GENDER BIAS WHILE Planning For Kids


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Recently, I was talking to one of my clients who is about to retire - with both his parents are still around. On enquiring, whether his parents stayed with him ; he replied "Yes, we stay with our parents". You can just imagine how lucky his parents are but we don't know what is ahead of us as a parent.

The birth of a child is one of the most important event in one's life - other than the celebration; it brings maturity and responsibility to the parents. It also brings seriousness regarding our financial life and if we talk about priority of goals, sometimes it is even a shade above retirement planning.

You may think that purchasing a home is the biggest investment one can make but have you ever calculated the cost of raising children, which many times is far above the cost of buying a house.

There has been a paradigm shift in the thought process of people and generally they don't make any distinction between sons and daughters. Socially their thinking may have changed but financially they still belong to that old school which is happy with buying insurance policies or some bonds in name of the children. Few new age parents have started buying child Unit Linked Insurance Plans (ULIPs) rather than money-back policies. But is it actually a smart strategy? The simple answer is no. Emotional sales take place where investors take decisions based on their emotions. Parents are attracted by emotional pitches like "Bunty's fees" and they end up buying expensive products.

So what's the solution? It's always prudent to enter into a situation well prepared and in a planned manner which is going to affect your financial life. In fact , planning for child's future and managing of the finances should start much before a child is born. Have a proper plan (please read this as planning because people think a plan means a product) for the children's future. You can do following few things as soon as you get married:

1. Buy a health insurance policy with maternity benefit. Now-a-days there

A GUIDE TO PLAN YOUR CHILD'S FUTURE GOALS

Do your homework to find out the expected amount of money required on your child's education and on marriage. Inflation should not be ignored while calculating future cost of education or marriage. Take for example, if you are a parent of a 3-year old daughter and a 1-year old son, your plan may be like:

Goals

Goal	After years	Year	Present cost	Inflation	Future cost
Daughter's college education	15	2026	Rs. 300,000	10%	Rs. 1,253,174
Son's college education	17	2028	Rs. 300,000	10%	Rs. 1,516,341
Daughter's higher education	18	2029	Rs. 1,000,000	10%	Rs. 5,559,917
Son's higher education	20	2031	Rs. 1,500,000	10%	Rs. 10,091,250
Daughter's marriage	22	2033	Rs. 2,500,000	6%	Rs. 9,008,844
Son's business	23	2034	Rs. 3,000,000	7%	Rs. 14,221,590
Son's marriage	24	2035	Rs. 500,000	6%	Rs. 2,024,467

