

# FINANCIAL PLANNING GUIDE



## BAGGYALAKSHMI FINANCIAL PLANNERS

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## FINANCIAL PLANNING

This small booklet on Financial Planning was prepared to help you to assess your current financial situation and identify your future financial needs and guide you to plan well in advance to meet those goals.

Financial Planning is the process of money management in such a way that a part of your income is used for your current living expenses and the rest is saved and invested to meet all your future financial needs.

“Planning is bringing the future into the present so that you can do something about it *now*”

- Alan Lakein





## INFLATIONARY TRENDS IN INDIA

Inflation is the biggest threat for the people to fall short of their future financial needs. There is a saying if god closes one door, opens another. To counter the menace of inflation, there is Power of Compounding to take care of

Items	Year					
	1980	2000	2018	2022	2027	2032
Toothpaste	4.05*	18.97	66.00	83.00	104.00	131.00
Petrol	7.90	30.00	83.04	104.47	131.44	165.37
Masala Dosa	1.50	15.00	95.00	120.00	150.00	190.00
Movie Ticket	5.00	50.00	170.00	220.00	280.00	350.00
<b>Total Expense</b>			25,000	31,454	39,574	49,790

Inflation assumed between 1980 to 2018 is actual and that assumed after 2018 is 4.7% (present inflation)

## POWER OF COMPOUNDING

INVESTED PER MONTH	After 15 years	20 years	25 years	30 years	35 years
<b>Rs.5,000/- (8% assumed)</b>	Rs.17,41,725	Rs.29,64,736	Rs.47,86,833	Rs.75,01,476	Rs.1,15,45,875
<b>Rs.5,000/- (12% assumed)</b>	Rs.25,22,880/-	Rs.49,95,740	Rs.94,88,175	Rs.1,76,49,569	Rs.3,24,76,345
<b>INVESTMENT IN ONE LUMP SUM</b>					
<b>Rs.1,00,000/- (8% assumed)</b>	Rs.3,17,217	Rs.4,66,096	Rs.6,84,848	Rs.10,06,266	Rs.14,78,534
<b>Rs.1,00,000/- (12% assumed)</b>	Rs.5,47,356	Rs.9,64,629	Rs.17,00,006	Rs.29,95,992	Rs.52,79,962

The whole process of Financial Planning should start with Cash Flow Analysis commonly known as Budgeting. The process of recording your income and expenses and finding out the surplus / deficit at the end of the month is called budgeting. Only if you budget, you will know where you stand financially and how much you can save / invest for your future needs.

All that you earn should not be spent the same month. A part of your income should be saved / invested for your

future needs. How much to save / invest, where to save, what products to buy will be answered by this simple financial planning guide.

People are well equipped in spending for meeting current living expenses and fall short of spending for future needs. When you talk of future financial needs, it can be categorized in to 2 types as follows.

### PREDICTABLE COMMITMENTS

- Children's education
- Daughter's marriage
- Retirement need
- Buying a car of your choice
- Constructing a home of your taste
- Visiting your favourite place

### UNPREDICTABLE COMMITMENTS

- Emergency cash need
- Unexpected medical expenses
- Temporary loss of income due to accidents
- Shocking Critical Ailments
- Untimely death of the breadwinner

All these above commitments cannot be planned at one shot by all. They need to be prioritized based on the importance. This varies from client to client and cannot be the same for all.

In common, people should give priority to the unpredictable commitments first. Because the predictable commitments will give you time to prepare for and unpredictable commitments can happen at any time.



## 1 CREATE EMERGENCY FUND

Anyone at any point of time may be in need of urgent cash due to delay or non receipt of expected income or sudden unforeseen additional commitments. People usually prefer short term loans at exorbitant rate of interest.

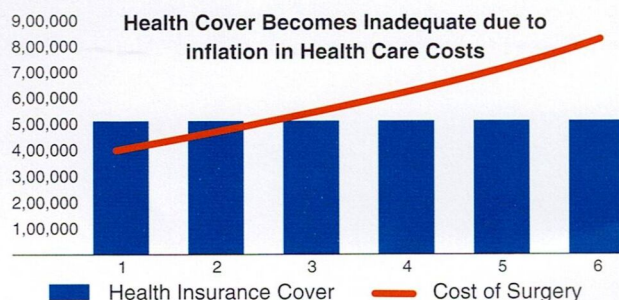
To overcome this problem, everyone should be prepared with a reserve fund called emergency fund.

The concept of maintaining emergency fund is not common among Indians. You can create emergency fund by investing in one lump sum or over a period of time through SIP in a Liquid Fund. It is advisable to maintain 3-6 times your regular monthly commitment in Emergency Fund not more that (Because cash is powerful but not a good investment).

