EXPRESS Money
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EXPRESS CLINIC

THINKSTOCK

NAME: **NISHA TAMANG**
RESIDES IN GURGAON
PROFESSION: ASSOCIATE WITH A KPO

ANNUAL INCOME
(₹5.40 lakh)

STATUS & GOALS

Nisha is from Darjeeling but works and resides in Gurgaon along with her mother. Her father who was a government officer passed away last year. Her mother gets family pension and is covered under the family health insurance scheme of the government. She wants to take care of her mother and thus has no plans for marriage as yet. With all her savings she wants to give her mother a secure future. She considers herself secure under the benefits provided by her employer but is looking for a structured financial planning that could help her achieve her near-term goals

NEEDED

Nisha's basic goal is to buy a house in the coming year, take good care of her mother and plan for a secured retirement.

MONTHLY INCOME **₹45,000**
MONTHLY EXPENSES **₹40,000**
NET MONTHLY SURPLUS **₹5,000**

GOALS
IN ORDER OF PRIORITY

BUYING A HOUSE (2014) *(inflation 10%)*		RETIREMENT PLANNING (2039) *(Inflation 7%)*	
CURRENT VALUE	FUTURE VALUE	CURRENT EXPENSES PA	FUTURE VALUE
₹50 lakh	₹55 lakh	₹3.6 lakh	₹20.9 lakh

RETIREMENT CORPUS REQUIRED
₹4.16 crore | *Life expectancy 80 years*

CURRENT INVESTMENTS:
Bank fixed deposit — Rs 2.50 lakh
PPF savings — Rs 780 per month
EPF savings — Rs 780 per month
Land in hometown — Rs 35 lakh
ULIP investment

FINDINGS

EMERGENCY FUND: Liquidity available in fixed deposits can take care of emergency requirement.

LIFE INSURANCE: She has one life insurance policy of Rs 2 lakh sum assured which is unit linked.

HEALTH INSURANCE: She has health insurance coverage of Rs 3 lakh through employer and her mother is covered under government sponsored policy.

INVESTMENTS: She has no idea how and where to allocate her resources for investments, thus whatever she has is in fixed deposit or compulsory savings like EPF.

LIABILITIES: She has a car loan and a personal loan, which will be paid off by next year.

RECOMMENDATIONS

EMERGENCY FUND: Nisha needs to break her FD and put Rs 1.20 lakh in her savings account or a flexible FD account and maintain it as an emergency fund.

Express TIP: Emergency fund helps in managing crisis situation. When everything is going smoothly one never thinks about such situations but it's advisable to be prepared for the worst.

LIFE INSURANCE: Nisha does not have much of life insurance coverage.

Life insurance is meant for those who have financial dependents. Nisha has to see the dependency of mother. If that is getting managed by father's family pension, than nisha does not need a life insurance policy, otherwise she should go with a cover of at least Rs 50 lakh. Online term plan would cost her Rs 6,000 p.a.

Express TIP: Life insurance is required only when there are financial dependents. Otherwise there's no need to pay mortality cost. Better to invest your money somewhere for good returns.

HEALTH INSURANCE: Nisha should not be de-

pendent on her employer for her health insurance requirement. She should buy a separate individual health cover of at least Rs 5 lakh. This will cost her Rs 6,000 p.a.

Express TIP: Health is a very sensitive issue. One health problem has the capacity to devour all the savings. So better be prepared.

ACCIDENT INSURANCE: Accident coverage is meant to cover the income loss due to disability which may be temporary or permanent. This is one of the most important insurance coverage. Nisha should buy an accidental cover with temporary total disablement benefit. The sum assured of Rs 50 lakh will cost her about Rs 6,000 p.a.

Express TIP: Like bad health, disability can also prove to be very bad for your finances. Better to cover that risk at the earliest.

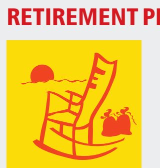
HOUSE PURCHASE GOAL (2014):

It is very much visible that Nisha does not have enough savings and neither has she had enough cash flow surpluses which could finance her goal of buying a house. But next year, after doing away with her car and personal loans she should be able to generate monthly surplus of around Rs 25,000 per month. With this much of surplus she would be able to buy a house in the range of Rs 30-Rs 32 lakh. In this case also she would have to arrange for at least 20 per cent of house value as down payment. Looking at the situation, she has two options. One is to sell the land she has in her home town to partly fund the house purchase. The second option is to start saving Rs 25,000 per month in some short-term debt funds and review the situation after one year. This way she can save decent corpus for the down payment of house loan. Use the balance in FD and ULIP towards this goal.

