

EXPRESS CLINIC

REUTERS



NAME: KARNVIR SINGH GREWAL

RESIDES IN: LUDHIANA

PROFESSION: LIEUTENANT WITH INDIAN ARMY

NET ANNUAL INCOME
(₹ 76 lakh)

STATUS & GOALS

KARNVIR SINGH (24) IS GOING TO JOIN THE INDIAN ARMY AS LIEUTENANT IN JANUARY 2013. HIS FATHER IS RETIRED AND HIS MOTHER IS WORKING AS A TEACHER IN A GOVERNMENT SCHOOL. PARENTS ARE NOT DEPENDENT ON HIM. HE HAS A YOUNGER SISTER WHO IS STUDYING IN CLASS XII. KARNVIR WANTS TO BRING IN THE SAME DISCIPLINE TO HIS FINANCES AS IS EXPECTED FROM HIM IN THE ARMY. AS A COMMISSIONED OFFICER, HE IS NOT WORRIED ABOUT ISSUES LIKE RETIREMENT, INSURANCE ETC, AS THOSE ARE TAKEN CARE OF. HE WANTS TO PLAN FOR NEAR-TERM GOALS LIKE HIS OWN AND HIS SISTER'S MARRIAGE COMFORTABLY.

NEEDED

A plan that can enable Karnvir to reach his goals

MONTHLY INCOME (Post Tax)
₹ 48,000

MONTHLY EXPENSES
₹ 8,000

NET MONTHLY SURPLUS
₹ 40,000

GOALS

IN ORDER OF PRIORITY

MARRIAGE

(2015) (inflation 7%)

CURRENT VALUE
₹ 2.50 lakh

FUTURE VALUE
₹ 2.86 lakh

SISTER'S MARRIAGE

(2019) (inflation 7%)

CURRENT VALUE
₹ 10 lakh

FUTURE VALUE
₹ 15 lakh

RETIREMENT PLANNING

(2048, inflation 7%, Life expectancy - 80 years)

CURRENT ANNUAL EXPENSES
₹ 0.96 lakh

FUTURE ANNUAL VALUE
₹ 9.58 lakh

CORPUS REQUIRED
₹ 1.71 crore

FINDINGS

EMERGENCY FUND: As he is yet to start earning there is no such fund with him.

LIFE INSURANCE: He will be provided with ₹35 lakh of life insurance cover by government.

HEALTH INSURANCE: He will be covered under the Central Government Health Service (CGHS).

INVESTMENTS: He is yet to begin investing.

LIABILITIES: He has no debt in his profile and therefore, no loan liabilities

PROVIDENT FUND: He will be contributing ₹5,000 p.m. in DSOP fund (Defence Service Officer's PF)

RECOMMENDATIONS

EMERGENCY FUND: He needs to always maintain ₹25,000 in his saving bank account to manage the emergencies.

Express TIP: Emergency fund is to cope up with the uncertain expenses which can't be predicted in advance. So it's always better to be prepared and 3-6 months of monthly expenses would be enough for this.

LIFE INSURANCE: Karnvir does not need any separate life insurance cover. He does not have any financial dependents and whatever responsibility he has will be taken care by employer-provided coverage.

Express TIP: Life insurance requirement calculation depends on responsibilities and liabilities. One should have either enough life insurance coverage or equivalent investments to take care of them.

HEALTH INSURANCE: Karnvir does not need any separate health insurance as he is fully covered under employer-provided coverage that will remain even after retirement.

Express tip: One should understand the coverage provided by employer and then decide on whether to buy it separately or not. Usually, it is not advisable to depend on employer

provided health insurance.

ACCIDENT INSURANCE: Karnvir should have at least ₹35 lakh of accident coverage covering permanent total and partial disability. He should buy a separate policy if he's not getting adequate coverage from the Army.

Express tip: To complete the must-have insurance portfolio personal accident insurance is very important. This policy covers one of the major risks which is disability.



MARRIAGE: As the goal is just two years away, so without delaying and not taking much risk he should start with a bank recurring deposit for two years with ₹11,000 per month.

RATE OF RETURN ASSUMED AT 8.5 PER CENT POST TAX
Express TIP: When the goal is very near one should not make use of any risky investments and the same should be done in safe and assured investment avenues.

SISTER'S MARRIAGE: Start Investing ₹15,500 p.m. in hybrid equity oriented mutual funds.

RATE OF RETURN ASSUMED IS 10 PER CENT POST TAX.
Express TIP: When the goal is more than 5 years away one can take position in equity, but better to invest through a balanced asset allocation.



RETIREMENT PLANNING: Karnvir does not need to make any special arrangements or investments for this goal. He would in any way be contributing ₹5,000 p.m.

in DSOP fund which will help him accumulate most of his retirement corpus. Besides this he will be getting decent monthly pension also. He may invest the surplus left every month after investing for other goals to some equity oriented mutual funds.

