

EXPRESS CLINIC

NAME: **PRIYESH AGARWAL (34)**

PUNE

PROFESSION: MANAGER IN IT COMPANY

NET MONTHLY INCOME

(₹ 1,08,660)

STATUS & GOALS

PRIYESH IS WORKING AS A MANGER IN IT COMPANY IN PUNE. HE RESIDES IN A SELF OWNED HOUSE. HIS EXPENSES ARE IN MANAGEABLE LIMITS. MAJOR PART OF HIS EARNINGS GO TOWARDS INSURANCE POLICIES PREMIUMS & SOME CHUNKS ARE INVESTED IN MUTUAL FUNDS. HE HAS TO FUND FOR HIS SON'S HIGHER EDUCATION & MARRIAGE, PURCHASE CAR, HOLIDAY FOR FAMILY & A GOOD RETIREMENT LIFE.

NEEDED

A financial plan that will let him create corpus for his children and can have comfortable post-retirement life

MONTHLY INCOME (Post Tax)

₹ 1,08,660

MONTHLY EXPENSES

₹ 62,438

NET MONTHLY SURPLUS

₹ 46,222

GOALS

IN ORDER OF PRIORITY

SAURABH'S EDUCATION
(2026) inflation considered -10%

CURRENT VALUE ₹10 lakh
FUTURE VALUE ₹37.97 lakh

SAURABH'S MARRIAGE
(2035) inflation considered -7%

CURRENT VALUE ₹10 lakh
FUTURE VALUE ₹47.40 lakh

CAR

(2018) inflation considered -7%

CURRENT VALUE ₹3 lakh
FUTURE VALUE ₹4.50 lakh

HOLIDAY

(2016 Inflation 7%)

CURRENT VALUE ₹2 lakh
FUTURE VALUE ₹2.62 lakh

RETIREMENT PLANNING (2028)

(Pre-retirement inflation 7% Life Expectancy 80 years)

CURRENT ANNUAL EXPENSES ₹6 lakh
FUTURE VALUE (PA) ₹17.71 lakh
CORPUS REQUIRED ₹3.42 lakh

CURRENT INVESTMENTS

BANK ACCOUNT : ₹ 1.25 LAKH
CASH: ₹ 75,000
EPF: ₹ 1.68 LAKH
REAL ESTATE : ₹ 40 LAKH
MUTUAL FUNDS: ₹ 11,380
CURRENT LIABILITIES: NIL

OBSERVATIONS

Priyesh's investments are mainly in bank account, cash and marginally in mutual funds. There is provision for an emergency fund. Priyesh has a life cover of Rs 1.10 crore. He can afford to take huge risk which will help him to achieve all his goals including retirement.

FINDINGS

EMERGENCY FUND: There is provisioning for emergency situations through bank and cash.

HEALTH INSURANCE: The family is covered with a family floater policy.

LIFE INSURANCE: Priyesh have term plan ICICI I-protect and Endowment policy from LIC. Total risk cover is Rs 1.10 crore.

LIABILITIES: No liabilities at present.

EXISTING INVESTMENTS: Major investments are being done through insurance policies and some through mutual funds.

RECOMMENDATIONS

EMERGENCY FUND: They need to maintain minimum of Rs 2 lakh as emergency fund in the form of Rs 50,000 in savings account and the rest in short term fixed deposit or mutual fund short term plan.

Express Tip: You should have three to six months of expenses in most liquid investments to take care of contingencies like job loss or prolonged illness.

HEALTH INSURANCE: The present health cover is sufficient and he should continue this cover.

Express Tip: Health insurance is important because coverage helps people get timely medical care which is getting expensive day by day.

LIFE INSURANCE: Priyesh requires insurance of ₹1.19 crore but there is a small gap of Rs 20 lakh, which can be filled by taking another term plan.

Express Tip: Life insurance policies are a must to safeguard our dependents financially in case of some mis-happening. But insurance should never be mixed with investment.



EDUCATIONAL GOAL FOR SAURABH (2026)

Saurabh will enter college in 2026 for which he requires Rs 10 lakh in current value. They can start investing Rs 9,179 in Mutual Funds through SIP route that will take care of his education goal.

Express Tip: You can compromise on savings for your son's education as he can take a loan and repay it, but for daughter's education you should provide for adequate savings.

MARRIAGE GOAL FOR SAURABH (2035)

For Saurabh's marriage, requirement is Rs 10 lakh in current value. They can start investing Rs 3,520 per month in mutual funds through SIP route.

Rate of return assumed 11.5% p.a

Express Tip: Avoid children plan as they may not be able to match the requirement. Buy those products that can have potential to generate better returns with low expenses.

CAR PURCHASE

Priyesh can start investing Rs 4,440 per month in balanced funds to meet his funding requirement for car purchase in 2018

Rate of return assumed 11.5% p.a

Express Tip: While buying car on loan, stick to 20/4/10 formulae - minimum 20 per cent down payment; loan tenure not more than 4 years and the EMI should not be higher than 10 per cent of your income.

HOLIDAY

Priyesh and his family want to go for a holiday and for that goal they require Rs 2.62 lakh in future value. This can be met by investing Rs 4,330 p.m in diversified equity funds.

