

I want to... give the best to my children

By Sadique Neelgund, CFP^{CM}

Biswajit Mukerjee aged 33 came to me with both hope and anxiety in his eyes. He had been looking for a professional Financial Planner since Arindam; his first son was born 4 years back. But as is the habit with most of us, he kept procrastinating the task of spending time and energy to get his finances organized. He had promised to his wife Lopamudra, a homemaker, that he would give Arindam the best of the world to his ability. 3 years later when Kaustav was born, he still had not got down to the task and worried what kind of future he could offer to his children. But he kept working harder to earn more and made some ad-hoc investments mostly through insurance policies.

Biswajit is a small time businessman based out of a Mumbai suburb who has inherited the business from his father. Usually small business owners have inconsistent incomes and he was no exception, which made him more concerned about the future of his children. When I first asked him what are his goals and dreams, he was barely able to articulate them and get specific. As a Financial Planner I probed deeper and helped him establish their Financial Planning goals understanding his financial and family background.

Among the numerous goals of Mukerjees, the most prominent were their goals related to children's education and marriage. In today's value Biswajit wished to have a fund of Rs. 12.5 Lakhs for education and Rs. 5 Lakhs for marriage for both Arindam and Kaustav. Among the other goals were independent retirement, annual vacations and adequate insurance for the family. He had no major assets apart from his house where they lived and had complete ownership in his business.

One of the major challenges faced by business owners is separating their business finances from personal finances. Speaking about how his father had managed the same by running the proprietary firm for more than 25 years and utilizing business funds for personal use & vice versa Biswajit said "In this competitive world, I don't want to continue doing the same and put my family in risk created by business uncertainties". In an intelligent move he had formed a Private Limited company recently and was getting a net take home salary after taxes of Rs. 6 lakh p.a. for himself. Now he promptly gave Rs. 25, 000 a month to Lopamudra for household expenses. That left him with another Rs. 25,000 for investments, insurance and family recreation.

Analysis & Recommendations

As I started putting the various pieces of Mukerjees finances together to form a bigger picture, it became clearly evident that the case was typical to most of the other Indian Middle class families - decent income, good savings, but confused with investments. And the most important goal in life is Children's future. Retirement concern and regular vacations are catching up fast with most people as they prefer nuclear families and are attempting to upgrade their lifestyle with disposable income.

Biswajit was making some regular investments through insurance policies which he accepted was due to the pressure from his insurance agent who was a family friend and also because he didn't know any other investment avenues apart from FDs. Most of policies he had bought had high expenses, low yields and didn't fit in for any of goals. So we recommended him to gradually surrender most of the insurance policies except a term plan of Rs. 50 Lakh cover which was sufficient to take care of his family as per the Need-based insurance calculations. In the plan, we diverted the surrendered policies' fund value & premiums of Rs. 6000 per month in a portfolio for building his retirement corpus of Rs. 2.75 Crores which he required at the age of 60.

Since he had not started investing seriously and specifically for his children, we decided to help him build a fresh portfolio with equity orientation so that he could reap the benefits of long term equity investments. Children's education and marriage were at least 15-25 years from now which meant he need not worry about short and medium term fluctuations in the share market.

S.No.	Goal	Approx. Year	Today's Value	Future Value	Recommendation
1	Arindam's Education	2023	12.5 Lakhs	32 Lakhs	Invest Rs. 12,500 per month systematically in a Portfolio comprising of Exchange Traded Funds, blue-chip stocks, diversified Mutual Funds and gold
2	Kaustav's Education	2026	12.5 Lakhs	40 Lakhs	
3	Arindam's Marriage	2030	5 Lakhs	20 Lakhs	
4	Kaustav's Marriage	2033	5 Lakhs	25 Lakhs	

The amount required (taking into inflation of 7%) in the future for achieving his goals are given in the table below and they would need to start investing Rs. 12,500 per month growing at 15% p.a.

which is possible with disciplined equity participation. We built a Systematic Investment Plan Portfolio comprising of Exchange traded index funds, blue-chip stocks and gold.

He also wanted to take his children and wife on annual vacations which as a child he had carved for but his father was too busy in building the business from scratch and making his family secure. Going a step further, Biswajit with his busy schedule operating in a more competitive business environment, not only wanted to be financially strong to fulfill his family's dreams but also give a better lifestyle and spend quality time with children during the annual vacations. We recommended him to open a Flexi-Deposit Savings Bank account which can earn higher interest rates and park Rs. 5000 p.m. He could withdraw as and when his family planned the vacations.

After presenting the plan, Biswajit was a satisfied person with clear action plan to lay down the foundations of financial freedom. His anxiety was mainly due to his unorganized investments and ambiguity on future action plan which the Financial Plan was able to address. As we were closing the meeting, he spoke his heart out and said "I will consider really blessed if by the end of each day I feel that I have done my best for God, family & mankind". So charity was on his agenda too and wanted to give it a structure during the next year's plan review.

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