Photos: PURVA GADRE

No substitute for equity

Most of the goals are still some years away for the couple and inflation-beating investment is what they need, **by Anagh Pal**

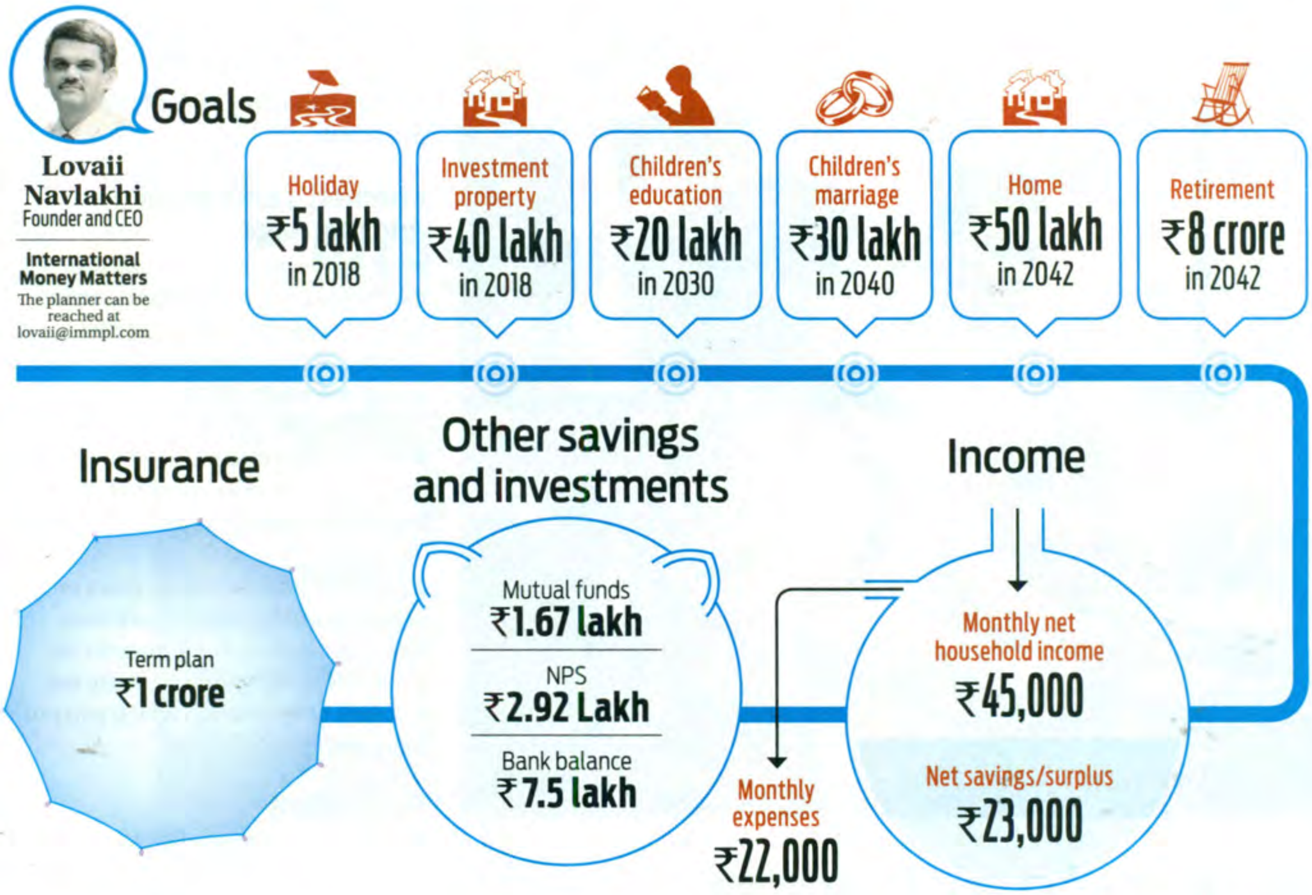
With no financial liabilities or dependents yet, Dr Praveen and Dr Pervinder have the advantage of starting on a strong wicket—they are not too late to start planning for their finances. Another thing that goes for them is the fact that Dr Praveen works with the Government of India, which ensures he has a job till he retires, a crucial factor in these uncertain times. With so much in their favour, all that the couple need is to follow a few basic tenets of financial planning to see them through their future financial goals and life.

