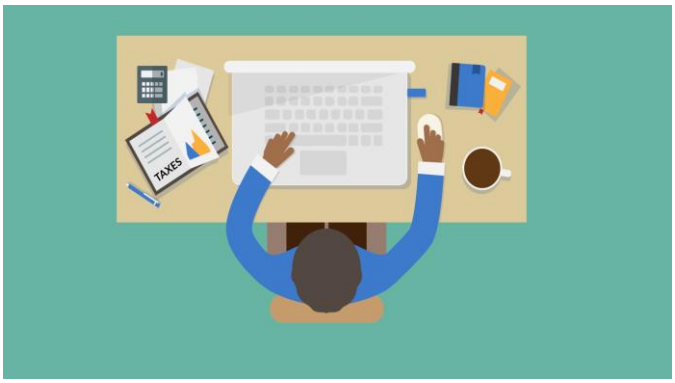
Your net worth is currently Rs. 7 Crores.

The decision to purchase an apartment in Bandra West could significantly alter your current asset allocation. Before taking on any loans, it is important for you to check your credit score. By utilizing your credit history, you will have access to best terms on any credit facilities to be availed in the future

TAX PLANNING

- Mr Shobhit currently pays income tax in the 30% bracket. Since his income exceeds Rs. 50 Lakhs, surcharge of 10% will be applicable. Together, the effective tax rate works to 34.32%
- Since Mrs. Alka is a professional writer, the method of computing tax for each financial year must be evaluated to determine the most tax-efficient method.

Tax Computation Methods:



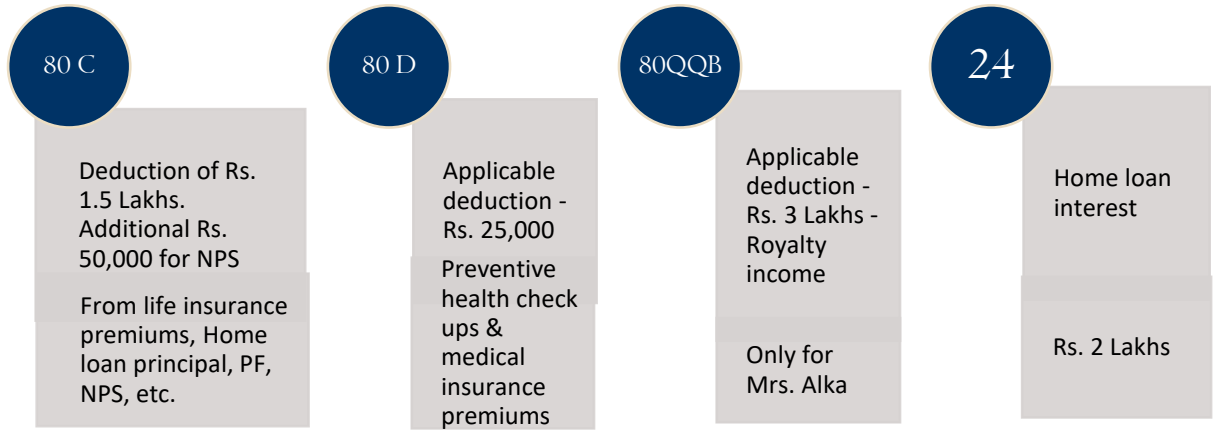
Option 1: Presumptive Income taxation under Section 44ADA of the Income Tax Act, under which, she may declare **50% of gross income** as her presumptive income. No other expenses can be claimed as deduction under the presumptive income method. The above option exists only if the Gross receipts during a financial year is less than ₹50 Lakhs.

Option 2: If she does not choose the presumptive income method, her income will be calculated as **Gross receipts (-) Expenses**. She will be able to claim deduction of expenses directly relating to her profession, with appropriate supporting documents. This may include travel and conveyance, telephone, internet, stationery, etc. incurred in relation to her work.

It is important to assess the income and expenses for each financial year, to be able to opt for a tax-efficient income computation. The income computed under the options above will be subject to tax at applicable slab rates.

The investment plan proposed for you provides options that optimize the tax you pay on your returns.

You may both claim the following deductions:



- Under S.80C, you may claim the premium for the respective term insurance policies. Mr Shobhit can claim the contribution to EPF.
- In addition, both of you may consider investing in NPS to claim an additional Rs. 50,000 under S.80CCD. It is important to know that only 40% of the accumulated NPS corpus can be withdrawn without attracting tax. From the balance, at least 40% must be mandatorily converted into an annuity. Pension income is currently taxable. However, the NPS ensures disciplined investing and compounding in a mix of debt and equity.
- 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 2018-19, salaried individuals are eligible for a standard deduction of Rs. 40,000. The existing Secondary and Education Cess of 3% has been replaced with a Health and Education Cess of 4%.

RISK MANAGEMENT

A. RISK PROFILE & CAPACITY:

Your risk profile is arrived at by understanding your financial goals, age, income, and investment horizon. These factors express a moderately aggressive risk profile.

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, your financial goals and market cycles into account.

Based on our understanding of your circumstances and personalities, Alka is more willing to take on a higher level of risk, whereas Shobhit prefers to follow a more conservative approach to managing finances. As your planners, we would try to adopt a moderately aggressive approach keeping all your financial commitments and aspirations in mind.

We feel that Shobhit's concerns about his career progression may be slightly misplaced. While job security is not always guaranteed, a person of Shobhit's calibre should not have difficulty in making career moves if and when required. Equity mutual funds are a suitable investment option for your long-term goals as they diversify risk.

B. EMERGENCY FUND:

Emergencies can result in unforeseen expenses. Without a fund dedicated only to meet such expenses your financial goals may be compromised. An emergency fund can help you handle



these situations by minimizing financial strain.

As part of this plan, we have created an **Emergency Fund of Rs 20 lakhs** to meet any contingencies. Ideally, this reserve should provide for at least four months' worth of expenses. Whenever the expenses increase or money from emergency fund gets depleted the emergency fund needs to be replenished with more money making it equivalent to at least three months' expenses.

C. 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, your aspirations, inflation, etc. Your life is your biggest asset and it is important that your family is insured financially from any uncertainties. This financial sum is referred to as the Human Life Value. Your **Human Life Values** based on your goals, income, and expense profile have been **assessed at Rs. 10 crores for Mr. Shobhit; Rs. 3 crores for Mrs. Alka.** We feel that a Term Life Insurance Policy to the extent of Rs. 8.5 crores for Mr Shobhit and Rs. 4.5 crores for Mrs Alka for 20 years needs to be taken. This value is arrived at after accounting for the home loan liability on purchase of the new house.
- We advocate having a comprehensive family floater health insurance policy with a cover of Rs. 25 Lakhs. The premiums can be claimed u/s 80D medical health insurance premium deductions and will manage risk of high hospitalization costs. Any company sponsored medical insurance can be continued and ported to an individual plan before you quit/retire.
- Additionally, we advise that each of you consider taking personal accident disability insurance of Rs. 50 Lakhs and critical illness insurance of Rs. 25 Lakhs.
- It is imperative that both of you review your term and health insurance covers periodically, to account for any changes in your lifestyle, financial goals, or inflation.

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 they are being professionally managed by a financial advisor.
- The assumptions for future return (post applicable taxes) are taken as –
  - Real Estate : 5% CAGR
  - Savings Bank : 3% P.A.
  - Provident Funds : 7% P.A.
  - Low Duration Debt Funds : 6% P.A.
  - Equity Mutual Funds (<10 Years) : 11% CAGR
  - Equity Mutual Funds (>10 Years) : 9% CAGR

- The future values for the financial goals have been computed based on the inflation rates mentioned below –
  - General : 6 % P.A.
  - School Education : 9 % P.A.
  - Overseas Education : 4% P.A.

- The annual growth in salary is assumed to be 10% P.A. (for Mr Shobhit) and the minimum expected annual bonus post-tax is Rs. 16 Lakhs.
- The value of the sale consideration from the Santacruz property is Rs. 4 Crores. It has been assumed that the house was purchased more than five years ago (otherwise tax benefits claimed under Section 80 C would be reversed upon sale of the property).
- Returns and calculations have been made for indicative purposes only.
- Each scenario has its own set of assumptions which will be outlined in that section.
- Based on demographic surveys, the calculations for your Human Life Value and Retirement Corpus have been made assuming an average life expectancy of 80 years.
- Post-retirement return on investments is taken at 8% CAGR.
- Cost of education abroad is taken at $45,000 per annum (for UG and PG). This figure is arrived at taking an average of tuition fees from private and state universities. Financial aid has not been considered in the plan.
- The cost of a three-bedroom apartment in Bandra West (similar to the four-bedroom apartment in this plan) is taken at Rs. 7.5 Crores.

YOUR FINANCIAL GOALS

Financial Goal	Present Value	Inflation	Year	Future Value
Children's Schooling	16,00,000 P.A.	9%	Annual	16,00,000* P.A.
Rahul's UG Education	1,25,00,000	4%	2023	1,50,00,000
Meera's UG Education	1,25,00,000	4%	2026	1,70,00,000
Rahul's PG Education	60,00,000	4%	2027	85,00,000
Meera's PG Education	60,00,000	4%	2030	96,00,000
Rahul's Wedding	50,00,000	6%	2030	1,00,00,000
Meera's Wedding	50,00,000	6%	2033	1,19,00,000
Retirement Corpus	-	6%	2033	10,80,00,000

*The children's school fee requirements shall be reviewed annually and provided for one year in advance.

YOUR OPTIONS

SCENARIO 1: BUY THE HOUSE NOW

A decision to buy the house should address both the concerns and aspirations of the whole family. This would mean that Shobhit needs to be more accommodative of Alka, Rahul, and Meera's aspiration to live in the new house. At the same time, Alka would need to take ownership of important financial goals of the family to provide Shobhit the required comfort. The family should be willing to compromise on the annual vacation, by altering the budget. We suggest that the family considers international vacation of Rs 8 lakhs once in two years. On other years, a domestic vacation of Rs 2 lakhs is suggested.

Ownership of goals:

It is important for the members of the family to share the financial responsibilities and aspirations. We suggest clear ownership of goals to ensure shared commitment and fulfilment. We believe that Mrs Alka's income needs to trend towards the median level of Rs. 47 Lakhs (post-tax) rather than the extremes of Rs. 20 Lakhs or Rs. 1.08 Crores. We feel that this is achievable if she publishes two to three successful works in the next three years.

FINANCIAL GOAL	ANNUAL INVESTMENT	OWNERSHIP
HOME LOAN	36,00,000	Shobhit
CHILDREN'S SCHOOL FEES	16,00,000	Alka
ANNUAL VACATION	5,00,000	Alka
RAHUL'S UG EDUCATION	23,20,000	Shobhit
MEERA'S UG EDUCATION	15,00,000	Alka
RAHUL'S PG EDUCATION	6,00,000	Alka
MEERA'S PG EDUCATION	5,00,000	Alka
CHILDREN'S WEDDING EXPENSES	16,00,000 (after Rahul's UG)	Shobhit
RETIREMENT	Step-up + Provident Funds	Shobhit

Short-term goals such as the school fees and annual vacation will be met by parking Alka's savings in liquid or low duration debt funds. These investments can be redeemed when required. If there is a period of instability in her income, the first choice would be to further cut down on the annual vacation. The last resort would be to draw down from the retirement corpus and top up investments over the course of two to three years. The upside is that Alka's income may stabilize and exceed expectations, in which case the surplus can be used to foreclose the home loan.

House Purchase Strategy:

The purchase of the apartment in Bandra is contingent upon the sale of property in Santacruz. It would not be financially feasible for the family to retain both properties. The movement towards purchase needs to be swift. It



can be executed only when the current property is sold, following which the existing portfolio of equity and balanced funds should be liquidated. This can potentially cause a period of temporary inconvenience, where the family would not have a house to stay in. If possible, when negotiating the sale of property, you may request for a handover date after getting the possession of the new house. Alternatively, you should consider arranging for temporary accommodation to ensure that the transition occurs as smoothly as possible.

The proceeds from the sale of property (Santacruz) will be exempt from tax under Section 54 as they will be reinvested in another property (Bandra West). You may consider parking the funds in a capital gains account scheme (CGAS). Mutual Funds must be liquidated after considering applicable exit loads and tax implications. Any losses can be carried forward and set off against potential capital gains. Once liquidated, they can be parked into a liquid mutual fund, where the portfolio is protected from volatility and continues to earn a higher rate of interest than a savings bank account.

The net sale consideration of the Santacruz property is Rs. 4 Crores, since we foresee no tax liability on the sale. The value of the Bandra West property is Rs. 10 Crores. You may use Rs. 2.8 Crores from the existing mutual fund portfolio. The shortfall of Rs. 3.2 Crores will have to be financed by means of a home loan. The EMI for a 17-year home loan at 8.65% would roughly compute to Rs. 3 Lakhs.

For tax planning purpose, you may consider taking a joint home loan so that both of you can claim tax deductions under Section 24 and Section 80 C (if applicable). Also, sharing ownership of the loan and property makes sense. Whenever Alka's income exceeds the targets set for her, it is important to bring down the home loan liability.

The home loan can be closed in a more optimal manner by following the principle of **Dynamic Management of Debt (DMD).** To simplify, this means proactive repayment of the loan with the intent of reducing the amount of interest paid. If from time to time, an additional amount is allocated towards paying off the home loan, then the given loan can be closed off in a shorter time span, reducing the total amount of interest paid. This additional amount may come from Alka's surplus income or Shobhit's annual bonus.

In short, this is how the strategy will be implemented:

- ✓ When the investment avenues look attractive, two-thirds of the incremental income can be deployed towards investments and one-third towards paying off the loans.
- ✓ When the investment opportunities are less attractive or dull, two-thirds or even all incremental income can be deployed to prepay the loan.
- ✓ Therefore, instead of a static allocation of the surplus money, we suggest that you factor in investment opportunities and use a more flexible approach to foreclose the home loan.

Thus, the Home Loan shall be periodically monitored and closed out at the earliest to ensure that you are Debt Free and that you are able to simultaneously build a balanced portfolio by looking out for investment opportunities.

Strategy to meet other Financial Goals:

The annual investments shall be utilised from Shobhit's bonus for each year. The investments towards Meera's higher education (UG & PG) and Rahul's PG Education will be made through Alka's income. Since this source of income may not be linear, we recommend that you maximize investments in years of higher income.

Rahul's UG Education:

PARTICULARS	MONTHLY INVESTMENT (Rs.)	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2023)
SIP in Mutual Funds	60,000	5	36,00,000	11%	47,00,000
Annual investments of Rs. 16 Lakhs in Mutual Funds	-	5	80,00,000	11%	1,00,00,000
	GRAND TOTAL		**1,16,00,000**		**1,47,00,000**

Meera's UG Education:

PARTICULARS	MONTHLY INVESTMENT (Rs.)	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2026)
Annual investments in Mutual Funds	15,00,000	8	1,20,00,000	11%	1,78,00,000

Rahul's PG Education:

PARTICULARS	MONTHLY INVESTMENT (Rs.)	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2027)
Annual investments in Mutual Funds	6,00,000	9	54,00,000	11%	85,00,000

Meera's PG Education

PARTICULARS	ANNUAL INVESTMENT (Rs.)	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2030)
Annual investments in Mutual Funds	5,00,000	12	60,00,000	9%	1,00,00,000

In the event of any shortfall, you may consider taking an Education loan for your children's post-graduate education, for the following reasons:

1. **Interest rate advantage -** Interest rates for education loans are generally lower as compared to personal loans. By investing in the markets, you will be able to recover your cost of borrowing. Also, a concession of about 0.5% to 1% is available for girls in case of education loans.
2. **Moratorium period -** In respect of education loans, all 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 or after securing a job. Further, concessions on the interest rate may be provided if the interest is paid regularly during the moratorium period.
3. **Tax benefits –** Currently the entire interest on the education loan (taken domestically) can be claimed as a deduction from your income under Section 80E of the Income Tax Act.
4. **Financial Responsibility -** Allowing your children to repay their education loan will help inculcate financial responsibility.

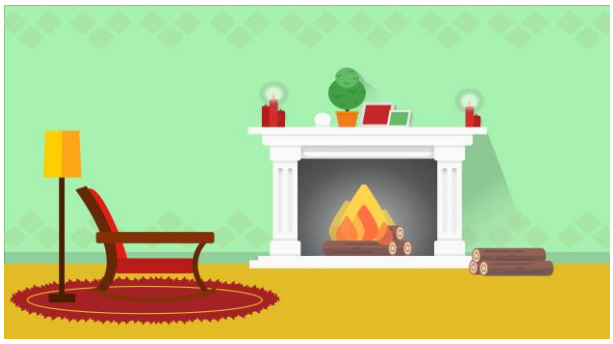
Children's Wedding Expenses

Once Rahul's UG is met, the annual investments of Rs. 16 Lakhs from Shobhit's bonus shall be directed towards the children's wedding expenses.

PARTICULARS	ANNUAL INVESTMENT (Rs.)	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2033)
Annual investments in Mutual Funds from 2023	16,00,000	10	1,60,00,000	9%	2,45,00,000

Retirement

Retirement planning requires more careful consideration than other goals, as you become dependent on your investments to provide for you. Keeping this in mind, we have made conservative projections on how your investments will grow over the next 15 years.



The shift from growth to capital protection at the appropriate time is critical as this will hedge and protect the investments from the market volatility at the time of need. At the same time, it is important to follow a strategy that beats inflation post-retirement. Towards this objective, 15% to 20% of the portfolio can be retained in equity or balanced funds closer to your retirement.

The earlier we begin investments towards your retirement corpus, the easier it will be to build the target corpus. Starting early allows investments to compound over longer periods of time.

PARTICULARS	MONTHLY INVESTMENT (Rs.)	YEARS	AMOUNT INVESTED (Rs.)	RETURN	ESTIMATED VALUE (2033)
Step-up SIP	From Rs. 30,000 (2019) to Rs. 4,20,000 (2033)	14	3,78,00,000	9%	6,00,00,000
Provident Funds	12% of Basic salary	15	NA	7%	4,00,00,000
	GRAND TOTAL		**3,78,00,000**		**10,00,00,000**

Note:

- A monthly SIP of Rs. 30,000 shall be initiated from 2019 and shall be increased every year by Rs. 30,000 until 2033.
- The investments directed towards children's schooling, Meera's UG and the children's PG can continue to be invested towards the retirement corpus after they are met. The surplus funds shall first be utilised to foreclose the loan by 2033, before directing it for the retirement corpus.
- It is assumed that Mr Shobhit's basic salary is Rs. 3 Lakhs per month. The employee and employer contributions for the next 15 years will augment the retirement corpus.
- Retirement benefits such as gratuity shall also enhance your corpus but have not been considered for the above calculations. Assuming that the current basic salary is Rs. 3 Lakhs per month, we estimate that your gratuity at the time of retirement to be Rs. 1.6 Crores (post-tax).
- Since we expect more than 35% of your portfolio to be in debt-based investments (PF, gratuity and superannuation benefits) there is no immediate need to rebalance your portfolio until the years preceding your retirement. However, this will be reviewed periodically to ensure that your investments maintain the right balance.

RISK MANAGEMENT:

Rs. 20 Lakhs from your mutual fund portfolio can be liquidated and parked in a low duration debt fund and utilised in case of any emergency expenses.

LIFE INSURANCE:

If you take a home loan, **Human Life Values** will be reassessed at **Rs. 11.5 crores for Mr. Shobhit; Rs. 4.5 crores for Mrs. Alka.** We feel that a Term Life Insurance Policy to the extent of Rs. 8.5 crores for Mr Shobhit and Rs. 4.5 crores for Mrs Alka for 20 years needs to be taken.

The key advantages of buying the house immediately are:

- ✓ Aspirations of Alka, Rahul, and Meera are met
- ✓ There are no space constraints when your parent's visit
- ✓ Allows the family to take joint decisions that address every person's aspirations and concerns
- ✓ Divides financial responsibilities within the family

SCENARIO 2: REACHING A COMPROMISE

Under this case, we recommend that you either delay the purchase of the house or you buy a three-bedroom apartment with your current specifications. By delaying the purchase of the house by three years, you leave room to comfortably meet your other financial commitments. It also gives Shobhit time to enjoy being debt free and will prepare you for your next big financial commitment, the house. The following table explains the investment strategy for your goals under this scenario:

Goal	Timeline	Source	Strategy
Buying a House*	2021	Shobhit	SIP of Rs. 2,50,000 (2018-2021) + Mutual Fund Portfolio Rs. 2 Crores + Santacruz property Rs. 4 Crores + Home loan Rs. 2.25 Crores
Retirement	2033	Shobhit	Step up SIP Rs. 30,000 + Employee Provident fund contribution
School fees	Annual until 2025	Shobhit (SIP) + Alka (Annual)	SIP of Rs. 50,000 (2018-2023) + Annual investments of Rs. 12 Lakhs (2018-2025)
Rahul's UG	2023	Shobhit	SIP of Rs. 50,000 (2018-2025) and Lump sum of Rs. 45 Lakhs from existing mutual fund portfolio
Meera's UG	2026	Shobhit	SIP of Rs. 50,000 (2018-2026) and Lump sum of Rs. 35 Lakhs from existing mutual fund portfolio
Rahul's PG	2027	Shobhit (SIP) + Alka (Annual)	SIP of Rs. 50,000 continued after school fees and Rahul's UG is met + Annual investments of Rs. 3 Lakhs
Meera's PG	2030	Shobhit (SIP) + Alka (Annual)	SIP of Rs. 50,000 continued after Meera's UG is met + Annual investments of Rs. 12 Lakhs after school fees is met + Annual investments of Rs. 50,000 from 2018
Rahul's wedding	2030	Shobhit	Annual investments of Rs. 5 Lakhs from bonus
Meera's wedding	2033	Shobhit	Annual investments of Rs. 4 Lakhs from bonus
Vacation	Annual	Shobhit + Alka	Annual investments of Rs. 7 Lakhs from Shobhit's annual bonus + Rs. 1 Lakh from Alka
Wealth corpus	2033	Alka	Annual investments of Rs. 3.5 Lakhs from Alka's surplus savings – can be used for post-retirement vacation goals.

** It is assumed that the value of the property in Santacruz and Bandra west continue to be valued at ₹4 Crores and ₹10 Crores respectively in 2021.*

If you compromise on the number of bedrooms, your budget for the house would reduce by roughly 25% to Rs. 7.5 Crores. We feel that a few years down the line (once Rahul and Meera move abroad), you may not have any need for the fourth bedroom. While this may not address your immediate need for a

fourth bedroom, it may be a more practical alternative. In this case, you will be able to meet all your financial goals comfortably with minimal pressure on Alka's earnings.

The term insurance covers should be revised according to the loan amount. The emergency fund should be maintained according to the expenses (inclusive of EMIs).
The key advantages of adopting this method is that:

- ✓ Gives Shobhit time to enjoy being debt free if the apartment is not bought immediately or it could lower the current debt burden if the apartment is bought immediately
- ✓ A planned approach is followed in meeting the family's financial aspirations
- ✓ All financial goals can be met
- ✓ Allows your investment portfolio to compound
- ✓ Reduces financial strain on the family, specifically on Alka's contributions.

SCENARIO 3: NOT BUYING A HOUSE

You also have the option of not buying a house at all. While this may seem counterintuitive to your aspirations, it may make sense on a personal and financial level as well.

Shifting to a four bedroom in another locality may also affect other aspects of your life. This could upset your children's social life. Additionally, your children may have to relocate to a different school. Further, the move from the Santacruz to Bandra West could cause temporary inconvenience in terms of accommodation, moving, and packing for the family.

If you purchase the house now, there would be a lot of pressure to meet your commitments. Alka would have to work towards generating a more stable source of income and Shobhit would have to service the loan. This would leave little room for spontaneous or discretionary expenses. The purchase of the house would require significant behavioural changes from both Alka and Shobhit.

From a financial perspective, it also allows you to comfortably meet your commitments towards your children and yourselves, without putting any

financial strain on Alka. Over the course of the fifteen to seventeen years, you will be able to build a significant surplus (~ ₹14 Crores). This surplus gives you the flexibility to retire early, meet any other aspirations that may arise, buy a retirement house, or create a legacy for your children.

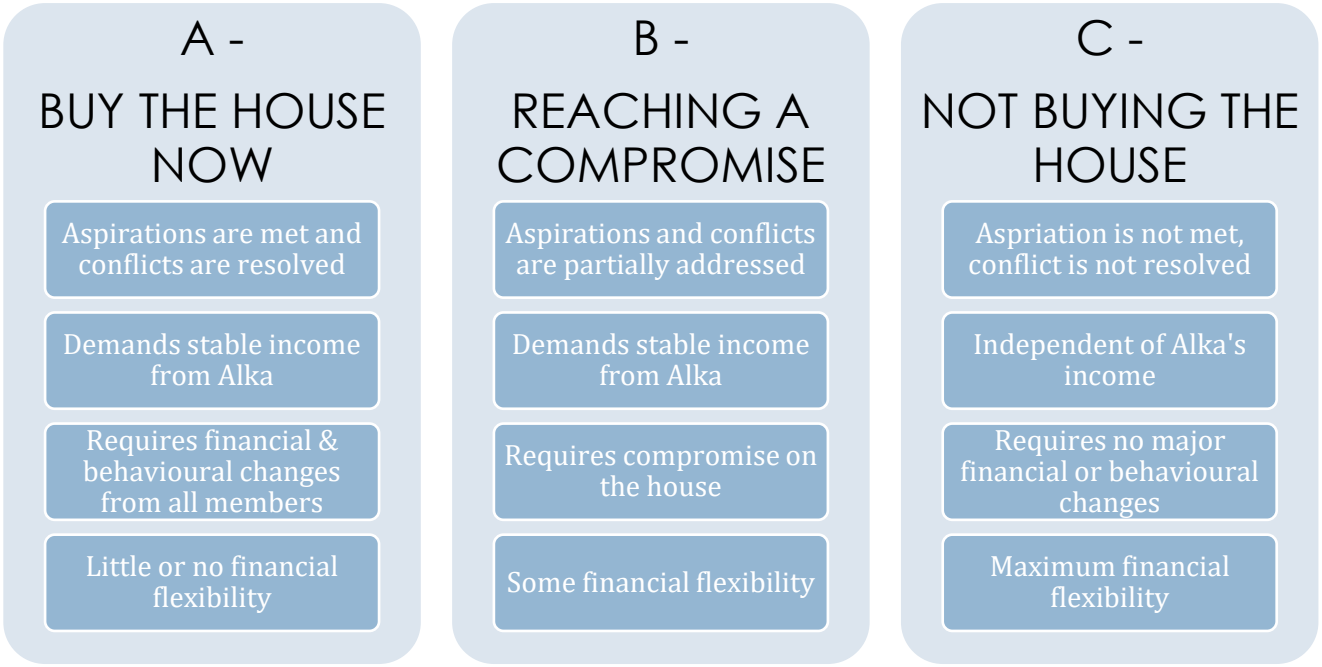
The following table explains the investment strategy for your goals under this scenario:

Goal	Timeline	Source	Strategy
Retirement	2033	Shobhit	SIP of Rs. 50,000 + Step up SIP Rs. 30,000 + Employee Provident fund contribution
School fees	Annual until 2025	Shobhit	SIP of Rs. 1,50,000 (2018-2023), reduced to SIP of Rs. 75,000 from 2023 - 2025
Rahul's UG	2023	Shobhit	SIP of Rs. 75,000 (2018-2025) and Lump sum of Rs. 40 Lakhs from existing mutual fund portfolio
Meera's UG	2026	Shobhit	SIP of Rs. 65,000 (2018-2026) and Lump sum of Rs. 22 Lakhs from existing mutual fund portfolio
Rahul's PG	2027	Shobhit	SIP of Rs. 25,000 + SIP of Rs. 75,000 continued after Rahul's school fees is met + Annual investments of Rs. 3 Lakhs
Meera's PG	2030	Shobhit	SIP of Rs. 25,000 + SIP of Rs. 75,000 continued after Rahul's UG is met
Rahul's wedding	2030	Shobhit	SIP of Rs. 10,000 + Annual investments of Rs. 10 Lakhs from Shobhit's bonus
Meera's wedding	2033	Shobhit	Annual investments of Rs. 4 Lakhs from bonus
Vacation	Annual	Shobhit	Annual investments of Rs. 8 Lakhs from Shobhit's annual bonus
Wealth corpus	2033	Alka	Annual investments of Rs. 20 Lakhs from Alka's income + Rs. 2.18 Crores from current mutual fund portfolio

The key advantages of choosing not to buy the house are:

- ✓ There will be no drastic changes behaviourally or financially from your end
- ✓ There is no financial strain on Alka
- ✓ You approach your financial goals in a planned manner and can meet all financial goals.
- ✓ Discretionary or spontaneous financial decisions may not negatively impact your financial plan.
- ✓ Surplus savings gives you flexibility

CONCLUSION



The important thing to remember is that you are not cornered, and you have multiple feasible options available in front of you. As with any decision, it is important to identify what your central priorities are, and which actions are in the family's collective interest.

We feel that **scenario one is best suited** to an aspiring family like yours. Alka is not wrong to think that you deserve and can afford this lifestyle. Shobhit's math is not off the mark either. Aspirations go hand in hand with responsibility. To live this life, Alka must take clear co-ownership for financial commitments. This would address Shobhit's concerns and provide post decision financial stability. More importantly, it allows the family to take a collective decision, which could bring the family closer and distribute responsibility across the members. When your aspirations increase, they demand more out of you. This could motivate both to further excel in your careers. In conclusion, together you can achieve fulfilment of the whole family's aspirations.

KEY ACTION POINTS

- ✓ Priority:
  - Specific ownership of goals.
- ✓ Risk Management:
  - Review Term insurance covers according to the home loan
  - Build and maintain an emergency fund of Rs. 20 Lakhs
- ✓ Income:
  - Work on stabilizing and increasing Alka's income
  - Review and allocate bonus/ surplus and incremental income towards your financial goals and reducing the liability on the home loan.
  - Initiate SIPs towards your financial goals.
- ✓ Real Estate:
  - Liquidate Santacruz house to purchase a house in Bandra
  - Liquidate mutual fund portfolio after liquidating the house
  - Check credit score and negotiate better loan terms
  - Consider taking a joint loan for tax planning purposes

Given that you are at the crossroads of making important and consequential decisions, it is crucial that you regularly review your financial plan. Through regular review, you will be able to meet the designated targets and assess your progress.

