

# Plan early, live well



*STARTING this month, various experts will answer your queries on financial planning. Issues related to mutual funds and taxation will be tackled separately and, from next month, we will also help you understand futures and options. Here, Himanshu Kohli uses a specific case to draw up the financial roadmap to two important milestones in your life.*

**I am a 35-year-old working with a private firm in Delhi. I stay in my own house with my wife and eight-year-old son. I would like to make a financial plan for myself. At present, I earn a post-tax income of about Rs 50,000 per month. This is expected to grow at 10% per annum. I would like to achieve the following objectives:**

- **Send my son for higher education abroad once he is 18. Today, this costs \$100,000 (Rs 47 lakh).**
- **Maintain a lifestyle that involves spending of Rs 35,000 per month.**

**Assuming I work for another 20 years, what is the corpus I need to sustain a similar lifestyle till the life expectancy of 80 years. Right now, I have no asset other than my house.**

The earlier you start your financial planning, the easier it is for you to achieve the required financial milestones. Let us assume that there is an inflation of 5% per annum for maintaining your lifestyle and 2% for higher education overseas with a US

dollar appreciation of 3% per annum over a period of time.

The expense for sending your son abroad for higher education 10 years from now would be Rs 74 lakh. Besides this, you need to maintain a lifestyle expense of Rs 35,000 per month which would be Rs 92,865 per month 20 years from now. Thus, you would need a corpus of Rs 244 lakh at retirement. To meet these objectives, either you should have a corpus of:

- Rs 86.5 lakh if it grows at the rate of 8%
- Rs 64.7 lakh at a growth rate of 10%
- Rs 49.0 lakh at the rate of 12%

*Or you should start investing your monthly savings.*

Since, you do not have any surpluses at the moment, you would have to depend purely on your monthly savings, which is Rs 15,000 per month today or Rs 1.8 lakh per annum. But these savings should grow over a period of time as your salary is growing at 10% per annum against an inflation of 5% per annum.

Your monthly savings should be invested in instruments which grow at the rate of 8.6% per annum, *or* your savings should outperform inflation by 3.6% over a period of time. To get the desired return, one needs to have an asset allocation of 70% debt and 30% equity. Once you retire, you target to earn Government of India bonds returns, which is 6.5% per annum in today's scenario, as you would be depending on regular fixed inflows.

**Instead of the Rs 35,000 per month, do you think we can afford a lifestyle that incurs an expense of Rs 40,000 per month? How can we achieve it?**

You could afford a lifestyle expense of Rs 40,000 per month provided:

- You work for three more years or

increase your earning potential.

■ You target a higher rate of return (more than 8.6% per annum) on your monthly savings. This higher rate of return would come with a higher risk.

Assuming you have a lifespan of 75 years, we would recommend you be prepared to work for some more years. Or increase your monthly earnings in order to afford the additional expense.

**Do you think I need to take any insurance coverage? If so, what kind of cover?**

Yes, you do need to take an insurance cover. At present, there is a gap between your aspirations and existing assets. This gap is about Rs 80 lakh if we arrive at the present value of your needs dis-

**Invest early to meet your financial goals. Focus on the real rate of return, i.e., by how much your savings will have to outperform inflation**

counted at the rate of 8.6% per annum, i.e., the target rate of return. But this gap will reduce over a period of time as your savings corpus would start growing. You should take a term insurance policy to cover this gap. Ideally, you should take four term insurance policies of Rs 20 lakh each for a period of five, 10, 15 and 20 years, respectively. This is one of the better ways to structure your insurance policy as it is in line with your life's financial plan. Besides, it's a cost-effective tool to cover the balance-sheet gap. ■

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