EXPRESS Money
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EXPRESS CLINIC

NAME: **MOHAN AND RAJNI RAO**

RESIDES IN: BANGALORE/ PUNE

PROFESSION: MOHAN IS AN IT PROFESSIONAL AND RAJNI WORKS IN THE PHARMA SECTOR

NET ANNUAL INCOME

(₹ 19.44 LAKHS)

STATUS & GOALS

MOHAN, 43 AND RAJNI, 36 ARE LIVING IN DIFFERENT CITIES DUE TO JOB COMPULSIONS. AFTER HAVING WORKED FOR ABOUT 12 YEARS, THEY FEEL THEY HAVE NOT CREATED ANY WEALTH FOR THEMSELVES. BEING IN DIFFERENT CITIES LEAVES THEM WITH NO TIME TO SIT DOWN AND PLAN THEIR FINANCES. BESIDES, MAINTAINING TWO HOUSES IS TAKING A TOLL ON THEIR SAVING CAPACITY

NEEDED

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

MONTHLY INCOME (Post Tax) **₹1,62,000**

TOTAL EXPENSES **₹ 1,16,400**

NET MONTHLY SURPLUS **₹ 45,600**

GOALS

IN ORDER OF PRIORITY

	CURRENT VALUE	FUTURE VALUE
ARYAN'S EDUCATION (2022) (inflation considered-10%)	₹ 15 lakh	₹ 42.79 lakh
RADHIKA'S EDUCATION (2026) (inflation considered-10%)	₹ 15 lakh	₹ 62.65 lakh
ARYAN'S MARRIAGE (2035) (inflation considered-8%)	₹ 8 lakh	₹ 50.72 lakh
RADHIKA'S MARRIAGE (2034) (inflation considered-8%)	₹ 10 lakh	₹ 58.71 lakh

	CURRENT MONTHLY EXPENSES	FUTURE VALUE	CORPUS REQUIRED
RETIREMENT PLANNING (2028) (Inflation considered -7%, Life expectancy -85 years)	₹ 55,000	₹ 2,03,500	₹ 5.47 crore

FINDINGS

EMERGENCY FUND
Savings bank ₹ 1 lakh. FDs worth ₹ 70,000.

HEALTH INSURANCE
Employer provided cover which provides coverage including that for dependent parents.

INSURANCE
Mohan has a term plan of ₹ 50 lakh.
Rajni is covered for a small amount of ₹ 3.5 lakh.

INVESTMENTS

Gold worth ₹ 4 lakh in the form of jewellery. Rajni has a PPF account with a balance of ₹ 2.5 lakh. They have NSC which will be maturing in the next three months with a maturity value of about ₹ 2 lakh. They own a plot of land worth ₹ 26 lakh. Mohan has some mutual fund investments which are worth ₹ 1.1 lakh currently.

RETIREMENT
Their only plan for retirement is their land. Mohan has an EPF balance of ₹ 3 lakh and Rajni's balance is ₹ 72,000.

LIABILITIES
There is a home loan for which they pay an EMI of ₹ 16,000. The loan tenure will get over in 2020. The property purchased with this loan is their primary residence.

Express Tip: **Sometimes seemingly big term plan is also not enough when actual need is estimated.**

RECOMMENDATIONS

EMERGENCY FUND
The family should have ₹ 2.13 lakh as contingency funds. Use funds from the NSC that can be kept in the form of an FD linked to the savings account.
Express Tip: **Always keep 3-6 months of expenses in ready to use form. Do not forget to include EMIs in the expenses.**

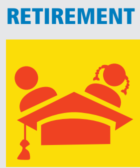
HEALTH INSURANCE
Mohan and Rajni should each have a personal health insurance cover of ₹ 5 lakh ₹ 3 lakhs for each child. This should cost about ₹ 15,000 p.a.
Express Tip: **Personal health insurance will protect you in scenarios like job loss.**

LIFE INSURANCE
Mohan should take an additional life insurance cover of ₹ 80 lakh and Rajni ₹ 40 lakh. A term plan will suit their requirement best. The total cost for risk cover for both of them should be in the range of ₹ 40,000 per annum.

