

## Portfolio Analysis – Retirement & Insurance Planning

Avni Kapoor, 32 years old working and residing in Mumbai. Avni is a Software Engineer working with leading IT Company. She is strong with her relevant career and expecting it to carry on in the near future. She is from middle class background staying with her parents, who are financially independent.

Ms. Kapoor has a net annual income of Rs. 4.20 lacs. As she is staying with her parents most of her expenses is borne by them. She has to take care only of her Lifestyle expenses. Therefore her total yearly expenditure comes to around Rs 3.05 lacs and surplus comes to Rs 1.15 lacs. Her family is very conservative and is not very familiar with the Equity Avenues, so most of her investments are in debt instruments like FD's, RD, PPF, KVP and LIC Endowment Policy. Apart from these she also holds some of her investments in Mutual funds.

She is now looking at reorganizing her personal finances and save up for her future goals. Her main financial goal is her Retirement and Insurance Planning.

Avni wants to have a comfortable, secure and independent retirement at the age of 55 to sustain a lifestyle giving her Rs. 20,000 per month in current monetary terms.

She would also like to review her insurance policy and analyze her insurance needs.

### Income Expenditure Statement

Ref	Particulars	Annual
<b>Inflows</b>		
<b>A</b>	<b>Salary Income</b>	<b>420,000</b>
	Net Salary – Self	420,000
<b>Outflows</b>		
<b>B</b>	<b>Yearly Expenses</b>	<b>305,000</b>
	Lifestyle Expenses	180,000
	Insurance Premium	27,000
	<b>Actual Investments</b>	<b>98,000</b>
	- PPF Contribution	50,000
	- RD Contribution	48,000
<b>Summary</b>		
	<b>Total Inflows (A)</b>	<b>420,000</b>
	<b>Total Outflows (B)</b>	<b>305,000</b>
	<b>Surplus (A-B)</b>	<b>115,000</b>

## Existing Assets & Liabilities

She has Rs 5 lacs in FD's, Rs 1 lac in RD and Rs 1.90 lacs in KVP, which are maturing next year. She has an accumulated EPF and PPF balance of Rs 2 lacs and Rs. 52,000 respectively. She holds a current value of Rs 2.15 lacs in Mutual Fund. Apart from these she has endowment policy with Sum Assured of Rs 5 lacs, which is maturing in 15 years with the maturity value of Rs 10.60 lacs.

Avni does not have any liabilities. Therefore, Net worth is Rs 12.57 lacs.

Assets	Amount
<b>Debt</b>	<b>10,42,000</b>
Fixed Deposits	5,00,000
Recurring Deposits	1,00,000
KVP	1,90,000
PPF	52,000
EPF	2,00,000
<b>Equities</b>	<b>2,15,000</b>
Equity Oriented Mutual Funds	2,15,000
<b>Total Assets</b>	<b>12,57,000</b>

Liabilities	Amount
NA	0
<b>Total</b>	<b>0</b>

<b>Net Worth</b>	<b>12,57,000</b>
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## Insurance planning

Avni is single and no one is dependent on her. Her parents are also financially independent, therefore she does not require any life coverage. She has an Endowment Insurance for the coverage of Rs 5 lacs, which she wants to continue but ideally she does not require even this much coverage because Insurance is basically meant for protection and not for the investment.

As far as Medical is concerned, Avni has a medical cover of Rs 1 lakhs from her company but she needs to increase this cover because of increasing medical cost. She should buy an

additional Medclaim of at least Rs 4 lacs. It takes care of the expensive medical treatment incurred during hospitalization resulting from serious accident or illness.

She should also take a Personal Accident Cover for Rs 10 lacs so that she is protected against any accidental uncertainties. This will ensure total security and peace of mind as accidental death or injury can create serious financial problems for the family.

### **Retirement Planning**

Avni wants to retire when she is 55 years old & would like to have a retirement corpus which would give her the better standard of living which she enjoys now, i.e. Rs 20,000 per month. Keeping in mind an inflation rate of 7 % and investment rate of 8.71% post retirement (post tax), she will need a retirement corpus of Rs 3.08 crores for the next 35 years (Life expectancy 90 years- age of retirement 55 years).

She has an EPF and PPF balances which would give her a fund of Rs 17 Lacs and Rs 45.60 lacs approx respectively on her retirement. Currently, she is investing around Rs 50,000 in PPF, but we have recommended her to invest maximum permissible limit of Rs 70,000 to avail the tax benefit and also to achieve her Retirement goal.

For the remaining corpus to be accumulated she has to reinvest her current savings as per follows:

Mutual Funds, FD's, RD and KVP in a portfolio consisting primarily of equity for next 22 years (as maturing after one year), giving a return of 15 % which would fetch her an amount of Rs 2.17 crore approximately on her retirement.

She also has an Endowment Insurance Policy which will give her a maturity benefit of Rs 10.60 lacs approx after 15 years. This amount needs to be reinvested for another 8 years in portfolio consisting of 40% debt and 60% equity, giving her a net return of around 13% which would fetch her Rs 28 lacs approx on her retirement.

Therefore, Avni does not require any additional investment or saving.

S.No	Goal	Corpus	Assets Allocated	Current Value	Years till goal	Rate of Interest	Fund Value at Retirement	Investment Avenue
1	Avni's Retirement	30,814,582	PPF	52,000	23	8.00%	4,567,847	Regular Contribution of Rs 70,000 per annum for the remaining term
			EPF	200,000	23	8.50%	1,707,082	Regular Contribution of Rs 3,736 per annum for the remaining term
			Mutual Fund	215,000	22	15.00%	4,653,620	Equity oriented Portfolio
			FD's Maturity Proceed	500,000	22	15.00%	10,822,373	Equity oriented Portfolio
			KVP Maturity Proceeds	190,000	22	15.00%	4,112,502	Equity oriented Portfolio
			RD Maturity Proceeds	100,000	22	15.00%	2,164,475	Equity oriented Portfolio
			Endowment Insurance Policy's Maturity Proceed	1,060,000	8	13.00%	2,817,951	Equity & Debt oriented Portfolio

## **Conclusion**

Thus on the closer analysis we can see that proper Financial Planning helps to draw a complete picture of current financial position thus bringing to light that all your goals have been addressed. Before, Avni was too much concerned about her retirement and Insurance. But now through Financial Planning including proper asset allocation and savings she has successfully achieved her goal, without any requirement of additional investments or savings. Now Avni has a peace of mind when she looks into the future and knows her retirement years are secure. Financial planning can make these things possible for you. If you have goals for your future, financial planning will help you attain them. If you don't have goals, it will help you create them.

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