WISE advice

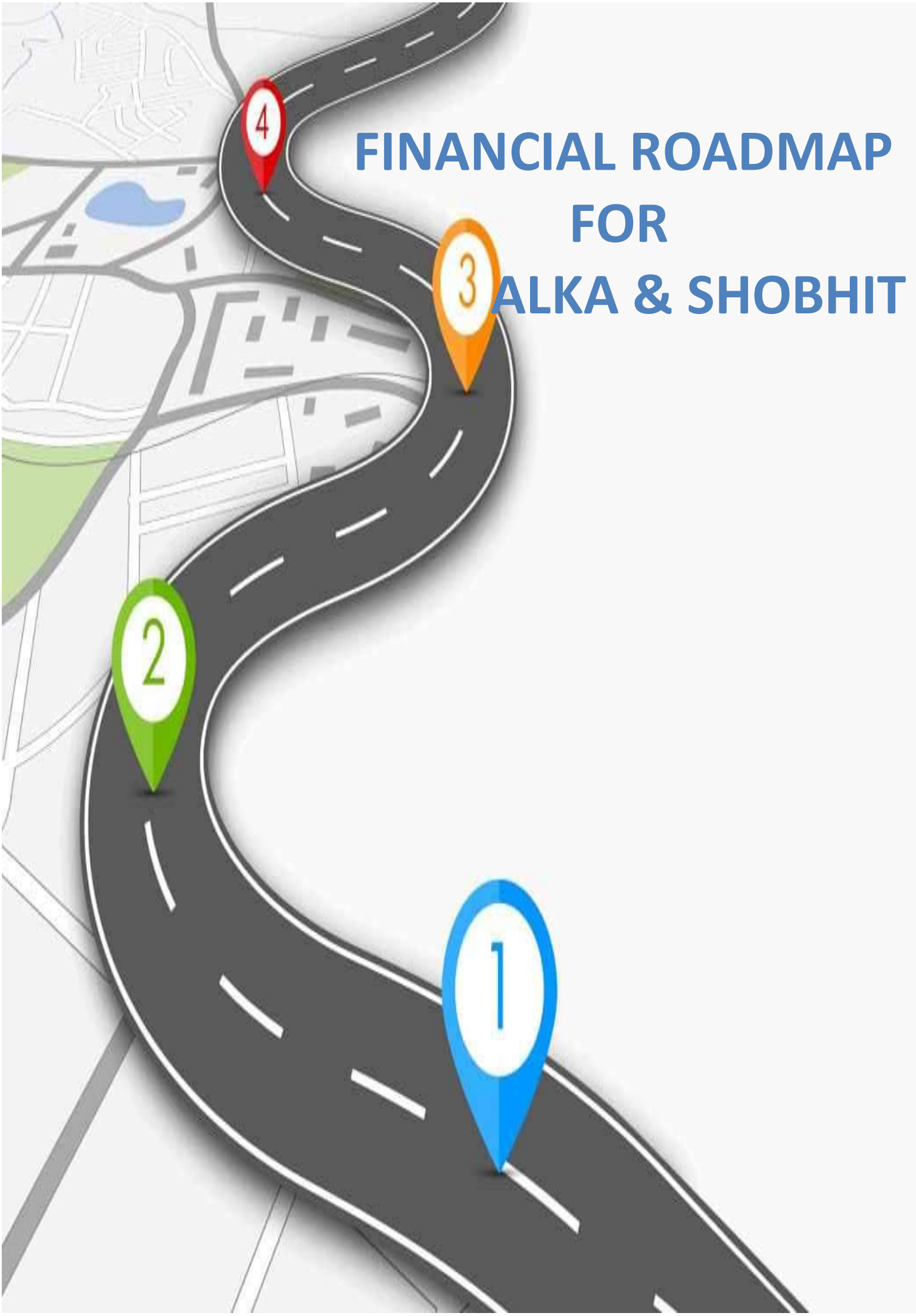
a joint initiative between HDFC MF and Wealth Forum



Khusboo Agrawal

International Money Matters, Mumbai

HDFC MUTUAL FUND BHAROSA APNO KA | WealthForum TV



FINANCIAL ROADMAP FOR ALKA & SHOBHIT

SUMMARY

Alka,

You and Shobhit have created a property in Santracruz, wherin you both live in along with your two children Rahul and Meera. You both are in your early forties and have acclaimed good positions in your respective careers, while Rahul and Meera are obtaining education from an International school in Mumbai.

You have a financial portfolio of Rs. 3 Crore dominated by equity allocation and have recently become debt free. While the long term goals of children's education & marriage and retirement of the both of you have to be planned for, the immediate need is to evaluate an important goal of shifting to a new property that you have already shortlisted.

You and Shobhit are evaluating the option to purchase a property wherin you will require an additional amount of ~Rs.6 Crore (after considering the sales proceeds of the current self-occupied property)

Before we start evaluating this option, it is important to understand the status on various other long term goals that you both would wish to achieve. This is because this huge a commitment will impact various aspects of your financial life. Once you are clear on all other aspects, it will be easier to evaluate the impact of your property related decision on various aspects of your financial life. **Be rest assured, by the end of this plan you will have a clear picture of your decision.**

What is required from you both is to understand the risks involved, inflows required and look at the possible solutions to decide what suits you both the best and you will soon reach your destination. Important to understand that life is uncertain and you may require to take a U turn in a stormy weather.

We have listed a few alternatives and what it could mean if things don't go as per the plan which would help you further in taking the decision.

You must have come across Toll Plazas while driving your Mercedes SUV to the outskirts of Mumbai. We have described a few Toll Plazas towards your drive from Santacruz to Bandra. We have defined each Toll Plaza, the impact and requirements in detail. The following Toll Plazas needs to be crossed:-

TOLL PLAZA 1 - Long term goals

- Looking at the long term goals- Stated & Unstated
- Putting numbers to these
- Inflows required to achieve the stated and unstated goals
- Scenario analysis

TOLL PLAZA 2 - Insurance Analysis, Tax & Estate Planning

- Life Insurance Analysis
- General Insuarance Analysis
- Tax Planning
- Estate plnning

TOLL PLAZA 3 - Reaching the destination

- Understanding the complete requirement
- Utilizing the existing portfolio and property sales proceeds
- Inflows required to fund the additional cost
- Understanding the risks involved
- Alternate Options

TOLL PLAZA 1:- LONG TERM GOALS

Looking at long term goals- Stated & Unstated

Whether or not you shift to the new property, you both would be looking to provide for the following

- Overseas higher education for Rahul and Meera
- Celebrating Rahul & Meera's marriage &
- Comfortable retirement for the two of you

Besides the above, we have identified a few goals/expenses which would mostly come up during your course of life and important that these are considered to understand the holistic picture:-

- **Building an emergency corpus**:- You both are professionals and any small surprise that life throws back can directly impact the income flow. Building an emergency corpus equal to 3-6 months of expenses will ensure that your investment plan for the long term goals is not disturbed during a contingency.
- **Replacing the Vehicle with a new one**:- You are driving a Mercedes SUV. Generally people replace their vehicle in 3-5 years. Since it's a part of life already, you wouldn't want to compromise on that and we have therefore planned for a replacement every 3 years
- **Wholesome Retirement fund**:- When we talk about retirement, it is not only about funding your regular expenses but also about other expenses, some of which would continue from your current life while a few that might come up specifically in the later stage of your life. These are:-
    - **Vacation Post Retirement**:- After a busy worklife, retirement is when you would have all the time in the world to do things you always wanted to do & have the ticks on the various destinations on the world map. Further, with overseas education for children, chances are that they settle there atleast for a few work years and if so, you would want to visit them. We have therefore provided for this separately.
    - **Vehicle Purchase**:- You would still wish to replace your vehicle periodically especially when you have the time to go for long drives
    - **Medical Corpus**:- In the later stages of life, chances are that substantial medical expenses would come up if you happen to collide with a disease. To keep up with the rising medical costs in India, recommend you to create a medical corpus over a period of time that can be helpful post retirement to cover expenses over and above the medical insurances. Suggested to look at creating a corpus of INR 25 lacs to start with. Further, the medical inflation in India has been historically higher than the general inflation due to various factors like
        - Public health expenditure which has been comparatively low
        - Advancement in Medical technology globally through high investments in research

Understanding the overseas education cost

In HSBC's 2017 report, The Value of Education: Higher and higher, the US again emerged as the top choice for parents considering university abroad for their child. So what does it cost for education in the US? Here are some numbers.

Graduation Cost in US and Education inflation:-

Tuition and Fees and Room and Board in 2017 Dollars			CPI	Total Education Inflation in US
Academic Year	Private Non-profit Four-Year	Average Yearly Change	Average Yearly Change	Average Yearly Change
07-08	$37,600			
08-09	$37,610	0.0%	5.6%	5.6%
09-10	$39,860	6.0%	-2.1%	3.9%
10-11	$40,940	2.7%	1.2%	3.9%
11-12	$41,140	0.5%	3.6%	4.1%
12-13	$42,150	2.5%	1.4%	3.9%
13-14	$42,920	1.8%	2.0%	3.8%
14-15	$43,610	1.6%	2.0%	3.6%
15-16	$45,010	3.2%	0.2%	3.4%
16-17	$46,150	2.5%	0.8%	3.4%
17-18	$46,950	1.7%	1.7%	3.5%
Average				**3.9%**

Source:- https://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-and-board-over-time
https://trends.collegeboard.org/student-aid/figures-tables/consumer-price-index-over-time

While looking at funding the future education in the US, an important aspect that could inflate your budget is the currency fluctuations. We looked at the weakening of INR against the USD in the last 10 years. Below table details the same.

Year	Currency Depreciation of INR v/s USD
31-Dec-08	23.29%
31-Dec-09	-4.24%
31-Dec-10	-3.95%
31-Dec-11	18.73%
31-Dec-12	3.39%
31-Dec-13	12.70%
31-Dec-14	2.25%
31-Dec-15	4.73%
31-Dec-16	2.65%
31-Dec-17	-6.08%
10 Year Avg	**5.35%**

* Averages as of Dec '17

- The education inflation in US is considered only for the inflation over and above the CPI. Therefore to arrive at the actual education inflation we add the CPI to education inflation. Further, the currency depreciation of INR v/s USD will add to the cost. We therefore add another 5-6% to the education inflation to account for the currency depreciation resulting in a total inflation of around 10%p.a on the education cost
- For the Post Graduation costs, considering the cost of one of the premier institutes- Harvard University would work at ~$1,00,000/ year for a two year master's course.

Looking at the numbers

Requirements	Goal Year	Goal Value (Today's Value) (Rs.)	Inflation considered
Emergency Corpus	2018	10,00,000	-
Rahul's Graduation	2023-26	34,00,000 ($50,000)/ year	10%
Rahul's Post Graduation	2027-28	68,00,000 ($1,00,000)/ year	10%
Rahul's Marriage	2031	30,00,000	6%
Meera's Graduation	2026-29	34,00,000 ($50,000)/ year	10%
Meera's Post- Graduation	2030-31	68,00,000 ($1,00,000)/ year	10%
Meera's Marriage	2034	30,00,000	6%
Vehicle Purchase	2020-37	35,00,000 every 3 years	6%
RETIREMENT GOALS			
Retirement Corpus- Regular expenses	2038-65	2,00,000/ month	6%
Vacation expenses	2038-55	8,00,000/ year	6%
Vehicle Purchase	2038-55	35,00,000 every 3 year	6%
Medical Corpus for self	2038	25,00,000	12%

Requirement to fulfil the goals

You have a corpus of Rs.3 crore accumulated over the years.

- Suggest you allocate these to your long term goals rather than looking to utilize this for the property purchase.
- We will look at funding the property purchase in a later section

Utilizing this corpus for property purchase would mean depleting the complete corpus and nothing to fall back on in case there is a disruption in the income

A post tax family income of Rs. 92 lakhs growing at 10%p.a until 2023, 7% p.a from 2024-27 and 5%p.a thereafter until 2038 would be able to generate a surplus which, when invested at portfolio rate of 9.85%p.a **would suffice to provide for all your long term goals**

With Shobit's current post tax income of Rs.72 lakhs, a family income of 92 lakhs would mean Rs.20 lakhs coming in from you (which has been on the lower end of your income range of the last 3 years)

Alternate scenario

We have worked on another scenario wherein:-

- You plan for 60% of the Post-Graduation Costs:- This is mainly as there are quite a few grants, aids, and scholarships available for education in US, while if you plan your children's post-graduation in other countries, the cost would be on the lower side.
- You plan for 60% of the Vehicle purchase goal:- This would basically mean that you plan to replace the vehicle every 5 years instead of 3 years
- Other goals remaining the same, **a post-tax family income of Rs.79 lakhs would suffice as against Rs.92 lakhs** with other things remaining the same as in the original scenario

Both the above scenarios would work considering the below

- Cash flow Related
  - Monthly expenses of Rs. 2 lakhs growing at 6%p.a until 2037
  - Vacation expenses of Rs. 8 lakhs p.a. growing at 6%p.a. until 2037
  - Rahul's schooling expenses of Rs.8 lakhs p.a growing at 10%p.a until 2022
  - Meera's schooling expense of Rs. 8 lakhs p.a growing at 10%p.a until 2025
- Portfolio of Rs. 3 Crore allocated towards the goals
- Portfolio ROI is considered at an average of 9.85%p.a with a 75:25 allocation in Equity: Debt
- Post Retirement ROI considered at 2% over inflation i.e 8%p.a

TOLL PLAZA 2:- INSURANCE, TAX & ESTATE PLANNING

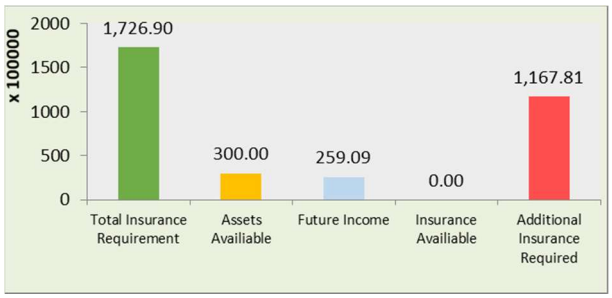
EXPENSE PROTECTION

Every individual who contributes to his/her family's expenses needs to ensure that if something fatal were to happen to him/her tomorrow, there are enough assets to take care of the family's living expenses so that the loved ones do not have to go through a financial loss as well. The expense protection corpus is the sum total of assets and insurance minus liabilities (if any) and important goals which is available to cover the family's living needs.

There is a shortage of life insurance based on your existing insurance, assets and future aspirations; for which we recommend a pure term policy which is the cheapest form of insurance.

Additional Life Insurance Requirement:

Shobhit:



Alka:



**Property worth appx. Rs. 4Cr not included*

The above insurances are based on the assumption that by God's disgrace if something were to happen to Shobhit and you have to manage the corpus, the same would be invested in a conservative portfolio as, for now seems like Shobhit takes major decisions on investment portfolio. With this you would require a higher corpus to fulfill the same set of requirements as compared to Shobhit who would rather continue with the same allocation until retirement.

The above insurances are planned to fund the below:-

- Expenses for life
- Rahul & Meera's Graduation
- Rahul & Meera's Post Graduation
- Post-Retirement Medical Corpus

Other Insurances

Health insurance: It is also important to ensure you have appropriately covered yourself and your family through health insurance which should be over and above your corporate cover (If any). A personal health cover now will ensure you maintain robust health coverage in times of switching of jobs and even post retirement ensuring limited medical exclusions. You can look at acquiring a family

floater of 5 lakhs covering the four of you along with a Super top policy of Rs.10 lakhs with a Rs.5 lakh deductible.

A super top policy is an economical option to obtain health cover over and above your basic cover. The benefits available at a low premiums makes it the best option to top up your basic health cover.

Critical Illness:A critical illness cover acts as an temporary income replacement and would supplement the cost of treatment (over & above those covered under health insurance) in case of any specified illness acquired. These plans cover, ranging from 6 to 35 illnesses, and provide a sum assured once you are diagnosed with any one of the illnesses as specified in the fine print. Suggest you both take a critical illness cover of Rs.25 lakhs each

Personal Accident:A personal accident cover protects against stoppage in income due to permanent total disability due to an accident. It must be noted that a personal accident policy is not a replacement but supplements a life insurance cover. It is highly recommended that an individual purchases a personal accident policy considering the benefits it has to offer at relatively low costs. Suggest you both take up a personal accident cover of Rs.50 lakhs each

TAX AND ESTATE PLAN

Tax Plan

When tax Planning is done as a part of the larger activity of investment planning, helps one to avoid taking unsuitable decisions and investing without forethought. The goal of Tax Planning is to arrange your finances in such a manner to minimise the outgo of taxes. This can be done by ensuring all possible deductions that are permissible have been availed fully.

The most popular section that every salaried individual can avail tax benefits is under section 80C & 80D of the Income Tax Act.

Name	Deduction u/s 80C	Deduction u/s 80D
	Total Exemption Available	**Total Exemption Available**
Shobhit	1,50,000	25,000/50,000 (Dependent parents over 65years)
Alka	1,50,000	25,000/50,000 (Dependent parents over 65years)

- To avail exemption under section 80C, you can avail the benefits under the following heads based on the current structure of your finances:
  - Tuition fees being paid for Rahul & Meera's education
  - ELSS investments in Mutual Funds
  - To the extent of premium once you purchase the recommended life insurances.
  - Once you take up the home loan; then a proportionate amount with respect to principal repayment.
- You can avail exemption under section 80D:-

- Once you purchase the health insurance, to the extent of the premium amount being paid
- Any health check-up during the year can also be claimed under this section to the extent of Rs.5,000

Further, once you take up the new home loan, the interest paid can be claimed under section 24, to the extent of Rs.2 lakhs per year per person (as per the current rules). **It is therefore important that you both take a joint home loan to gain maximum benefit**

Further, with you obtaining professional income, you can claim the expenses incurred towards earning the professional income. This will reduce your taxable income, thereby reducing the taxes you would pay.

Estate Plan

It is important that you have an estate plan in place. 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.

We recommend that you both have an estate plan in place so as to safeguard the interests of your dependents if anything were to happen to you. This could be by way of a will or a trust.

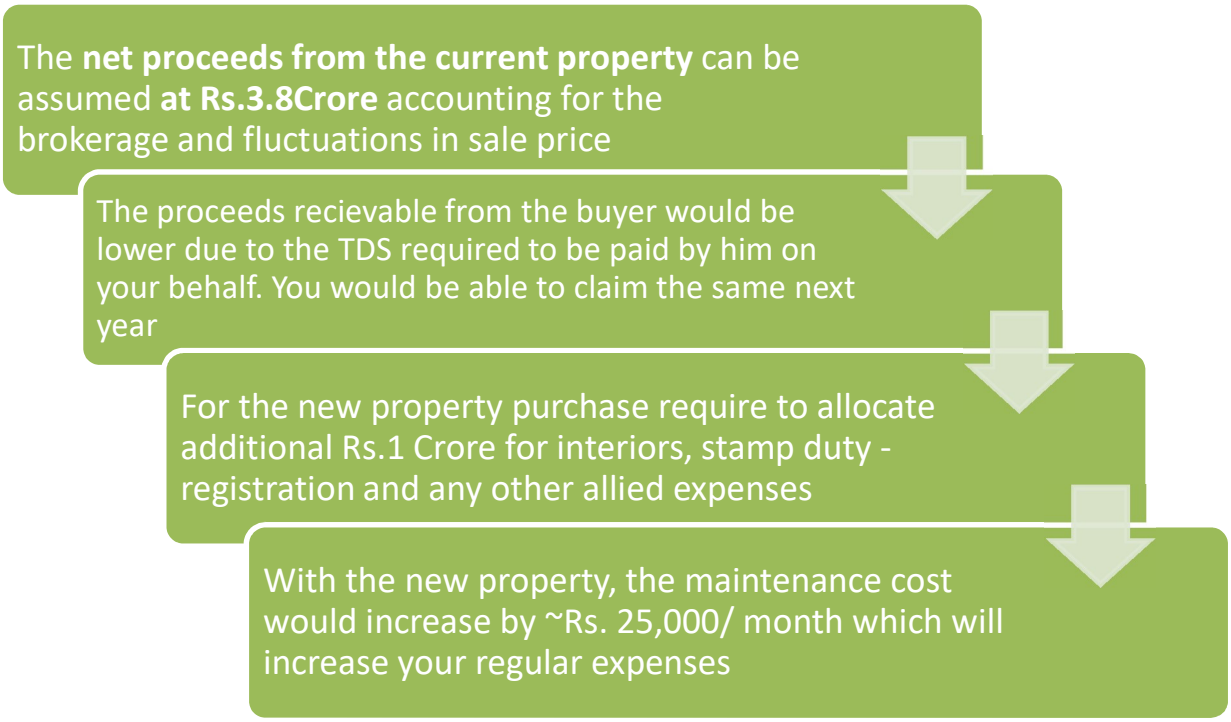
Also, having nominations would only mean that the nominee has the right to receive the proceeds. It does not confer on him the right of ownership for these funds /properties. Hence having an estate plan becomes very critical.

As per current rules, in Mumbai, probate is required for transfer of immovable assets. This will be required at the time of transfer which will require the help of a lawyer.

Suggest that you both have an Estate Plan in place along with the next steps/procedures to be followed. This normally eases the process while one goes through an emotional loss.

TOLL PLAZA 3:- Reaching the Destination

Once basic goals, insurances, tax and estate planning are taken care of, let us now look at the changes/ impact of property purchase on various aspects. Though it looks like funding an additional Rs.6 Crore for the new property, there are various other aspects, which needs to be looked at. These are



Utilizing the existing portfolio and property sales proceeds

Utilizing the existing asset base towards primary property:-

- The new property that you are looking at is 143% of your current total networth.
- You are looking at funding Rs.7 crore from the existing portfolio and sale proceeds of the current property.
- This would mean the whole asset base is allocated to the primary property which will be illiquid and unavailable in case of any emergency.
- You can rather look at allocating the current asset base of Rs.3 Crore to other goals and take a higher loan to fund the property.
- This way you will have funds to fall back on.

Liquidate the existing property in line with purchasing the new one:- This will be important in two aspects:-

1. Generating funds for down payment and allied expenses:- Liquidating the existing property would mean generating ~Rs.3.8 Crore which can fund 30% as down payment for the new property, the interiors cost and any other allied expenses. **You will be required to ensure that all the additional expenses together doesn't cost you more than Rs.1 Crore**

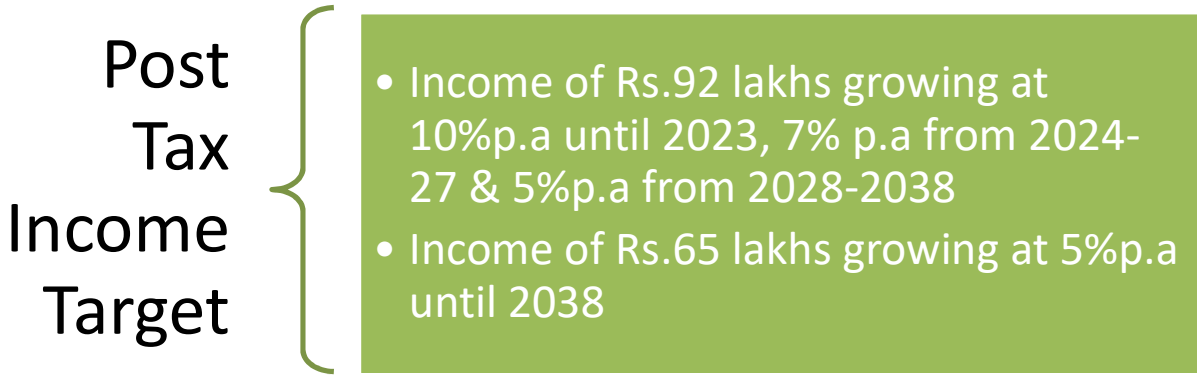
2. To gain the taxation benefit on capital gains arising from sale of existing property:- Section 54 of the income tax lays the rule that you would gain exemption on capital gains tax arising on the sale of your existing property if you buy another property in a specified period which is
    a. either 1 year before or
    b. 2 years later of the sale of the old property

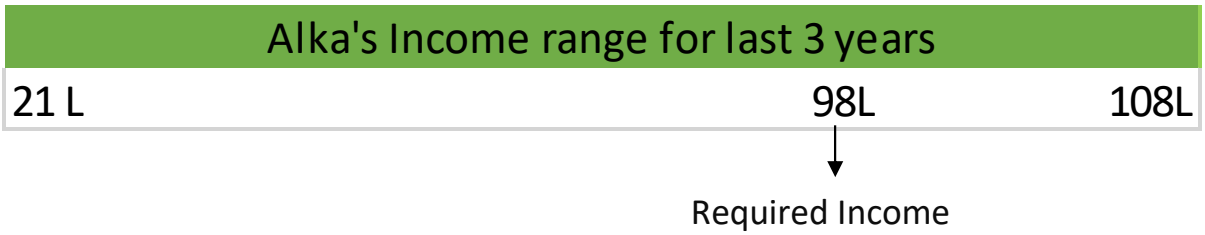
To fund the additional cost in terms of EMI and maintenance cost, you would require:-



Note:- A post tax income of Rs.65 lakhs would mean pre tax income of ~93 lakhs. Shobhit's bonus for the last 2 years have been around Rs.23 lakhs which means additional ~70 lakhs coming in from you which will be on higher range of your earnings curve for the last 3 years

Combining all your goals including the new property purchase, the following income targets have to be borne in mind





Understanding the risks:-

- Any disruption in the income planned can have a major impact on the cashflows.
- The debt servicing ratio would be above 30% of your income which is high.
- With you both being professionals, any lifestyle disease/stress could require easing of professional responsibilities and thereby a reduced income
- It is important that you both are in pink of your health for the next 20 years to generate the income required

You both need to evaluate your work scenarios to understand how easy/difficult it is to generate the income required. **Since there has been variation in the income and we are now talking about a steady income you can consider to evaluate the situation for a few months to understand the income that can be generated and then take the decision.**

It is important that you cover the home loan (once taken), with additional life insurance cover.

ALTERNATE OPTIONS

Option 1:-

- In case you decide to go ahead with the property purchase, you can look at shifting to a smaller house post retirement.
- With Rahul and Meera's education planned abroad, chances are that they settle overseas atleast for a few years for work.
- With the two of you, a smaller house would also mean ease of maintenance at a time where the focus would shift on convenience and ease of facilities available rather on a bigger space.
- This is easier said than done as would require a mental shift of moving out from a house wherein you would have lived with your children and also to move to a smaller space.
- Considering this scenario would ease your cashflows.
- If you plan to shift to ~Rs.7 crore property (today's value) at retirement, then generating **an additional income of Rs.45.5 lakh as against 65 lakhs** would suffice your need.

Option 2:-

- Consider opting for a smaller space (may be a 3 BHK) today in the same sea facing locality in Bandra.
- This way you can ease the pressure on the cashflows while you also shift to the same locality.
- With you looking at overseas graduation and post-graduation for children, in 5 years' time Rahul would be shifting overseas to pursue his graduation, which automatically makes space for a guest room.

- Rahul and Meera would be finishing their post-graduation by 2031 and it is then (depending on whether one or both decides to return to India or not) that you can decide whether or not to shift to a bigger house.
- By then you would also know about the actual earnings for the two of you and can accumulate corpus to fund shifting to a bigger house.
- Looking at purchasing a property today in the range of 7.5-8Cr would mean the need to generate an **additional income of Rs.45.5 lakh as against 65 lakhs.**

Depending on your evaluation on the income that can possibly be generated you can decide on the option to go for.

PLAN ASSUMPTIONS

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

- Inflation considered at the rate of 6% p.a. (both pre & post retirement)
- Education goals have been inflated at 10% p.a.
- Medical Inflation at the rate of 12%p.a
- Return of 8% p.a. considered post retirement.
- For the property goal, assumed loan funding at an average interest rate of 9% for tenure of 19 years.
- Life expectancy is assumed to be 90 years for you and 85 years for Shobhit.
- The retirement corpus required has been calculated to provide for expenses (until your life expectancy) from 2038 onwards & all expenses post 2038 is assumed to be provided for from this corpus.
- All values taken as income, expenses & assets are current values.
- Portfolio allocation assumed at 75:25 in Equity:Debt
- Savings refers to the funds accumulated through the route of investments and includes monthly net savings assumed to be invested with post tax returns of 9.85% p.a.
- Post Tax returns assumed:-
    a. Debt:- 7%p.a
    b. Equity:- 10.8%p.a (after considering 10% taxation on equity returns)

DELIVERY ACKNOWLEDGEMENT

We acknowledge that we have reviewed and understand the information and the assumptions contained within this financial analysis. We believe that all information provided by us is complete and accurate to the best of our knowledge.

We recognize that performance is not guaranteed and that all future projections are included to help our decision-making process and may not be all encompassing.

We also understand that our financial analysis should be reviewed periodically to ensure that decisions made continue to be appropriate, particularly if there are changes in family circumstances, such as material change in income, expenses or a change in our family status.

_____	_____
Alka	**Shobhit**
_____	_____
Date	**Date**

WISE advice

a joint initiative between HDFC MF and Wealth Forum



Kuppa Vijay Krishna

Oro Wealth, Mumbai

HDFC MUTUAL FUND BHAROSA APNO KA

WealthForum TV



To Buy, or Not to Buy

July 30, 2018

Dear Mrs. Alka & Shobhit Mehra

Thank you for this opportunity to serve you at this important juncture in your life. I hope we are able to repay your trust and faith by guiding you in the right manner through this situation.

Our advice is in three parts.

One is this presentation which will summarize our analysis, the pros and cons of all options, and our recommendation; two is a word document that details our analysis and will walk you through the logic behind each step of this plan; and three is an excel worksheet with the numerical calculations behind the solution.



The Situation

You (Mrs. Alka and Mr. Shobhit Mehra) are currently well settled in a happy comfortable life with two lovely children and satisfying professional careers.

However, you are in a predicament regarding an important decision of your life. You wish to purchase a new house, one that you have dreamt of, but are unsure if you should go ahead on it.

Shobhit feels that the financial implications of purchasing the new house are quite steep, and may even jeopardize some essential goals such as the children's overseas education and your retirement planning.

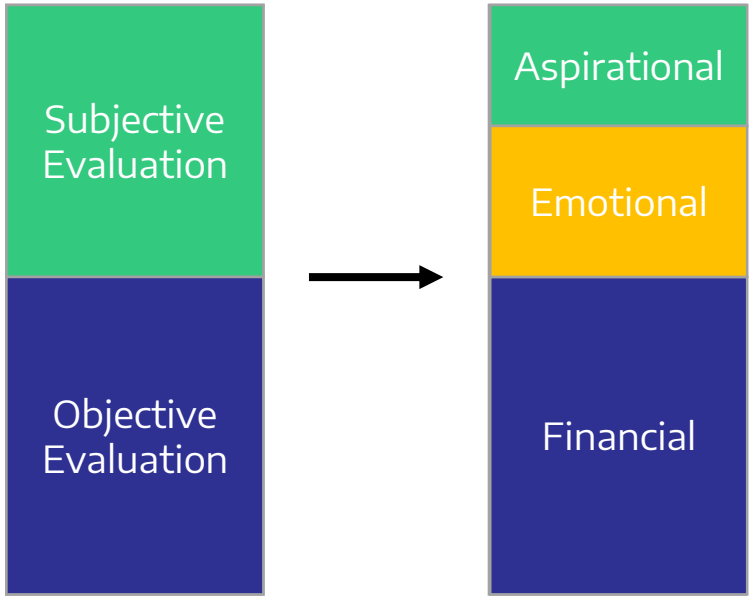
While being cognizant of the financial burden of the new house, Alka believes that you are well prepared to handle all eventualities. Your qualifications, experience and skill sets ensure a good safety net based on which your family can afford to aspire for a higher lifestyle.

You wish to arrive at a solution that can address this conflict successfully, or if not possible, at least arrive at a conclusion while balancing both perspectives in the analysis.

