FINANCIAL PLAN

CHILD'S HIGHER EDUCATION

&

MARRIAGE EXPENSE PLANNING.

Plan prepared by:
Sushil Jain
Nishchint Investment & Insurance Consultant
Plan prepared for:
Mr. Rajiv Jain

www.nishchint.in

Case History

Date – Aug, 2011

Mr. Rajiv Jain, aged 32 years, is a mechanical engineer in a leading multinationalcompany. He draws a net salary of Rs.4.75 lacs annually. His spouse, Mrs. Pooja Jain is a housewife. Their son, Ravi is aged 3 years and is currently going to play school.

Mr. Rajiv Jain wishes to plan for Ravi's higher education and marriage expenses. For this purpose he is willing to invest between fifty thousand to one lac every year.

Financial Goals:-

i. Higher education expenses

Mr. Jain wants Ravi to do his MBA from a premier institute in the country.

The cost for MBA is Rs.6 lacs in today's value. Funds are required in the year 2029-32 when Ravi attains 21 years of age.

ii. Marriage Expenses

Mr. Jain wishes to plan for an expense of Rs.10 lacs in today's value for the marriage expenses of Ravi. Funds are required in the year 2033-36 when Ravi attains 25 years of age.

Event Year Funds needed

Ravi's higher education 2029-30 Rs.14.5 lacs
Ravi's marriage 2033-34 Rs. 29.3 lacs

Summary of the plan

i. Ravi's higher education expense planning:-

Amount needed after 18 years for Ravi's higher education (after factoring inflation) Rs. 14.5 lacs Investment required to achieve the above goal

a. If invested monthly for 18 years Rs. 2,399/- every month.
b. If invested annually for 18 years Rs. 28,788/- every year.
c. If invested annually for first 5 years only Rs. 62,283/- for first 5 years.

Recommended Asset Allocation Debt: Equity – 50:50

ii. Ravi's marriage expense planning:-

Amount needed after 22 years for Ravi's marriage expense (after factoring inflation)Rs. 29.3 lacs Investment required to achieve the above goal

a. If invested monthly for 22 years Rs. 3,104/- every month.
b. If invested annually for 22 years Rs. 37,244/- every year.
c. If invested annually for first 5 years only Rs. 86,179/- for first 5 years.

Recommended Asset Allocation Debt: Equity – 50:50
Life insurance/disability coverage Proposed coverage
For child's higher education Rs. 6 lacs
For child's marriage Rs. 10 lacs.

A. Personal Information

Mr. Rajiv Jain Self 32 Service
Mrs. Pooja Jain Wife 30 Housewife
Mst. Ravi Jain Son 3 Student

B. Assumptions

I. Inflation is assumed @ 5% p.a.
II. Net returns (after tax) expected from debt portfolio – 8% p.a.
III. Net returns (after tax) expected from equity portfolio – 12% p.a.

C. Asset Allocation

Proper asset allocation is an important area of financial planning. Higher exposure to equity can result in higher returns but it is also exposed to high volatility.

Children education and marriage expenses planning are important events in life.Investment made to achieve this goal should not be very aggressive. We suggest an asset allocation mix of debt and equity in the ratio of 50:50. This means that 50% Investment should be made in debt instruments and the 50% of investment should be made in equity related instruments. We, however, advise you to review the asset allocation on an annual basis.

Due to lower return expectation in debt schemes and higher returns expectation in equity schemes, the asset allocation (in market value terms) may tilt in favor of equity schemes. While this has been the prime reason for recommending an initial asset allocation of 50:50. Annual reviews are important so that you remain in control of the situation.

D. Insurance

One of the greatest risks in achieving long term goals is premature death/disability of the earning member. Because of death/disability, the income of the earning member may stop or reduce and the surviving spouse may not be able to continue the investments needed to achieve financial goals.

As such it is important to cover this risk through insurance. The total cost for education and marriage in expected to be Rs.16 lacs in current day's value.

We propose a life cover and disability cover for Rs.16 lacs to cover this risk. In case of death/disability, the funds received from insurance company can be invested in bank fixed deposit and withdrawn at the time funds are needed for education/marriage.

The cost of this insurance will be Rs. 4,940/- per year. This money should be treated as an expense as there will be no maturity benefits available under this plan.

E. Financial Goals Calculations

i. Education Expenses

- Current age of Ravi – 3 years
- Funds needed at age of – 21 years
- No. of years left – 18 years
- Amount needed in today's value – 6 lacs
- Amount needed after 18 years (inflation adjusted) – Rs.14.5 lac

Following investment needs to be made to achieve Rs. 14.5 lacs for higher education of Ravi after 18 years in debt and equity in the ratio of 50:50 -:

If invested monthly for 18 years Rs. 2,399/- every month.
If invested annually for 18 years Rs. 28,788/- every year.
If invested annually for first 5 years only Rs. 62,283/- for first 5 years.

ii. Marriage Expenses

- Current age of Ravi – 3 years
- Funds needed at age of – 25 years
- No. of years left – 22 years
- Amount needed in today's value – 10 lacs
- Amount needed after 22 years (inflation adjusted) – Rs. 29.3 lac

Following investment needs to be made to achieve Rs. 29.3 lacs for the marriageexpense of Ravi after 22 years in debt and equity in the ratio of 50:50 -:

If invested monthly for 22 years Rs. 3,104/- every month.
If invested annually for 22 years Rs. 37,244/- every year.
If invested annually for first 5 years only Rs. 86,179/- for first 5 years.

F. Investment Schemes Recommended

i. Debt Allocation

As per the plan, 50% of fresh investment is to be allocated towards debt schemes. Under debt portfolio, we recommend the following schemes.

a. Public Provident Fund (PPF) a/c,
b. Post office Monthly Income Scheme
c. Floater schemes of mutual funds

ii. Equity Allocation

The balance 50% of fresh investment is to be allocated towards equity schemes. We recommend investment in the following diversified equity mutual fund schemes.

a. HDFC Equity Fund
b. Reliance Growth Fund

G. Alternative planning

By changing the proposed asset allocation mix and the expected rate of return,investment required to achieve the financial goals may change.

i. Alternative Case – 1

If asset allocation is decided at a debt - equity ratio of 60:40, the investment outflow may increase as per the following chart. However, the risk of the portfolio will also reduce accordingly due to lower exposure in equity.

Monthly	2,505/- every month for next 18 years
	3,278/- every month for next 22 years
Annually	30,064/- every year for next 18 years
	39,339/- every year for next 22 years
Limited pay	66,066/- every year for next 5 years only.
	92,756/- every year for next 5 years only.

iii. Alternative Case – 2

If asset allocation is decided at a debt - equity ratio of 40:60 and expected return on equity is assumed @ 15% p.a., the investment outflow may reduces per the following chart. However, the risk of the portfolio will also increase accordingly due to higher exposure in equity.

Monthly	1,885/- every month for next 18years
	2,288/- every month for next 22 years
Annually	22,621/- every year for next 18 years
	27,457/- every year for next 22 years
Limited pay	45,182/- every year for next 5 years only.
	57,756/- every year for next 5 years only.

H. Review

No planning is complete without regular review. Due to changing personal circumstances, economic conditions, financial goals, investment return adjustments,etc. regular review of the financial plan is very important. We suggest you to do annual review with respect to this financial plan.

Enclosures:

1. Details about PPF scheme
2. Details about Post Office MIS Scheme.
3. Details about HDFC Equity fund and Reliance growth fund.
4. Details about Reliance growth fund.
5. Application forms of respective schemes.