ACCIDENT INSURANCE
Both Mohan and Rajni should get a personal accident insurance cover of ₹ 10 lakh. This will be useful in case of disablement due to accident. Payments will be received in monthly instalments for about 2 years in case of temporary total disablement in case of accident. This should cost approximately ₹ 2,000 annually.
Express Tip: **Accident can affect incomes temporarily or permanently.**

CHILDREN'S GOALS
Aryan's education will require an outlay of ₹16,000 in an SIP. For his marriage, they need to start an SIP of ₹ 3,000 per month. To meet Radhika's education expenses, start an SIP of ₹ 12,500 in a diversified equity fund. Similarly for her marriage, start an SIP for ₹ 4,000 in a combination of good diversified equity mutual funds and balanced funds
Express Tip: **Start investing early.**

RETIREMENT



The sources for retirement funds will be PPF, EPF, property and MFs. Rajni's PPF balance can grow to ₹ 19.88 lakh in 17 years, assuming average 8 per cent return and annual investment of ₹ 1 lakh. Combined EPF corpus should be ₹ 2.41 cr (increase of salary at 7 per cent and average EPF rate 8.5 per cent). Property should fetch them about ₹ 1 cr in 17 years. Existing mutual fund SIP of ₹ 18,000 and balance of ₹ 1.1 lakh should add ₹ 1.26 cr at 12 per cent. An SIP of ₹ 6,400 can meet the goal. The shortfall of ₹ 4,000 pm can be met by investing their bonuses and salary increases into MFs.
Express Tip: **All sources should be considered to arrive at the retirement corpus.**

OTHER INVESTMENTS
Maturity of NSC should be utilised for emergency funds, term insurance policy, health and accident insurance covers. The balance left after this should be invested in a good debt oriented hybrid fund to serve as additional corpus for lifestyle goals.

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CONCLUSION

Financial planning is an ongoing process and based on many assumptions. Situations change and the changes may not be as anticipated. Do a regular review to check whether you are on track to meet your goals.

TAX

From taxpayer to taxsaver

If the exact tax liability and related provisions are not clear, one may end up buying a product which may become burden on the portfolio in the long term, says **Ritu Kant Ojha**

THINKSTOCK/AKBEE

AS SOON as the tax season hits, there is a flood of aggressive advertisements by different categories of tax saving instruments. Suddenly your personal banker would start calling you more frequently suggesting you ways of "smart" tax saving. The sales team of various financial institutions are under pressure to make the most of the tax planning season.

It is times like these when there are maximum chances of going wrong in managing your finances and end up investing in a product that would prove to be quite painful in the long run. The misselling by the agents to garner higher commissions cannot be ruled out too. It is not difficult to protect oneself from their hard selling techniques. A little attention to the actual investment requirement for tax planning would help avoid making mistakes and going overboard. Here are some tips.

ASSESS TAX LIABILITY

Form 16 is the most important document to understand the tax liability for the current financial year and how much tax you would be able to save. Take out all the receipts/copies and other related documents of insurance premiums paid, tuition fee paid for the children's school, health insurance premium paid for self, spouse, children or parents, housing loan-both principal and interest component, contribution to Public Provident Fund (PPF), investments into equity linked saving schemes (ELSS) by mutual fund companies, rent receipts, employee provident fund, and five year fixed deposits.

Once you have all the documents in hand, write down contributions made under each head and do your calculations. Section 80C allows deductions up to Rs one lakh on contributions made under PPF, life insurance premiums, principal on housing loan, tuition fees, ELSS, EPF, and five year FDs. It is important to have all documents and receipts in place as a copy of the original needs to be deposited with the employer to avail tax deduction.

