EXPRESS Money

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EXPRESS CLINIC

NAME: **SURESH SHARMA (51)**
RESIDES IN: INDORE
PROFESSION: GENERAL MANAGER WITH AN IT COMPANY

NET ANNUAL INCOME POST TAX
(₹ 25.80 Lakh)

STATUS & GOALS

SURESH AND RAGINI RESIDE IN THEIR OWN HOUSE AT INDORE. RAGINI IS A HOME MAKER. THEY HAVE A DAUGHTER SMITA, 26, WHO GOT MARRIED LAST YEAR. TILL DATE SURESH AND RAGINI'S PRIORITY WAS GOOD EDUCATION AND MARRIAGE FOR THEIR DAUGHTER, FOR WHICH THEY HAVE EXHAUSTED MOST OF THEIR SAVINGS. AS THEY ARE DONE WITH THIS RESPONSIBILITY THEY WOULD LIKE TO PLAN THEIR FINANCES FOR COMFORTABLE RETIREMENT. BOTH SURESH AND RAGINI ENJOY GOOD HEALTH.

NEEDED

A financial plan which can help the couple channel their current income into productive avenues in order to provide for their goals

MONTHLY INCOME (Post Tax) **₹ 2,15,000**

MONTHLY EXPENSES **₹ 56,000**

NET MONTHLY SURPLUS **₹1,59,000**

GOALS

IN ORDER OF PRIORITY

CAR (2014) (inflation 7%)

CURRENT VALUE	FUTURE VALUE
₹ 10 lakh	₹ 11.45 lakh

INTERNATIONAL HOLIDAY (2015) (inflation 8%)

CURRENT VALUE	FUTURE VALUE
₹ 1.5 lakh	₹ 1.9 lakh

PROVISIONING FOR SMITA'S FAMILY FUNCTIONS (2019, Inflation 7%)

ESTIMATED CURRENT ANNUAL SPENDING	FUTURE VALUE	CORPUS REQUIRED
₹ 75,000	₹ 1.20 lakh	₹ 23.59 lakh

RETIREMENT PLANNING (2019) (inflation 7%) (Life expectancy – 80 years)

CURRENT ANNUAL EXPENSES (life insurance premium excluded)	FUTURE ANNUAL VALUE	CORPUS REQUIRED
₹ 6.72 lakh	₹ 10.79 lakh	₹ 2.12crore

CURRENT INVESTMENTS:

SAVINGS ACCOUNT	:	₹ 3 LAKH
BANK FIXED DEPOSITS	:	₹ 10 LAKH
EQUITY MUTUAL FUNDS	:	₹ 5 LAKH
PROVIDENT FUND	:	₹ 27 LAKH
INSURANCE CASH VALUE	:	₹ 25 LAKH

(WILL GET ₹ 5 LAKH MATURITY AMOUNT EVERY YEAR FOR NEXT 5 YEARS)

FINDINGS

EMERGENCY FUND: Though not specifically created, Suresh has sufficient liquidity available.

LIFE INSURANCE: He has life insurance cover for ₹25 lakh that too through endowment policies that are about to mature shortly.

HEALTH INSURANCE: Suresh has a health cover through his employer and a separate floater policy with a coverage of ₹3 lakh.

INVESTMENTS: He has a well-diversified portfolio and has withdrawn most of his equity-linked investments for his daughter's marriage as he was worried about the stock market performance.

LIABILITIES: Suresh does not have any liabilities, which is a positive factor.

PROVIDENT FUND: He has made some withdrawals from his provident fund for Smita's education.

RECOMMENDATIONS

EMERGENCY FUND: With a monthly expense of ₹56,000, Suresh needs to maintain an emergency fund of at least ₹3.36 lakh in his saving bank accounts to meet immediate needs.

Express TIP: With the increase in age, emergency fund should be reviewed periodically and increased to manage the contingencies in a better way.

LIFE INSURANCE: After Smita's marriage Suresh is left with very less savings, which has negatively impacted his life insurance requirement. Looking at current investments and with need based analysis he requires additional coverage of at least ₹1 crore. He should buy this coverage through an online term plan which would cost around ₹60,000 p.a.

Express TIP: Your expenses and goals define your life insurance requirement, but if you have good savings then the required coverage is offset. In the younger years when you are about to start saving, insurance coverage requirement is greater.

HEALTH INSURANCE: The existing ₹3 lakh coverage and that too through a floater plan would not be enough in this rising medical cost scenario. Suresh is advised to buy additional coverage of at

least ₹5 lakh through a separate health insurance plan for himself and Ragini. The total outgo in this case would be ₹27,000 p.a.