Given their future goals are some years away, it is very important that they start putting their money into equities, because it is the only asset class which can beat inflation. Moreover, equity investments are more likely to earn better returns than investments in bank deposits and other fixed return instruments. Savings and investments to save tax under Section 80C of the Income Tax Act up to ₹1.5 lakh are permissible each financial year; post the mandatory NPS deduction, they should maximise the remainder into an ELSS (equity linked savings scheme). Investments in ELSS have equity exposure and also have a shorter three-year lock-in.

Smart moves

Dr Pervinder is expected to get into employment from 2016, which will allow for additional cash flows to the family, and ease their current limited resources. As they are able to comfortably manage their living expenses on a single pay, they should consider

If, like Praveen and Pervinder, you would like to share your story and have a financial plan made by a financial planner, write in to us with your contact number at **letters@outlookmoney.com**



continuing with one pay to fund the house and use the other to save and invest for the future. By following this path, they will have a clear sum to invest each month towards their financial goals and monitor its progress better. Further, in doing so, they can ensure that the investments are tax efficient and optimise their mandatory income tax liabilities.

Although they have medical cover by way of the CGHS facility, it will be prudent to supplement it with critical illness cover to meet any medical emergencies that may arise in the future. They can also look for a policy that will not only insure both of them, but also cover the parents for whom they are creating a corpus towards medical emergencies from 2020. Some of their big-ticket financial goals are long-term, and given the time in hand they can easily achieve them. But, at the same time, they should review the goal costs a few years from now to not fall short of what they may eventually need.

Having set out on a mission to accomplish their financial aspirations, the couple should start investing and make it a habit to check the progress of their investments once a year. This approach will go a long way to help them not only cope with financial anxieties, but also have a greater control over their finances, which will automatically result in the financial goals being met as planned. ◻

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A plan to act upon

Emergencies

- Considering you are living on a single pay, treat the emergency corpus as sacrosanct
- Set aside 3-6 months of monthly expenses including the insurance premium, which works to ₹1.3 lakh
- You can utilise a part of your bank deposit to achieve this

Insurance

- Dr Praveen should continue with the term plan
- Ensure Dr Pervinder takes a similar term plan soon, as the premiums go up as one ages
- While you have CGHS cover, you will benefit from taking a critical illness cover for ₹5 lakh each
- An independent accident cover too is recommended to take care of any expenses in case of temporary or permanent disablement

House for investment purpose in 2018

- A down payment of 20 per cent of the property value is assumed to be self-funded while the balance to be raised through a home loan
- Allocate the bank balance after setting aside the required emergency corpus towards investments till you need it for the down payment
- It is recommended that you save ₹6,000 every month till 2018, when you need the money for the house

Holiday in 2018

- Use part of the Axis Long Term Equity mutual fund allocated to this goal and to fund the deficit, it is recommended that you start monthly investments of ₹11,800 till 2018
- Although a holiday is being planned for during this time, we recommend you prioritise your parents' medical corpus over other goals

Medical corpus for parents in 2020

- Set aside the Axis mutual fund for this goal while it is recommended that you accumulate the deficit by starting a monthly SIP of ₹10,500 from 2016

Children's education and marriage

- For the purpose of meeting the education goal, recommend to start monthly investments of ₹24,000 starting 2016 with at least 50 per cent going into equity till the year you need this sum
- For the marriage planned in 2040, start a monthly investment of ₹15,000 from 2018 until the year when the marriage is planned
- As these goals are many years to go, you should allocate more than 50 per cent of the investment in an equity instrument and evaluate the progress of the fund in which you put the money

Retirement

- Dr Praveen will need ₹2.17 lakh each month from 2042, which translates into ₹45,000 in today's value
- In order to meet these inflation linked expenses for 30 years post retirement, assuming life expectancy of 85-90 years, a corpus of ₹8 crore will be required
- After adjusting for the maturity values from the NPS accounts and future pension receivable considering he's a govt employee and the continued rental income being generated from the investments property, the corpus gets reduced to ₹3.86 crore
- Dr Praveen also plans to purchase a house only at the time of retirement, which is why no assets have been earmarked for this goal
- To accumulate the deficit, a systematic monthly investment of ₹44,000 starting from 2020 till retirement is recommended, which needs to be stepped up by 5 per cent annually till 2027 and then by 12 per cent annually thereafter
- These investments are recommended to be made in a diversified manner into assets aimed at growth to be able to build the required corpus over a period of time.