In case of any confusion one must seek clarification with the respective accounts department so that exact tax liability is clear. One needs to plan only for the amount left after deducting the above amount from Rs one lakh, under section 80C.

DTC IMPACT

If Direct Tax Code is implemented from next financial year, in the proposed format, there would not be any tax benefits on fixed deposits, insurance plans with return component like ULIPs, and equity linked savings schemes. While investing in an investment product of an insurance company it would be prudent to keep the possible changes in the tax regulations as the lock-in period is five years now.

However, some of the top ELSS funds have given high returns in the past and this may be the last opportunity to invest in them. "Only three year lock-in period makes them an attractive investment option. Those who still have some window to invest under 80C must tap this opportunity", suggests Suresh Sadagopan, a Mumbai based financial planner.

> **During J-F-M** sales pitch of tax saving products is highest. A little tax planning may save one from getting into the trap of a bad product.

OTHER OPTIONS

Apart from Section 80C, health insurance premiums are available for tax deductions under Section 80D. ₹ 15,000 for self, spouse and children and additional ₹ 15,000 is available for parents. If you are paying a housing loan, tax deductions up to ₹ 1,50,000 is available on interest paid on housing loan under Section 24. Remember to keep all your rent receipts as the rental for self accommodation is available for tax deduction under House Rent Allowance (HRA).

Donations made to some specified institutions are eligible for tax deductions under Section 80G. Do remember to keep the proper receipt to avail tax benefit. Under Section 80E, interest paid on loan taken for higher education for self, spouse or children is available for tax deduction.

Additional tax deduction up to ₹ 20,000 can be availed on investment into infrastructure bonds under Section 80CCF. The benefit is maximum for those in the highest tax bracket.

NEW PRODUCTS

January, February and March (known as J-F-M period in the insurance and mutual fund parlance) see several launches of tax saving products. There is no doubt that these products would provide benefits of tax deduction but the cost one pays for such a benefit needs to be assessed.

For example, an insurance company recently launched a tax saving product that claims to provide ₹ 5 lakh cover plus guaranteed return of ₹ 1.9 lakh (almost double) over a period of 10 years with a one-time contribution of ₹ one lakh. While it may look to be an attractive option at the outset, the annualised return comes down to mere 7.2 per cent. Products like PPF, FDs and debt funds could give a better return. As far as life insurance component is concerned, an adequate term insurance should be enough.

Even new fund offers of ELSS may be avoided. There already exist ELSS funds that have a good track record which can be chosen over new launches.

TAX PLANNING

"Most of the people do not understand the exact tax liability and end up buying expensive products. If you cannot do it yourself, it is better to take help of a professional rather than get trapped in a bad product", suggests Kartik Jhaveri, Director, Transcend Consulting.

Planning one's tax may seem to be a tedious job but a little attention and some time devotion would help align it with overall financial planning. For example, a term insurance is part of buying life cover as well as tax savings; ELSS provides tax benefit along with exposure to equity; health insurance provides health cover as well as saves some tax etc. So become tax smart this year and do not get fooled by high pitch advertisements. ◆

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STRATEGY

Navigating through volatile markets

It should be utilised to your advantage so that your investment portfolio delivers superior returns

GOPAL AGRAWAL

GLOBAL markets have experienced heightened volatility in the last few months. The widening contagion in the Eurozone and fiscal uncertainty in the US has weighed on equity markets. Indian markets too have seen rapid movements on either side as high inflation; peaking interest rates and high twin deficit take their toll. In fact the BSE- Sensex lost over 2,000 points in less than a month, taking it to a new two-year low before turning around and climbing by almost 500 points in just 3 days.

The most obvious reaction from an investor in such a scenario would be to sell the investment and avoid re-entering the market till signs of stability become visible. This behaviour eventually leads to missing out on opportunities to invest when the sharp decline makes quality stocks available at attractive prices. However as the adage goes, everything is clear in hindsight and seldom has any-one been able to pinpoint the bottom in market levels.