Loan interest rate assumed 10% and loan tenure 20 years.

Express TIP: Going with high interest loans like personal and car loan at a young age, leaves very less scope to arrange finances for other important goals. Save first and then buy.

RETIREMENT PLANNING (2039):



Nisha wants to remain independent always but also understand that come what may she has to stop working sometime, so she needs to plan properly for those days. She wants to retire at the age of 55. Her EPF and PPF contribution will yield her around Rs 25 lakh and the balance she needs to accumulate herself. Now, to accumulate the balance Rs 3.90 crore, she needs to invest Rs 15,500 per month in equity debt asset allocation of 80:20. Right now, it may not be possible but here she has to prioritise between house and retirement.

Rate of return assumed is 14% post tax in equity and 8% post tax in debt.

Express TIP: Retirement goal is always related with current expenses, which designs a person's lifestyle. Higher the expense, higher will be the corpus required and which requires higher savings too. EPF has always been a good compulsory saving tool for retirement.

CONCLUSION

It's always better to start early on savings. Where goals are clearly visible, savings instrument can be easily selected. As far as possible, loans should be avoided at a young age, especially when it is for consumption or depreciating assets.

PLAN BY MANIKARAN SINGAL,
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COVER UP

Right health insurance can be a saving grace

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India has one of the highest out-of-pocket spends at 61% and the rising cost of hospitalisation and medical treatment can burn a hole in your pocket. So, a correct health cover can save a lot of pain when medical emergency strikes

AMIT BHANDARI

MEDICAL inflation is a cause of concern for each one of us today. India lags behind its global counterparts in offering a state sponsored health insurance system to a large section of the population. As a result, it has one of the highest out-of-pocket spends at 61 per cent, putting a lot of stress on family budgets in case of a medical treatment.

Given the uncertainty associated with medical emergencies, it is best to be prepared by availing a health insurance policy. Choosing the correct health insurance plan is a very perplexing process for several people given that there are so many products available today. Also, each policy offers different options, add-ons which tend to further complicate the purchase process.

Before you zero in on a policy, you need to be clear about your requirements as well as your existing medical history and your family's. Having zeroed in on a policy, it is very critical to thoroughly understand the same including the caveats.

The following factors will help you choose a health insurance policy in line with your needs:

ADEQUATE SUM INSURED

It is essential to take sufficient cover which protects you and your entire family. It is important to choose the right amount of sum insured depending on the past medical history of the elderly family members as they would require higher health insurance coverage. Similarly, the location where you reside should be taken into consideration. A person staying in a tier I city would require a higher sum insured compared to a person who lives in a small town since the hospitalisation costs are higher in metros.

CASHLESS MEDICLAIM

Most health insurers provide cashless facility to insured individuals. It is necessary to check the list of network hospitals that are offered to the policy holder. Cashless facility offers convenience to the insured as it avoids the hassle of making payments and then claiming reimbursement. Some of the companies have their own claims processing unit which makes direct payment to the customers.

AGE LIMITS

It is essential to understand the maximum acceptable age limit offered by the health insurance company. The possibility of falling sick is much higher at an older age. Hence, it is important that one is covered by a comprehensive health insurance plan even after retirement. Also, you should choose a policy that can be renewed after the age of 65 because at an older age it is difficult to purchase a new insurance policy.

CHECKLIST

CHOOSE A policy that can be renewed after the age of 65 because at an older age it is
difficult to purchase a new insurance policy

INSURERS HAVE introduced co-pay and sub-limits wherein the insured individual agrees to share some of the expenses incurred. In this case, the insured benefits from a lower premium amount

THE LOCATION where you reside should be taken into consideration. A person staying in a tier I city would require a higher sum insured than someone from a tier II city

GOOD HOSPITALS may be few and far between, so it is necessary to check the list of network hospitals that are offered to the policy holder

VALUE ADDED SERVICES

Most of the health insurance plans in the market offer features that are competitive. An emerging aspect is the additional value-add perks offered along with the policy.