Rate of return assumed 11.5% p.a

Express Tip: Only decorating the goal with number is not a smart work. A goal needs to be thoughtful and has to be seen in the light of practicality as well.

RETIREMENT FUNDING (2028)

Priyesh will require a corpus of Rs 3.42 crore for having a comfortable retirement. At the present investment rate of Rs 37,920 per year in EPF, they will get approximately Rs 30 lakh from EPF at the time of retirement. For your retirement, it's necessary that you invest net cash flow after meeting all your expenses and providing for all the above goals.

Rate of return assumed: Diversified equity funds - 11.5%

Express Tip: Prices will rise by the time you retire and continue rising post your retirement. Account for inflation because it will affect you as long as you live. You should remember that your standard of living might change with time.

CONCLUSION

It is rightly said "an investor without goal is like a traveller without a destination." The most important part of setting goals is writing them. Writing makes goals visible & tangible.

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BANKING

Read his lips before you decide to invest

It feels good to have a 'personal banker' or a 'relationship manager', but one should not blindly follow their investment advice, says Ritu Kant Ojha

THEY can be called the Pied Pipers of the banking sector. With the number of high networth individuals (HNIs) rising over the years and banks increasingly focussing on this category, many from the tribe of 'personal bankers' or 'relationship managers' have become experts in leading bank customers up the garden path when it comes to investment advices.

If you think banks are ignorant of the cash you maintain in your account, you need a reality check. Banks keep a close watch on the balance maintained by their account holders. Different financial institutions have different criterion for defining HNIs, but Rs 10 lakh (annual salary) is normally the starting range. Above a certain cut-off mark, which may vary from one bank to another, a 'personal banker'/'relationship manager' is attached to a customer. The 'manager' would build trust over time with the respective customer. However, after some time, the customer would start getting "investment advices" from the 'personal banker'. This could range from a tax saving mutual fund, an insurance policy to a private equity fund depending upon the profile of the customer. Let us take a real life example to understand how this functions.

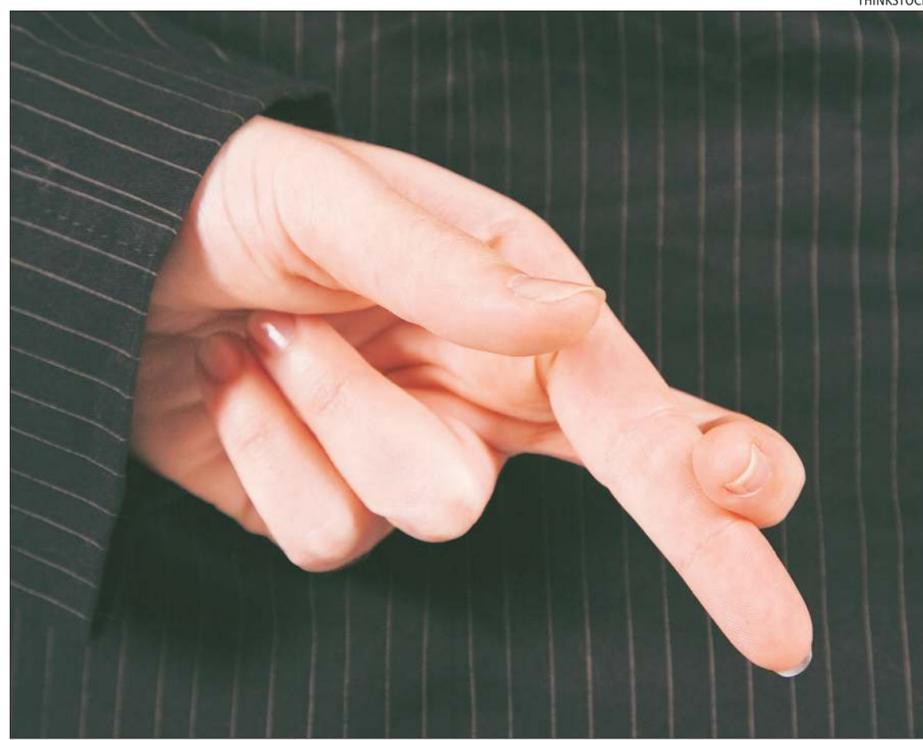
CASE STUDY

Delhi-based Dr Sumedha (name changed on request), a customer of a private sector bank, had a personal banker appointed by the bank in April 2010. In the next few months, he visited her house and clinic on regular basis and facilitated several transactions for her - like collecting the cheques from house, getting the mutual fund forms filled at home etc. She was impressed when he helped her open a demat account and buy some stocks.

He slowly started suggesting her investments. With time, the doctor became dependent on her personal banker for all the financial advice she needed, as given her extremely busy schedule, she did not have much time to look into her finances on a regular basis.

In January 2011 (the tax planning season), she got a call from him suggesting an insurance product which had an annual premium of Rs 3.5 lakh. She was told that it carried a "guaranteed return" of 15 per cent on the investment. She had already invested in few unit linked insurance products on his suggestion.