WHAT IS MARKET VOLATILITY?

Volatility is a phenomenon wherein markets experience uncertainty resulting in bouts of upwards and downwards movements in index levels. Volatility is often described as the "rate and magnitude of changes in prices" and in finance parlance is often referred to as risk.

CHALLENGING MARKET CONDITIONS

While no investment strategy guarantees positive returns across all timeframes, one can take some simple yet effective steps to ensure they are able to navigate through market volatility in a planned and process oriented manner:

STAY INVESTED: Watching one's portfolio returns fall is a heart stopping event for any investor. However, one of the best ways to safeguard your investments from being affected by market volatility would be to avoid taking any action. This means staying invested for the long-term and not paying attention to short-term fluctuations.

ASSET ALLOCATION CRUCIAL: One should begin by defining one's financial goals, risk appetite and time horizon; followed by careful asset allocation plan which becomes the basic building block to achieve the financial goals in the required time frame.

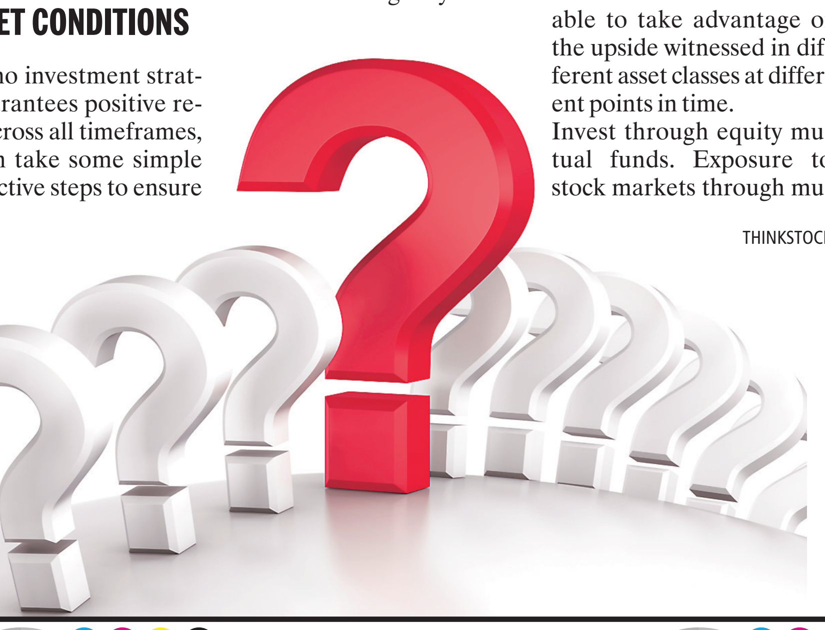
DIVERSIFICATION IS KEY: most essential component of asset allocation is to diversify one's portfolio. Diversification is the process of spreading one's investments across different asset classes. This ensures that one's portfolio is not exposed to the risks of a single asset class and at the same is able to take advantage of the upside witnessed in different asset classes at different points in time.

Invest through equity mutual funds. Exposure to stock markets through mutual funds is a convenient, affordable and prudent way for retail investors, since mutual funds offer you opportunity to avail the services of expert fund managers at marginal cost.

SIP ROUTE: Volatile markets result in fall in stock prices more due to market conditions rather than business fundamentals. Investing through SIPs helps one take advantage of market volatility since one is able to purchase more units of the scheme when markets fall and less units when markets rise thereby averaging the purchase cost. This leaves the investment with reasonable scope to generate sizeable returns when a rebound occurs.

Volatility is an inherent characteristic of stock markets. Instead of getting perturbed by the same, investors would do well to adopt the above measures and thereby craft their investment portfolio in a manner that it is armed with all the right ingredients to take advantage of market volatility and thereby deliver superior returns in the long term. ◆

—Author is Chief Investment Officer, Mirae Asset Global Investments



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