Our Approach

Options	Evaluation of Options	Conclusion
▪ List out different options available in the current situation ▪ List out different goals that need to be achieved	▪ Evaluate the pros and cons of each of the options ▪ Evaluate the status of the goals under each of the options	▪ To compare and contrast each of the options ▪ Our recommendation

Happy & Secure Family



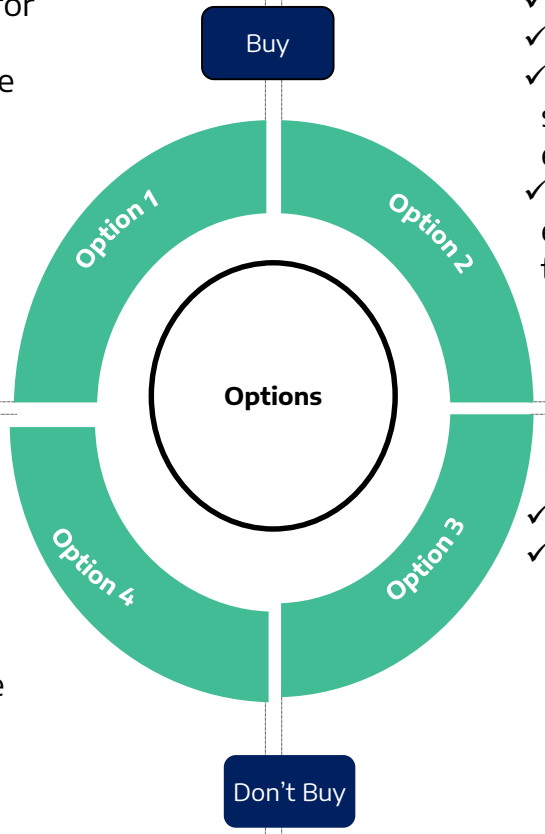
The Options

Decide to Buy, Now

✓Sell the existing flat. Begin active search for a buyer. Negotiate and close deal.
✓Buy the new flat. Place an offer, negotiate and close deal.
✓Liquidate existing savings and secure a home loan for the gap amount
✓Shift to the new flat and begin new life.

Decide to Buy, After 1 to 2 years

✓Stay in existing flat for now
✓Continue current life
✓Work on improving current financial situation so that buying decision becomes easy in future
✓Start looking for a good sale deal on the existing flat and a good purchase deal on the new flat



Decide to Rent

✓Begin search for a similar sea facing 4 BHK flat to rent
✓Shift to the new flat and begin new life
✓Rent out the existing flat
✓Re-evaluate the decision to buy sometime in future (after a few years)

Decide not to Buy

✓Stay in existing flat
✓Continue current life

Goals

	Stated	Unstated
Financial	• Children's overseas education • Children's marriage • Annual Vacations • Retirement • Dream Home	• Creating an Emergency Corpus
Emotional --- **Aspirational**	• Upgraded lifestyle • Convenience of a guest room • Being debt free (having peace of mind)	• Confidence of a having a significant corpus of liquid assets • Having the option of an early retirement • Having the confidence to deal with a professional downturn

Common factors across all 4 options

Outflows

- Children's school fees
- Life Insurance (Term plan) expenses
- Health Insurance expenses (post retirement)
- Tax on Shobhit's salary and bonus

Inflows

- Shobhit's Salary and Bonus
- Shobhit's Retirals (EPF, Gratuity etc.)

Assets Today

- Flat of 4 Crores, Investment Portfolio of 3 Crores, Accumulated PF Corpus of 1.3 crores.

Liabilities Today

- None
- Networth of Mehras today is ~ INR 8.3 Crores

Though these factors impact the magnitude of the final decision; as they are common across all 4 options, they do not help us in contrasting one option against another.

Evaluation of **Decide to Buy, Now**

- You are living in your dream home
- Your lifestyle has upgraded
- Alka's creativity may improve aided by the beautiful view
- Substantial physical wealth (Real Estate) will be created
- However this has been achieved at the cost of missing out on creating substantially higher financial wealth.
- Biggest change will be for Alka; she will lose the luxury of working ad hoc in a pressure-free environment
- Alka will need to put in substantially more effort and focus to increase quantum and reduce variability of her income; there is no choice and will levy considerable stress on her
- Alka will have to explore new avenues of income generation including monetizing her existing work in a better manner
- Alka will need to drastically reduce her personal spending

Quick Summary

- You need to find a buyer for your existing flat at the price you desire; and a seller for the new flat who will agree to your payment terms (to match cashflows between these 2 events)
- Your annual vacations will be compromised to some extent
- Shobhit will have to compromise on some intangibles such as losing the option of retiring early or foregoing the good feel of being debt free
- Increased cost of living in Bandra (W) vs Santacruz (E) including increased maintenance of 4BHK vs 3BHK
- Your family's savings for the next 13 years will be diverted towards servicing EMI and Prepaying the home loan.
- You will have to provide a higher allocation to Equity (high risk) assets even as you get older since you are effectively restarting the creation of your wealth at the age of 54. If not, you run the risk of completely eroding your wealth during your lifetime.

Evaluation of **Decide to Buy, but after 1 – 2 years** Quick Summary

- Main positive of this option is that the nature of pressure on Alka changes. It is now more internal with some scope of changing her mind rather than external with no scope of going back
- The transition for Alka; from a more relaxed working environment to a more hectic one; from a more carefree spending lifestyle to a more austere one; can be better managed
- If Alka is not able to cope up with the new changes, you have the option of not going ahead for the new house.
- You can afford to slowly start searching for a buyer for your existing house. You can afford to play the waiting game to receive the price you expect.
- However if you are still keen on the new house after this initial period, there is a small risk of the dream house not being available.

Evaluation of **Decide to Buy (both cases)**

Goals Status*

Name	Type of Goal	Fulfilled
Children's overseas education	Financial	✓
Children's marriage	Financial	✓
Annual Vacation	Financial	=
Retirement	Financial	✓
Dream Home	Financial	✓
Creating an Emergency Corpus	Financial	✓
Upgraded lifestyle	Emotional	✓
Convenience of a guest room	Emotional	✓
Being debt free (having peace of mind)	Emotional	×
Confidence of a having a significant corpus of liquid assets	Emotional	×
Having the option of an early retirement	Emotional	×
Having the confidence to deal with a professional downturn	Emotional	×

Net Worth	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 10.7 Crores	x
At Age 90	INR 1.9 Crores	x

*All calculations and detailed analyses have been shared separately.

Evaluation of **Decide not to Buy**

- Your annual vacations can continue with no compromise
- Alka can afford the luxury of working ad hoc in a pressure-free environment. There is minimal dependency on her to earn.
- Alka's personal spending on luxury items can continue in the same manner as before.
- Your existing assets and your future savings are put to work in the most efficient manner to build your financial wealth
- You can safely provide a higher allocation to Debt (low risk) assets as you get older with the comfort of having created enough wealth via Equity compounding during the your prime earning years

Quick Summary

- However, this is at the big cost of missing out on your dream home
- Your wish of having an upgrade to your current lifestyle is not met

Evaluation of **Decide not to Buy**

Name	Type of Goal	Fulfilled
Children's overseas education	Financial	✓
Children's marriage	Financial	✓
Annual Vacation	Financial	✓
Retirement	Financial	✓
Dream Home	Financial	×
Creating an Emergency Corpus	Financial	✓
Upgraded lifestyle	Emotional	×
Convenience of a guest room	Emotional	×
Being debt free (having peace of mind)	Emotional	✓
Confidence of a having a significant corpus of liquid assets	Emotional	✓
Having the option of an early retirement	Emotional	✓
Having the confidence to deal with a professional downturn	Emotional	✓

Goals Status*

Net Worth	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 17.0 Crores	✓
At Age 90	INR 19.6 Crores	✓

*All calculations and detailed analyses have been shared separately.

Evaluation of **Decide to Rent**

- You are living in your dream home
- Your lifestyle has upgraded
- Alka can afford the luxury of working ad hoc in a pressure-free environment. There is minimal dependency on her to earn.
- Your annual vacations can continue with no compromise
- Renting gives you tremendous flexibility in terms of life options.
- HRA benefits will partially offset the extra rental burden
- You can always decide to buy sometime in future based on your financial situation.
- Your existing assets and some part of your future savings are put to work in the most efficient manner to build your financial wealth

Quick Summary

- Increased cost of living in Bandra (W) vs Santacruz (E)
- Significant wealth is spent on consumption (Rent)
- Alka will need to somewhat reduce her personal spending (on luxury items)
- Feel good factor of renting may be lower vs. owning
- Hassle of managing the rental processes of 2 flats (one for staying and one for letting out)
- You will have to provide some allocation to Equity assets as you get older (due to lower savings in the earlier years) to have the comfort of a decent corpus during the later stages of your life

Evaluation of **Decide to Rent**

Name	Type of Goal	Fulfilled
Children's overseas education	Financial	✓
Children's marriage	Financial	✓
Annual Vacation	Financial	✓
Retirement	Financial	✓
Dream Home	Financial	=
Creating an Emergency Corpus	Financial	✓
Upgraded lifestyle	Emotional	✓
Convenience of a guest room	Emotional	✓
Being debt free (having peace of mind)	Emotional	✓
Confidence of a having a significant corpus of liquid assets	Emotional	✓
Having the option of an early retirement	Emotional	✓
Having the confidence to deal with a professional downturn	Emotional	✓

Goals Status*

Net Worth	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 12.8 Crores	✓
At Age 90	INR 9.0 Crores	✓

*All calculations and detailed analyses have been shared separately.

A Balancing Act

Buy	Don't Buy	Rent
Stretch on Finances	Stay in current house & live the current lifestyle	Stay in New House and lead new lifestyle.
Alka under strain	Create significant wealth over time	Create enough wealth over time
Dream House objective attained		Don't actually own the house

There is no one right answer in this situation.
It depends on what matters more to you.



Rent the new house

Our Recommendation

Based on the status of your life goals under each option, **we recommend that you rent the new house**.

This option is most optimal and balances your financial, emotional and aspirational needs.

Wait before Buying

Our 2nd Recommendation

If you are not keen on renting, **we recommend you wait for sometime (1-2 years) before buying**.

Buying a house is a big decision. Buying a 10 Crore house is an even bigger one. You would like to avoid a hasty decision that can impact the rest of your lives. When the certainty of your earnings substantially increases from current levels and you are mentally prepared for the other sacrifices; you can confidently buy that dream house.

Conclusion

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

An action plan in each of the 4 scenarios has been carefully designed to make them the most optimal under the given constraints / requirements of each option.
These plans have been shared with you separately in a word document with our detailed analysis and the logic behind each step. An Excel worksheet with all the numerical calculations behind each of the solutions has also been shared.

Our advise has been has been constructed based on the information provided by you. We have prepared a detailed strategy to address the various personal and financial dimensions associated with your objectives.

Though we have recommended a certain option based on our judgement, you are free to choose any of the other options as well.

Any significant change to your personal or financial situation should be factored in your plan, to ensure that you always have enough.

Our analysis is based on the current economic scenario and market conditions. The expected returns of different asset classes and the expected inflationary behavior of different categories have also been assumed on a similar basis. This plan and the expected outcome are subject to market risks.

For a plan to be successful it should be monitored regularly, reviewed periodically, and implemented consistently.



To Buy, or Not to Buy

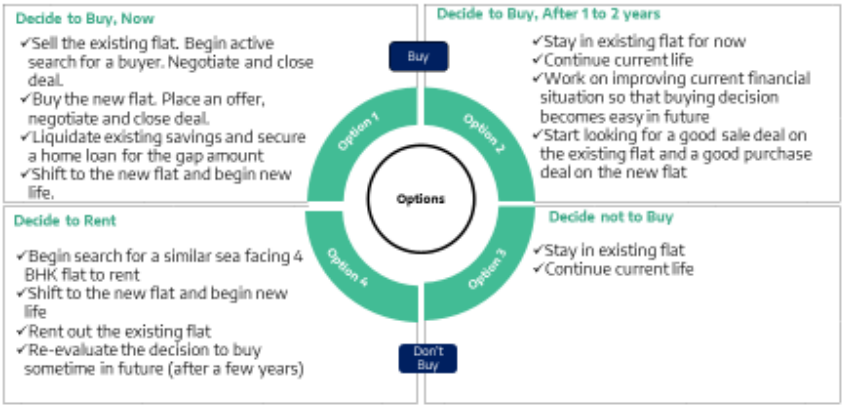
July 30, 2018

This document is the second part of our solution. It follows the first document which summarizes our analysis, the pros and cons of all options, and our recommendation.

The present document provides a detailed explanation of our analysis. It includes a step by step explanation of each step that we have taken while drafting this plan, the logic behind each of the income, expense, asset & liability projections, all the assumptions we have made with appropriate references, and an action plan under each of the 4 proposed options.

A. Introduction

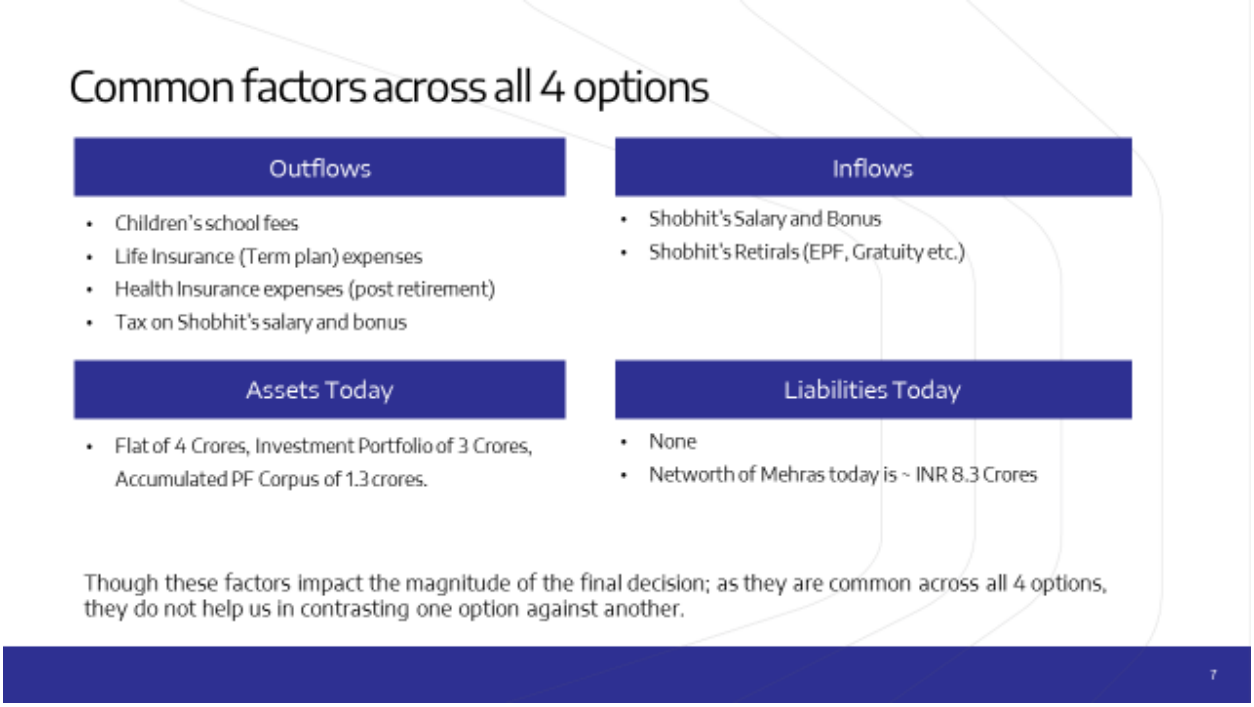
The Options



Goals

	Stated	Unstated
Financial	• Children's overseas education • Children's marriage • Annual Vacations • Retirement • Dream Home	• Creating an Emergency Corpus
Emotional / Aspirational	• Upgraded lifestyle • Convenience of a guest room • Being debt free (having peace of mind)	• Confidence of a having a significant corpus of liquid assets • Having the option of an early retirement • Having the confidence to deal with a professional downturn

B. Common Factors across all 4 options



Children's Schooling in India

For Rahul

It is an expense that is happening today and recurs every year for the next 5 years. The cost of school education is INR 8,00,000 in today's terms. School education inflation is taken at 12% p.a.

For Meera

It is an expense that is happening today and recurs every year for the next 8 years. The cost of school education is INR 8,00,000 in today's terms. School education inflation is taken at 12% p.a.

Children's Overseas Education

For Rahul

It is a financial goal that begins after 5 years and recurs every year for 4 years. The cost of overseas education is taken to be INR 40,00,000 (~ $60,000) in today's terms. We have factored for a 4 year bachelors program from a private university in U.S.A. These costs include tuition, accommodation, essential living and normal lifestyle expenses. Overseas education inflation is taken at 12% p.a. in INR terms. This is based on an average increase of education abroad by 5% yoy in dollar terms and assuming a 7% currency depreciation yoy.

For Meera

It is a financial goal that begins after 8 years and recurs every year for 4 years. The cost of overseas education is taken to be INR 40,00,000 (~ $60,000) in today's terms. We have factored for a 4 year bachelors program from a private university in U.S.A. These costs include tuition, accommodation, essential living and normal lifestyle expenses. Overseas education inflation is taken at 12% p.a. in INR terms. This is based on an average increase of education abroad by 5% yoy in dollar terms and assuming a 7% currency depreciation yoy.

Reference:
https://www.topuniversities.com/student-info/student-finance/how-much-does-it-cost-study-us
https://www.timeshighereducation.com/student/advice/cost-studying-university-united-states
https://www.savingforcollege.com/tutorial101/the_real_cost_of_higher_education.php

Children's Marriage Expenses

For Rahul
It is a financial goal that occurs one-time after 14 years when Rahul turns 27. The cost of marriage is taken to be INR 1,00,00,000 in today's terms. This is based on their current standard of living and expected lifestyle. Marriage expense inflation is taken at 8% p.a. in INR terms.

For Meera
It is a financial goal that occurs one-time after 17 years when Meera turns 27. The cost of marriage is taken to be INR 1,00,00,000 in today's terms. This is based on their current standard of living and expected lifestyle. Marriage expense inflation is taken at 8% p.a. in INR terms.

Term Insurance Premium

Based on the information been shared with us, we find that you are not covered under any life insurance plan. Hence, we recommend that you get adequately covered under a term plan to offset any future unfortunate event that may result in the loss of an important income stream which is essential to fulfill your goals and expenses, and maintain the lifestyle that is required by you.

We recommend Shobhit take a term plan cover of INR 4,50,00,000 and Alka take a term plan cover of INR 3,00,00,000 for a term of 20 years (expected working life). The cover amounts have been decided based on your future obligations, existing assets and relative earnings status. Given your age (both are 43 years), we expect the approx. premium to be Rs 60,000 p.a. for Shobhit and Rs 40,000 p.a. for Alka. We can look to increase this cover if needed at a later stage.

Reference:
https://www.iciciprulife.com/term-insurance-plans/iprotect-smart-term-insurance-calculator.html

Health Insurance

We assume that Shobhit's company will cover all health expenses of the family under a company health plan. Hence we don't need to plan for any additional health insurance cover during Shobhit's working life.

However post retirement, we need to go in for a health insurance plan that adequately covers all medical expenses of the family (Shobhit and Alka). We recommend a family floater health plan. In today terms, for a husband-wife couple having an age of 63 years, the expected premium for a cover of INR 25,00,000 will be INR 75,000 p.a. in today's terms. We assume an inflation of 5% p.a. on the health insurance premiums.

Reference:
http://health.policybazaar.com/quotes?enquiryid=NjgwNTA0MjE&profileid=23013013&sifrom=20&sito=25&plan=302-2500000-NCB%20Super%20Premium-44-Religare-62519-0&plan=319-2000000-Health%20Companion-18-Max%20Bupa-73316-0

Shobhit's Salary Details

Shobhit currently gets INR 6,00,000 p.m. in hand after deductions. We assume this to grow every year at an annual wage growth rate of 8% p.a. till his retirement.

Shobhit also receives between INR 25,00,000 to INR 30,00,000 on a pretax basis in bonus every year today. We assume the same wage growth rate of 8% p.a. to be applicable on this amount till his retirement. However, since this is a pre-tax amount, we assume a 33% tax rate on this bonus.

Shobhit also contributes to EPF from his salary every month. We have assumed 10% of his take home salary will be contributed every month as part of PF deductions (this includes both the employee's side contribution and the employer's side contribution). His in-hand amount of INR 6,00,000 is received after considering this deduction.

Given his current income levels, his 20 years of prior work experience and the PF rate historically over the past 20 years, we arrive at his current accumulated PF corpus to be INR 1,30,00,000.

[Please refer tab EPF in the excel sheet.]

Given Shobhit's wage growth assumptions, his accumulated PF corpus on retirement at age 63 will be ~ INR 13,64,00,000.

Shobhit will also receive on retirement other accumulated retirals such as gratuity, super annuation, leave encashment etc. amounting to ~ INR 2,00,00,000 also at age 63.

References:
https://www.epfindia.gov.in/site_docs/PDFs/MiscPDFs/InterestRate_OnPFAccumulationsSince1952.pdf

Current Portfolio

You have an asset mix of Real Estate (INR 4,00,00,000), Equity Funds (INR 1,50,00,000), Balanced Funds (INR 1,50,00,000) and PF (INR 1,30,00,000) all totaling an amount of INR 8,30,00,000.

We have assumed the INR 3,00,00,000 in Equity and Balanced funds is in the ratio of 50:50. i.e. INR 1,50,00,000 in Equity MFs and INR 1,50,00,000 in Balanced MFs.

Since you do not have any liabilities, your Networth is INR 8,30,00,000 as on today.

C. Option 1: DECIDE TO BUY, NOW



Sale of Existing House

This is a prerequisite to purchase the new house. It is best to begin the search for a buyer early as it is a buyer's market.

Purchase New House

Ensure that the payment terms of the new house are structured in such a way that they match the payment you receive from the sale of your existing house. Negotiate well with the seller in this regard since finding a buyer of your existing house at the price you want is likely to take some time.
We assume a growth rate of 3% p.a. on Real Estate given our conservative outlook on the real estate market.

Changes to Current Portfolio

Keeping aside some amount towards an Emergency Funds corpus, the rest of the investment portfolio (INR 2,70,00,000) needs to be liquidated to pay towards the new house.

Emergency Fund

Under this option, most of the wealth would be tied up in an illiquid Real Estate asset. Hence, we suggest you should have a fairly large Emergency Fund worth INR 30,00,000. We need to plan for a large emergency fund since we have to also factor in one year's worth of school fees in additional to about 5 to 6 months of living expenses in case of any untoward event such as a job loss or any other untimely liquidity crunch. It must be noted that you do not have any other easily liquidable asset other than this corpus, hence it should be sufficiently large.
Thus we suggest you move INR 30,00,000 from your investment portfolio and invest the entire amount (INR 30,00,000) in Liquid funds.

Monthly Living Expenses

Current monthly expenses need to be increased to reflect the higher standard of living in Bandra (W) vs Santacruz (E). Additionally, higher maintenance charges also need to be factored in for a 4 BHK flat vs 3BHK flat. We assume a multiple of 1.5 will reflect the higher expense and additional maintenance. i.e. the monthly living expenses will now be INR 3,00,000 per month in the new flat.

These expenses are expected to continue for as long as Alka and Shobhit are alive. Inflation on these expenses is assumed at 8% p.a. We have also assumed that INR 3,00,000 (in today's terms) will become INR 2,70,000 (in today's terms) when Rahul leaves home to go abroad for his studies, and will become INR 2,40,000 (in today's terms) when Meera leaves home to go abroad for her studies. Thus on a steady state basis, monthly living expenses are assumed to be INR 2,40,000 (in today's terms) when only Alka and Shobhit are living at home.

Home Loan

You will need to take a home loan for the remaining amount, i.e. INR 3,30,00,000.

We recommend the home loan be a joint loan between the two of you so that you can claim dual tax benefits under Section 24 of Indian IT Act.

The tenure of the loan will be 20 years. The rate of interest prevailing in the market is 8.50% p.a.
The EMI amount will be INR 2,85,000.

References:
https://economictimes.indiatimes.com/wealth/tax/how-to-maximize-tax-benefits-on-a-joint-home-loan/articleshow/45215221.cms

Prepayment of Home Loan

We advise you to prepay the home loan as soon as possible since you intend to stay in the flat and keep hold of it for the long term.

Given the cashflow situation, we believe that you can payback the home loan in 11 years. It will be difficult to payback sooner since you have other pressing cashflow commitments such as the children's overseas education.

Taxation and Tax Benefits

We have assumed that both of you (Shobhit and Alka) have taken the necessary actions each year to claim the permissible income tax deductions available such under Section 80C, Section 80D, Section 10 etc.

Please note: We have assumed that you have already claimed Section 80C benefits and the new home loan will not incrementally have any benefit w.r.t. Section 80C.

Additional Term Insurance due to the New Home Loan

We propose that you need to take an additional term life insurance cover due to the new home loan liability. In the event of any unfortunate event, you should be able to service the loan and EMI payments in the absence of an income stream. We suggest that you split the cover in the following ratio:

Shobhit taking an extra cover of INR 2,00,00,000 and Alka taking an extra cover of INR 1,30,00,000.

We have chosen this split keeping in mind the relative income levels between the two of you.

Tenure for this term plan will also be 20 years (in line with the tenure of the home loan). However since we intend to prepay the loan, we can lapse this term plan when the loan is repaid fully.

Based on our calculations, the loan will be paid off in 13 years. Hence, this additional premium outflow can stop after the 13^{th} year.

[Please refer tab Home Loan Prepayment in the excel sheet.]

Vacation Goal

This is one of the few goals on which you can afford to cutback on. Unfortunately you do not too many other goals on which you can take a hit on.

We propose that you reduce your annual vacation expense to INR 6,00,000 p.a. (in today's terms). . Inflation on this expense is taken at 8% p.a.

In addition, you would be able to take a vacation every alternate year till you are alive. This is due to:

1. Prepayment of the home loan
2. Cashflow management during high outflow years (children's overseas education, marriage etc.)
3. Building a corpus to manage your household expenses in your retirement years

Alka's Professional Income Details

Until now, Alka operated in a pressure free environment with no dependency on her to earn. She has the luxury to be creative and write at her own will and pace.

However, since you have decided to buy the new house, she cannot continue this lifestyle.

This will be the single biggest factor that determines whether you can manage this purchase and all the other goals and aspirations you have as a family.

Alka will need to increase the quantum and reduce the variability of her earnings.

Since Alka's earnings have been highly variable thus far, we have assumed that her income follows a 5 year cycle. Very high in year 1 when she has a blockbuster novel, and a declining contribution over the next 4 years as royalties fall.

The following are our thoughts regarding improving the quality of Alka's professional income:

- Even though the pressure on Alka has increased, it will be difficult for her to create blockbuster novels on demand. Such novels require time and creativity; and we expect the pace of blockbuster novel releases to remain the same as earlier, i.e. once every 5 years. Hence, we can assume this 5 year cycle to continue for the next 20 years till she retires.

- We propose that Alka pursues other monetization options available to her as a writer to supplement her income from royalties in the other years.
    - Translation rights
    - Overseas rights
    - Film rights
    - Merchandising opportunities
    - Speaking assignments
    - Newspaper columns
    - Explore writing opportunities for TV shows, web series etc.
    - Use her brand to monetize her success in a more efficient manner; to open up other income streams such as from Social Media Influencing etc.

- She can get an advance on her next book based on her track record to smoothen her cash flows in the year preceding a blockbuster

- We have assumed a similar trend wherein her projected income on a pre-tax basis to be high (INR 1,08,00,000) in the year she produces a blockbuster and a declining contribution over the next 4 years from royalties but is supplemented with additional income from the other sources (INR 42,00,000 in years 2 & 3 and INR 28,00,000 in year 4 & INR 21,00,000 in year 5). This is not easy, but given her existing track record, qualifications and professional network, Alka should not find it very difficult to achieve these income levels.

- We have assumed a tax rate of 33% in years 1,2,3 of the 5 year cycle and a rate of 20% in the years 4,5 of the 5 year cycle.

- We have assumed a 10% income growth rate in each of her 5 year earnings cycle.

- We also expect Alka's income to continue by a couple of years post-retirement due to royalties on her work from pre-retirement

To conclude, while we realize that a significantly higher financial burden is being placed on Alka, unfortunately there isn't much flexibility.

She will have to work hard for the rest of her working life in order to payback the home loan and to build the nest egg required for your sunset years.

Alka's Saving and Spending Details

We have assumed that Alka currently spends ~50% and saves ~50% of her post tax earnings. This is based on the information you have shared with us.

However, Alka will have to drastically cut back on her spending (mostly on luxury items). Going forward, we propose Alka will spend ~10% and save ~90% of her post tax earnings.

Yearly Savings & Investment Portfolio

In order to manage your cash flows, you will not be able use your entire annual savings in some of the years to prepay the loan. Hence you will need to create a moderate risk investment portfolio which will help you smoothen your cash flows of the subsequent years.

We propose to invest all future yearly savings (after providing for some amount towards the prepayment of the home loan) till the age of 54, i.e. till the home loan is fully repaid, Balanced funds. Cashflow mismatch drawdowns till this period shall also be from this corpus only.

In cases where withdrawal happens, we have provided for a redemption of an extra 5% higher than the required amount to account for the tax implications on withdrawal from the investment portfolio due to long term capital gains tax. *(LTCG is 10% on the gains on Equity oriented mutual funds. We assume the effective rate on the overall portfolio to be 5% of the total amount).*

After the age of 54, we propose to invest all savings in the ratio of 50:50 into Equity and Balanced funds till the age of 63.

We also recommend to invest the entire retiral benefits corpus received (accumulated PF and other Retirals) into Equity:Balanced:Debt funds in the ratio of 40:30:30. You will have to provide a higher allocation to Equity (high risk) assets even as you get older since you are effectively restarting the creation of your wealth at the age of 54. If not, you run the risk of completely eroding your wealth during your lifetime.

In the years after retirement, when expenses go higher than income, we propose to withdraw first from Equity funds to fund this gap. All other funds (balanced, debt, liquid) remain untouched and grow as usual.

Once the equity funds corpus is exhausted, withdrawal will start from the Balanced funds corpus.