To convince her more effec-



KEEP THEM AT A DISTANCE

- Don't disclose passwords or other related information to a personal banker
- Don't sign on the dotted line unless you are very sure that you want to buy the product and have understood the features
- It's a smart strategy to go through the product review and do a quick check on the internet
- Part of the salary of 'relationship managers' is incentive based with a key performance indicator being "how many policies they have sold"

tively, he visited her house with the branch manager and a senior manager of that insurance company. It was when he started insisting too much for that policy that she turned suspicious. She called up a financial planner to find more about that policy. However, to her horror, there was no written guaranteed return of 15 per cent on that policy and the minimum guaranteed translated to only five per cent of the amount invested. When she further discussed her other investments, made on her personal banker's suggestions, she realised that she was made a fool in all her insurance related investments.

She got a call from another executive after few days informing her that he is her new personal banker. The previous one had joined some other bank in another city and had changed his mobile number. Dr

Sumedha was devastated as she relied completely on him and she had no clue of the process to track the status of her investments. She finally hired a financial planner who took another six months to put her finances on track.

MORAL OF THE STORY

With time, bancassurance has become an important part of the financial system with banks earning significant commissions by selling various products. Pure banking may be a thing of the past. Now it is a mix of basic banking, wealth management and other financial services. Several banks have floated insurance and mutual fund companies and it is a common experience that the front-end executives try and push their group company products. The reason being, a significant part of their salaries is incentive based with a key

performance indicator being "how many policies they have sold".

"Our bonus and annual hike is linked with the number of products we can push. The pressure at front end is immense. People trust bank employees more than other advisors so it is easier to push products," said a branch manager at a private sector bank requesting anonymity.

However, it will not be prudent to avoid a personal banker or relationship manager appointed by the banks. They do a reasonably good work when it comes to facilitating day-to-day bank account related work and even helping with investments. The key is to draw a line.

"The problem is from both sides. People want to save advisory fee and assume their personal banker is competent enough to play a financial planner's role. At the end of the day, personal bankers are earning their salary on the total products they sell. It is similar to the difference between going to a chemist and a doctor," opines Gaurav Mashruwala, a Mumbai-based wealth manager.

Remember that once you sign and the product is sold to you, there is not much you can do. In this age of financial frauds, be careful about getting caught unawares and ending up losing all your savings. ♦

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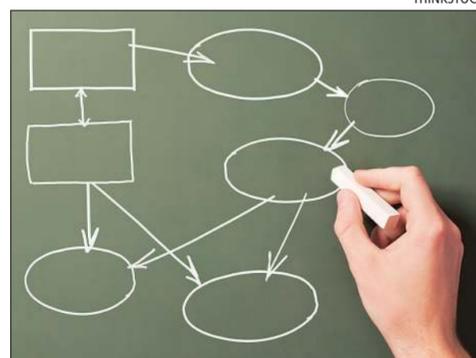
STRATEGY

Romancing with financial planning

SUMEET VAID AND BHUVANA SHREERAM

ON THE occasion of Valentine's day last week, our entire workplace was caught in a discussion about a remark made by a colleague who said that financial planning is the most romantic thing for a couple to do together.

The discussion turned serious when another colleague narrated the example of a couple who wanted to create a financial plan, and in the process of creating one, got into an heated argument that threatened to show no signs of ending anytime soon. This discussion reminded me of another incident, where a couple started the process of collecting data and after 4 hours started blaming each other for increasing credit card bills. The worst thing that happened here was that they refused to agree on goals after this argument.



These two incidents led us to think, is financial planning actually romantic? And does it harm a couple more than help them?

I have seen that financial planning compels couples to tackle issues that may be present but are never spoken about. A couple may not ever discuss issues like "How do you plan to take care of your ageing parents?" or "What do you want to do after your retirement?" The

financial planning process helps them to:

- Become self-aware about their individual expectations
- Understand their partner's expectations
- Arrive at a common conclusion/ decision on how they jointly envision their life ahead.

Once met a couple who were totally unaware about each other's financial decisions or how those decisions were impacting them.

There were a lot of shocks and surprises. "Oh, groceries are so expensive?" "You give the child pocket money?" "My laziness in not packing your lunch is costing so much?" They seemed to be rediscovering their partner all over again. It also appeared that they started respecting and appreciating each other much better after the exercise.

Some people might perceive that the absence of arguments and disagreements is the indication of a strong and healthy marriage. However, the absence may also be due to the fact that the couple never actually discuss the problems at hand. Disagreements on how money is managed go a long way in the way couples deal with each other and in some cases even value each other.

When two people are together in a union like marriage, it is important that they align their dreams and goals. Often couple do not

do this prior to marriage. Hence, it becomes all the more important that they do it at least now that they are married.

It is always advisable for young couples to start financial planning before they get married. When two people plan to live together for a long time, it's important that each of them understands their spouse's perception about money.

Getting in touch with one's deepest concerns, sharing it openly with the spouse, dreaming of a happy and secure future, looking forward to growing old together in each other's arms - sounds so romantic.

Financial planning is one of the best things anybody could do. If you didn't do it this Valentine's Day, then do it now. After all the season of love doesn't have to be restricted to one day, right? ♦

—Freedom Financial Planners