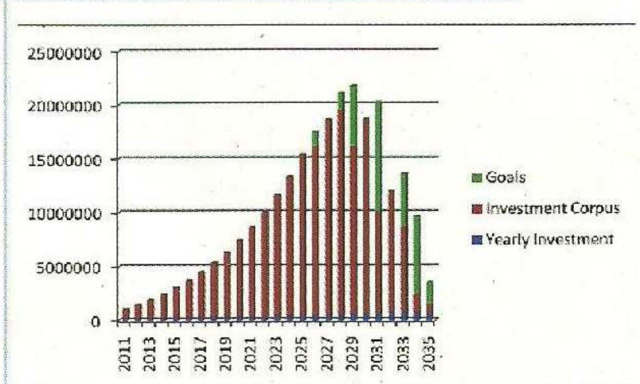
Already planned

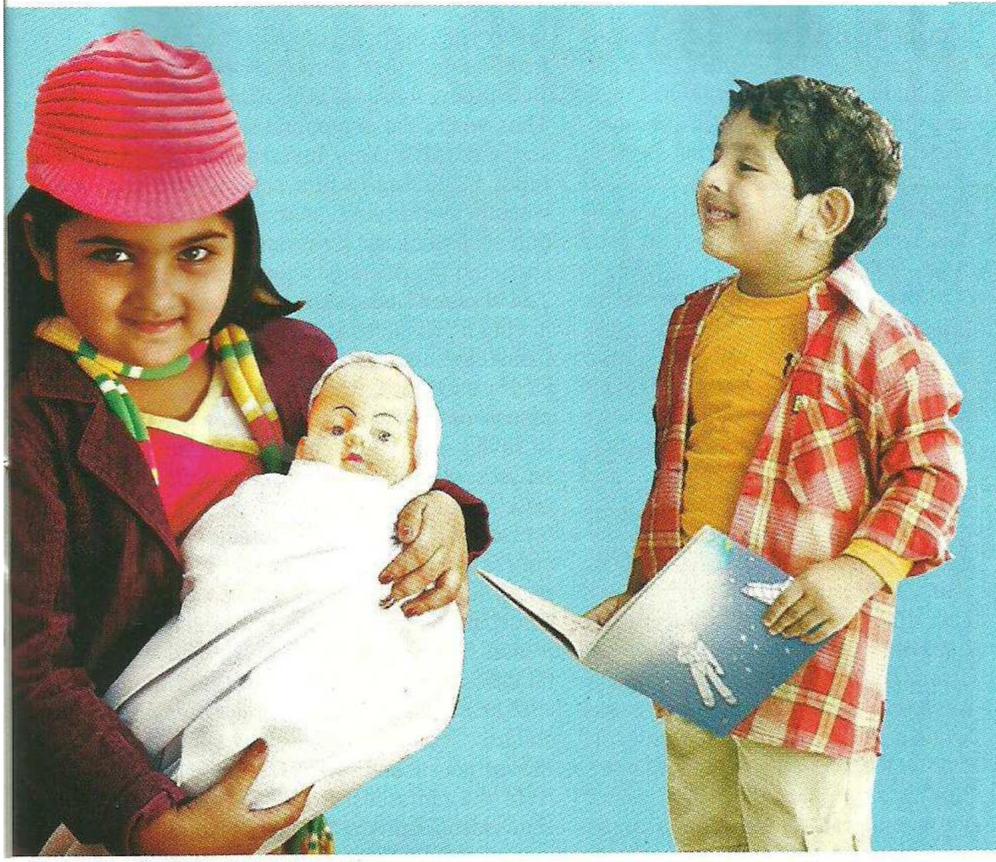
For the daughter's marriage, they already bought Rs 6 lakh plot when she was born at 8% which will be valued around 41 Lakh at the time of daughter's marriage.

- Parents decided that 50% of son's business goal will be funded through loan so the goal got reduced to Rs 71 lakh in future cost.
- Other than this, they have Rs 3 lakh in equity mutual funds and Rs 2 lakh in SBI Bonds.

Bridging the gap

Their risk profile is moderately aggressive and as they have time with them we suggested them to maintain an asset allocation of 60% in equity and 40% in debt. If we assume 11% return on this portfolio and assuming that savings increase by 5% every year - parents need to start with Rs 2.5 lakh yearly saving.





For your dearest one

- Buy a health insurance policy with maternity benefit
- Baby fund can be started by regularly setting aside an amount every month to manage the expenses related to vaccinations and other medical check-ups
- Start hunting for bargain deals on baby equipments
- Your EMI should not be more than 10% of your income
- Open PPF account in name of your child and assure that whatever child receives it should be used only for his/her benefit
- Be clear on value of your goals before starting any saving and goal value should be inflation-adjusted
- If you are one of those who have big dreams regarding daughter's marriage - you will need gold
- You should save adequately as you may not want your daughter to keep on paying the education loan EMIs even after marriage
- Sum assured is important and not the number of policies while getting insured
- Retirement planning is important as no parent wants his/her daughter to remain worried about them after getting married

are many health insurance policies which have maternity benefit as a special feature. Expenses at hospitals and regular checkups are mounting day-by-day and this feature will help in reducing the burden on finances. If you are employed, you can check whether this feature is there in the employer provided policy.

2. Start a baby fund by regularly setting aside an amount every month to manage the expenses related to vaccinations and other medical check-ups. This amount has to be increased by an appropriate amount if both parents are working and after the child's birth the wife is planning to quit the job or remain on leave even after maternity leave is over.

3. Start hunting for bargain deals on baby equipments. Buying the best car seat, stroller etc. for the child's safety and comfort. Paying the full price is often a waste of money. Babies quickly outgrow many of these items. It is advisable to start checking with friends and acquaintances and stores that sell used goods; your baby will never know the difference. And this in turn will save you a lot of money.

4. You should have a thorough understanding of your finances. You should not enter into this responsibility if you are burdened with debt. Your EMI should not be more than 10% of your income at this stage since your expenses are going to increase soon.

Now let's come to a second stage, and you will find that raising a child is not a child's play. Though childcare is expensive for infants, even when your child is old enough to go to school then apart from school fees, you will have after-school care, extra curricular activities, summer camps etc. Well to manage these expenses, it is advisable to make it a part of current cash flow so that you do not overspend on other expenses. This is high time to start planning for long term and start saving for child's higher education and marriage expenses.