RATE OF RETURN ASSUMED IN DSOP 8%
Express TIP: Regular compulsory savings has its own benefit and helps a lot in retirement planning. The EPF is the option for private sector jobs. So make the best use of it.

CONCLUSION

Understanding one's responsibility and starting to plan finances at a young age will always pay in long-term. In addition, if you are disciplined enough in handling finances, it will boost your savings potential. Clarity of short and long term goals also helps in allocating the resources in the right way.

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For expert guidance on your financial planning email us your details at expressmoney@expressindia.com

■ MONEY WISE

Tax planning: Don't follow the herd

The Income Tax Act allows for several ways to save your tax outgo. Plan your needs first and only then choose your options

SHRUTI SRIVASTAVA

DIVYA Prasad is worried. Reason — the accounts department of her office has told her to furnish proof of investments planned by her during the year to lessen the tax outgo, something that she is clueless about. And she does what most of us do in a situation like this — call up an agent, pay up a certain fee and asking him for advice.

This is that time of the year when individual taxpayers start scrambling to plan out tax saving options. While the employer is under obligation to consider all investment proofs provided by an employee to tabulate the tax outgo, if the employee misses out on any detail or proof, he or she can always claim the investments in the Income-tax Return filed for the year and claim refund, since the employer has already deducted the extra tax on the investment portion for which the employee had not provided proof.

Tax experts say that most people do not have any idea on where to park money for saving taxes and most of the time simply rush in to invest in the same tax-saving instruments as their peers. Neither does it help them in proper saving on tax outgo nor does it lead to prudent tax planning.

There are a few crucial points one must keep in mind while working out the maths of saving tax. According to Vineet Aggarwal, director, KPMG, the first concern should be the need for liquidity. Taxpayers must bear in mind the period when they want to access the money they are investing. Secondly, they need to be clear about their risk appetite and be cautious about the safety of their investment. "You also need to consider the tax aspect after investment. You must check the tax on the maturity of investment or the income arising out of it and accordingly take an informed decision," says Aggarwal.

This is made easier as tax payers can take recourse to various websites that offer insights on tax saving plans, including sites of banks and financial service providers that advise, calculate and explain the options available. These websites also offer help in filing returns. However, for the salaried class, here are a few things that can be done to minimise the tax burden and maximise returns in the long run —

SECTION 80C OF THE INCOME TAX ACT: This section in the I-T Act provides tax breaks for investing in certain financial products. This was provided for by the government to encourage savings in the country. Section 80C investments include life insurance policy, Public Provident Fund (PPF), provident fund (PF), equity-linked savings scheme, home loan principal repayment, New Pension Scheme (NPS), pension products, mutual funds and tuition fee for up to two children. The section offers deduction



PRADEEP YADAV

Investment options to reduce the tax liability:

*Section 80C provides you relief till ₹1 lakh. Investments/expenses enumerated under this section are:

- Life Insurance premiums (self and family)
- PF contributions (self and family)
- Mutual Fund contributions
- Public Provident Fund (PPF)
- Tuition Fees (self and family)
- Principal portion of EMI of the Housing loan
- FDs with Banks for 5 years
- NABARD and other Bonds/Certificates

*Additional deductions which are over and above the ₹1 lakh limit as mentioned above:

- Health Insurance premium up to ₹15,000/- (under section 80D)
- Full Interest on Education loan under Section 80E
- Donations under Section 80G
- Interest portion of EMI of Housing loan up to ₹1.5 lakh (Section 24). [For house loan on more than one property, the interest repaid on second home is exempt without limit]

up to Rs 1 lakh for the taxpayers. Under PPF alone, you are allowed to invest up to Rs 1 lakh per annum. Many experts are of the view that the PPF is one of the best options available for tax planning. This is because, not only the investment in the PPF is tax free, the interest earned is also tax free.

The New Pension Scheme (NPS) is also, what tax experts say, a "fantastic" avenue to put in your money for tax saving purpose as up to 10 per cent of an employee's basic salary put in the NPS is tax deductible. However, you can avail of the benefit only if the

Personal income tax slabs:

Income up to ₹ 2 lakh	Nil
Income from ₹ 2-5 lakh	10%
Income from ₹ 5-10 lakh	20%
Income above ₹ 10 lakh	30%

employer has included this benefit in the CTC (cost to company).

Aggarwal says that people often ignore the tuition fee component while working on their tax saving plans. "Those who don't have enough cash to invest in 80C schemes can easily use this if they have children studying. There is no ceiling on the fee. It is allowed up to Rs 1 lakh". The benefit is available for maximum of two children. The principal repayment on a home loan is eligible for a deduction of up to Rs 1 lakh per annum.