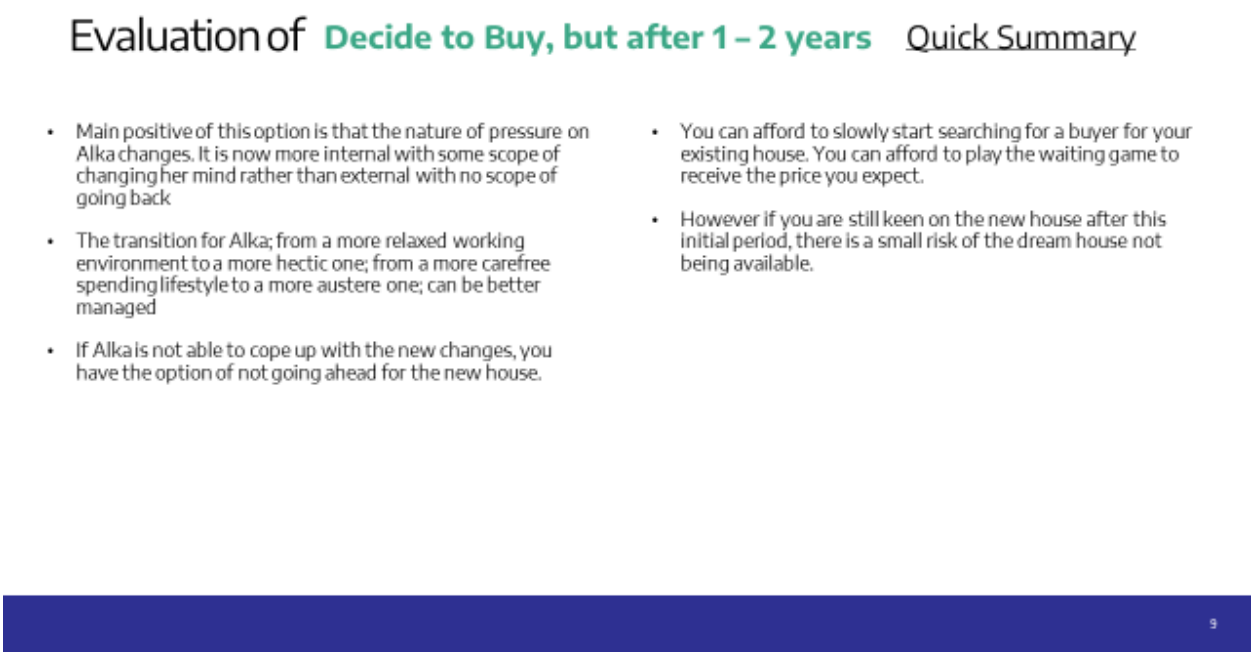
The above steps are proposed for 2 main reasons:

a) Reducing Equity: Debt asset allocation ratio as you age
b) Tax efficiency purposes

And finally when the Balanced funds corpus is exhausted, withdrawal from Debt funds will begin.

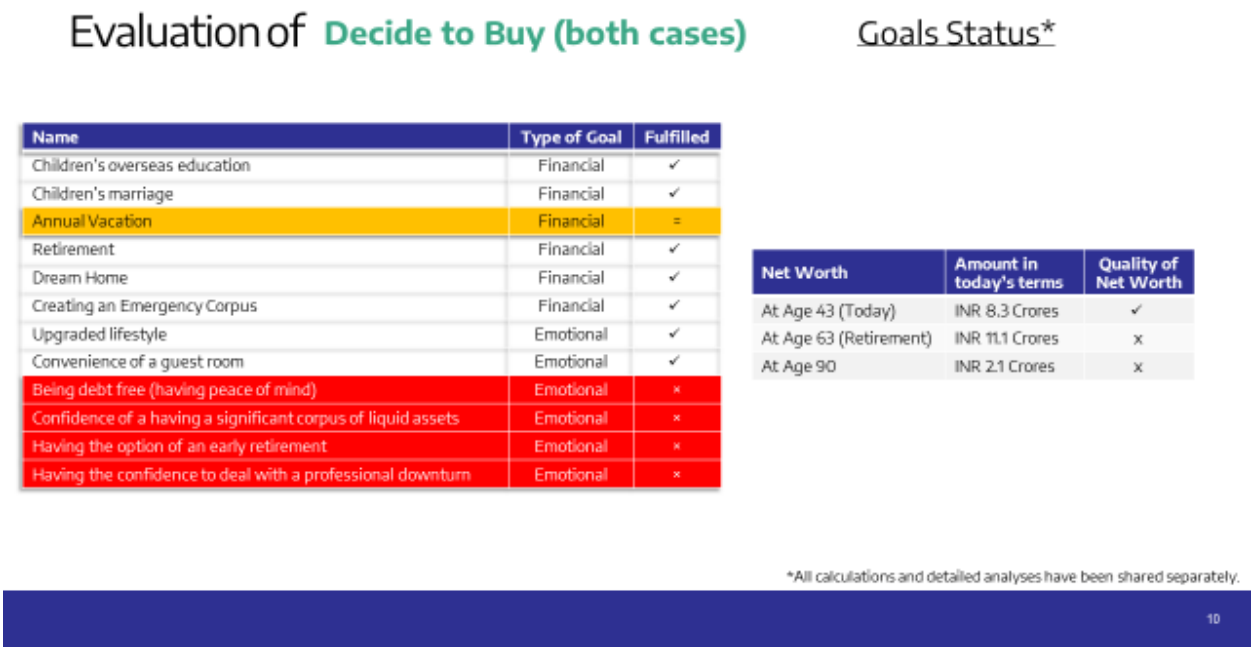
We assume an annual growth rate of 6.5% on Liquid Funds, 8% on Debt Funds, 10% on Balanced Funds and 12% on Equity Funds.

D. Option 2: DECIDE TO BUY, BUT AFTER 1 - 2 YEARS



The assumptions and calculations of this situation will be very similar to Option 1. Hence, we have not repeated the same over here.

The Evaluation of both the sub cases under Decide to Buy: (Decide to Buy, Now and Decide to Buy, after 1 - 2 years) is also quite similar. Hence, we have proposed using the same evaluation in both the cases.

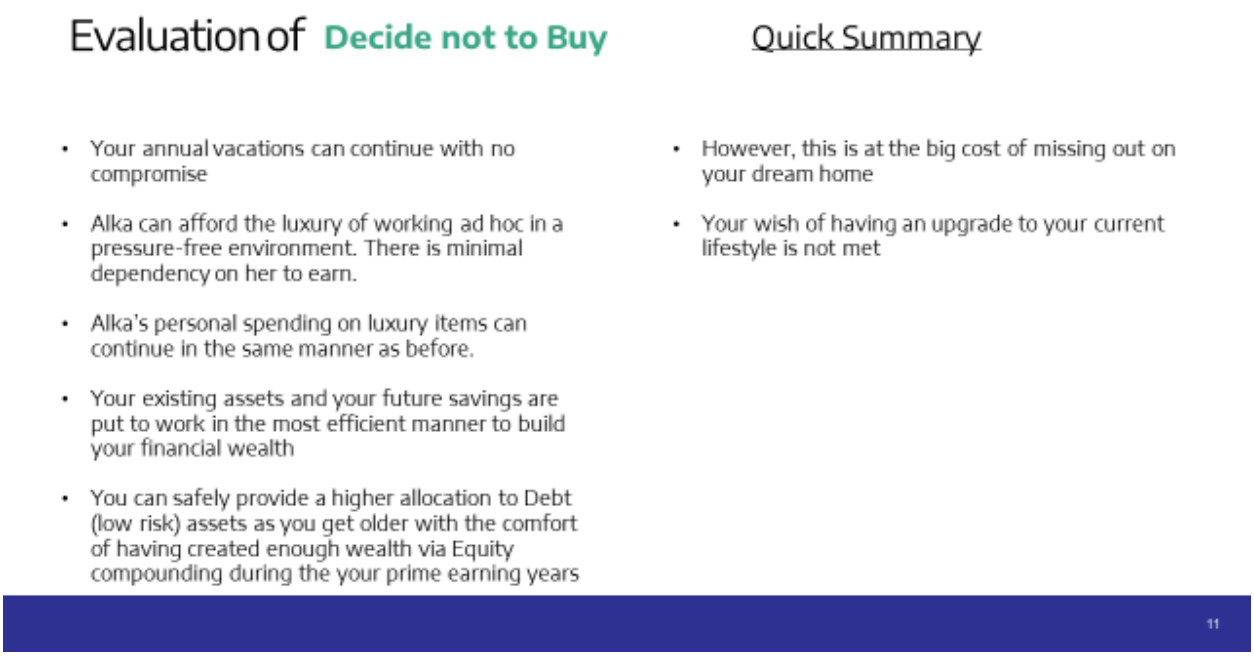


If we look at the Net Worth table in more detail:

Net Worth	Amount	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 46.3 Crores	INR 10.7 Crores	x
At Age 90	INR 67.0 Crores	INR 1.9 Crores	x

You will find that on an absolute basis INR 67 Crores has been created over time. However on an inflation adjusted basis it is only INR 1.9 Crores in today's terms. This is because a significant amount of wealth is in slow growing real estate asset.

E. Option 3: DECIDE NOT TO BUY



Monthly Living Expenses

Current monthly expenses are INR 2,00,000 per month. These expenses are expected to continue for as long as Alka and Shobhit are alive. Inflation on these expenses is assumed at 8% p.a. We have also assumed that INR 2,00,000 (in today's terms) will become INR 1,80,000 (in today's terms) when Rahul leaves home to go abroad for his studies, and will become INR 1,60,000 (in today's terms) when Meera leaves home to go abroad for her studies. Thus on a steady state basis, monthly living expenses are assumed to be INR 1,60,000 (in today's terms) when only Alka and Shobhit are living at home.

Vacation Goal

There is no compromise on this goal.

Your family takes an annual international vacation costing INR 8,00,000 in today's terms. Inflation on this expense is taken at 8% p.a. We have assumed this to continue every year till you live.

Alka's Professional Income Details

Until now, Alka operated in a pressure free environment with no dependency on her to earn. She has the luxury to be creative and write at her own will and pace.

And since you have decided not to buy the new house, she can continue this lifestyle. No change in Alka's earning is expected.

Since Alka's earnings have been highly variable thus far, we have assumed that her income follows a 5 year cycle. Very high in year 1 when she has a blockbuster novel, and a declining contribution over the next 4 years as royalties fall.

- We have assumed a similar trend wherein her projected income on a pre-tax basis to be high (INR 1,08,00,000) in the year she produces a blockbuster and a declining contribution over the next 4 years from royalties but is supplemented with additional income from the other sources (INR 21,00,000 in years 2 & 3 and INR 14,00,000 in year 4 & INR 7,00,000 in year 5).

- We have assumed a tax rate of 33% in year 1, 20% in years 2, 3 & 4 and a rate of 10% in year 5 of the 5 year cycle.

- We have assumed a 10% income growth rate in each of her 5 year earnings cycle.

- We also expect Alka's income to continue by a couple of years post-retirement due to royalties on her work from pre-retirement

Taxation and Tax Benefits

We have assumed that both of you (Shobhit and Alka) have taken the necessary actions each year to claim the permissible income tax deductions available such under Section 80C, Section 80D, Section 10 etc.

Alka's Saving and Spending Details

We have assumed Alka spends ~50% and saves ~50% of her post tax earnings. This is based on the information you have shared with us.

Given the lack of any stressful financial burden in our current option, Alka can continue her lifestyle with no compromises.

Emergency Fund

Under the current option, considerable amount of assets will remain invested in easily liquidable securities such as MFs. Hence we would need to only plan for a small Emergency fund corpus (5 to 6 months of living expenses).

Thus we suggest you move INR 6,00,000 each from Equity and Balanced funds, and invest the entire amount (INR 12,00,000) into Liquid funds.

This is the only minor change to the existing asset allocation that we propose.

Yearly Savings & Investment Portfolio

We propose to invest all future yearly savings (all incomes – all expenses) from today onwards in the same 50:50 ratio into Equity and Balanced funds.

We also recommend to invest the entire retiral benefits corpus received (accumulated PF and other Retirals) into Equity:Balanced:Debt funds in the ratio of 0:0:100.

You can safely provide a higher allocation to Debt (low risk) assets as you get older with the comfort of having created enough wealth via Equity compounding during the your prime earning years

In the years when expenses go higher than income:

- at age 51: when the overseas education of both children need to be funded in the same year
- at age 57: when a substantial outflow will happen due to Rahul's marriage
- at age 60: when a substantial outflow will happen due to Meera's marriage
- from age 63 onwards: when retirement begins

We propose a withdrawal in a ratio of 50:50 Equity: Balanced funds in the pre-retirement years.

In the post-retirement years, we propose that you withdraw 100% from Equity funds to fund this gap. All other funds (Balanced, Debt, Liquid) remain untouched and grow at their normal rates. The above steps are proposed for 2 main reasons:

- Reducing Equity: Debt asset allocation ratio as you age
- Tax efficiency purposes

We have also provided for a redemption of an extra 5% higher than the required amount to account for the tax implications on withdrawal from the investment portfolio due to long term capital gains tax. (LTCG is 10% on the gains on Equity oriented mutual funds. We assume the effective rate on the overall portfolio to be 5% of the total amount).

We assume an annual growth rate of 6.5% on Liquid Funds, 8% on Debt Funds, 10% on Balanced Funds and 12% on Equity Funds. We assume a growth rate of 3% p.a. on Real Estate given our conservative outlook on the real estate market.

Evaluation of Decide not to Buy

Name	Type of Goal	Fulfilled
Children's overseas education	Financial	✓
Children's marriage	Financial	✓
Annual Vacation	Financial	✓
Retirement	Financial	✓
Dream Home	Financial	×
Creating an Emergency Corpus	Financial	✓
Upgraded lifestyle	Emotional	×
Convenience of a guest room	Emotional	×
Being debt free (having peace of mind)	Emotional	✓
Confidence of a having a significant corpus of liquid assets	Emotional	✓
Having the option of an early retirement	Emotional	✓
Having the confidence to deal with a professional downturn	Emotional	✓

Goals Status*

Net Worth	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 17.0 Crores	✓
At Age 90	INR 19.6 Crores	✓

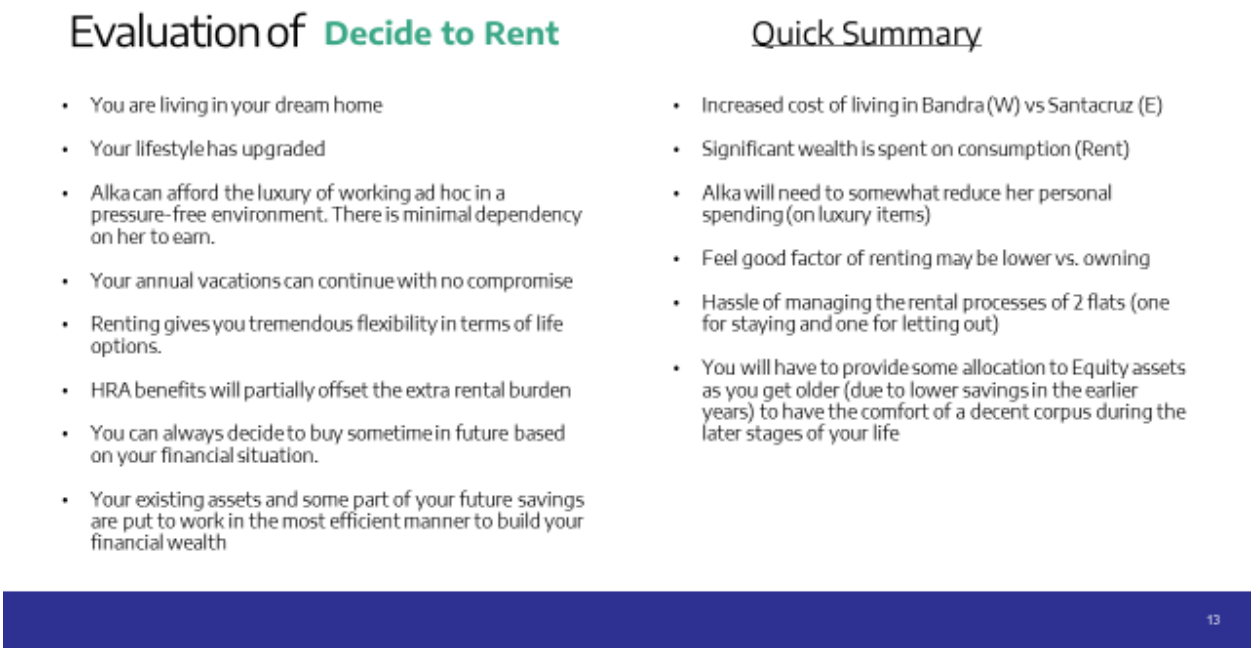
*All calculations and detailed analyses have been shared separately.

If we look at the Net Worth table in more detail:

Net Worth	Amount	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 73.3 Crores	INR 17.0 Crores	✓
At Age 90	INR 676.7 Crores	INR 19.6 Crores	✓

You will find that on an absolute basis INR 650+ Crores has been created over time! However on an inflation adjusted basis it is INR 19.6 Crores in today's terms. From a purely financial perspective, this is the best option. Your existing assets and your future savings are put to work in the most efficient manner to build your financial wealth

F. Option 4: DECIDE TO RENT



Monthly Living Expenses

Current monthly expenses need to be increased to reflect the higher standard of living in Bandra (W) vs Santacruz (E). We assume a multiple of 1.25 will reflect this higher expenses. i.e. the monthly living expenses will now be INR 2,50,000 per month in the new flat. Maintenance costs can be avoided in this route as the owner will pay the charges. Hence we have taken a lower multiple of 1.25 vs a multiple of 1.5 which was taken when you purchased the flat.

These expenses are expected to continue for as long as Alka and Shobhit are alive. Inflation on these expenses is assumed at 8% p.a. We have also assumed that INR 2,50,000 (in today's terms) will become INR 2,25,000 (in today's terms) when Rahul leaves home to go abroad for his studies, and will become INR 2,00,000 (in today's terms) when Meera leaves home to go abroad for her studies. Thus on a steady state basis, monthly living expenses are assumed to be INR 2,00,000 (in today's terms) when only Alka and Shobhit are living at home.

Renting the New Flat

Availability of sea facing 4 BHK flats should not be an issue. It could be in the same building as well. In fact many corporates provide company accommodation for their senior executives in such localities. Some MNCs also offer long term low cost corporate loans to their executives to help pay for the deposit that is needed. Shobhit should definitely explore this option if it is available.

We have however assumed that such facilities are not available and proceeded ahead with our analysis accordingly.

It is also important to secure a long term lease on the house for 2 reasons:

- It prevents the hassle of searching for a new house within a short time frame
- It will help secure a lower deposit on the house.

The required sea facing 4 BHK flat in Bandra (W) will cost approximately INR 40,00,000 per lakh per annum to rent. The typical deposit for such a house and rental amount will be INR 11,00,000 Lakh (about 3 months of rent). This is a negotiable amount but it usually is in this range.

Advantages of Renting vs Owning

Renting gives you tremendous flexibility.

- It gives you the opportunity to enjoy the house, the view and the locality with minimal upfront costs or commitment
- You can be flexible about the size of the house you rent. Today you require a 4BHK but when the children leave for abroad and settle down in their lives; a 4BHK may seem too much. At that time, when it is just the two of you, a 2BHK can more than adequately take care of your needs
- When the certainty of your earnings substantially increases from current levels and you are mentally prepared for the other sacrifices; you can confidently buy that dream house
- If by chance you happen to lose interest in the view or the locality, you can always move back to your existing house and go back to your old lifestyle with minimal hassle.

We expect your requirement of a 4BHK will go down with time. We propose that post retirement, once your children are well settled, you move into a 2BHK sea facing flat in the same locality. This will help your costs come down significantly.

Renting out the Santacruz (E) flat

Given that the area is very close to BKC and Kalina, there will be excellent demand for your flat. Getting a good rent on it should not be a problem. 3BHK is also a good size for mid to senior level executives working nearby. We expect you to receive a rent of INR 10,00,000 p.a. on this flat and a deposit of INR 3,00,000.

Vacation Goal

There is no compromise on this goal.

Your family takes an annual international vacation costing INR 8,00,000 in today's terms. Inflation on this expense is taken at 8% p.a. We have assumed this to continue every year till you live.

Alka's Professional Income Details

Until now, Alka operated in a pressure free environment with no dependency on her to earn. She has the luxury to be creative and write at her own will and pace.

And since you have decided not to buy the new house, she can continue this lifestyle. No change in Alka's earning is expected.

Since Alka's earnings have been highly variable thus far, we have assumed that her income follows a 5 year cycle. Very high in year 1 when she has a blockbuster novel, and a declining contribution over the next 4 years as royalties fall.

- We have assumed a similar trend wherein her projected income on a pre-tax basis to be high (INR 1,08,00,000) in the year she produces a blockbuster and a declining contribution over the next 4 years from royalties but is supplemented with additional income from the other sources (INR 21,00,000 in years 2 & 3 and INR 14,00,000 in year 4 & INR 7,00,000 in year 5).

- We have assumed a tax rate of 33% in year 1, 20% in years 2, 3 & 4 and a rate of 10% in year 5 of the 5 year cycle.

- We have assumed a 10% income growth rate in each of her 5 year earnings cycle.

- We also expect Alka's income to continue by a couple of years post-retirement due to royalties on her work from pre-retirement

Taxation and Tax Benefits

We have assumed that both of you (Shobhit and Alka) have taken the necessary actions each year to claim the permissible income tax deductions available such under Section 80C, Section 80D, Section 10 etc.

Additional Benefits due to HRA

Shobhit can claim some extra benefits due to HRA under Section 10 of the IT Act. We expect tax saved to be at his marginal rate (33%). Given his Basic salary level, we expect effective HRA to be 50% of Basic.

[Please refer tab EPF in the excel sheet for details on Basic Salary.]

Emergency Fund

Under the current option, considerable amount of assets will remain invested in easily liquidable securities such as MFs. Hence we would need to only plan for a small Emergency fund corpus (5 to 6 months of living expenses).

Thus we suggest you move INR 6,00,000 each from Equity and Balanced funds, and invest the entire amount (INR 12,00,000) into Liquid funds.

You will also need to keep aside INR 8,00,000 as deposit money. This is the net amount between what we have to pay and what we will receive. We suggest you move INR 4,00,000 each from Equity and Balanced funds. You will not earn any interest on this amount.

The above two are the only changes to the existing asset allocation that will be needed.

Yearly Savings & Investment Portfolio

We propose to invest all future yearly savings (all incomes – all expenses) from today onwards in the same 50:50 ratio into Equity and Balanced funds.

We also recommend to invest the entire retiral benefits corpus received (accumulated PF and other Retirals) into Equity:Balanced:Debt funds in the ratio of 25:25:50.

You will have to provide some allocation to Equity assets as you get older (due to lower savings in the earlier years) to have the comfort of a decent corpus during the later stages of your life

In the years when expenses go higher than income:

- at age 51: when the overseas education of both children need to be funded in the same year
- at age 57: when a substantial outflow will happen due to Rahul's marriage
- at age 60: when a substantial outflow will happen due to Meera's marriage
- from age 63 onwards: when retirement begins

We propose a withdrawal in a ratio of 50:50 Equity: Balanced funds in the pre-retirement years.

In the years after retirement, when expenses go higher than income, we propose to withdraw first from Equity funds to fund this gap. All other funds (balanced, debt, liquid) remain untouched and grow at their normal rates.

Once the equity funds corpus is exhausted, withdrawal will start from the Balanced funds corpus.

The above steps are proposed for 2 main reasons:

- Reducing Equity: Debt asset allocation ratio as you age
- Tax efficiency purposes

We have also provided for a redemption of an extra 5% higher than the required amount to account for the tax implications on withdrawal from the investment portfolio due to long term capital gains tax. (LTCG is 10% on the gains on Equity oriented mutual funds. We assume the effective rate on the overall portfolio to be 5% of the total amount).

We assume an annual growth rate of 6.5% on Liquid Funds, 8% on Debt Funds, 10% on Balanced Funds and 12% on Equity Funds. We assume a growth rate of 3% p.a. on Real Estate given our conservative outlook on the real estate market.

Alka's Saving and Spending Details

We have assumed Alka spends ~30% and saves ~70% of her post tax earnings from hereon.

There is a small cut in her discretionary spending vs her current state. We have proposed this to help offset the additional outflow due to the higher rental expenses.

Evaluation of **Decide to Rent**

Name	Type of Goal	Fulfilled
Children's overseas education	Financial	✓
Children's marriage	Financial	✓
Annual Vacation	Financial	✓
Retirement	Financial	✓
Dream Home	Financial	=
Creating an Emergency Corpus	Financial	✓
Upgraded lifestyle	Emotional	✓
Convenience of a guest room	Emotional	✓
Being debt free (having peace of mind)	Emotional	✓
Confidence of a having a significant corpus of liquid assets	Emotional	✓
Having the option of an early retirement	Emotional	✓
Having the confidence to deal with a professional downturn	Emotional	✓

Goals Status*

Net Worth	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 12.8 Crores	✓
At Age 90	INR 9.0 Crores	✓

*All calculations and detailed analyses have been shared separately.

14

If we look at the Net Worth table in more detail:

Net Worth	Amount	Amount in today's terms	Quality of Net Worth
At Age 43 (Today)	INR 8.3 Crores	INR 8.3 Crores	✓
At Age 63 (Retirement)	INR 55.1 Crores	INR 12.8 Crores	✓
At Age 90	INR 310.5 Crores	INR 9.0 Crores	✓

You will find that on an absolute basis INR 310+ Crores has been created over time! However on an inflation adjusted basis it is INR 9.0 Crores in today's terms.

From a holistic perspective, this is the most optimal option as it balances your financial, emotional and aspirational needs.

WISE advice

a joint initiative between HDFC MF and Wealth Forum



Nandita Jaiswal

Mitraz Financial, Bangalore

HDFC MUTUAL FUND BHAROSA APNO KA | WealthForum TV

Wise Advise Case Competition - 2018

Profile





Shobhit

- Head of Risk Solutions with top five
- Down to Earth
- Risk Averse
- Simple Living

Alka

- An acclaimed fiction writer
- Dreamy & Passionate
- Aggressive
- Live Life, King Size



Problem Statement

- *Alka wants to buy a new house in an upcoming, stylish apartment complex in Bandra. She and children are excited with the prospect of them moving into their dream home.*
- *Shobhit would like to consider this however he has concerns that they would be taking too much risk by purchasing a very high value apartment.*
- *The two main concerns are:*
  - *Alka's Income Variability*
  - *Shobhit's Employment Risk*

Our Approach

- *We reviewed Alka, Shobhit and family requirements, goals and aspirations.*
- *We believe we need to show the requirements, the risks and the constraints of buying and not buying a new house considering the two concerns mentioned in the Problem Statement.*
- *We have worked out four scenarios outlined in subsequent slides with a summary for all the scenarios.*
- *The Plan Details cover the assumptions, cash flows, scenario workings, asset allocation and insurance plan.*
- *Our assessment for Alka and family risk profile is Moderate to Moderately Conservative. Hence the Asset Allocation has been worked out with this risk profile in mind.*

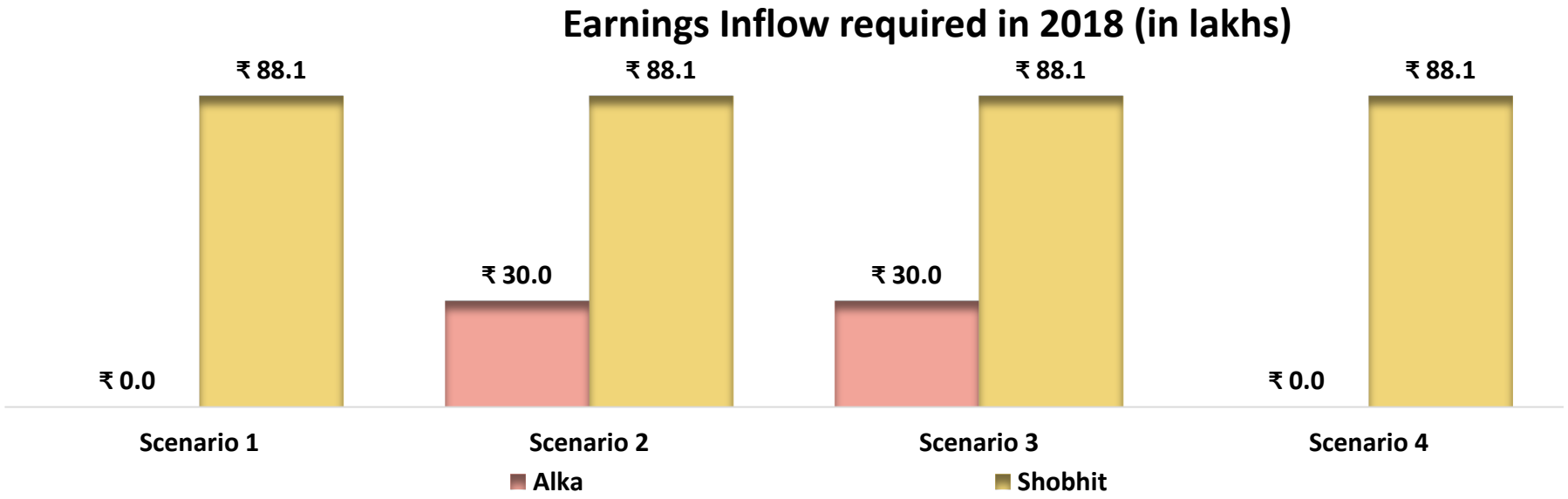
Alka, Shobhit and Family Scenarios

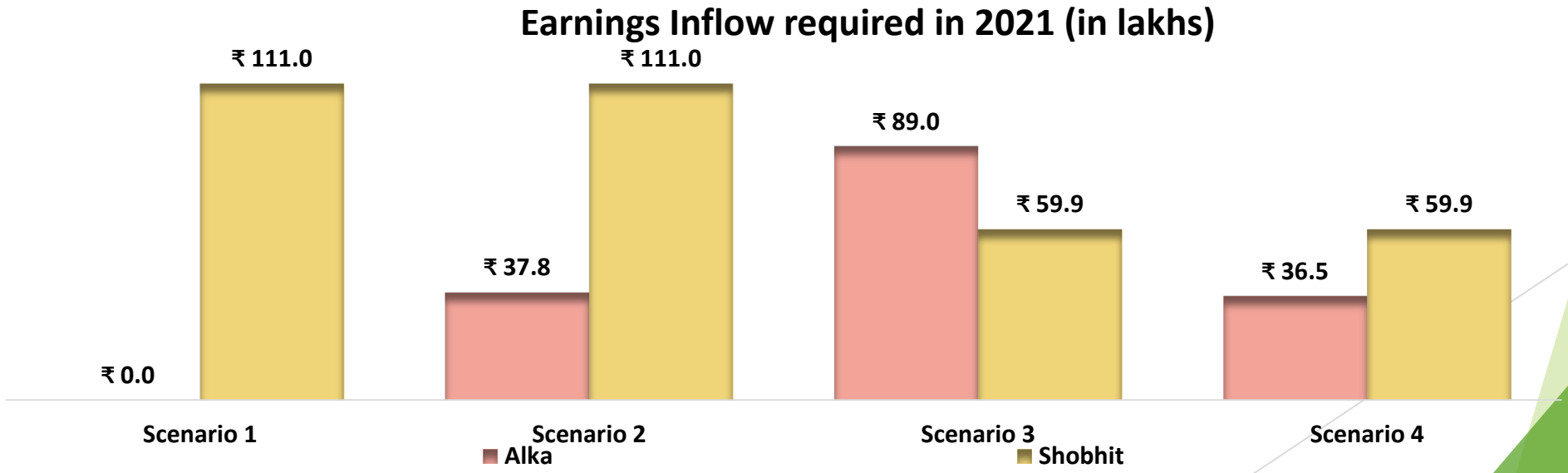
Considerations	Scenario 1	Scenario 2	Scenario 3	Scenario 4
New Apartment	No Continue to stay in current home at Santacruz	Yes. Buy the New Apartment valued Rs. 10.60 Cr, including the Registration & Stamp duty of 6%.	Yes. Buy the New Apartment valued Rs. 10.60 Cr, including the Registration & Stamp duty of 6%.	No Continue to stay in current home at Santacruz
Sell current house	No	YES For 4 Crores Net (No tax outflow)	YES For 4 Crores Net (No tax outflow)	No
Home Loan	No	3 Cr. Loan @8.5% for 10 years	3 Cr. Loan @8.5% for 10 years	No
Abroad Graduation for Meera & Rahul	1.35 Cr. each	1.35 Cr. each	1.35 Cr. each	1.35 Cr. each
Wedding for Meera & Rahul	40 L each	40 L each	40 L each	40 L each
Shobhit's Employment	Employed with the current employer upto the age of 60 with 8% yoy growth in current salary.	Employed with the current employer upto the age of 60 with 8% yoy growth in current salary.	Current company downsizes when he is 46. Shobhit joins a new company, earning 50% of the current salary up to the age of 60.	Current company downsizes when he is 46. Shobhit joins a new company, earning 50% of the current salary up to the age of 60.
Income from Alka	Assumed zero income, considering she spends whatever she earns on her Lifestyle.	Earns 30 L (minimum required) annually upto the age of 60 for her dream house.	Earns 30 L, till Shobhit is employed with the current employer. Starts to contribute 89L from 46 upto the age of 60 for the house she wants so dearly.	Alka is required to contribute 36.5L from 46 upto the age of 60, on Shobhit joining a new company at 50% of current salary.