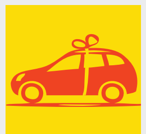
Express TIP: Review of health insurance coverage after every five years is very important. Increasing age may lead to health problems.

ACCIDENT INSURANCE: Suresh should buy accidental insurance coverage of at least ₹1 crore with a maximum available coverage of temporary total disablement benefit. The premium for this would be around ₹13,000 p.a.

Express TIP: Accident insurance is required primarily to cover potential disability.

RETIREMENT PLANNING (2042): After adjusting the current EPF balance and further contributions for the next 7 years, Suresh should start by saving ₹1,28,500 per month in balanced mutual funds which have equity: debt allocation of 65:35. He should also use the current fixed deposits and equity mutual funds for this goal. RATE OF RETURN ASSUMED IS 10% POST TAX.

Express TIP: Retirement planning should always be on top priority while allocating your investments, for we actually plan for those years when we will not be getting regular pay cheques.



CAR (2014): Suresh will have to compromise on this goal or lower it on the list of needs. Although his cash flow situation after arranging for retirement savings helps him save enough for this, he will be left with nothing else to support any medium-term emergency and near-term functions in Smita's family. He should start saving the surplus in bank recurring deposit and review the situation after two years.

Express TIP: Goal should always be realistic and achievable, and one should always evaluate on the effect of saving towards one goal on others.

SMITA'S FAMILY FUNCTIONS (2019): Suresh should use the maturity proceeds of his insurance policies towards this goal. Every year he will be receiving ₹5 lakh, which he should park in some hybrid mutual fund with very low equity allocation.

Express Tip: Clearly projecting future expenses helps a lot in arranging finances to achieve the goal.

CONCLUSION

One should always take holistic view of one's finances and start saving simultaneously towards all realistic goals. Concentrating on one goal at a time may hit other goals very badly. Stick to your budgets and stay focussed on your goals.

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■ MARKET WATCH

'Sensex could touch 21,500 by Q1 FY14'

THE good news first. With commodity prices projected to stabilise and interest rates likely to ease over the next 12 months, the bottomlines of listed firms, currently hovering at around 8 per cent, could surge to 14-15 per cent by next year. The change in sentiments could propel the BSE Sensex to its all time high of 21,500 points by first quarter of FY'14, says ***Dinesh Thakkar****, CMD Angel Broking. In an interview with* ***Surabhi****, he has forecast that the BSE Sensex could touch 21,500 points and the Nifty 6,200 levels by the first quarter of 2013-14. The bad news is that corporate results are likely to be lacklustre this quarter and nothing exceptional is expected in the upcoming earnings season. Excerpts:*

The RINL stake sale was deferred over issues of valuations. Do you think this will affect other PSU disinvestments also?

The government should be more focused on reasonable pricing. It should leave something on the table for retail investors so that they get returns on equity and have confidence to reinvest in the market. Investors lose interest with high valuations. So instead of focusing on deficit targets, the government should encourage people to invest in equity, especially at a time when they are investing more in gold.

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Given that most PSUs are expected to follow government mandates, how attractive an option will be the proposed exchange traded fund for PSUs?

Fundamentally, PSUs are not attractive, until they are privatised. As long as they are run by the government, their bottomline and growth is controlled. So investing in it for the one- or two-year horizon is not wise. They are good buys for the long term and investors should have patience to hold them for 5-10 years and hold PSU stocks so that proper unlocking is done. We need to think beyond listing gains or divestment programme. They have a good value but in terms of growth are very limited.

What is your expectation from the market behaviour?

Corporate results are not very encouraging and we do not expect any fireworks in this quarter. Investors have also factored this in and the market is looking at the future– 2013-14. We expect commodity prices to stabilise and interest rates to ease. Companies' bottom line, which are currently at 8-9 per cent should rise to 14-15 per cent by next year. Liquidity and change in sentiments will take the BSE Sensex to all time high of 21,500 points by first quarter of FY'14. The Nifty too should touch 6,200 points. But we don't expect GDP to grow at more than 6.5 per cent in the next fiscal.

Two new schemes have been launched this year – qualified foreign investors and Rajiv Gandhi Equity Savings Scheme (RGESS). What do you think of them?

The QFI scheme has some procedural issues that need to be addressed. There is too much paperwork for foreign investors, making investing in India a very cumbersome process. Government should also think in terms of recognising regulators abroad so that foreign investors registered with them can invest directly in the country. As far as the RGESS is concerned, I don't know how effective or popular it will be as there are many schemes that give the same tax deductions and benefits.

