

ICAI - WESTERN INDIA REGIONAL COUNCIL

ILLUSTRATION OF LIFE CYCLE FINANCIAL PLANNING

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Mr. Santosh and Mrs. Sushma Approached You as a Financial Advisor for their Life Cycle Financial Planning.

FAMILY DETAILS (as on date)

Name	Age	Additional information	Additional Information
Mr. Santosh Plan to retire at 60 years	30	Take home 9.00 lacsp.a Post tax.	An MBA with Engineering background. Working with Multinational company with good perquisites and benefits.
Mrs . Sushma Plan to retire at 58 along with Husband	28	Not working presently (home maker)as both children are small. Earlier she had been working in a private sector bank.	She plan to resume work after 6 years from now. Income assumed 75% of Husband then income. (for sake of simplicity)
Son - Soumil	3		
Daughter (below 1 yr) Shivani	0		



Current Financial Details



Expenses	<ul style="list-style-type: none">✓ Rs. 4.50 Lac per annum✓ Yearly inflation of 7% to be assumed✓ Once wife starts working after six years the yearly expenses to go up by Rs. 1.20 lac.- Rs. 10,000/- per month.✓ Expenses include Medi claim for entire family, online term insurance plan premium forMr. Santoshof 80 lacs and Rs. 25 lacs disability cover for himself.
Presently staying	<ul style="list-style-type: none">✓ Presently staying with parents. Not owning residential house.
Contingency fund. Net worth as on date.	<ul style="list-style-type: none">✓ Fund of Rs. 1.50 Lac in cash, saving accounts, FD and Mutual Fund about 4 months routine household expenses has already been accumulated till date.

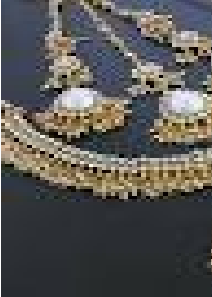




Financial Goals




Know Your Needs, for Best Financial Advice.


After lot of discussions, debate, arguments and counter arguments the couple has listed down their financial goals with stipulated time frame in a structured manner as follows:-

Sr. No	Particulars	Time frame age/Years to achieve	Rs. Lacs Today's cost. Present cost.	Rs. Lacs Future cost.	Additional information
1	First car purchase 	After 2 years	5.00	5.75	New car to be purchased
2	Purchase of Second and subsequent cars in replacement of existing car. 	After every 7year 5th car at retirement.	8.50 8.50 12.00 12.00	16.00 16.00 60.00 85.00	In exchange of existing old car, Rs. 16.00 Lacs is additional cost. Total 5 cars to be purchased including first one of Rs. 5.75 lacs, in span of 30 years working life.
3	First Residential House	After 6 years	80.00	125 .00	Including brokerage, stamp duty, registration and interior cost. Hint - Take home loan of Rs. 90 lacs. For 15 years.
4	Second residential house - bigger house. First house to be	Before he attains 50	170.00	625.00	Additional investment over and above amount received from

	<p>sold.</p> <p>Mrs. Sushma added that second house to be purchased at least two years before children marriage.</p>				<p>disinvestment of first house Rs. 275 lacs. Total investment Rs. 625 lacs.</p> <p>To be purchased only after first home loan is paid off.</p> <p>Hint: Take home loan of Rs. 350 lacs for 8 years. The loan amount is fully repaid 3 years before retirement.</p>
5	<p>Son -Soumil's higher education.</p> 	<p>On son attaining 18 years of age</p>	14.50	40.00	<p>For Higher education Engineeringplus MBA / Doctor – Post graduation.</p>
6	<p>Daughter Shivani's higher education</p>	-do-	15.00	50.00	-do –
7	<p>Children marriage and self 25th anniversary party</p> 	<p>Son - 25 Daughter – 22</p>	<p>55.00 4.50</p>	<p>250.00 20.00</p>	<p>Rs. 250.00 for both children marriage and Rs. 20.00 for 25th anniversary Celebration and small trip.</p>

8.	<p>Diamond and Gold Jewellery fund for Ms. Sushama.</p> <p>(Staggering Investments)</p>	Before children marriage		60.00	
9.	fun – time / live life king size				
I	<p>Club Mahindra Holiday membership.</p> 	Before he attains 45 years		6.00	Will save on yearly recurring vacation cost.
II	<p>Gymkhana life membership. Mr Santosh wants to play tennis regularly.</p> 			20.00	<p>Work life balance. Health is wealth.</p> 
III	<p>South east Asia trip for family of four</p> 			10.00	<p>Club Mahindra membership might save some cost, which will help them in shopping within the overall family travel budget of Rs. 10 lacs.</p>