Decision Matrix

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Dream House Goal	Not Achieved	Yes	Yes	Not Achieved
Children's Education & Wedding	Achieved	Achieved	Achieved	Achieved
Alka's Variable Salary Risk	No	Less	High	Less
Shobhit's Employment Risk	Yes	Yes	Less	Less
Financial Assets +ve at 85	Yes	Yes	Yes	Yes

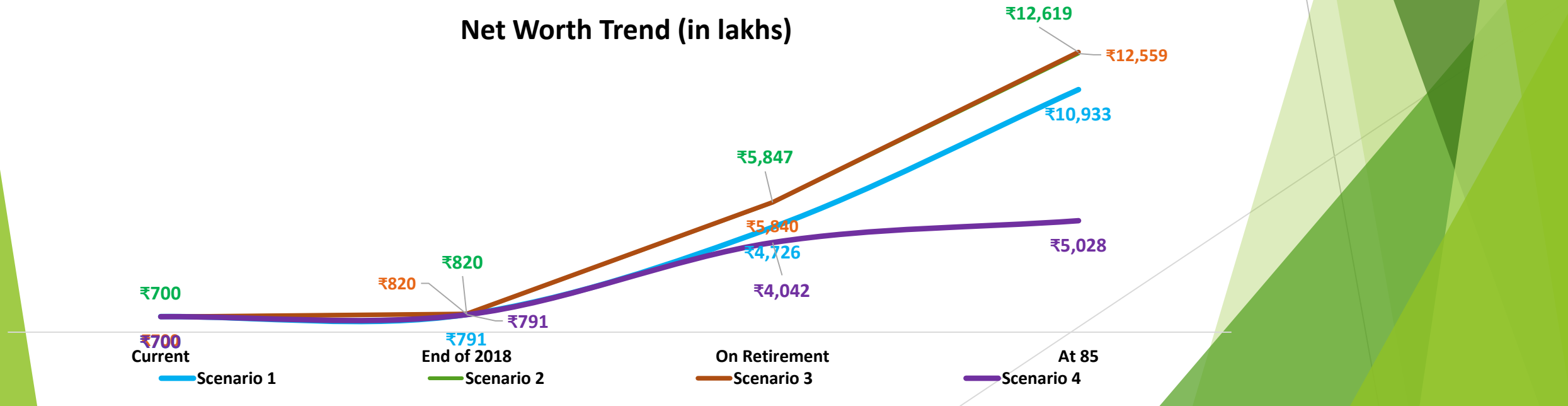
Decision Element 1 – Earnings Required





Decision Element - 2 - Net Worth

Parameters		Total Financial Assets	Total Real Estate Assets	Liabilities	Net Worth
Current		₹ 300	₹ 400	₹ 0	₹ 700
Scenario 1	End of 2018	₹ 367	₹ 424	₹ 0	₹ 791
	On Retirement	₹ 3,585	₹ 1,142	₹ 0	₹ 4,726
	At 85	₹ 6,033	₹ 4,900	₹ 0	₹ 10,933
Scenario 2	End of 2018	₹ 36	₹ 1,084	₹ 300	₹ 820
	On Retirement	₹ 2,921	₹ 2,919	₹ 0	₹ 5,840
	At 85	₹ 31	₹ 12,528	₹ 0	₹ 12,559
Scenario 3	End of 2018	₹ 36	₹ 1,084	₹ 300	₹ 820
	On Retirement	₹ 2,928	₹ 2,919	₹ 0	₹ 5,847
	At 85	₹ 91	₹ 12,528	₹ 0	₹ 12,619
Scenario 4	End of 2018	₹ 367	₹ 424	₹ 0	₹ 791
	On Retirement	₹ 2,900	₹ 1,142	₹ 0	₹ 4,042
	At 85	₹ 128	₹ 4,900	₹ 0	₹ 5,028



Our Assessment

Scenario 1 is status quo and provided as a default option where the family continues to be in the current house and current financial plan remains intact. Risk of Shobhit losing his job remains in this scenario hence this is a **MODERATE RISK** scenario.

Scenario 2 with some earnings from Alka allows the family to move into the new house. If Shobhit loses his job and his new employment offers less salary (assumed 50% in scenarios 3 and 4) then the family will have a huge financial risk. This is a **HIGH RISK** scenario.

Scenario 3 because of the changed employment situation of Shobhit requires Alka to increase her contribution significantly because of the new apartment. This is a **HUGE RISK** scenario.

Scenario 4 also requires Alka to contribute because of the changed employment situation of Shobhit but the contribution is similar to Scenario 2 as no new apartment is there. This is a **MODERATE RISK** scenario.

Our Advice

As Adviser, we generally refrain from picking one scenario but if asked of our view –

We will advise the following:

- Alka should work towards stabilising her earnings for the next 2 years so that her income variability is reduced. Shobhit will then have more confidence about the stability in Alka's earnings. His comfort level in buying another house will increase.
- The family should postpone the decision to buy the new apartment for at least 2 years. They may plan their finances again in 2020 based on Alka's income and savings contribution during 2018 and 2019. Mumbai real estate is booming so there will be other similar apartment complexes that may come up in the next 2 years.
- Shobhit should test the assumption about his employment prospects. He may try to get a similar job for similar kind of salary. This will provide inputs on how real is the prospect of losing a job and not finding a similar one later on.

Plan Details

Assumptions:

Following assumptions are made while drafting the plan considering the overall macro and micro factors:

- All values have been considered as of today's value and respective inflation and growth rates are applied wherever applicable.
- Household and Travel expenses are inflated @ 8% upto the age of 85.
- School expenses for Rahul & Meera have been treated as a separate outflow with 10% inflation for the next seven years.
- Household and Travel expenses have been considered to be the same post retirement, considering Alka's Lifestyle and more time to travel and socialize.
- Income from Alka has been planned differently in all the scenarios. It has been kept at the minimum required that she would have to contribute in order to make a scenario feasible. The required income number is within the specified range of ₹21L - ₹108L.
- The income assumed is post tax for Alka in all the scenarios.
- Home Loan has been linearly reduced over 10 years with Principal reduction factor of 67%.
- Alka'a age is 43, as Shobhit and Alka were batchmates in IIM-A.
- Rahul & Meera marriage age is 28.
- Premium costs for Health and Life are inflated @ 8%.
- Health & Term Plan premiums for the family are as per the current market rates.
- Returns are at 9% (post-tax) in line with the Moderate/Moderately Conservative Risk Profile.
- All figures are in INR Lakhs.

Assumption Parameters	Values
Income Growth Rate	8%
Inflation Rate - Expenses	8%
Inflation Rate - Goals	10%
Return on Financial Assets	9%
Return on Real Estate Assets	6%
Life Expectancy	85
Retirement Age	60
Principal Reduction Factor	67%

Cash Flows

Cash Flow during 2018				
Inflow	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Shobhit's Salary	₹ 72,00,000	₹ 72,00,000	₹ 72,00,000	₹ 72,00,000
Alka's Salary	₹ 0	₹ 30,00,000	₹ 30,00,000	₹ 0
Bonus - Post Tax	₹ 16,11,750	₹ 16,11,750	₹ 16,11,750	₹ 16,11,750
New Home Loan	₹ 0	₹ 3,00,00,000	₹ 3,00,00,000	₹ 0
Santacruz house sale	₹ 0	₹ 4,00,00,000	₹ 4,00,00,000	₹ 0
Redemption from existing Portfolio	₹ 0	₹ 2,91,00,000	₹ 2,91,00,000	₹ 0
Total Inflow	**₹ 88,11,750**	**₹ 11,09,11,750**	**₹ 11,09,11,750**	**₹ 88,11,750**
Outflows				
House Hold Expenses	₹ 24,00,000	₹ 24,00,000	₹ 24,00,000	₹ 24,00,000
School Expenses	₹ 16,00,000	₹ 16,00,000	₹ 16,00,000	₹ 16,00,000
Insurance Expenses - Health + Term	₹ 60,000	₹ 1,00,000	₹ 1,00,000	₹ 60,000
Annual Travel & Vacations	₹ 8,00,000	₹ 8,00,000	₹ 8,00,000	₹ 8,00,000
Total Expenses	**₹ 48,60,000**	**₹ 49,00,000**	**₹ 49,00,000**	**₹ 48,60,000**
Outflow towards Bandra Apartment	₹ 0	₹ 10,60,00,000	₹ 10,60,00,000	₹ 0
Home Loan EMI	₹ 0	₹ 0	₹ 0	₹ 0
Total Outflow	**₹ 48,60,000**	**₹ 11,09,00,000**	**₹ 11,09,00,000**	**₹ 48,60,000**
Net Cash Flow	**₹ 39,51,750**	**₹ 11,750**	**₹ 11,750**	**₹ 39,51,750**

Cash Flow during 2019				
Inflow	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Shobhit's Salary	₹ 77,76,000	₹ 77,76,000	₹ 77,76,000	₹ 77,76,000
Alka's Salary	₹ 0	₹ 32,40,000	₹ 32,40,000	₹ 0
Bonus - Post Tax	₹ 17,40,690	₹ 17,40,690	₹ 17,40,690	₹ 17,40,690
Total Inflow	**₹ 95,16,690**	**₹ 1,27,56,690**	**₹ 1,27,56,690**	**₹ 95,16,690**
Outflow				
Expenses	₹ 52,80,800	₹ 53,24,000	₹ 53,24,000	₹ 52,80,800
Home Loan EMI	₹ 0	₹ 44,63,485	₹ 44,63,485	₹ 0
Total Outflow	**₹ 52,80,800**	**₹ 97,87,485**	**₹ 97,87,485**	**₹ 52,80,800**
Net Cash Flow	**₹ 42,35,890**	**₹ 29,69,205**	**₹ 29,69,205**	**₹ 42,35,890**

Expenses include Household, School, Travel & Insurance cost. School fees has been inflated @ 10%, while other outflows have been inflated @ 8%.

Cash Flow during 2021 (Shobhit joins a new company at 50% of current Salary in Scenarios 3 & 4 when he is 46 years old)				
Inflow	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Shobhit's Salary with Bonus	₹ 1,11,00,110	₹ 1,11,00,110	₹ 59,94,059	₹ 59,94,059
Alka's Salary	₹ 0	₹ 37,79,136	₹ 89,00,000	₹ 36,50,000
Total Inflow	**₹ 1,11,00,110**	**₹ 1,48,79,246**	**₹ 1,48,94,059**	**₹ 96,44,059**
Outflow				
Expenses	₹ 62,36,261	₹ 62,86,650	₹ 62,86,650	₹ 62,36,261
Home Loan EMI	₹ 0	₹ 44,63,485	₹ 44,63,485	₹ 0
Total Outflow	**₹ 62,36,261**	**₹ 1,07,50,134**	**₹ 1,07,50,134**	**₹ 62,36,261**
Net Cash Flow	**₹ 48,63,849**	**₹ 41,29,111**	**₹ 41,43,925**	**₹ 34,07,798**

Expenses include Household, School, Travel & Insurance cost. School fees has been inflated @ 10%, while other outflows have been inflated @ 8%.

Financial Goals

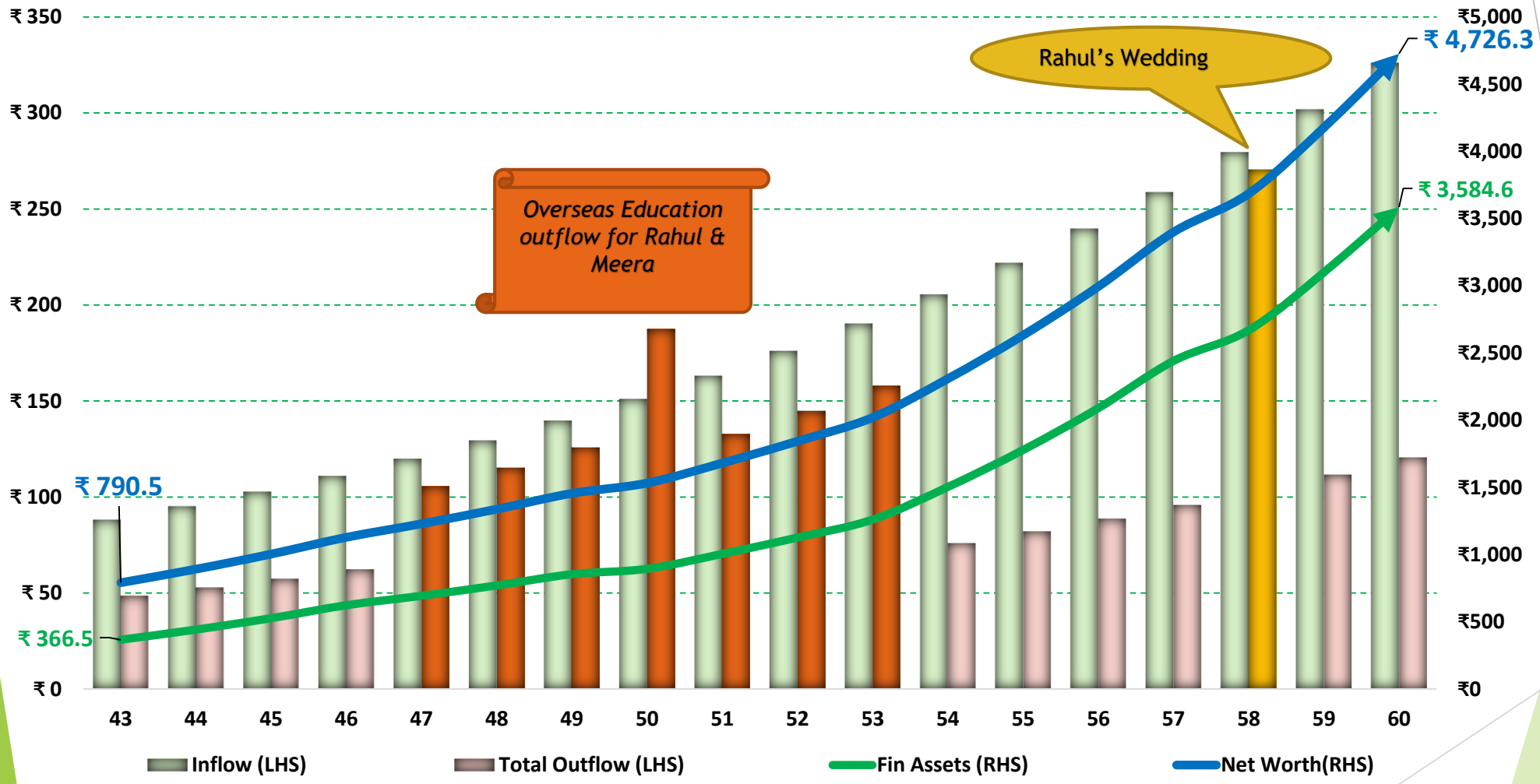
Sl.No	Financial Goals	Year of Goal	No of Years to Goal	Financial Goal at Today's Value	Future Value of the Goal @ 10%
1	Education for Rahul	2022	4	₹ 1,35,00,000	₹ 2,29,32,747
2	Education for Meera	2025	7	₹ 1,35,00,000	₹ 3,05,23,487
3	Wedding For Rahul	2033	15	₹ 40,00,000	₹ 1,67,08,993
4	Wedding For Meera	2036	18	₹ 40,00,000	₹ 2,22,39,669
	Total			**₹ 3,50,00,000**	**₹ 9,24,04,896**

Scenario 1

- Shobhit continues to work with the current employer upto the age of 60.
- Shobhit's income is being deployed for all the Household expenses, Goals and the Retirement kitty.
- Alka earns and spends all her earnings on her *Lifestyle and dreams*.
- The family *doesn't go for the new apartment* considering their near term outflow towards Rahul & Meera's *overseas Education, Wedding* and Retirement kitty.
- Provisioned for their *Wedding* at the age of 28.
- The plan looks feasible upto the age of 85.

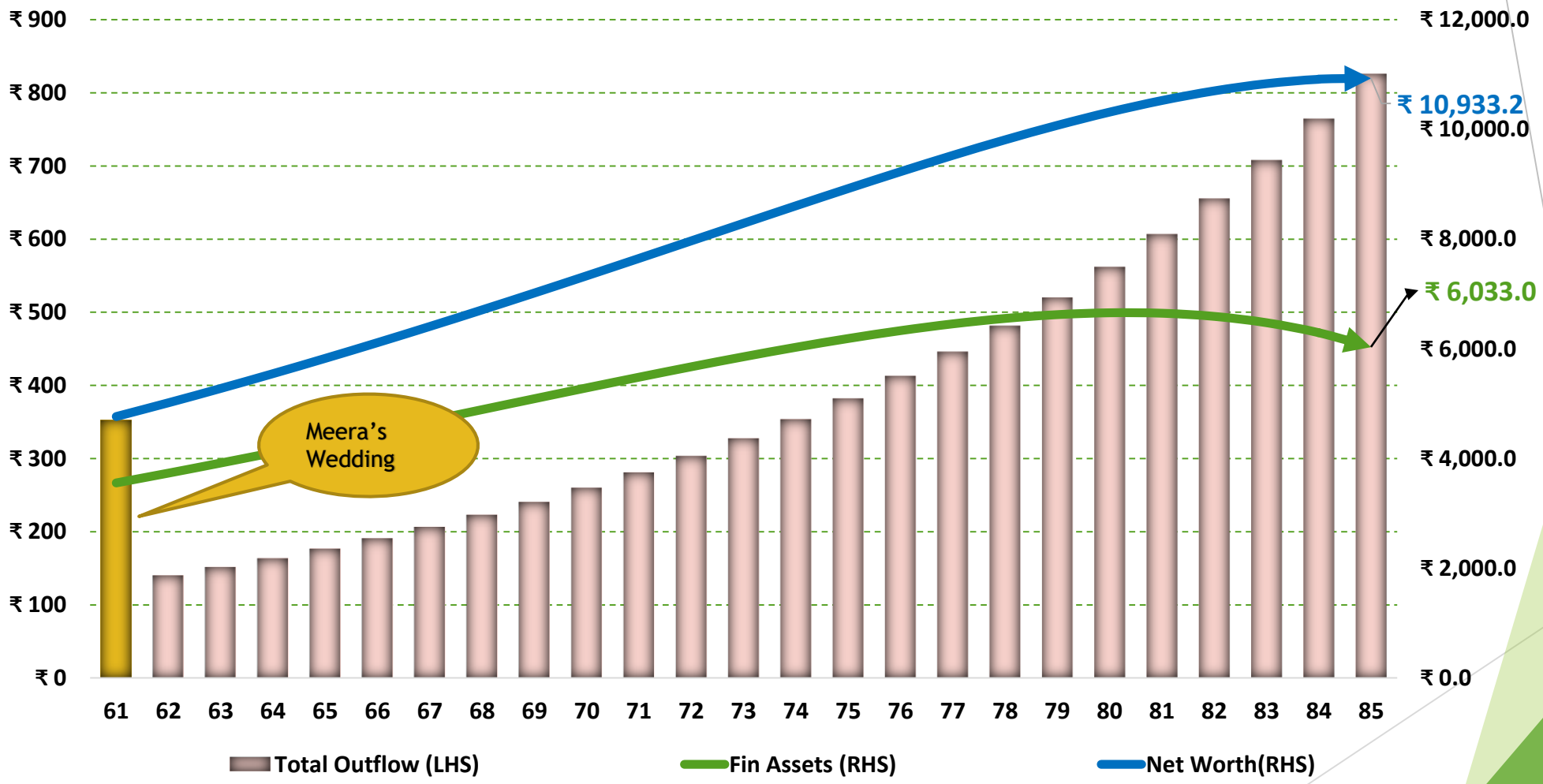
Scenario 1 - Cash Flow till Retirement

No new Apartment, No income from Alka, Shobhit retires at 60



Left Axis reflects income and outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.
All figures are in INR Lakhs.

Cash Flow Post Retirement



Left Axis reflects outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.

All figures are in INR Lakhs.

Scenario - 2

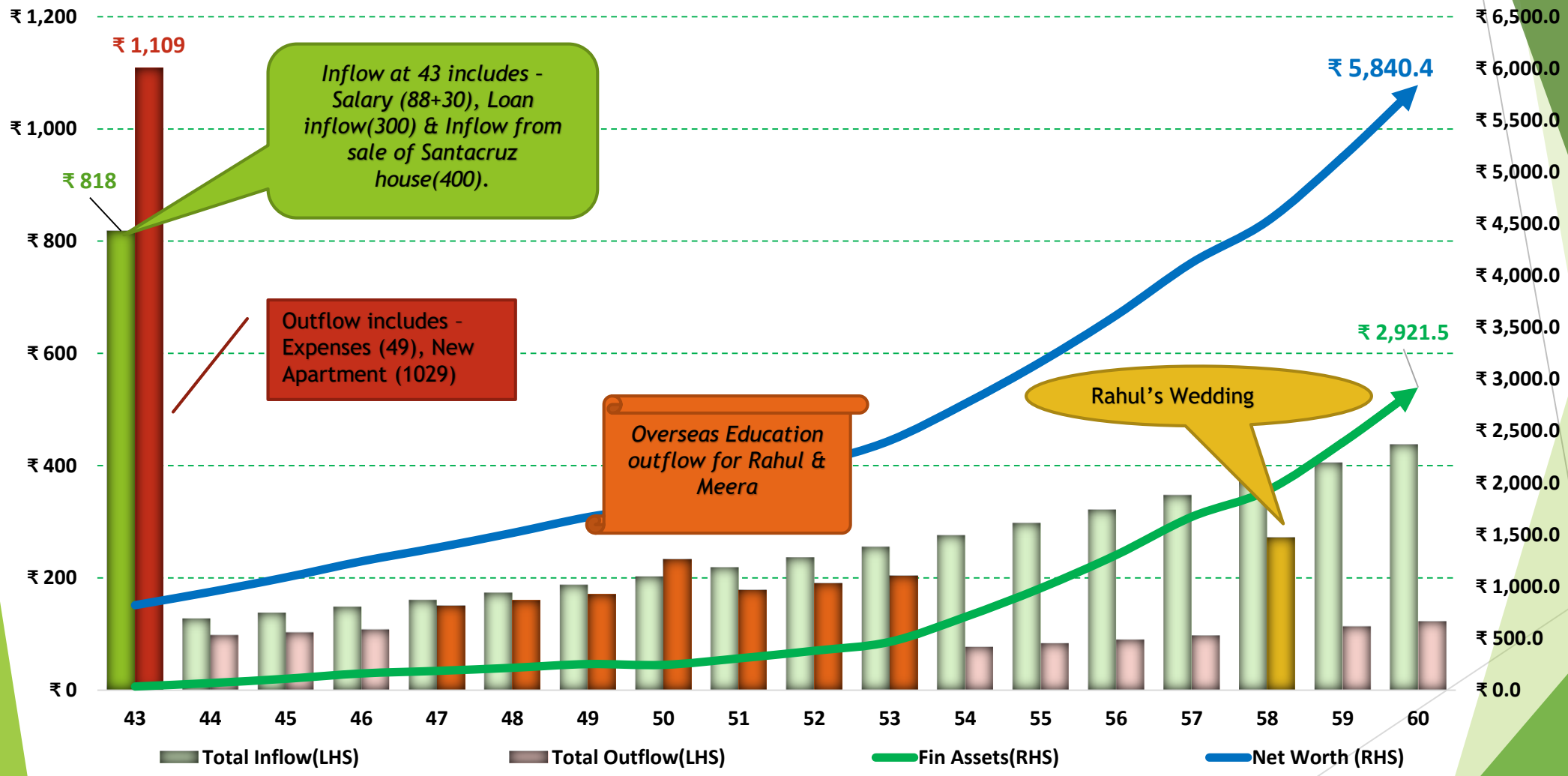
- Shobhit bows down to Alka's dream home and they spend Rs. 10.60 Cr., with ***Stamp Duty & Registration cost*** *of 6% on the New Apartment*.
- They *fund the New Apartment* through Loan, current house sale, current year surplus and balance through current portfolio of Balanced & Equity Funds.
- They go for *loan of Rs. 3 Cr.* at the cost of 8.5% for 10 years.
- Loan has been reduced linearly over 10 year period with Principal reduction factor of 67%.
- Shobhit & Alka go for the new house at the end of 2018 and the EMI starts 2019 onwards.
- They sell off the current Santacruz three BHK apartment at 4Cr., and reinvest the proceeds in new apartment – ***avoiding Capital Gain Tax.***
- Alka is required to earn *30L* upto the age of 60 in order to go for new apartment, assuming Shobhit's existing income.
- Shobhit continues to work with the current employer till the age of 60.
- Provisioned for *overseas higher education* for Rahul & Meera.
- Provisioned for their *Wedding* at the age of 28.
- The plan looks feasible upto the age of 85.

Liquidity Planning for the New Apartment

Parameters	Total Available	House Funding
Loan	₹ 0	₹ 3,00,00,000
Equity & Balanced MF Portfolio	₹ 3,00,00,000	₹ 2,91,00,000
Existing House	₹ 4,00,00,000	₹ 4,00,00,000
Current years surplus, post expenses		₹ 69,00,000
Value of New House	**₹ 7,00,00,000**	**₹ 10,60,00,000**

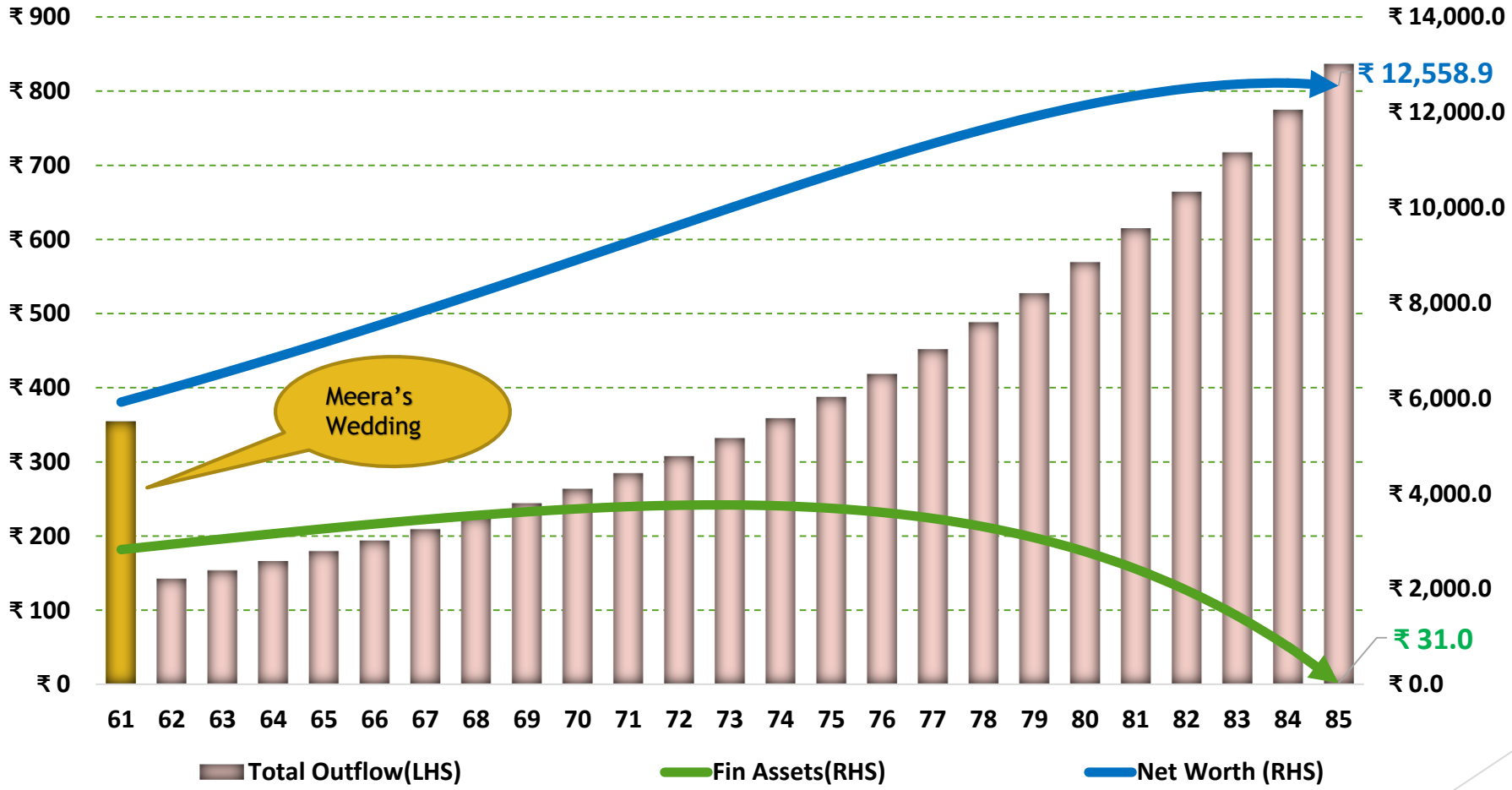
Scenario 2 - Cash Flow till Retirement

New Apartment, Sells current house, Home Loan, Alka earns



Left Axis reflects income and outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.
All figures are in INR Lakhs.