MEDICAL CLAIMS: Under Section 80D, if you have a medical insurance, a deduction of Rs 15,000 per annum on premium is allowed while an additional deduction of up to Rs 15,000 per annum is allowed for preventive health check-up. You will be able to claim this as well this fiscal year.

HOME LOAN INTEREST REPAYMENT: Individuals who have bought a house through home loan are allowed to claim a deduction of up to Rs 1.5 lakh per annum on the interest payments. This falls under Section 24 of the I-T Act. This is a good option for taxpayers who are not able to utilise section 80C savings options sufficiently.

Further, experts believe that if you are planning to take a substantial

home loan this year, it would be beneficial if you opt for a joint home loan with spouse or parents. This will lead to maximisation of savings as both owners will be able to claim tax deductions on the proportion of their loan holding. It is advisable that the person who falls in higher tax bracket should hold higher proportion of the loan to get the maximum benefit.

LOAN FOR HIGHER EDUCATION: Taxpayers who have taken loans for higher education of their children or relatives, can avail of this benefit. The entire interest paid on the loan amount is allowed for deduction.

RAJIV GANDHI EQUITY SAVINGS SCHEME: Though the scheme has not been notified so far by the government, once operationalised, it would provide tax advantage to first-time retail investors with an annual income of up to Rs 10 lakh. Deduction of 50 per cent would be available for investing up to Rs 50,000 in equity. The scheme has a lock-in period of three years and it can be availed of only once in a lifetime. Stocks listed under the BSE 100 or CNX 100 or PSUs classified as Navratnas, Maharatnas or Miniratnas are eligible.

MORE OPTIONS: Apart from these options, individuals who live in rented accommodations can claim rent paid by them up to the House Rent Allowance (HRA) provided to them. Similarly, transport allowance is exempt up to Rs 800 per month, leave travel allowance (LTA) can be claimed twice in block of four years for domestic travel. The one thing you must avoid doing is rushing to make all these investments during February-March as almost always it leads to no or minimal returns on your investment due to lack of planning. ♦

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■ SMART TIP

Benefit from top-up health insurance



ADHIL SHETTY

A TOP-UP health insurance policy is an additional insurance cover for an existing health insurance. This means in addition to a basic mediclaim policy, you can purchase a top-up cover, which will give you coverage over and above what is available in your original policy. This usually works out to be cheaper than if you enhance limit of the same policy or purchase a new health policy.

CRITERIA

The main difference between a top-up cover and a regular health insurance policy is that top-up plans can be used only in case expenses incurred are beyond a certain limit. This limit, known as the deductible is decided beforehand and premi-

ums are calculated accordingly. A top-up plan with a higher deductible has a lower premium attached to it.

Another criterion is that a top-up plan normally works only on a single incidence of hospitalisation. This means that you can use the top-up plan only if your medical bills exceed the deductible during a single hospitalisation by a single member.

HOW IT WORKS

Let us assume you have an existing health insurance policy with your employer which covers you and your family to the extent of Rs 3 lakh. If your wife is hospitalised during the year and expenses amount to Rs 4 lakh, then you must bring in Rs 1 lakh from your savings.

Now, let us assume you have taken a top-up insurance for Rs 5 lakh with a deductible of Rs 3 lakh. In this case, the extra Rs 1 lakh, which is

over and above the limit of Rs 3 lakh from your existing policy, will be paid by the top-up policy. If you incur expenses of Rs 8.5 lakh, then the maximum amount that can be claimed is Rs 8 lakh (Rs 3 lakh from the existing policy and Rs 5 lakh from the top-up policy). The extra Rs 50,000 needs to be paid from your savings.

Now, assume another scenario. You have an existing policy of Rs 3 lakh and a top-up policy of Rs 5 lakh with a deductible of Rs 3 lakh. Your wife gets hospitalised twice in a year with bills of Rs 2.5 lakh and Rs 2 lakh each. Then the top-up will not be triggered in both cases. Further, if both your wife and son are hospitalised with expenses of Rs 2.5 lakh each during the year, even then the top-up will not be triggered.

FEATURES

- The top-up policy can be bought

from the same or different insurers.

■ Top-ups are available for both individual and family floater policies.

■ Pre-existing illnesses are generally not covered for a certain number of years. Basic exclusions, coverage and age limits depends on each insurer.

■ Premium paid towards top-up policies are eligible for tax deduction under Section 80D.

Top-up plans are not riders which usually can be bought with health insurance policies, which include hospital cash, personal accident and critical illness covers. Top-up plans have similar features as a regular health insurance plan, except for the higher amount of deductible.

A top-up plan is a cheap and easy option to increase your health cover, rather than being burdened with many health insurance policies. ♦

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