	<p>One Europe and one America 20 Days Grand Trip for Family of four</p> 	Before he Attains 50		25.00 40.00	For Europe trip for all 4 For USA trip for all 4
V	<p>Two foreign trips for couple & Two some other events / expenses / Donation / medical emergencies Rs. 25 lacs for each trip</p>	Between 50 to 60.		100.00	In all 4 events of Rs. 25 lacs each.
10.	<p>Retirement fund / corpus</p> 	As he reach 60 years		650.00	<p>Minimum amount for balance 20 from 60 to 80 years for couple to live happy retired life. Financial Independence. Show retirement planning working</p> 

11	Contingency fund. Aggregate amount.	-do-		200.00	Out of Yearly surplus for unforeseen contingency to be built –up gradually
12.	The consultant asked any wish / goal still left out?	Post retirement		700.00	Rs. 700 lacs provision to be made and balance if any of contingency fund may be added for this Villa
	Yes one last wish, with tongue in cheek said Mr. Santosh to own a villa at Lonavala without disinvesting the then existing				Not to use

ASSUMPTIONS

Sr. No.	Particulars	Rate	Reason / logic
1	Short term investments for 1-5 years	8%	Bank F. Deposit and Debt Fund return.

2.	Long term investments above 5 years	9%	Investment in mixed basket of debt fund, equity fund, gold, equity etc. Participants not to be bothered about investment allocation.
3.	House hold expenses inflation YOY	7%	Based on cost inflation index CAGR. If higher inflation then corresponding income would also rise.
4.	Home Loan rate of interest	10.5%	No pre-payment penalty as per recent RBI instruction.
5.	YOY increase in income for both. For first 15 years For Balance period	12% 10%	
6.	Mrs. Sushma income from 7th year onwards		75% of Mr. Santosh the then income - for simplicity sake and conservative estimate.
7.	Company retirement benefits not to be considered towards corpus fund.		Same would be additional fund.
8.	Post retirement Mr Santosh / Mrs Sushma may do some consulting assignments, but for our present financial planning, no / nil income to be considered.		Contingent income. Will help them to live a higher life style.
9.	Ignore Taxation.		All investment returns assumed post tax. Yearly salary income- post Tax.
10.	Consider life expectancy of – Years 20 years post retirement life.	80	On the date of retirement and for every year thereafter their investment should fetch annual income which is equivalent to Rs. 4.50 lacs as on date. Their expenses will go down as number of family members are 2 only. However, we to assume the same cost of Rs. 4.50 lacs p.an. No commuting expenses.

Conditions / LakshamRekha

s. No.	Particulars
1	No loan / borrowings except for home loan. based on sound principle of no borrowing and spending the money on consumption, celebrations, ceremonies and depreciating assets. No loan for villa at Lonavala
2	3 years before retirement loans, if any should be paid off, to retire absolutely debt free.

Life Line / Hint / Tips / Formula

Sr. No.	Particulars
1	Use basic Excel
2.	Concept - Time value of money
3.	<p>Formula</p> <p>a) To find out investment required to accumulate certain amount at end of period</p> $r \times \frac{\text{Required Amount}}{(1+r)^n - 1}$ <p>'r - Rate of interest /// 'n - Period</p>

	<p>b) Future Value (Direct function in Excel) <input type="checkbox"/></p> <p>Returns the future value of an investment based on periodic, constant payments and a constant interest rate. FV(rate,nper,pmt,) Rate is the interest rate per period. Nper is the total number of payment periods in an annuity. Pmt is the payment made each period; it cannot change over the life of the annuity.</p>
	<p>PMT (Direct function in Excel) Calculates the payment for a loan based on constant payments and a constant interest rate. PMT(rate,nper,pv,) Rate is the interest rate for the loan. Nper is the total number of payments for the loan.</p>
3.	<p>For buying first house take home loan of Rs. 73 lacs for 15 years. After 8 years pay additional amount of EMI to clear balance loan in 3 years. Home loan to be cleared in 11years.</p>
4.	<p>For any clarification write to capnavandar@gmail.com and cahymehta@gmail.com</p>

Deliverables

1.	<p>To plot the couple income and routine expenses for all the years from 30 to 60 years, considering YOY increment and inflation and arrive at yearly surplus.</p>

2.	To plot the saving and accumulation for various goals from time to time considering the given ROI
3.	Being educated couple, they have specifically said that their financial consultant should not bother about their avenues / mode of investment and safely assume the given rate of ROI in assumptions.

Disclaimer

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