Cash Flow Post Retirement



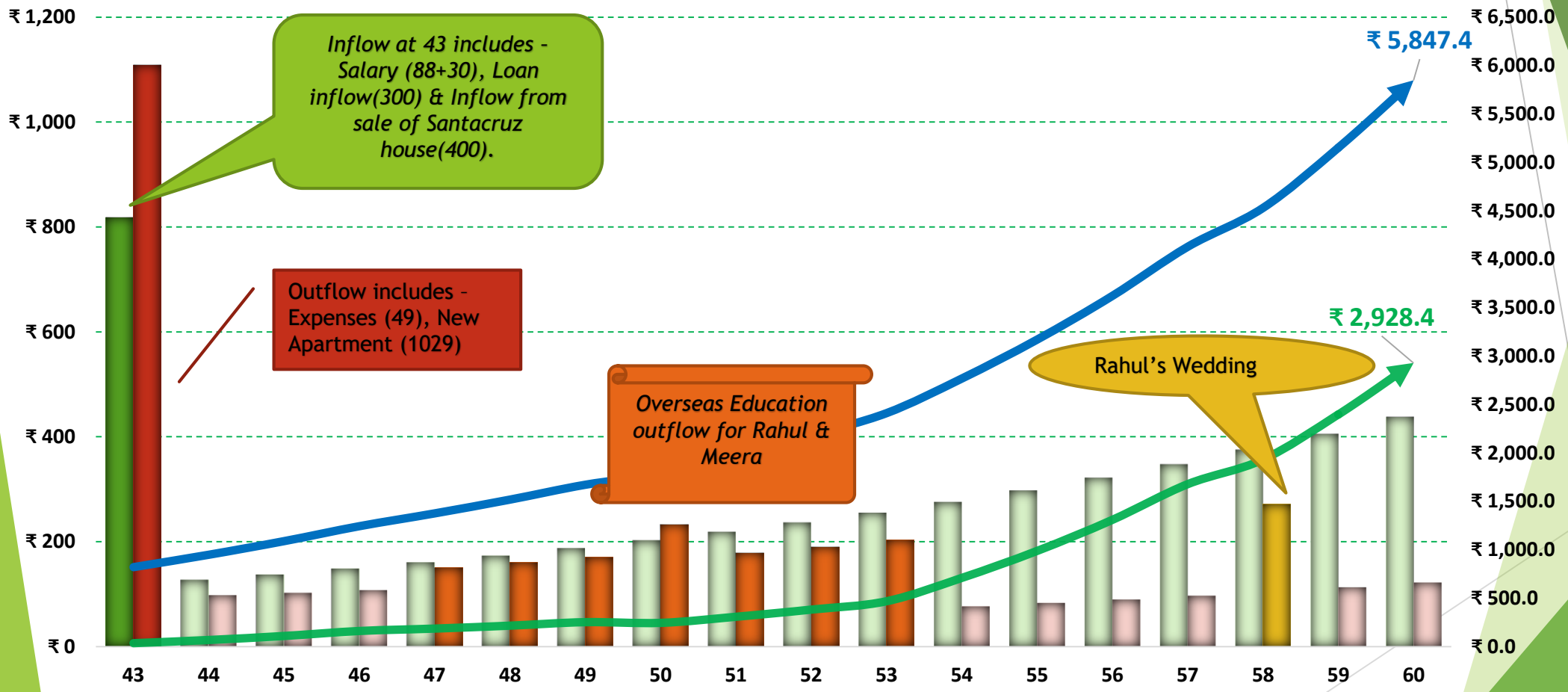
Left Axis reflects outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.
All figures are in INR Lakhs.

Scenario – 3

- In continuation to scenario 2, Shobhit's view of *high uncertainty in his profession* turns out to be true. His company downsizes and he *joins a new company* at *50%* of his current total salary at the age of 46.
- With the huge EMI to service and Shobhit's income falling down to 50%, Alka at this juncture, will have to start earning *89L* annually upto the age of 60 in order to make the plan feasible.
- The earnings requirement for Alka is the range of 21-108L but it is still Risky because of the variability in the past.
- Rahul and Meera's overseas education and wedding goals remain the same.
- With the above considerations, the cash flow looks feasible upto the age of 85.

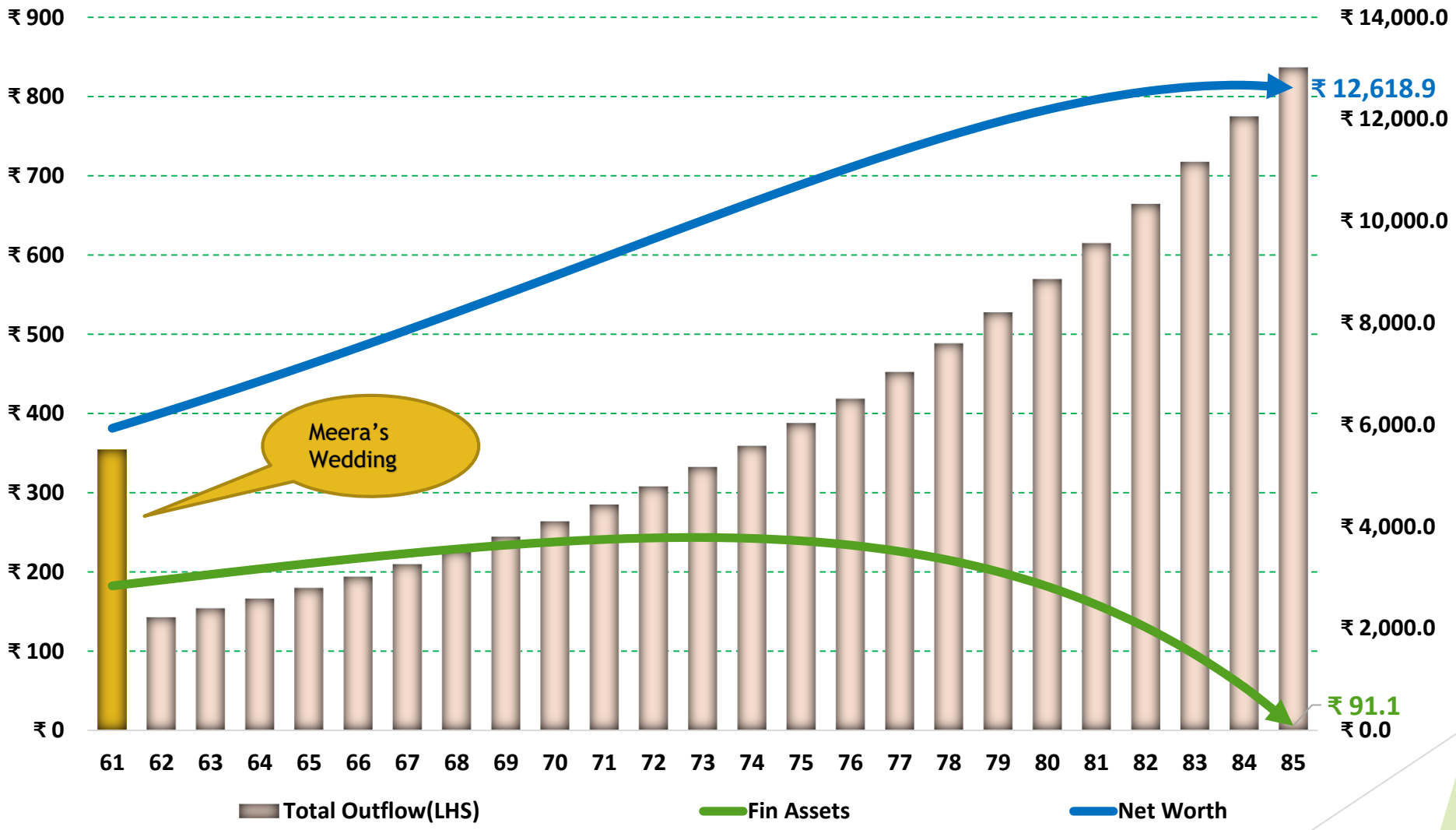
Scenario 3 - Cash Flow till Retirement

Shobhit looses his job at 45 & joins a new company at 50% of current salary, Alka starts to contribute 89L



Left Axis reflects income and outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.
All figures are in INR Lakhs.

Cash Flow Post Retirement



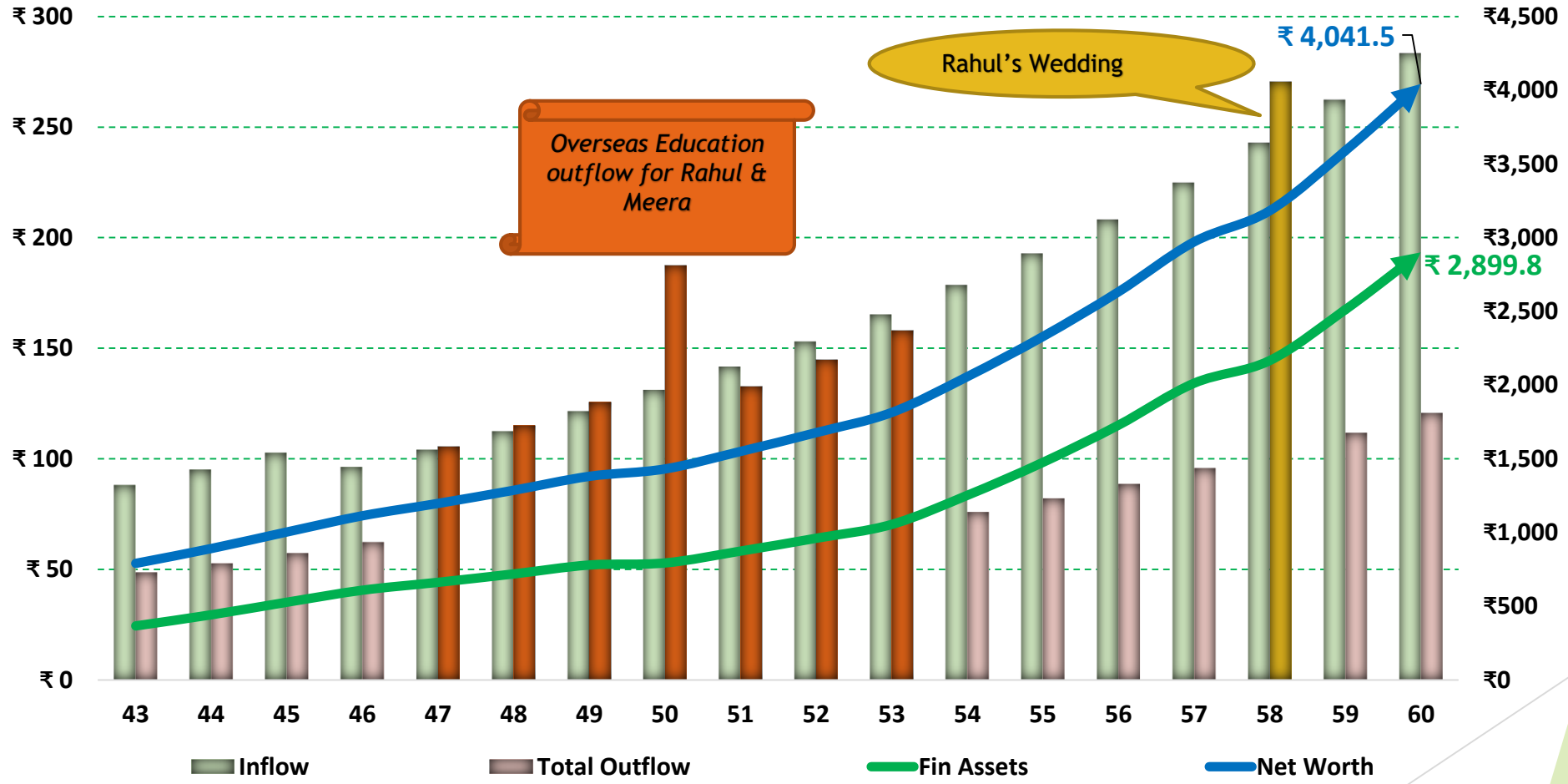
Left Axis reflects outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.
All figures are in INR Lakhs.

Scenario – 4

- Alka and Shobhit decide buying a new apartment is TOO RISKY because the variability of Alka's earnings and employment risk for Shobhit.
- Shobhit's company downsizes and he joins a new company at 50% of the current salary at the age of 46.
- With this sudden dip in their family income to 50%, Alka has to contribute at least *36.5 L* annually for the next 15 years in order to meet all the outflows towards expenses and Goals along with building the Retirement Corpus.
- Rahul and Meera's overseas education and wedding goals remain the same.
- With the above considerations, the cash flow looks feasible upto the age of 85.

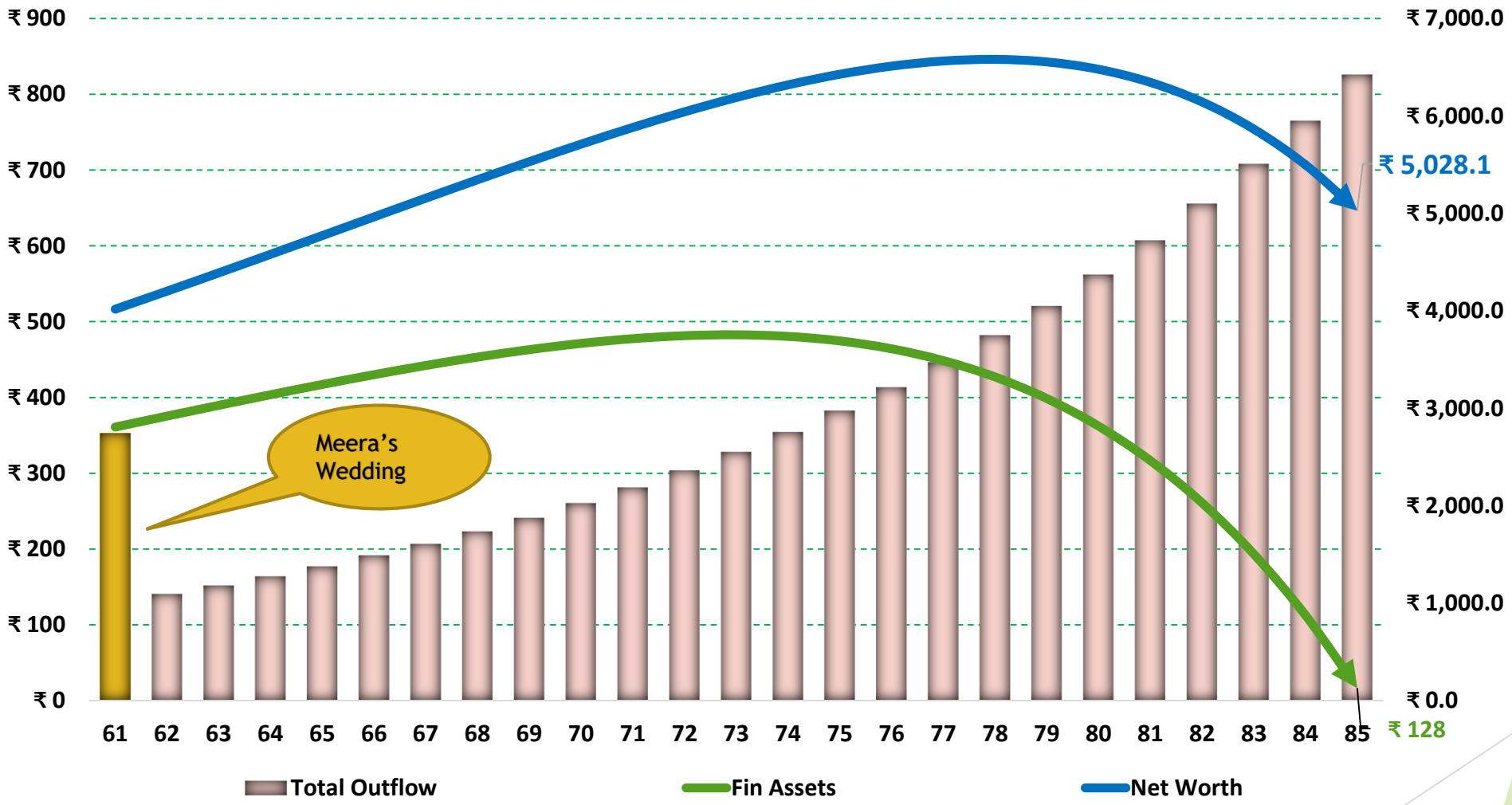
Scenario 4 - Cash Flow till Retirement

Shobhit looses his job at 45 & joins a new company at 50% of current salary, No New Apartment, Alka starts to contribute 38L



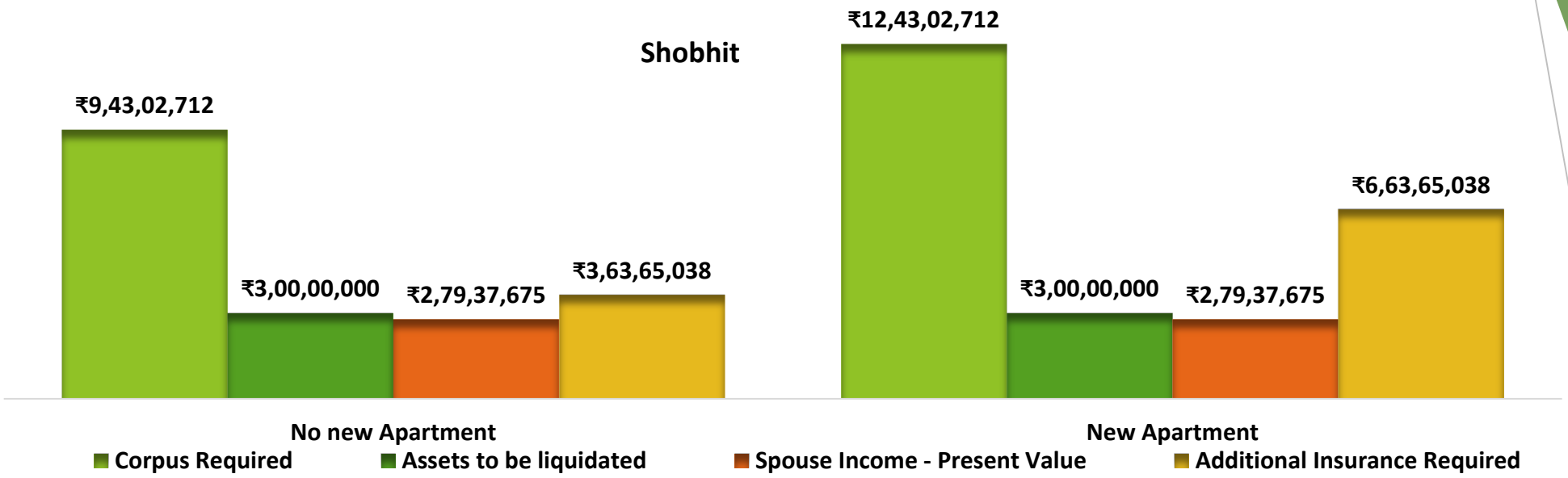
Left Axis reflects income and outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.
All figures are in INR Lakhs.

Cash Flow Post Retirement



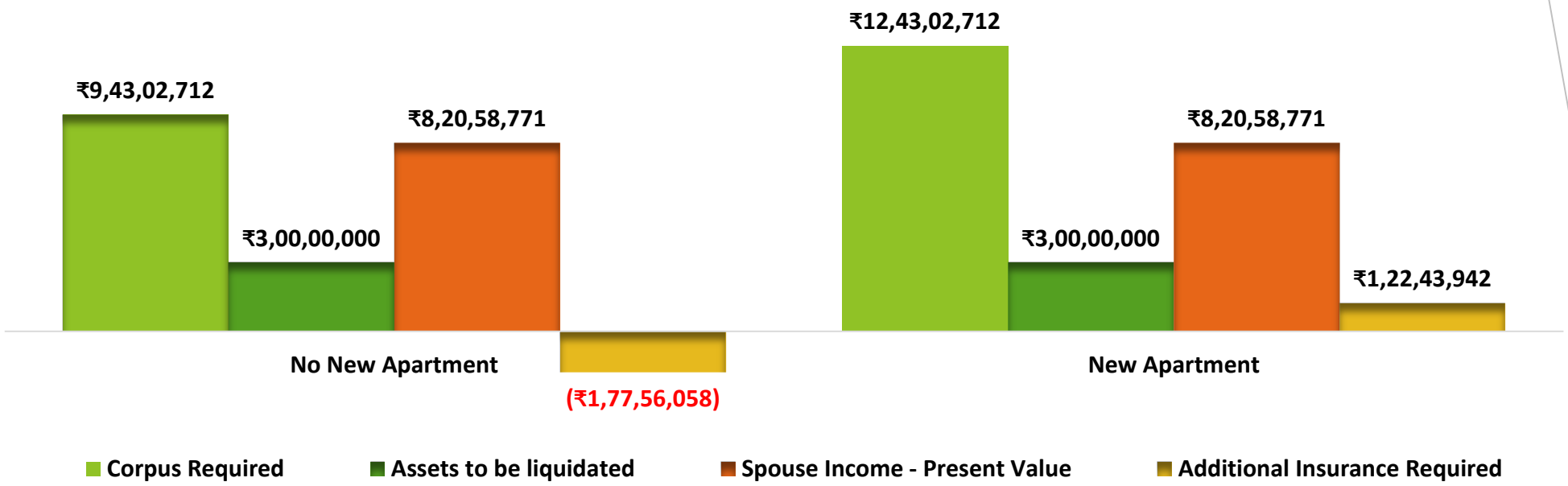
Left Axis reflects outflow in the form of bar graph, while right axis reflects total Financial Assets & Net worth in the form of line graph.
All figures are in INR Lakhs.

Insurance Analysis – *LIFE is Precious than Car!!!*



- Considering the current corpus required, versus the available assets, Shobhit requires a life cover of around Rs. 3.6 Crores in case they do not go for the new apartment.
- If they go for the new apartment, Life cover of Rs. 7.3Cr. is required for Shobhit.
- Required Corpus includes the Education cost for Rahul & Meera(including school fees) and regular expense for the household upto the age of 85.
- Resources include the current assets excluding principle residence, Alka's income of Rs. 30L annually upto the age of 60.
- Assumed no existing insurance cover.
- Annual Premium assuming no specific health conditions and current age would cost around 35-70K for a life cover of Rs. 3 Cr. – 7 Cr.

Insurance Analysis - Alka

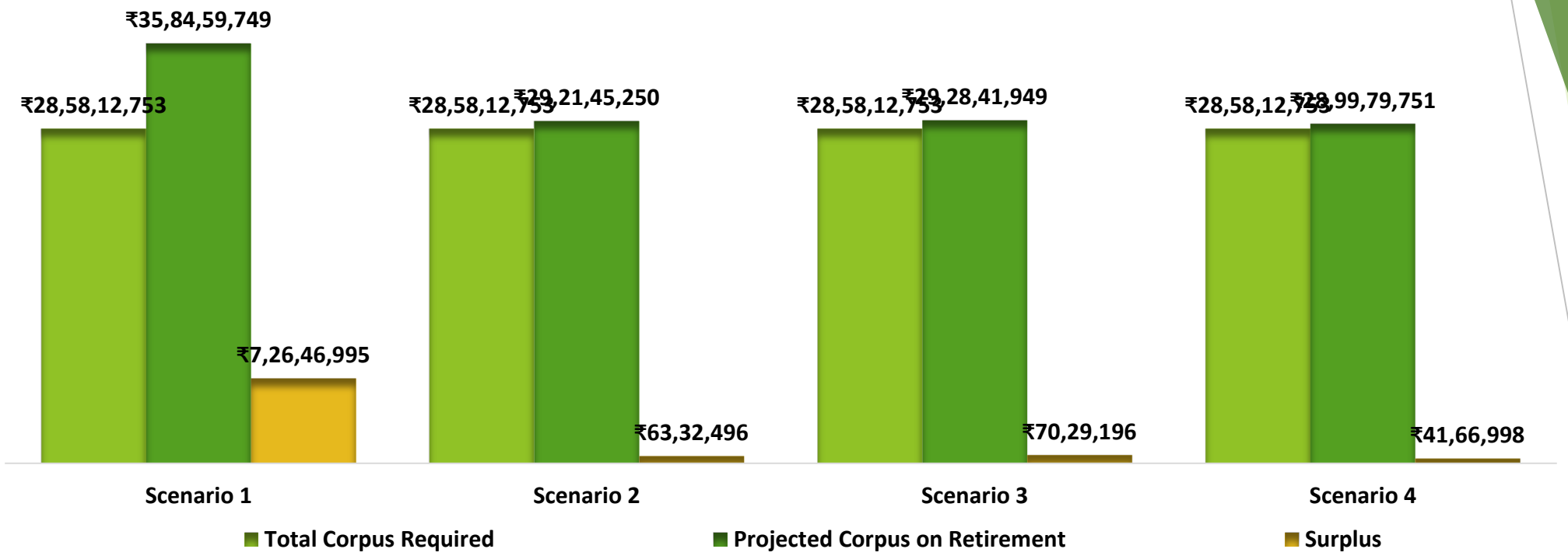


- Considering the current corpus required, versus the available assets, Alka requires a life cover of around Rs. 1.95 Crores in case they go for the new apartment.
- If they do not go for the new apartment, Alka doesn't need any insurance in that case.
- Required Corpus includes the Education cost for Rahul & Meera (including school fees) and regular expense for the household upto the age of 85.
- Resources include the current assets excluding principle residence, Shobhit's current income upto the age of 60.
- Assumed no existing insurance cover.
- Annual Premium assuming no specific health conditions and current age would cost around 15-20K for life cover of Rs. 1.5 Cr.

Health Insurance

- It is advisable to have a standalone policy apart from the company cover. When changing job or in transition or being unemployed, the risk cover is available.
- When a policy is taken beyond the age of 50, the premiums are generally higher.
- Shobhit & Alka should take an immediate 8 L Family Floater health cover, covering all the four family members.
- Annual Premium assuming no specific health conditions and current age would cost them around 20K.

Retirement Planning



Total Corpus required has been calculated assuming current Annual Household & Travel cost of Rs. 32L which has been inflated @ 8%. This also includes post retirement wedding goal for Meera.

Projected Corpus is the total asset value in the year of retirement. This includes the existing corpus and the fresh investments as per free surplus available every year that grows @ 9%.

Asset Allocation

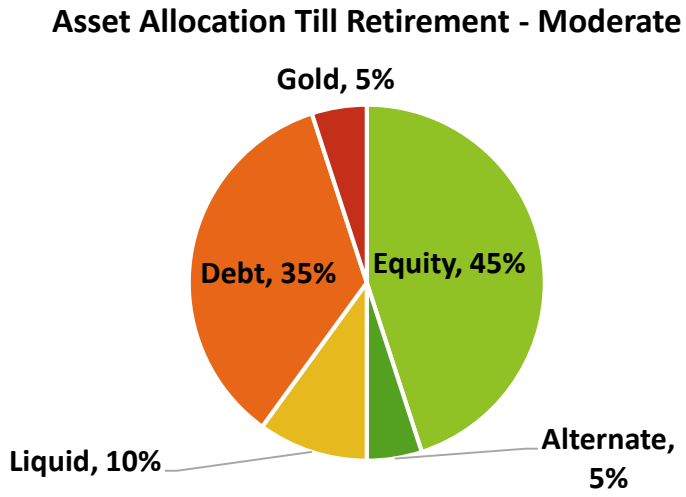
Asset Allocation	Upto Retirement	Post Retirement
Risk Profile	Moderate	Moderately Conservative

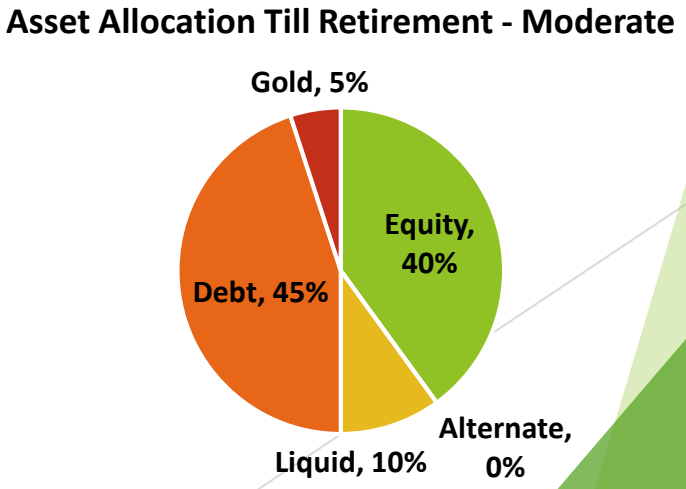
Asset Allocation till Retirement

	Risky Asset Category		Defensive Asset Category			Total
Asset Category	Equity	Alternate	Liquid	Debt	Gold	
Allocation (%)	45%	5%	10%	35%	5%	100%
Expected Return	12%	12%	6%	8%	7%	9.75%

Asset Allocation post Retirement

	Risky Asset Category		Defensive Asset Category			Total
Asset Category	Equity	Alternate	Liquid	Debt	Gold	
Allocation (%)	40%	0%	10%	45%	5%	100%
Expected Return	12%	12%	6%	8%	7%	9.35%





Estate Plan

- The family should create an Estate Plan
- Typical options for the Estate Plan are
  - WILL
  - TRUST
- Alka and Shobhit should create a WILL after discussions amongst them.
- We can provide them with a template that will be helpful to create a WILL.