Then you become gender biased

What?? But you said "There has been a paradigm shift in the thought process of people and generally they do not make any difference between son and daughter." Still there are some societal concerns which many people do not want to overlook. For e.g. spending heavily on a daughter's marriage. You may compromise on the son's marriage but for the daughter's marriage no parent wants to cut corners. So this becomes one of the major goals in life. Concerns about helping the son settle down, gifting the daughters- in-law on some regular occasions and festivals and taking care of the children (even after marriage) are concerns for most of the parents these days. So, this increases the importance of financial planning. Now-a-days, people are not only concerned about savings but also the distribution aspect. Savings are important but your planning should be tax efficient also.

Looking at mounting inflation, if you keep on delaying the savings part then you can be in a major mess later. Looking at some societal obligations which in turn affect the personal goals achievement, we suggest some tips which can be helpful in achieving the goals comfortably in your own way.

1.) Open Public Provident Fund (PPF) account: The moment the child receives the first monetary gift, open a PPF account in his/her name. Do ensure that whatever child receives ;it should be used only for his/her benefit. This will in turn ease your pressure of saving.

2.) Start saving with a proper asset allocation: You should be clear on the money value of your goals before starting any saving. Goal value should be inflation-adjusted. Try to use only those instruments which provide tax-free returns like PPF and equity (direct or through mutual funds). If the returns are taxable then the return amount will be added back to the parent's income and taxed as per the slab in which parent is in.

3.) Buy gold: Not because gold prices are going to move higher but to make it part of your overall asset allocation. If you are one of those who have big dreams regarding daughter's marriage - you will need gold.

4.) Education: You can compromise on savings for your son's education as one can comfortably get education loan whenever or if required. But for the daughter's education, you should save adequately as you may not want your daughter to keep on paying the education loan EMIs even after her marriage.

5.) Get Insured: Never purchase insurance in the name of your child. Understand the importance and purpose of insurance. It is to be purchased to manage the risk prevalent in one's life - death, health problems, accidents. If you want your goals to be met comfortably then proper insurance planning is inevitable. Also what is important is sum assured and not the number of policies.

6.) Do proper retirement planning: If you want your child to be really happy in his life then you should do your retirement planning properly. No parent wants his/her daughter to remain worried about them after getting married. Even in the case of the son there are chances that after getting into professional life or after marriage, he may not be able to support the parents properly and at that time you become dependent on him then it will create unnecessary pressure in your and his mind.

7.) Give gifts through Trust: From the point of view of proper tax planning and safety of investments for the benefit of married daughter, father can create a private trust in the name of daughter. It helps in practical handling of the married daughter's funds. If a direct gift is made to the daughter, all the investments normally are in the name of the daughter who takes them with her to her father-in-law's house after marriage. If by chance there is a financial crisis in her husband's family, she could be persuaded to part with the investments standing in her name for the sake of her husband's family. In such a case, it may also happen that she may not be able to replenish the same for considerable time. Therefore to save the funds or wealth of the married daughter from being sold away under the pressure of husband or in-laws, it is advisable to have a trust for the married daughter. If investments for the benefit of married daughter stand in the name of trustees of the trust it is not possible for anyone to ask the trustees to part with the investments just to meet personal or business obligations of the family.

8.) Trust for major son: Creating a trust for the major son has its own practical advantage particularly while he is studying or is not fully settled in life. In this way, the funds can be protected from being frittered away if the son were to have the funds in his name only. Thus where the son operates a bank account and makes investments of funds belonging to him particularly when he is studying, there is the risk of his misusing the funds or recklessly spending the funds or wasting them. This abuse of funds can be prevented by having a private trust for his benefit. In this case, a bank account can be operated by the trustees who may include the parents of the son as well. If you want to save money for your son's future business planning, then you can do the same by transferring money to this trust.

9.) Do proper estate planning: If you are really concerned about you children's future and want to reduce their hardships, then proper estate planning is vital. You should write a proper and tax efficient 'Will' which helps in proper distribution of wealth among your children. You can create different tax files by not allocating the assets directly to the children but to his Hindu Undivided Family (HUF), grandson / granddaughter. You can also create a Trust through your 'Will'. This is the most important exercise which you should do at the moment your child is born. You can write in the 'Will' as to how your insurance proceeds and other assets are to be utilized/distributed in case of your demise before the achievement of planned goals.

Planning is bringing the future into the present so that you can do something about it now. Someone rightly said "A good plan today is better than a perfect plan tomorrow". So do not delay and prepare a plan today.