Retail participation in equities is limited. Are we seeing a change in this trend now?

Retail participation is just about 1.5 per cent in India of which only 40 per cent accounts are active. So effectively, it is as low as 0.6 per cent. We need to bring it up to the level of 10 per cent, which is the level in China. In developed countries like the US, retail exposure to equities is even higher at close to 35 per cent.

Do you expect any monetary policy easing by the Reserve Bank of India in its next review?

Inflation is stubbornly high and RBI is waiting for the government to first address supply side constraints. Global oil and commodity prices are also easing. RBI may not ease interest rates immediately although it may cut CRR or repo rates. We expect interest rates to reduce by 100 basis points due to the mismatch in the credit demand and supply.

Do you expect a pick-up in corporate investments?

The reforms unleashed by the government will encourage corporates to invest more and will lead to more capex plans. The government has become pro-active as it wants to get back to growth rate of 7 to 7.5 per cent. This will then take us to a growth in savings of 37 to 38 per cent and investment cycle will pick up. We

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expect a pick-up in investment in the next fiscal. Investors and analysts are really looking at how FY'14 will pan out. We expect the GDP growth rate of 6.5 per cent, while this fiscal we don't think that the economy will grow over 6 per cent.

How will the US and euro zone slowdown affect foreign investments to India?

As far as the US is concerned, the worst is behind us. The slight recovery in the US economy could have a positive effect on India. Even when the US was in a bad shape, we still did not see any decrease in inflows to India. India tends to gain from investors in US as compared to other emerging economies. Europe will also follow the US model and work on stabilising its economy. There are issues of common currency but breaking away will not help. Corporate earnings have not reduced there so liquidity has not reduced. The allocation to India will remain and may even increase. ◆

—*surabhi.prasad@expressindia.com*

■ INSURANCE

Shield your home from the unforeseen

AMIT BHANDARI

BUYING a house is one of the most memorable moments for any family given the investment that goes into it. If the thought of damage to your house is making you worried, be rest assured, there is a simple and cost effective way to shield your house from untoward events —a home insurance policy.

While home insurance as a product category has been in existence for long, it has recently started gaining acceptance among Indian households. As natural calamities like flood, earthquake etc become more frequent and acts of theft gain ground, a greater number of home owners are subscribing to home insurance policies to protect their asset. A home insurance policy offers comprehensive cover for your property which includes:

■ **Structure cover**: This refers to the basic structure of the house. The compensation under this cover is paid to repair any damages to the structure caused by natural and man-made calamities.

■ **Contents cover**: This cover is used to protect the various possessions inside your house. If these are damaged or stolen, the insurance portion covers the loss pertaining to the same.

> APART FROM choosing the right cover, it is extremely important that one is aware of the terms and conditions of the home insurance policy

■ **Cover against burglary**: This cover insures contents like electronic equipment, furniture, jewellery, clothes and much more which may be lost due to acts of theft

■ **Cover against all perils**: Any home insurance policy should ideally cover against perils like:

■ Fire
■ Lightning
■ Aircraft damage
■ Impact damage
■ Explosion/ Implosion
■ Storm, cyclone, typhoon, tempest, hurricane, and tornado etc.
■ Riot, strike, malicious and terrorism damage
■ Subsidence and landslide
■ Bursting and/or overflowing of water tanks, apparatus and pipes
■ Missile testing operations
■ Leakage from automatic sprinkler installations
■ Bush fire
■ Earthquake

Recently, insurance companies have started offering optional covers e.g. cover for terrorism, cover to reimburse additional expenses of rent for alternative accommodation etc.

Apart from choosing the right cover, it is extremely important that one is aware of the terms and conditions of the home insurance policy. Common exclusions in home insurance policies include:

■ Any kind of willful negligence or misconduct or contractual liability or consequential losses.
■ War, invasion, act of foreign enemy hostilities or war like operations
■ Ionising radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste.
■ Radioactive substances, toxics, or explosives.
■ Direct or indirect involvement of self and/or family members.

Subscribing to the right policy is extremely important for anyone planning to purchase or already purchased their dream house. A house is a financial as well as emotional asset. While the emotional loss cannot be covered, a good insurance policy will ensure that one is able to rebuild/ refurnish the house backed by the insurance cover. With insurers introducing policies at attractive prices coupled with special offers; this could well be the best time to insure your home. ◆

—Author is VP, ICICI Lombard