Thank You

WISE advice

a joint initiative between HDFC MF and Wealth Forum





Neeti Sethi

Acumoney, Bangalore

HDFC MUTUAL FUND BHAROSA APNO KA | WealthForum TV









ALKA AND SHOBHIT

PERSONAL FINANCIAL PLAN

MOST IMPORTANT DOCUMENT

PLAN DATE

JULY 2018

INSIDE

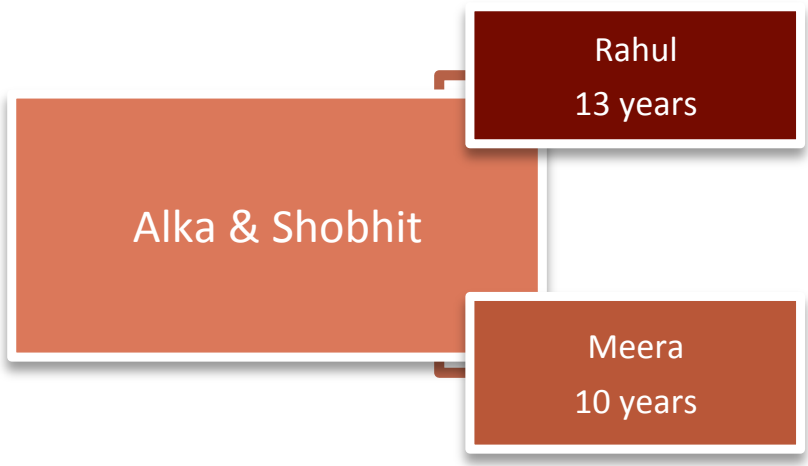
SNAPSHOT	3
OUR APPROACH	8
SCENARIO ANALYSIS – CASH FLOWS & GOALS PLANNING	11
THE DECISION	28
ANNEXURES	32
DISCLAIMER	37



SNAPSHOT

“Take pride in how far you have come. Have faith in how far you can go”

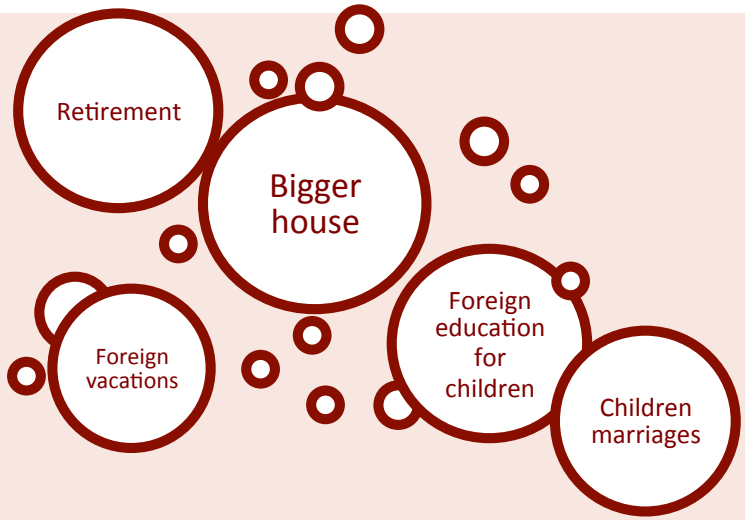
Family



Assets

- Property
- Equity Mutual Funds
- Balanced Mutual Funds

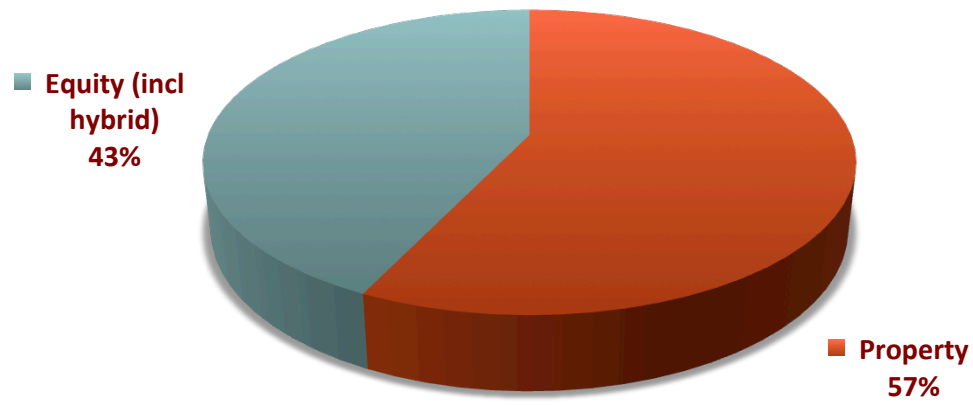
Needs & Aspirations



Accomplishments

- ✓ High net worth
- ✓ Ownership of property
- ✓ No liabilities
- ✓ High savings rate
- ✓ High standard of living

Total Assets

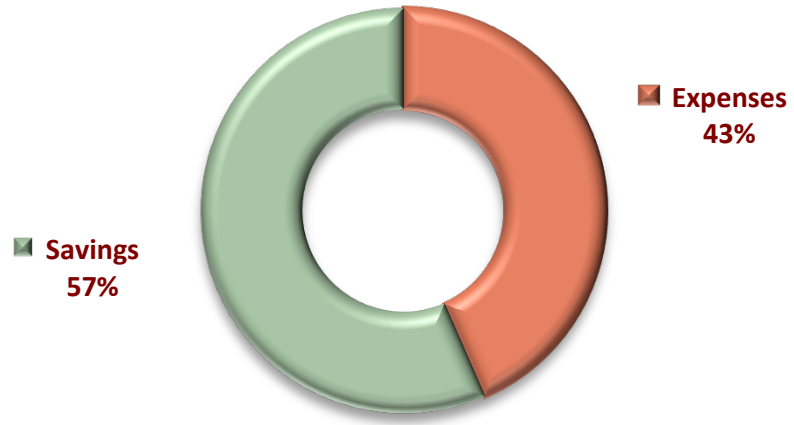


Total Assets (A)	Rs 7 crores	Total Income (I)	Rs 110.50 lacs
Total Liabilities (L)	Nil	Total Expenses (E)	Rs 48 lacs
Networth (A-L)	Rs 7 crores	Savings (I-E)	Rs 62.50 lacs

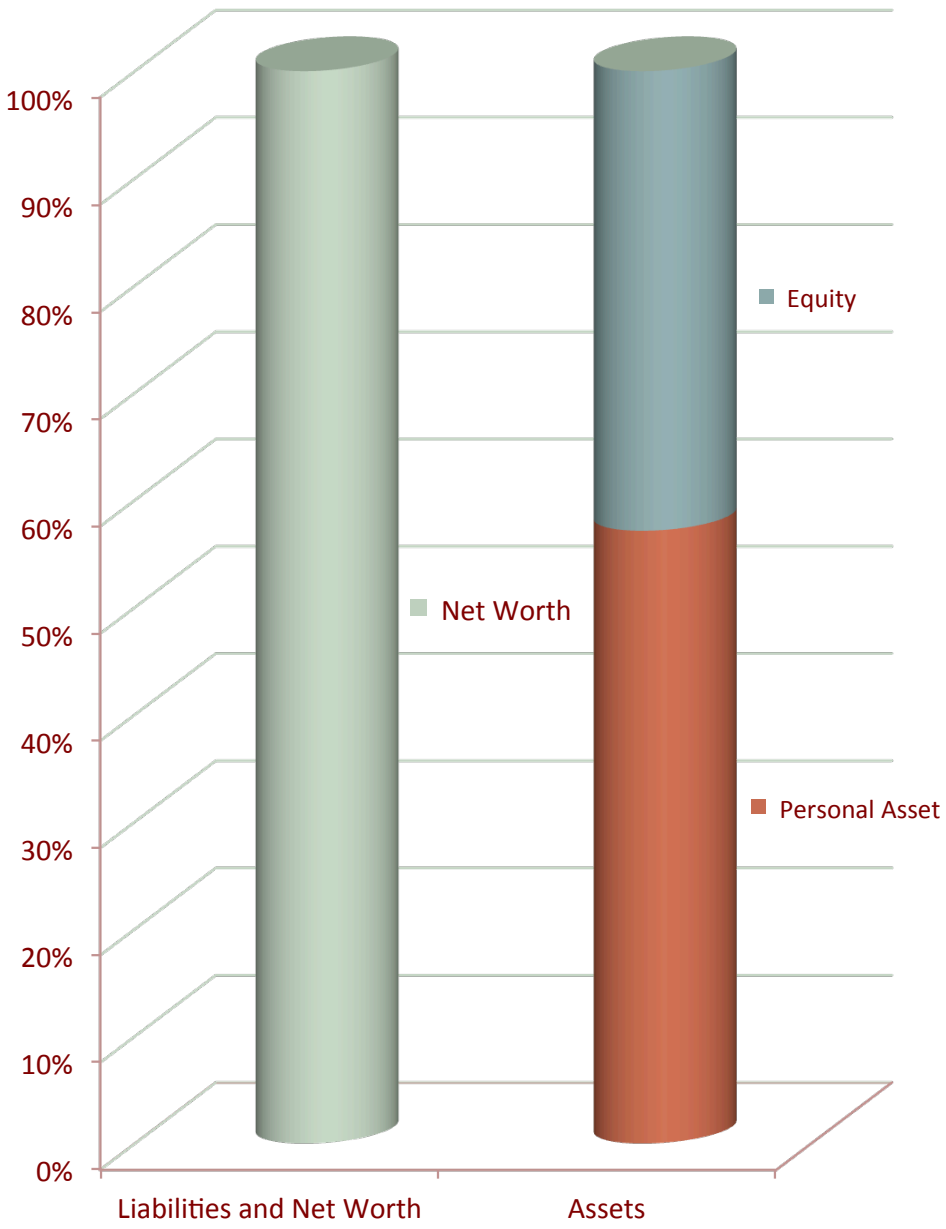
Way Forward

- ✓ Decision on new house
- ✓ Planning for higher education of children
- ✓ Planning for children marriages
- ✓ Retirement Planning
- ✓ Diversify financial portfolio
- ✓ Build an investment bucket for future needs and goals in line with your risk profile

Total Income



Balance Sheet



Balance Sheet

Liabilities	Current Value (Rs)	Assets	Current Value (Rs)
Long Term Liabilities	**Nil**	**Personal Assets**	**4,00,00,000**
		Self occupied property	***4,00,00,000***
Short Term Liabilities	**Nil**	**Investment Assets**	**3,00,00,000**
		Equity	**3,00,00,000**
		Mutual Funds (incl. hybrid)	***3,00,00,000***
Total Liabilities (B)	**0**	**Total Assets (B)**	**7,00,00,000**
Net Worth (A-B)	**7,00,00,000**		

Where you want to be – Life Goals

Goal	When required (w.r.t Shobhit's age)	Inflation %	Cost of goal today (Rs)
Short Term Goals (upto 5 years)			
Purchase of house	Age 43	NA	10 crores
Medium Term Goals (5 to 10 years)			
Rahul's foreign education	Age 48 to 51	10%	40 lacs per year for 4 years
Meera's foreign education	Age 51 to 54	10%	40 lacs per year for 4 years
Long Term goals (more than 10 years away)			
Rahul's marriage	Age 56	7%	50 lacs
Meera's marriage	Age 59	7%	50 lacs
Retirement Expenses	Maximum 58	7%	Maintain standard of living
Continuous Goals			
Foreign vacation	Every year	7%	8 lacs per trip



OUR APPROACH

"Stay committed to your decisions, but stay flexible in your approach"

Our Understanding of Your Concern

Premise for Finanical Planning – Decision to buy a property

- Buying a property is always a tough decision for any family. The act of balancing the aspirations with the financial realities is often not simple.
- In your specific case, while Alka and children are in favour of buying the new property worth Rs 10 crores, Shobhit is concerned about the EMI burden as well as liquidating almost everything saved till date to invest in this one asset, which is going to be a personal one. There is also a concern about having enough money to fund the foreign education of children.
- Both Alka and Shobhit have their valid reasons for their respective points of view.

As your advisors, our intention is not to provide a Yes/No answer to the decision at hand based on any subjectivity or our own perspective about the situation. We do understand that this is an important decision for you as a family and our attempt here is to provide you with necessary scenarios and data to enable to you to make a sound decision yourselves.

Accordingly, we have devised 3 scenarios for your case. The objective of creating these 3 scenarios is to enable you to understand the outcome of the decision you finally choose the take and its impact on your financial future. Our objective is to equip you with the right information and analysis, so that the decision making becomes easy for you. We have no preference for any of the scenarios but as your advisors, we will be happy to sit across the table and discuss the pros and cons of each scenario.

Here are the scenarios we have depicted in the plan

Scenario 1 – As Is, No change – This scenario depicts your future cash flows and goals if you continue to live in the same house and do not plan to buy another house. This scenario depicts the status quo. *(Possibly preferred by Shobhit)*

Scenario 2 – Buy the Bandra property – This scenario assumes that you will buy the property worth Rs 10 crores. It would cover the options for funding the purchase and also the impact of this decision on retirement etc. *(Preferred by Alka)*

Scenario 3 – Rent the Bandra property – This scenario assumes that you will rent the bigger house instead of buying it and in turn give on rent your current house. We have added this scenario to give you a perspective on this option which you have so far, not been considering.

CONFIDENTIAL

Our approach to financial planning

We are using the Life cash flows approach to Financial Planning. Given below are the main tenets of this approach to planning.

- Most of life's goals can be met from **income surpluses** generated by the household as well as the **investment portfolio** built over a period of time.

- Our approach to plan for the life's goals is based on the above. Your income surpluses generated every month or every year are used to create a portfolio of investments in line with your risk profile. This portfolio would grow at the portfolio rate of return (assumed) and savings generated would be added to the portfolio in the desired asset allocation mix (different types of investments) until retirement.

- To put in simple words, let us say that your current wealth is sitting in a bucket. Over your working years, you keep adding to the bucket through your savings. Whenever, there is a goal, you pull out money from the bucket. The bucket remains invested at a certain rate of return based on your risk profile. The objective of planning is to ensure that the bucket has enough money when you need it and that the bucket does not become empty during your lifetime.

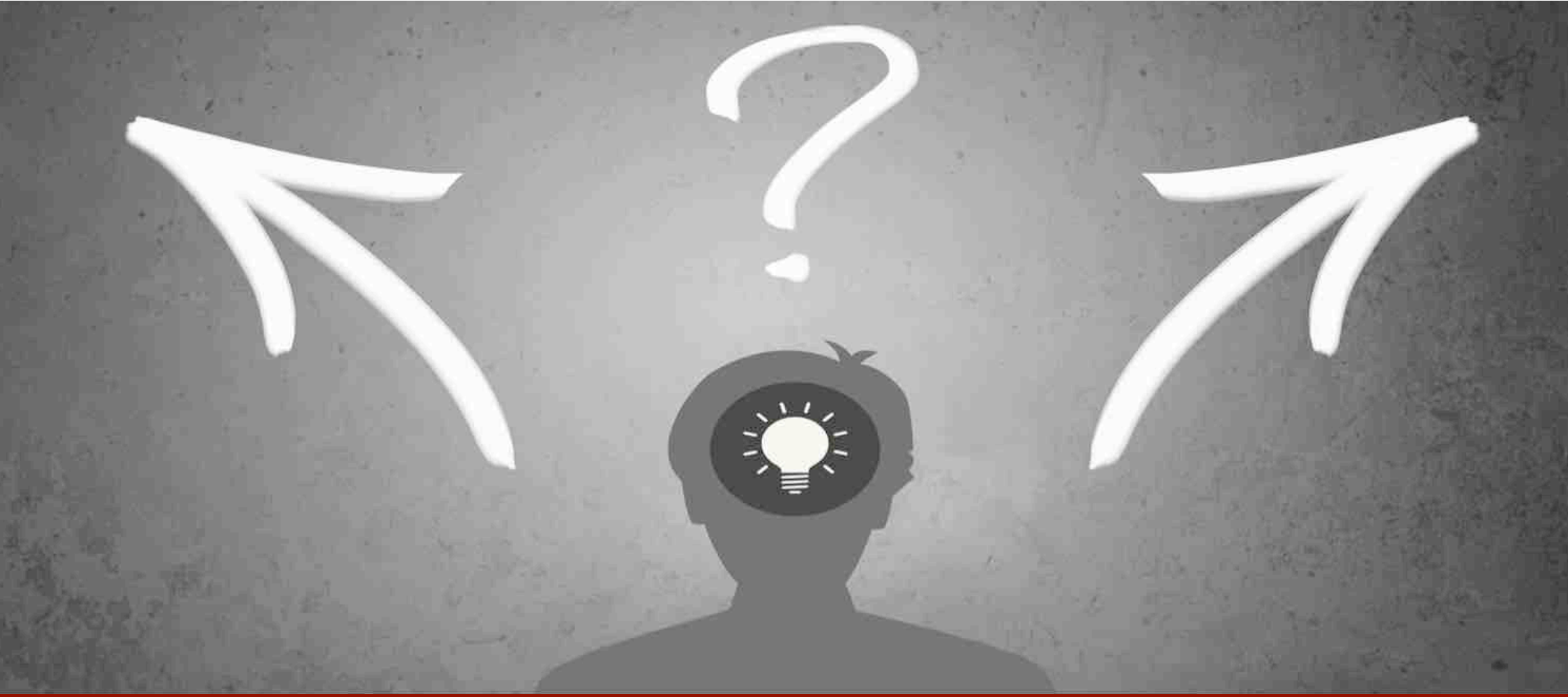
- Note that the portfolio does not include your real estate and retirement benefits. These are added to the portfolio as and when they are liquidated or they mature.

What this plan does not cover

We are not in a position to cover the following aspects of financial planning for lack of adequate information on the same

- Insurance Planning
- Detailed Investment Planning
- Tax Planning
- Estate Planning
- Impact of retirement benefits since retirement benefits are not indicated.

CONFIDENTIAL

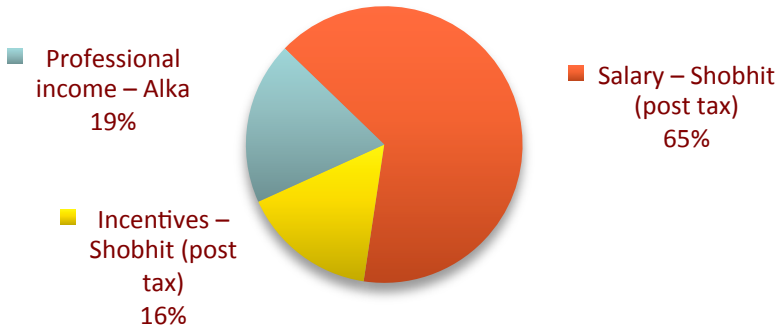


SCENARIO ANALYSIS – CASH FLOWS AND GOALS PLANNING

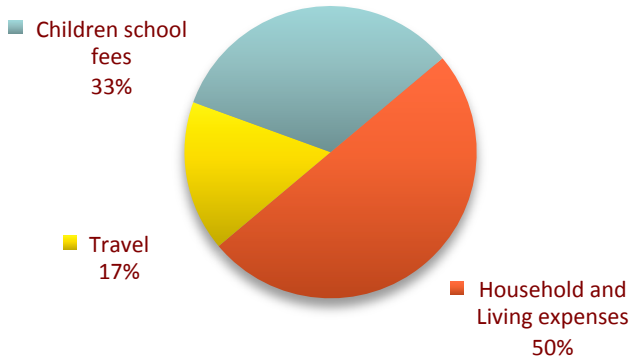
"Don't let money run your life, let money help you run your life better"

Current Income, Expenses and Savings

Where The Money Comes From



Where The Money Goes (As Is Basis)



Income and Expenses

Sources of income	Amount in Rs. (p.a.)
Salary – Shobhit (post tax)	72,00,000
Incentives – Shobhit (post tax)	17,50,000
Professional income – Alka	21,00,000
Cash Inflow for the year	**1,10,50,000**

Heads of expenses	Amount in Rs. (p.a.)
Household and Living expenses	24,00,000
Travel	8,00,000
Children school fees	16,00,000
Current Cash Outflow	**48,00,000**
Savings	**62,50,000**

Comments

- ✓ Currently, your expenses are 43% of your potential income; this is a very good level because it indicates that you have an opportunity to save 57% of your income. Here we have assumed that Alka will continue to draw a post tax income of at least Rs 21 lacs.
- ✓ The major heads of expenses are your household and living expenses, followed by children education and travel.
- ✓ Overall you have a very healthy cashflows situation currently and if Alka can increase her income, it would further solidify your sound financial footing.

Scenario 1

Status quo – No purchase of new house

Main Assumptions in Scenario 1

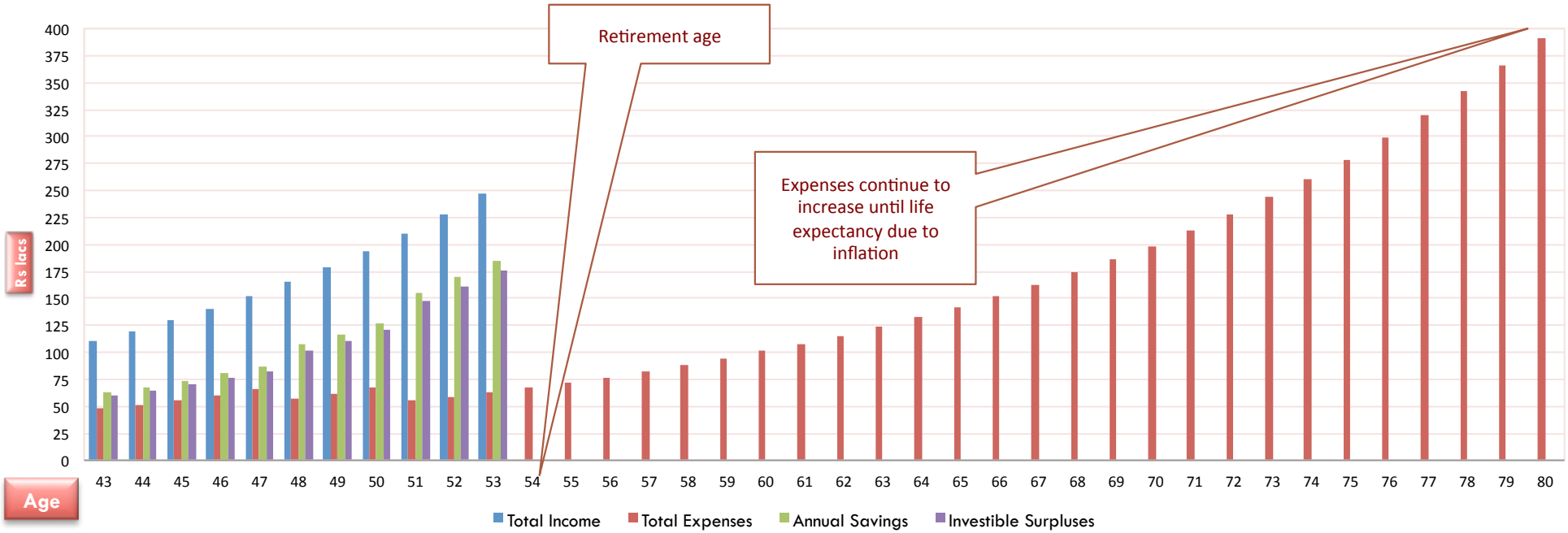
- This scenario assumes that you will not buy the new property and continue to live in the existing property for rest of your life.
- Life expectancy of both Alka and Shobhit is assumed to be 80 years.
- The expenses relating to household and travel are inflated at 7% throughout your life. Children schooling expenses are inflated at 10% p.a. until their 12th standard. Expenses are continued at the same level post retirement, adjusted for inflation.
- Shobhit's salary is expected to increase by 8% p.a. until his retirement age and Alka's income is expected to go up by 10% every year.
- The foreign education and marriage expenses for both the children are assumed at the given levels
    - 4 years higher education from age 18 to 21 – Rs 40 lacs p.a. for 4 years (Rs 1.6 crores)
    - Marriage expenses at age 26 – 50 lacs per child.
- Given that you are a moderately aggressive investor, we have assumed the investment portfolio to earn a certain rate of return during the pre-retirement and post retirement period.
- **Since we have no information on your insurances and retirement benefits, they have been excluded in the plan. If you provide us this data, we can incorporate the same in the plan.**

Objective of this scenario

Given your goals, to determine the age at which you can become financially free (retire), if you choose not to go ahead with the new property purchase.

CONFIDENTIAL

Income, Expenses and Savings during your lifetime in Scenario 1



Planner's Comments

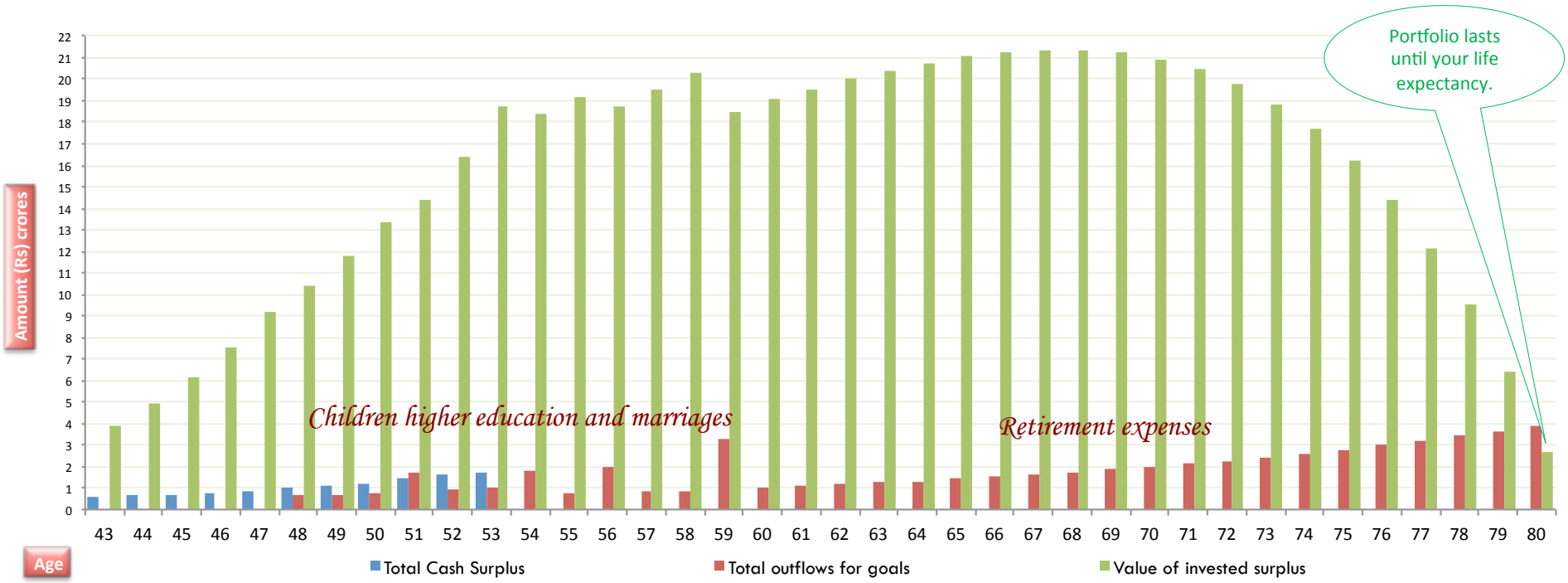
1. As per the assumptions in this scenario, it should be possible for both Alka and Shobhit to become financially free at the age of 54, which means that at this stage, they would have accumulated a large enough corpus to meet their goals and expenses.

2. We have continued the same standard of living throughout your life.

3. Of the savings generated every year (income – expenses), an amount of 95% of savings is taken as investible surplus for the year thereby providing 5% buffer towards unplanned expenses.

CONFIDENTIAL

Cash Flow for Goals Planning – Scenario 1



Planners Comments

- ✓ BLUE LINES indicate the inflows into the investment portfolio- savings during the working years added to the investment portfolio
- ✓ RED LINES indicate outflows from investment portfolio towards goals – Children higher education, marriages and retirement
- ✓ GREEN LINE denotes the value of investment portfolio (does not include real estate)

- ✓ In this scenario, you should be in a position to become financially free by age of 54.
- ✓ You would need a corpus of roughly about Rs 19 crores at age 54 to be able to meet the post retirement expenses as well as some of the goals for the children.
- ✓ The investment portfolio is expected to earn 10.30% until retirement and 8.8% thereafter throughout your life (refer annexure)
- ✓ As per this scenario, at life expectancy, you will have one house property to be passed on as estate.

Funding of Goals – *Where will the money come from? (Blue lines in the graph on Page 15)*

Year	Age	Funding by	Amount (Rs)	Remarks
2018- 2028	43-53	Savings from household income generated from salary and professional income	11.71 crores over 11 years	Income surpluses to be used to build the investment portfolio from which goals would be met.

Achievement of Goals – *How and when will I achieve my goals? (Red lines in the graph on Page 15)*

Year	Age	Goal	Current Cost of Goal (Rs)	Inflation %	Future cost of Goal (Rs)	Remarks
2023-2026	48-51	Rahul's higher education	40 lacs p.a. for 4 years	10%	2.98 crores over 4 years	It would be possible to meet Rahul and Meera's higher education goal partially from savings during those years as well as the investment portfolio
2026-2029	51-54	Meera's higher education	40 lacs p.a. for 4 years	10%	3.97 crores over 4 years	
2031	56	Rahul's marriage	50 lacs	7%	1.2 crores	There will be enough money in the investment portfolio to fund this goal.
2034	59	Meera's marriage	50 lacs	7%	2.3 crores	There will be enough money in the investment portfolio to fund this goal.
2029-2055	54-80	Retirement expenses	Current standard of living	7%	50.16 crores over 27 years	You would have enough money in the investment portfolio to meet your retirement expense as well as children goals occurring post retirement You will need about Rs 18 crores at age 54 to retire comfortably and take care of the goals occurring post retirement. *Note – We have ignored retirement benefits since it is not known to us*

Scenario 2

Purchase of Bandra property worth Rs 10 crores

Main Assumptions in Scenario 2

- This scenario assumes that you will buy the new property and sell the current house you are living in.
- The property purchase is expected to be funded as follows
    - Sale of current house – Rs 4 crores
    - Self funding from the portfolio – Rs 2 crores
    - Home loan - Rs 4 crores @ 9.5% for 15 years.
- In this scenario, Alka will need to step up her earnings. The range in which Alka's earnings have moved in the past is Rs 21 lacs to Rs 1.08 crores. We are assuming here that Alka should at least double her income to Rs 42 lacs p.a. This is necessary because it may not be entirely possible for Shobhit to increase his income substantially given that he is in a salaried role.

Common assumptions with Scenario 1

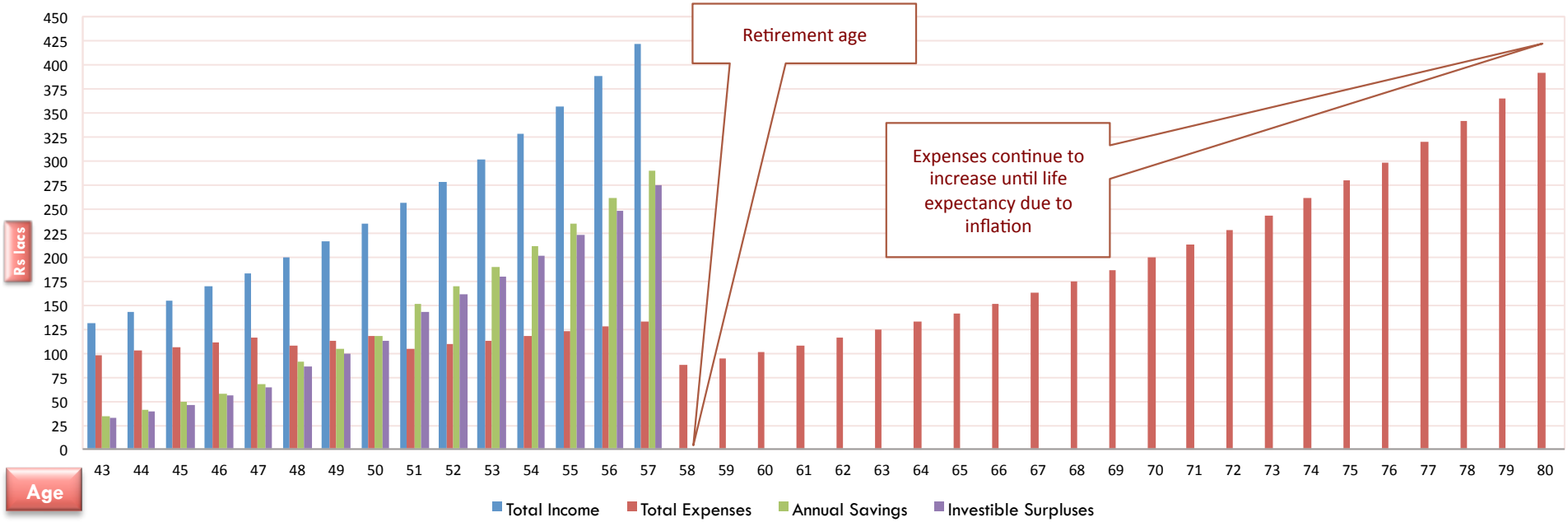
- Life expectancy of both Alka and Shobhit is assumed to be 80 years.
- The expenses relating to household and travel are inflated at 7% throughout your life. Children schooling expenses are inflated at 10% p.a. until their 12th standard. Expenses are continued at the same level post retirement, adjusted for inflation.
- Shobhit's salary is expected to increase by 8% p.a. until his retirement age.
- The foreign education and marriage expenses for both the children are assumed at the given levels
    - 4 years higher education from age 18 to 21 – Rs 40 lacs p.a. for 4 years (Rs 1.6 crores)
    - Marriage expenses at age 26 – 50 lacs per child.
- Given that you are a moderately aggressive investor, we have assumed the investment portfolio to earn a certain rate of return during the pre-retirement and post retirement period.
- **Since we have no information on your insurances and retirement benefits, they have been excluded in the plan. If you provide us this data, we can incorporate the same in the plan.**

Objective of this scenario

To assess the impact of purchase of new house on the retirement age and income levels.

CONFIDENTIAL

Income, Expenses and Savings during your lifetime in Scenario 2



Planner's Comments

1. As per the assumptions in this scenario, it should be possible for both Alka and Shobhit to retire at the age of 58 years, as against 54 years in Scenario 1.