## 2 HAVE SUFFICIENT HEALTH INSURANCE

Considering the increasing medical costs and uncertainty over the health issues due to the changing life style of the people, health insurance becomes very essential today, as it not only helps you to protect your health but your wealth as well. Because, in the event of hospitalization of any of our family members, our entire focus will be shifted towards treatment irrespective of our preparedness. Health Insurance will prevent us from liquidating our physical assets or financial assets (meant for some other purpose) for treatment or seeking debts from outside.

So buying sufficient health cover is essential today and also review the sum insured over a period of time to match with the rising medical costs. Health Insurance premium is not so expensive as health care cost is. Continuity of Health Insurance without break is as important as buying it.



"The premium paid for health insurance for self, spouse and children is deductible under section 80 D of Income Tax act up to Rs. 25,000/- per annum and that paid for parents (above 60 years) is eligible for Rs. 50,000/- per annum. Eligibility is Rs. 25,000/- for parents below 60 years".

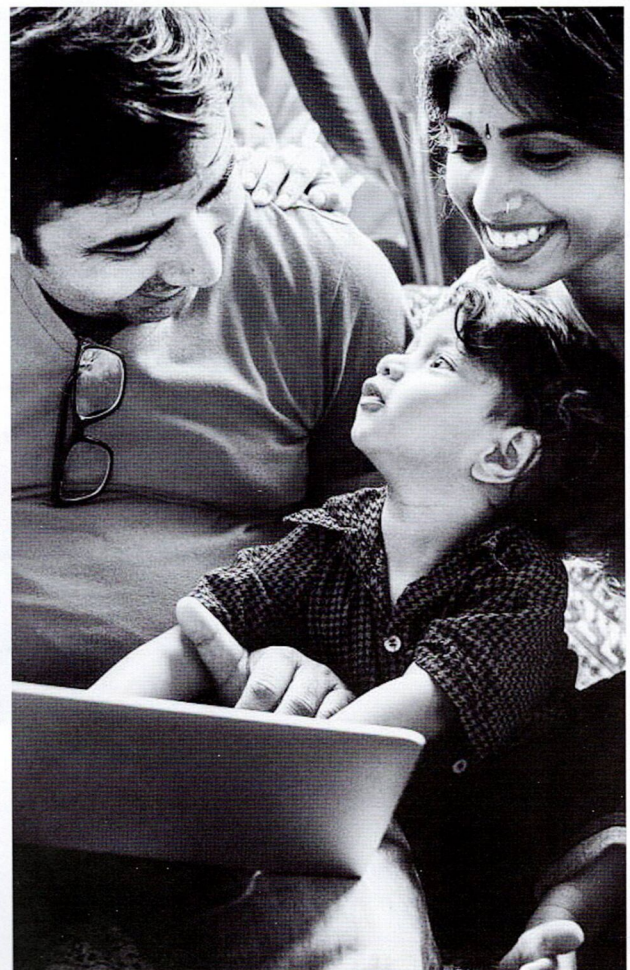
## 3 HAVE ADEQUATE LIFE INSURANCE

Life Insurance is very essential for the families to carry on with stable life style. Buying life insurance is easy and maintaining it is difficult. Maintaining life insurance is as important as buying it. People face 2 types of problems with their Life Insurance products.

**1.Under Insurance** – for most of the people their life insurance cover do not match with their income and family's life style. In the event of untimely death, the family suffers in maintaining the life style and Life Insurance here does not serve its purpose

**2.Persistency** – Many people who buy life insurance do not continue till maturity, lapse them in between losing life cover and their hard earned money. (if you own lapsed policy, call me for suitable solution within the terms of the product)