Health insurance firms now offer various additional value add services like free health check-up, online chat with doctors, dietician and nutrition e-consultation, physiotherapy, speech and audiologist consultation. Opting for these value-added services can result in a substantial saving for the insured individual. In addition to the haves in a policy, you need to know the have-nots as well to avoid negative surprises later. Given below are a few factors which are typically not under the covered expenses.

LIMITED SERVICES

Some plans have a limit on certain services. For e.g. ten doctors visits per year, in this case, the policy holder will have to pay full cost of any visits above that limit as they would not be considered as part of covered expenses.

CO-PAY AND SUB LIMITS

Insurance companies have introduced the co-pay and sub-limits wherein the insured individual agrees to share some of the expenses incurred. In this case, the insured benefits from a lower premium amount compared to a regular policy with no sub-limits.

It is essential that you conduct a thorough research and make an informed choice while choosing a comprehensive policy. Preventive care helps and it prolongs the need for insurance but it is wise to keep ones family protected with a good health insurance cover.

The author is VP (Health Underwriting & Claims), ICICI Lombard GIC Ltd.

FINANCIAL INDEPENDENCE

Earn, Protect, Save, Invest, Spend

PARAG PARANJPE

GREG Chappell, the great Australian cricketer on being appointed as coach of Indian national cricket team did what every right thinking coach or an advisor should do.

He asked the team members to go back to the basics.

For batsman that means; importance of running hard between the wickets, cutting down on risky shots for scoring runs and for bowlers; keeping control over line and the length.

For mavericks like Virendra Sehwag and aristocrats like Saurav Ganguly this was pretty harsh.

His tenor may be controversial but the message was clear. One can achieve success by being disciplined and consistent in approach. Australian cricket team dominated the cricket world for so long by not doing anything extravagant but with this simple philosophy of hard work and discipline.

It is the same in case of our financial life. Success depends on adhering to basic principles of prudent financial management.

Investment world may be complex but life can be simple.

Don't make it complicated. There are already enough bright minds from management schools adding to the difficulty levels every day.

As a sensible person, our objective should be to achieve complete financial independence and make life simpler.

The stage of financial independence can be reached where money is working for you instead of you working for money. Instead of you toiling hard 24x7 let there be passive income.

The problem, however, is the approach we follow.

Let's discuss it one by one. The first is Earn, Spend, Save. We earn and then spend it for EMIs of home, car, household expenditure, entertainment, eating out, travelling etc. What is left is the savings for the month. So out of Rs 100 we earn, we spend Rs 85 and rest Rs 15 is the savings. This approach according to me leads to what I call is the stage of Financial Disappointment & Disaster.

Here savings is dependent on expenses. Instead of cutting down on expenses, we are compromising on savings. Are we working for banks to which we pay EMIs or ITC, HUL, PVRs of the world for consumer durable, entertainment, etc?

PAY YOURSELF FIRST

First week of the month should be allocated for your SIPs, RD and forced savings. EMI can wait till month end.

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Logical. Isn't it? Next stage is 'Earn, Save, Spend'. Slightly better than earlier stage, but still one is dependent on earnings alone to manage the entire finances. It however does bring some discipline in the process but eventually lead to the stage of Financial '.

The savings and the expense will still be prone to risk. This leads us to third stage of Earn, Protect, Save, Spend.

Here we try to 'protect' the source of our financial well being. Protect earnings by way of protecting earner (Life Insurance), protecting against the risk that can derail earnings (Health insurance, asset protection etc.) The biggest confusion is at this stage. We mix protection with savings. These two are entirely different from each other.

By mixing the two we are compromising on both. Protection on a standalone basis is very cheap but mix it with savings and we have a problem. Buy insurance for protection and not earning.

If we tick all the boxes here, we have achieved Financial Security. Think for a while something is still missing. We are away from that coveted status of Financial Independence. And this can be done only when the savings get converted to investments. That matured stage is Earn, Protect, Save, Invest, Spend. While a savings denotes no or low risk, investment will essentially have risk.

All we have to do is to manage it properly. How, when, where to invest is altogether different topic but this conversion from savings to investment is of utmost importance without which passive income and eventually financial independence cannot be achieved.

Get ready, work hard. There are plenty of Johnty Rhodes around, very excited to run you out.

The author is ACA, CFPCM Think Consultants, Nagpur Member, Foundation of Independent Financial Advisors