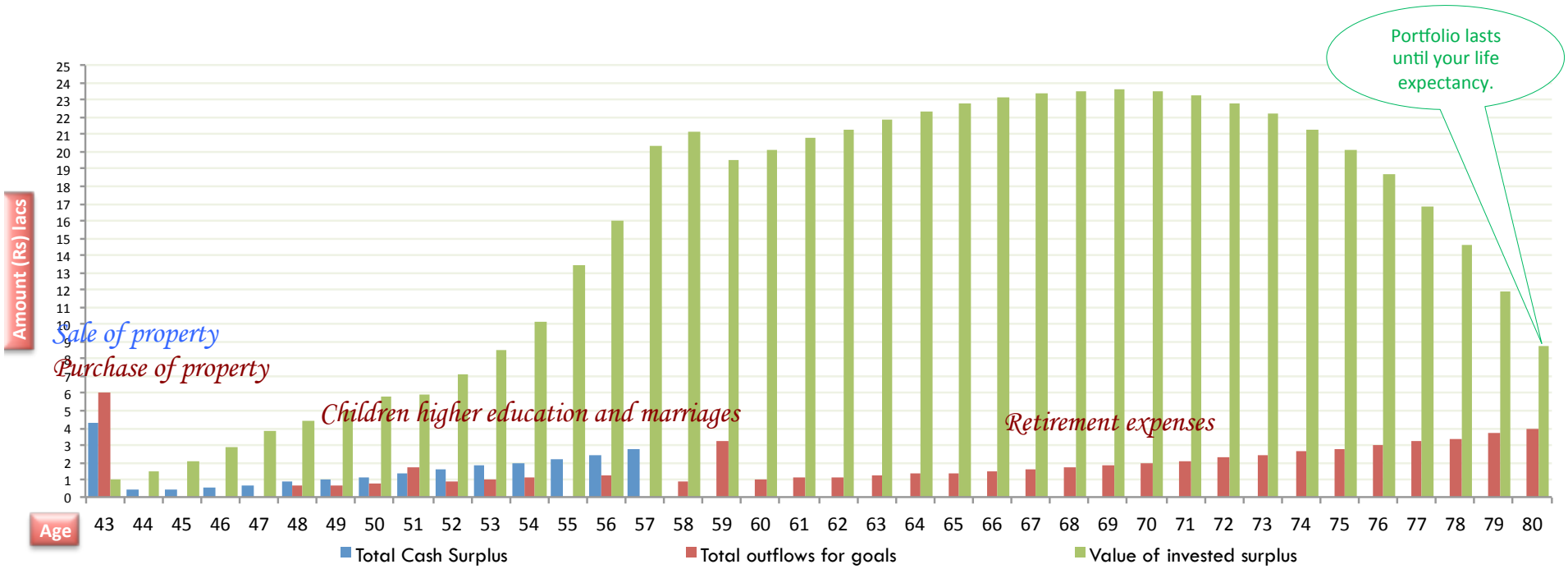
2. While all other expenses remain the same, the EMI on the loan of Rs 4 crores would be Rs 4.17 lacs per month. It would not be possible for Shobhit alone to pay the EMI from his salary. Alka will have to share the burden of the increase in expenses due to EMI.

3. You have the option of lowering the EMI by either opting for a lesser loan or increasing the tenure. Our recommendation however is not to use the portfolio in entirety, but set aside at least a minimum of Rs 50 lacs to take care of any contingencies.

4. If Alka can push for higher income levels than what we have assumed, it could augur well for the family's financial situation. We do not totally disagree with Shobhit's contention that this would be a very big stretch on your finances but if Alka is confident of generating much higher income, this goal does seem feasible for you.

CONFIDENTIAL

Cash Flow for Goals Planning – Scenario 2



Planners Comments

- ✓ BLUE LINES indicate the inflows into the investment portfolio- Sale of property, savings during the working years added to the investment portfolio
- ✓ RED LINES indicate outflows from investment portfolio towards goals – Property purchase, Children higher education, marriages and retirement
- ✓ GREEN LINE denotes the value of investment portfolio (does not include real estate)

- ✓ In this scenario, you should be in a position to become financially free by age of 58. As visible in the graph above, since you would be using a good part of your investment portfolio for property purchase, it would take some time to again build a large investment corpus.
- ✓ The current house would have to be sold and proceeds from the same would have to be diverted towards the new house.
- ✓ You would need a corpus of roughly about Rs 20 crores at age 58 to be able to meet the post retirement expenses as well as Meera's marriage goal.
- ✓ The investment portfolio is expected to earn 10.30% until retirement and 8.8% thereafter throughout your life (refer annexure)
- ✓ As per this scenario, at life expectancy, you will have one house property (at higher value) to be passed on as estate.

Funding of Goals – *Where will the money come from?* *(Blue lines in the graph on Page 21)*

Year	Age	Funding by	Amount (Rs)	Remarks
2018- 2032	43-57	Savings from household income generated from salary and professional income	19.64 crores over 15 years	Income surpluses to be used to build the investment portfolio from which goals would be met.
2018	43	Sale of current house	4 crores	This amount will be completely diverted towards purchase of new property.

Achievement of Goals – *How and when will I achieve my goals?* *(Red lines in the graph on Page 21)*

Year	Age	Goal	Current Cost of Goal (Rs)	Inflation %	Future cost of Goal (Rs)	Remarks
2018	43	Purchase of new house	10 crores	NA	10 crores	This goal is expected to be funded as follows – 1. Sale of property – 4 crores 2. Self funding from portfolio – 2 crores 3. Home Loan – 4 crores @ 9.5% for 15 years
2023-2026	48-51	Rahul's higher education	40 lacs p.a. for 4 years	10%	2.98 crores over 4 years	It would be possible to meet Rahul and Meera's higher education goal partially from savings during those years as well as the investment portfolio
2026-2029	51-54	Meera's higher education	40 lacs p.a. for 4 years	10%	3.97 crores over 4 years	
2031	56	Rahul's marriage	50 lacs	7%	1.2 crores	There will be enough money in the investment portfolio to fund this goal.
2034	59	Meera's marriage	50 lacs	7%	2.3 crores	There will be enough money in the investment portfolio to fund this goal.
2033-2055	58-80	Retirement expenses	Current standard of living	7%	47.17 crores over 23 years	You would have enough money in the investment portfolio to meet your retirement expense as well as Meera's marriage goal. You will need about Rs 21 crores at age 58 to retire comfortably and take care of the goals occurring post retirement. *Note – We have ignored retirement benefits since it is not known to us*

Scenario 3

Rent the Bandra property

Main Assumptions in Scenario 3

It is not always necessary to purchase a property to be able to enjoy it. One always has the option of renting it out for as long as one wishes to.

Our thought process behind the Scenario 3 is that you can still enjoy the bigger property with your family, without having to bear the burden of ownership. You can also give your current house on rent, so your additional expenses would be the differential rent.

Since children will eventually move out for their higher education, the bigger house may no longer be required in future, at which point you can move back to your current house.

- This scenario assumes that you will rent the Bandra property for Rs 4 lacs (assumed) and give your current property on rent for Rs 1.5 lacs (assumed) for a period of 10 years. After 10 years, you will move back to your own house.
- In this scenario, Shobhit and Alka's income would continue at the same levels as it is now.

Common assumptions with Scenario 1

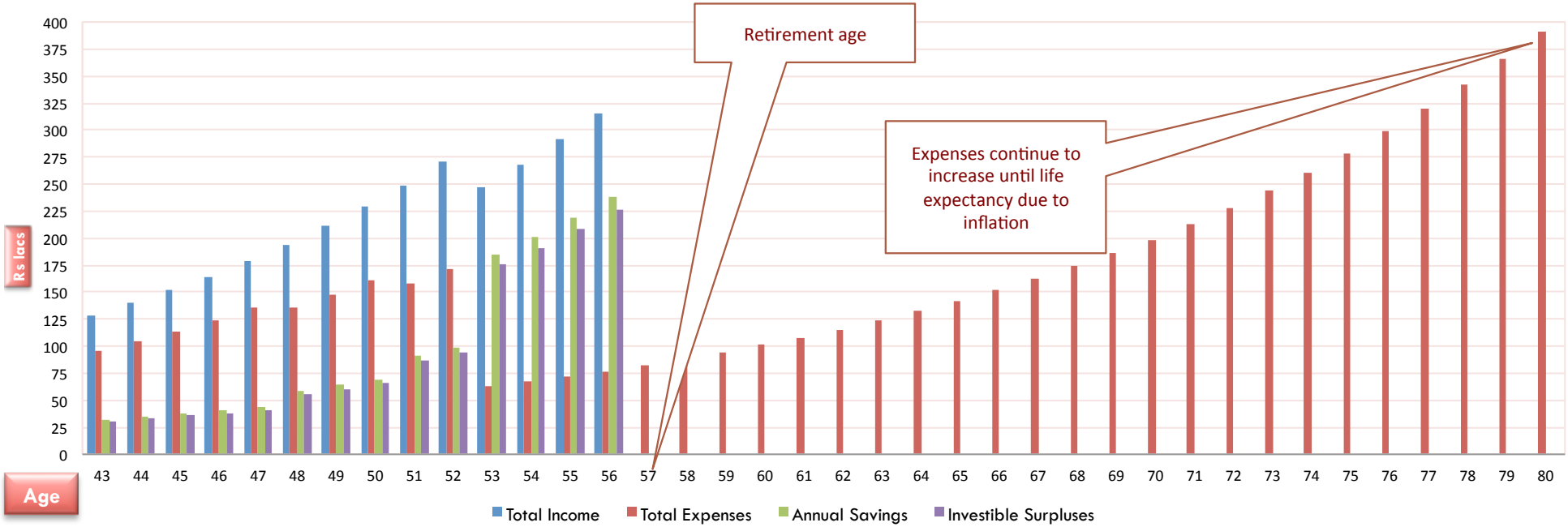
- Life expectancy of both Alka and Shobhit is assumed to be 80 years.
- The expenses relating to household and travel are inflated at 7% throughout your life. Children schooling expenses are inflated at 10% p.a. until their 12th standard. Expenses are continued at the same level post retirement, adjusted for inflation.
- Shobhit's salary is expected to increase by 8% p.a. until his retirement age and Alka's income is expected to go up by 10% every year.
- The foreign education and marriage expenses for both the children are assumed at the given levels
    - 4 years higher education from age 18 to 21 – Rs 40 lacs p.a. for 4 years (Rs 1.6 crores)
    - Marriage expenses at age 26 – 50 lacs per child.
- Given that you are a moderately aggressive investor, we have assumed the investment portfolio to earn a certain rate of return during the pre-retirement and post retirement period.
- **Since we have no information on your insurances and retirement benefits, they have been excluded in the plan. If you provide us this data, we can incorporate the same in the plan.**

Objective of this scenario

Given your goals, to assess the impact of additional rent outgo on the retirement age.

CONFIDENTIAL

Income, Expenses and Savings during your lifetime in Scenario 3



Planner's Comments

1. As per the assumptions in this scenario, it should be possible for both Alka and Shobhit to retire at the age of 57 years, as against 54 years in Scenario 1 and 58 years in Scenario 2.

2. We have considered growth in rent at 10%, so its possible that at some point the rent will exceed the EMI (had you bought the property). However, the differential rent will remain lower than EMI payouts for atleast 5 of the 10 years. It is also important to remember that in this option, your equity of Rs 3 crores remains intact.

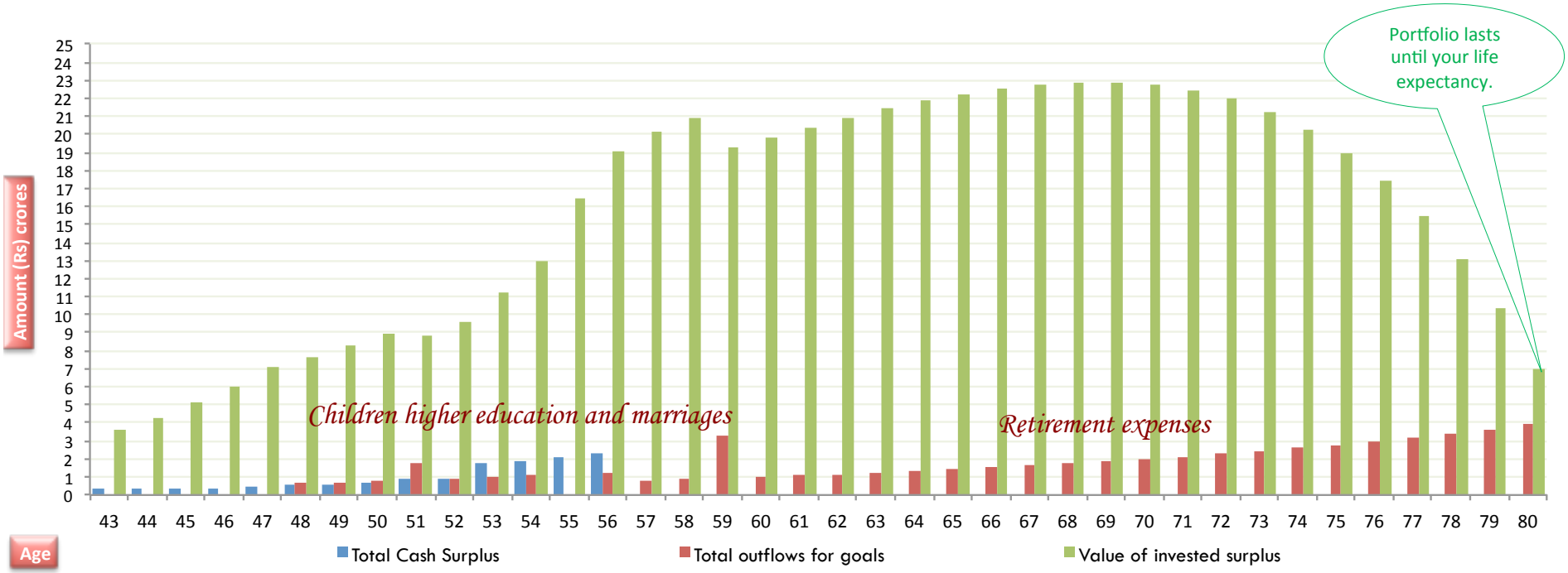
3. In this scenario, you will be bearing some additional cost just to be able to enjoy the property without the hassles of ownership.

4. We have assumed that you pay Rs 4 lacs as rent and earn Rs 1.5 lacs as rent per month. The differential expense would amount to about Rs 30 lacs p.a. inflating at 10% for 10 years.

5. Also, in this scenario, we don't expect both Shobhit and Alka to alter their income levels. Even with status quo, this scenario can work.

CONFIDENTIAL

Cash Flow for Goals Planning – Scenario 3



Planners Comments

- ✓ BLUE LINES indicate the inflows into the investment portfolio- Savings during the working years added to the investment portfolio
- ✓ RED LINES indicate outflows from investment portfolio towards goals – Children higher education, marriages and retirement
- ✓ GREEN LINE denotes the value of investment portfolio (does not include real estate)

- ✓ In this scenario, you should be in a position to become financially free by age of 57. As visible in the graph above, in this scenario, your portfolio would steadily build over the working years.
- ✓ You would need a corpus of roughly about Rs 20 crores at age 57 to be able to meet the post retirement expenses as well as Meera's marriage goal.
- ✓ The investment portfolio is expected to earn 10.30% until retirement and 8.8% thereafter throughout your life (refer annexure)
- ✓ As per this scenario, at life expectancy, you will have one house property to be passed on as estate.

Funding of Goals – *Where will the money come from?* *(Blue lines in the graph on Page 26)*

Year	Age	Funding by	Amount (Rs)	Remarks
2018- 2031	43-56	Savings from household income generated from salary and professional income	13.43 crores over 14 years	Income surpluses to be used to build the investment portfolio from which goals would be met.

Achievement of Goals – *How and when will I achieve my goals?* *(Red lines in the graph on Page 26)*

Year	Age	Goal	Current Cost of Goal (Rs)	Inflation %	Future cost of Goal (Rs)	Remarks
2023-2026	48-51	Rahul's higher education	40 lacs p.a. for 4 years	10%	2.98 crores over 4 years	It would be possible to meet Rahul and Meera's higher education goal partially from savings during those years as well as the investment portfolio
2026-2029	51-54	Meera's higher education	40 lacs p.a. for 4 years	10%	3.97 crores over 4 years	
2031	56	Rahul's marriage	50 lacs	7%	1.2 crores	There will be enough money in the investment portfolio to fund this goal.
2034	59	Meera's marriage	50 lacs	7%	2.3 crores	There will be enough money in the investment portfolio to fund this goal.
2032-2055	57-80	Retirement expenses	Current standard of living	7%	48 crores over 26 years	You would have enough money in the investment portfolio to meet your retirement expense as well as Meera's marriage goal. You will need about Rs 20 crores at age 57 to retire comfortably and take care of the goals occurring post retirement. *Note – We have ignored retirement benefits since it is not known to us*



THE DECISION

"Sometimes you make the right decision, sometimes you make the decision right"

Its Decision Time

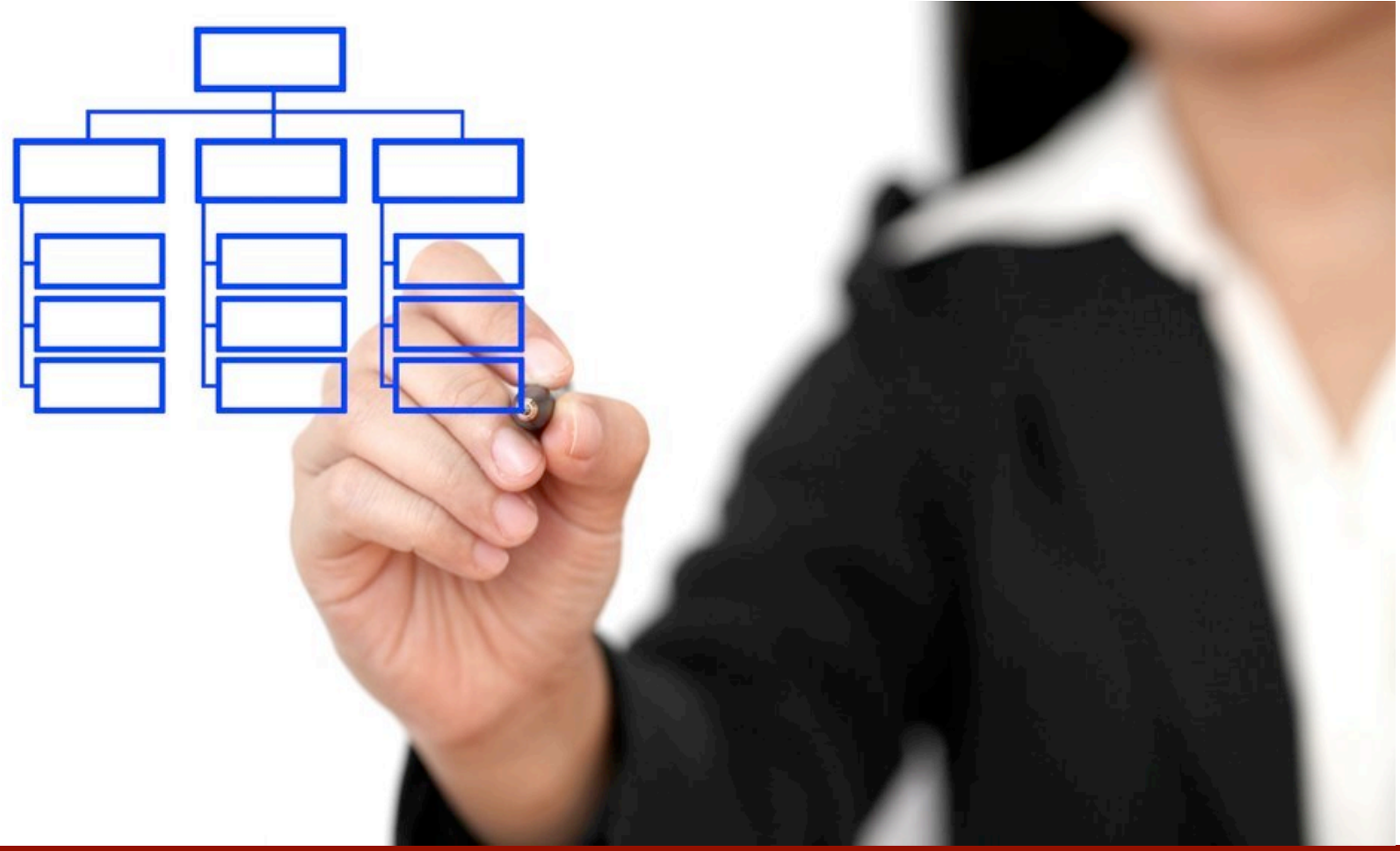
- ✓ We have worked out the financial numbers in the 3 scenarios in the past few pages.
- ✓ The decision as to which scenario will work best for you will require not just number crunching but also require you to dig deep to assess what you really want. There may be some aspects which may have more weightage in your mind that certain other aspects.
- ✓ In the next couple of pages, we have compared the 3 scenarios basis certain factors and have also listed their pros and cons as we see them.
- ✓ We hope this would help you arrive at what path you finally want to take.
- ✓ We wish you the best!

Comparison of Scenarios - SUMMARY

Points for comparison	Scenario 1	Scenario 2	Scenario 3
Description	Status quo – No purchase of property	Purchase of Bandra property	Renting out Bandra Property
Ownership of new property	No	Yes	No
Ownership of current property	Yes	No	Yes
Living in new property	No	Yes	Yes
Shobhit's income	At current level growing at 8% p.a	At current level growing at 8% p.a	At current level growing at 8% p.a
Alka' income	21 lacs p.a. growing at 10% p.a.	42 lacs p.a. growing at 10% p.a.	21 lacs p.a. growing at 10% p.a.
Retirement (financial freedom) age of Shobhit and Alka	54 years	58 years	57 years
Additional expenses by way of rent/ EMI	None	50 lacs p.a. EMI for 15 years	30 lacs differential rent growing at 10% p.a. for 10 years
Use of personal equity	No	Yes – 2 crores	No
Home Loan	No	4 crores	No
Current and future living expenses	Same	Same	Same
Children education and marriage goals	No impact	No impact	No impact
Estate at life expectancy	Smaller house	Bigger house (higher net worth eventually)	Smaller house
Risk	Low	High	Medium

Pros and Cons- SUMMARY

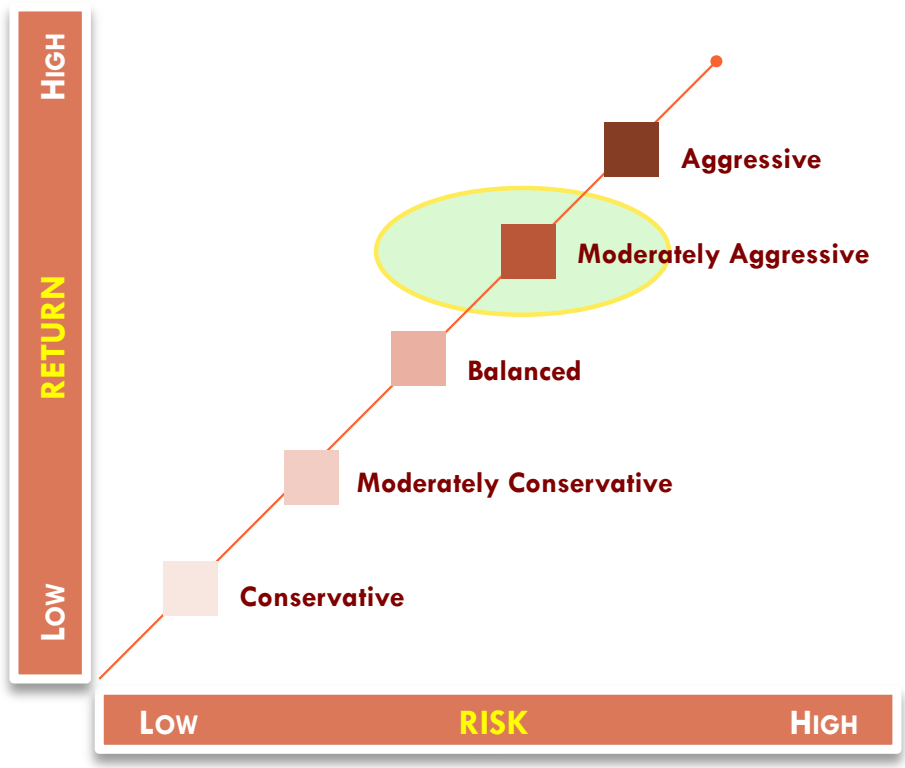
Scenarios	Pros	Cons
Scenario 1 – Status quo	• Early retirement • Current portfolio remains intact • No burden of EMI's • Same levels of income can continue • No risk to other goals	• Discontented family • Problem of space when relatives come to stay • No motivation to earn more, hence lack of drive to progress career further
Scenario 2 – Purchase of Bandra property	• Family is happy (dream house) • Improved social standing • Sense of ownership • Bigger house to live in, solving any space issues • Possibly higher networth at life expectancy	• High burden of EMI • Converting investment assets (equity) into personal asset (house) • Risky scenario in case of loss of job or lower incomes than estimated • High pressure on the couple to earn more which may result in lesser time spent as a family • Risk to other goals in case of any unforeseen contingency.
Scenario 3 – Rent the Bandra property	• Family can enjoy the same house without having to buy it • Same levels of income can continue • Bigger house to live in, solving any space issues • Option to move to smaller house when children move out • Lesser risky scenario compared to Scenario 2	• Since property is rented, the owner can ask the family to move out at any point in future • No sense of ownership • Higher expense outgo on account of rent



ANNEXURES

" The goal is to turn data into information and information into insight!"

Risk Profile



Risk Profiling

Based on the analysis of the risk profiler which assesses your risk taking capacity, attitude to risk and investment profile, you fall into the category of **Moderately Aggressive** investor based on your score.

A **Moderately Aggressive** investor is the one who is willing to take additional risk in order to achieve his goals. Although this investor is willing to put a large part of his capital into high risk investments, he likes to have exposure to certain low risk instruments in order to bring some stability to his overall portfolio.

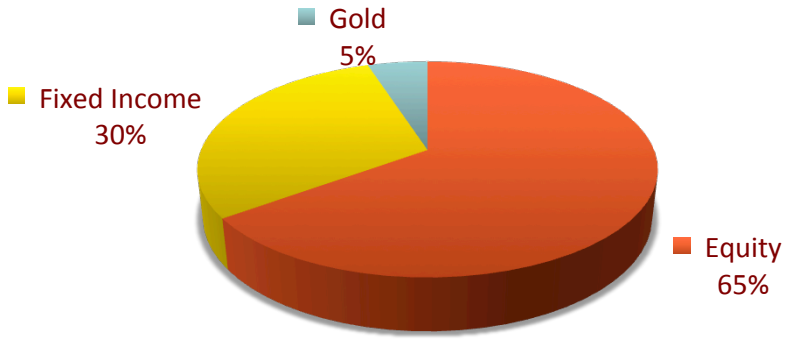
Based on your risk profile, we have devised a suitable asset allocation plan for you. The given asset allocation should apply to all your surplus investments which will form a part of your investment portfolio.

However, this does not include insurances, real estate, bank balances and retirement benefits.

These would get added to the portfolio as and how they are liquidated or they mature.

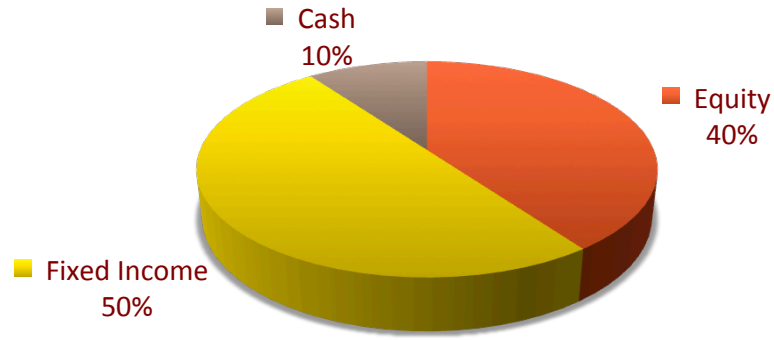
Investment portfolio would comprise financial investments held for the purpose of meeting future goals.

Proposed Asset Allocation till retirement



Asset	Return	Weight	WAR
Equity	12%	65%	7.80%
Fixed Income/ Debt	7%	30%	2.10%
Gold	8%	5%	0.40%
Weighted Average Return on portfolio			**10.30%**

Proposed Asset Allocation after retirement



Asset	Return	Weight	WAR
Equity	12%	40%	4.80%
Fixed Income/ Debt	7%	50%	3.50%
Cash	5%	10%	0.50%
Weighted Average Return on portfolio			**8.80%**

Comments

- ✓ Although you are mostly invested in equity and balanced mutual funds, we are not aware of the exact allocation between the two categories.
- ✓ Our recommended allocation has a higher weightage to equity which is in line with your risk profile. A comfortable allocation to debt/ fixed income and a small allocation to gold is also desirable.
- ✓ A portfolio growth rate around 10-10.5% is sufficient to meet all your goals. A balanced to moderately aggressive portfolio should be able to achieve this return.
- ✓ We have proposed a lower allocation to equity post retirement. However if you are comfortable with higher allocation to equity, you can choose to continue with the same asset allocation.

WAR – Weighted Average Return

Supporting workings

- ✓ The excel sheet provided along with the plan provides the numerical workings for the different scenarios.
- ✓ We have depicted the same using graphs in this financial plan. In case you need to check the figures, please refer the excel sheet.



END OF PLAN

"Nobody can go back and start a new beginning, but anyone can start today and make a new ending"

Disclosure of market risk

Performances of investments are subject to market risks. Past performances of the same may not be the true indicator of their performance in future.

Investment Strategy Performance

The Investor recognizes that asset class investment performance is cyclical and, therefore, the Investor may experience periods of time in which investment objectives are not met. For the overall portfolio, the Investor should allow a five-year time period or longer for achieving the stated investment return objectives. Shorter time frames contradict the principles of long-term investing. Under no circumstances, however, can results be guaranteed.

Duties and Responsibilities

The Investor should always be cognizant that they have the ultimate responsibility for the investment of their own assets. The Planner shall assist the Investor to discharge this responsibility with due care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in such conduct with like aims. The Advisor is responsible for assisting the Investor in making an appropriate asset allocation decision based on the particular needs, objectives, and risk profile of the Investor and implementing such decisions.

Disclosure Statement

The purpose of this document is to help you make important decisions regarding your financial future. Before reviewing the data, alternatives and options presented in this financial plan, please note that there are limitations associated with this information: The content of this report is based on information provided by you. Certain assumptions have been made about future investment performance, inflation rates, retirement benefits and other variables which are only estimates, with no assurance as to their attainability or ultimate outcome.

Projections of future events are based on interpretations of existing laws, as well as assumptions that are described in the accompanying text. Furthermore, even if the steps in this document are followed, there may be material differences between projected and actual results because laws are updated, events and circumstances frequently do not occur as expected, and the overall economic environment changes.



XXXXXXXX CONSULTING

This page is left intentionally blank