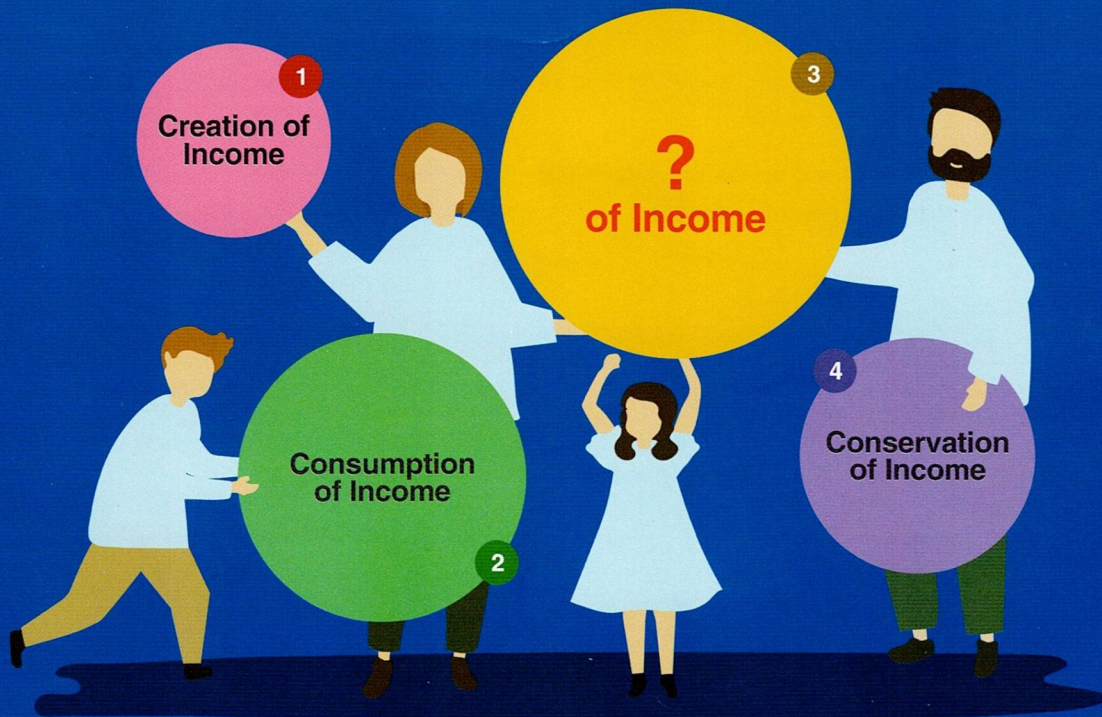
Proper selection of life insurance plans with **adequate sum assured at affordable premium** is the right way of buying life insurance.





# WHY SHOULD PEOPLE BUY LIFE INSURANCE?

## 4 C's of family welfare economics

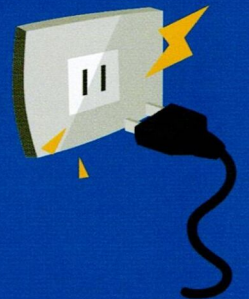


People work hard and make money. They consume a part of it and conserve the rest for future use. They presume that their income will continue without break. Uncertainty can strike at any time disrupting **continuity** of income. Then creation will stop and consumption and conservation will be affected. So making sure **continuity** of income is very important to meet the life goals. **Only Life Insurance can do that.**

People buy UPS for un-interrupted power supply during power cut. Breadwinners supply money to the family for various needs. This may also be interrupted due to uncertainties. Then insurance inverter will deliver uninterrupted money supply to the family.

Then why people voluntarily buy inverters and not insurance? The reason is simple. They see power cut, they buy (inverters) and **they never see income cut, so they don't** (Insurance). Only the families experience the emotional as well as economic loss.

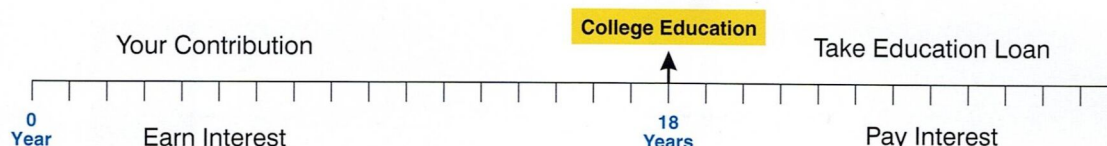
One thing should be remembered. **Power cut is temporary and income cut will be permanent.** It is wise to look for a solution to a permanent problem before finding solution to a temporary problem.





#### 4 PLAN FOR YOUR CHILDREN'S EDUCATION

Planning for children's education is a very important objective of the parents. The cost of college education is very expensive today and could be significantly high when your Son/daughter gets ready for college education at 18 years of age. So proper planning would make this expense easier to handle.



If you start saving for your children's education right from their birth, your contributions will earn interest and get compounded. The parents, who fail to plan, go for Education loan and end up paying interest. **Wise people will choose to get interest rather than paying interest.**

Common mistakes committed by parents while planning for their children's education and marriage which can easily be avoided once they know what they are

- They defer the planning and end up starting late
- They under estimate the cost required for the purpose ignoring inflation
- They choose the wrong product to meet the goal
- Risk is a part of our life. They fail to cover the risk

