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## Wise Financial Planning

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**WISE FINANCIAL PLANNING**Arindam Banerjee<sup>1</sup>, Vikas Kumar<sup>2</sup>**ABSTRACT**

*Financial planning is an important and emerging area. Financial Planning Standards Board (FPSB), India defines it as “....the process of meeting your life goals through the proper management of your finances. Life goals can include buying a house, saving for your child's higher education or planning for retirement....”. This case is based on a real life study of an individual, who has a defined set of goals, like Children education, Own House, Family Holidays, Post Retirement income etc. However, this is possible only through a careful planning of his limited resources. This case study explores financial planning of an individual, who is trying to achieve life goals within limited resources.*

**Key words:** *Financial Planning, Financial Goals, Investment Planning, Risk Management*

**Suvarna Banik - Background**

Mr. Suvarna Banik, is working as a General Manager in a multi-national manufacturing firm and presently posted in Delhi. Suvarna started his career around 20 years back after graduating in Engineering from a premier College. He joined his first company as a Graduate engineering trainee on a monthly stipend of Rs. 2000 and was promoted as an Engineer at the successful completion of the training period. Over the years, he proved his mettle through hard work, dedication and technical skills. He also got best engineer award in his company for three years, which is a record in his company. He got special promotions as recognition to his outstanding achievements and his salary got a substantial boost.

Continuing in this company for the five years, Suvarna felt himself very much settled and according to wishes of his parents, he got married. Suvarna was very happy with his professional as well as personal life, however he was very ambitious towards the career. Gradually, he was feeling that he should have a management degree in order to reach the career heights. In the same year, he appeared for CAT and got admission to Executive MBA programme in a reputed

institute. With an MBA in his arms, Suvarna was ready to go for another flight in career. The ladder of managerial positions was going on and last year he was promoted as General Manager on his 44<sup>th</sup> birthday. This was an award to his management achievements. God is kind enough to Suvarna as he always had sufficient funds in his pocket, and never bothered about the finances. However, he did not follow any structured plan for achieving his financial goals. Now, as he reached mid-forties, he is keen to arrange his finances.

Suvarna has twin kids, a daughter Ratna and son Raghu. Ratna is excellent in the studies and wants to take up medicine as her career. Raghu on the other hand, is more inclined towards the sports. He plays badminton and has already won appreciations among the sports circle. He is also part of junior state level sports team. Ratna and Raghu are currently studying in 7<sup>th</sup> standard in a reputed public school. Banik family is currently residing in a rented house and also enjoy their own Car purchased out of a loan availed on 1<sup>st</sup> March 2009 at an interest rate of 9.5% p.a. (monthly reducing balance) for a term of 6 years. The financial information about them is given in Exhibit 1 – Exhibit 3. Suvarna has also purchased a health insurance for the family as well as life insurance cover for each of the family members. Annual insurance premium (Term Plan) for 4 policies having a life cover of Rs. 1.75 crore amounts to Rs. 48859. On the other hand, the health insurance policy providing total cover of Rs. 20 lakhs, has an annual premium of Rs. 19,456.

### **Suvarna's Financial Goals**

Today is 2<sup>nd</sup>. April, 2012. Suvarna, has crystallized the following financial goals for his family and the preliminary Roadmap to achieve them:

1. Send both kids to a reputed boarding school – immediately – Outlay Rs. 1.20 lakh (present cost) per child p.a. – for 5 years – to be met on year to year basis by investing a suitable corpus.
2. Buy a house – in the next two years – outlay of Rs. 70 lakh – taking a loan for 15 year term.
3. Invest suitably for the Higher Education of Ratna – Higher Education starts after 5 years – present cost Rs. 4.0 lakh p.a. for a term of 5 years.
4. Create a Retirement Corpus for self and family, this is to be accumulated in 16 years. Suvarna expects the corpus to sustain an annuity of Rs. 1.20 lakh p.m. (current cost) inflation linked for a post-retirement life of 25 years.

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5. An International Holiday Tour with his family, after 10 years. Expected outlay is Rs. 7 lakh at current price.

**Assumptions:****A. Regarding long-term pre-tax returns on various asset classes:**

1. Equity & Equity MF schemes /Index ETFs: 12.00% p.a.
2. Balanced MF schemes: 8.00% p.a.
3. Bonds/Govt. Securities/Debt MF schemes: 7.00% p.a.
4. Liquid MF schemes: 5.00% p.a.
5. Gold & Gold ETF: 9.50% p.a.

**B. Assumptions Regarding Economic Factors:**

1. Inflation: 7.50% p.a.
2. Risk free rate: 7.00% p.a.
3. Real Estate appreciation: 10.00% p.a.

**EXHIBITS****Exhibit 1: Salary and Expenses**

<b>Salary Income</b>	<b>Annual (Rs. Lakh)</b>
Basic Salary	46.00
HRA	10.00
Conveyance Allowance	7.50
Variable Salary	10.50
<b>Regular Outgoing</b>	<b>Monthly (Rs.)</b>
Basic Household Expenses	67000
Services	13500
School Fees	35000
House Rent	60000
Power, Telecom & Fuel	10500
Car Loan EMI	35585
SIP – Equity Mutual Fund	35000
SIP – Balanced Mutual Fund	20000

**Exhibit 2: Assets with Current Market Value**

<b>Assets</b>	<b>Value (Rs. Lakh)</b>
Equity Mutual Fund Portfolio	43.52
Balanced MF Scheme investment	9.64
Share Holdings	23.22
PPF A/c. (maturing 1st April, 2016) balance as on 31 <sup>st</sup> March 2010	7.59
Jewellery	23.75
Car (Note 1)	7.50
Bank Salary Account	6.83
Savings (Bank account Balance)	15.26
Deposit with House Owner	4.00

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**Exhibit 3: Liability and Current Market Value**

<b>Liability</b>	<b>Value (Rs. Lakh)</b>
Car loan	3.79 (as on date)

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