#### 5 PLAN FOR YOUR DAUGHTER'S MARRIAGE

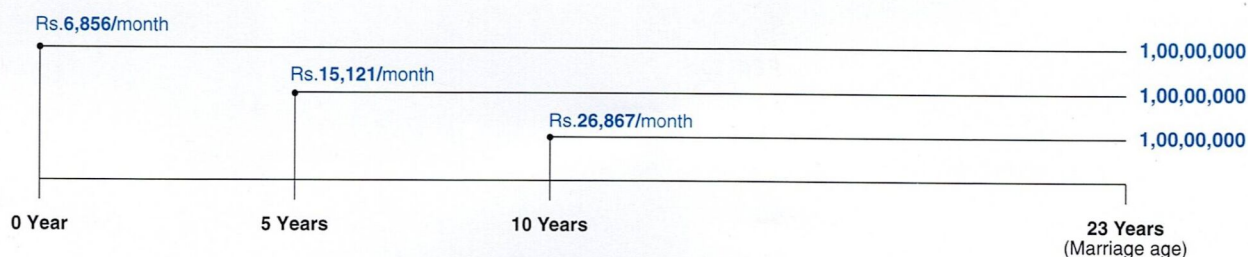
Daughter's marriage is an important occasion in each and every family. Marriage commitment depends on the social status of the parents. Middle class people need 10 to 20 lakhs for marriage and rich people need 1 to 2 crores. Planning well in advance will help parents accumulate the required funds with the help of compounding. The following illustration will explain the effect of compounding and the benefit of starting early in marriage planning

Investing Rs. 6,856/- per month on birth of your daughter can give you Rs. 1, 00, 00,000/- at her age of 23 years. (12% return assumed)

You will have to set aside a sum of Rs. 15,121 per month if you defer the planning by 5 years.

You will have to set aside a sum of Rs. 26,867 per month if you defer the planning by 10 years.

Now I hope you have clarity on which is the right time to plan for your daughter's marriage.



This is only a mathematical calculation used for illustration purpose based on certain assumptions. Your actual return will depend on the product you choose and the expected return of the product.



## 6 PLAN FOR YOUR RETIREMENT

Retirement Planning is the process of making sure the required cash flow is available during our retired life. Retirement Planning has become very essential due to the following reasons.

- Increasing Life Expectancy (people are living a longer retired life)
- Inflation which increases the cost of living year on year
- Increasing Medical Costs (Medical inflation is believed to be in double digit)
- Disintegration of Joint Family system
- Absence of Social Security Systems
- Low returns in conventional saving products

If proper planning is not done for retirement, then the people will have to either continue to work for a living or depend on their children or depend on charity. All these 3 options do not look good for a youngster.



### WHAT COULD BE YOUR NEED AT THE TIME OF RETIREMENT?

Assuming inflation of 4.7% (present inflation)

Current living expenses	Expenses after 10 years	15 Years	20 Years	25 Years	30 Years
Rs.25,000/- pm	Rs.39,574/- pm	Rs.49,790/-	Rs.62,643/-	Rs.78,815/-	Rs.99,161/-

Starting your plan for retirement early can fulfill your need. Retirement age and the rate of return are assumed to be 60 years and 12% respectively.

Age	25 Years	30 Years	35 Years	40 Years	45 Years	50 Years
Contribution per month	Rs.5,000/-	Rs. 5,000/-	Rs.5,000/-	Rs. 5,000/-	Rs. 5,000/-	Rs.5,000/-
Period	35 years	30 years	25 years	20 years	15 years	10 years
Total paid	Rs.21,00,000/-	Rs. 18,00,000/-	Rs.15,00,000/-	Rs.12,00,000/-	Rs.9,00,000/-	Rs.6,00,000/-
Return assumed	8%	8%	8%	8%	8%	8%
Accrued corpus	Rs.1,14,69,412/-	Rs. 74,51,797/-	Rs.47,55,132/-	Rs.29,45,102/-	Rs.17,30,191/-	Rs.9,14,730/-
Return assumed	12%	12%	12%	12%	12%	12%
Accrued corpus	Rs.3,21,54,797/-	Rs. 1,74,74,821/-	Rs.93,94,233/-	Rs.49,46,277/-	Rs.24,97,901/-	Rs.11,50,193/-

### WHEN SHOULD ONE START PLANNING FOR HIS / HER RETIREMENT?

It is obvious from the above table that earlier the better because of power of compounding.

## 7 ESTATE PLANNING

- Estate planning is the process of making arrangements for the smooth transition of one's estate (assets – liabilities) to whom he wishes to.
- If a person dies intestate (dying without estate planning), then his assets cannot be distributed as per his wish but as per the law governed by Indian Succession Act 1925.



## FEW QUESTIONS YOU NEED TO ASK FOR YOURSELF

- Am I budgeting my income? What is my surplus / deficit?
- Am I financially fit now? What is my net worth?
- Have I thought of my future life goals?  
(Children's education, Daughter's marriage, my retirement)
- How prepared am I to meet those life goals?
- Is my life insurance adequate for my family's need?
- Does my family have sufficient health cover?
- Is my company's financials healthy? Are my debts protected with liability insurance?
- Am I prepared for my liability against the payment of Gratuity to my employees?
- Have I taken care of my employees' hospital expenses and accidental injuries?



The process of Financial Planning will give you answers for all the above questions.  
**Please call and fix up an appointment for a non obligatory discussion  
on your Financial Preparedness.**

**WE ALSO RECRUIT PEOPLE, TRAIN THEM, GUIDE THEM TO BECOME SUCCESSFUL**



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