# DO IT YOURSELF

# FINANCIAL PLANNING GUIDE

BY

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I am pleased to present before you the first edition of a very simple "**DO IT YOURSELF**" financial planning guide to help you start doing your own financial planning, though it is always recommended to hire a competent financial planner for a comprehensive financial plan. This guide is not a substitute to a comprehensive financial plan but this guide will help you understand some of the basic components of financial planning.

Financial Planning over the past decade has gained importance and become an important exercise for the well being of a family, due to various fast paced changes, happening in our family, employment and social life. Financial Planning is a very vast subject taking into account all facets of risk management, investment planning, retirement planning, Tax planning & Estate planning in the context of an individual and his family, I have in this guide included four very important simplified worksheets to work on, by which you can ascertain

1. Your retirement corpus requirement & achieving the corpus to stay financially fit during your retirement.
2. Your life insurance requirement to make your dependents financially safe.
3. Your Children's graduate education cost and planning for its savings, so that rising education cost do not become an obstacle in providing the best education to your children.
4. Your children's marriage cost to prepare a saving plan for accomplishing it to discharge one of the important social responsibility as a parent.

I do hope you will find this guide useful for your financial well being and hope it will be the tipping point for you to get into comprehensive financial planning exercise engaging a financial planner.

Please send your feedback to me at dalmia2001@gmail.com . Your feedback would help me in further improving this guide and also to expand this edition to include more worksheets.

Wish you "Happy Investing & a Financially safe life".

Regards

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| PERSONAL DETAILS | SELF | SPOUSE |
|---|---|---|
| Name | | |
| Address | | |
| Date of Birth | | |
| Occupation | | |
| Annual Income | | |
| Annual Expenditure | | |
| Name of Dependent Children | Date of Birth | Male / Female |
| ........................................ | ..................................... | ........................................ |
| ........................................ | .................................. | ........................................ |

| **Investment Assets** | | | |
|---|---|---|---|
| Scheme | Yes | No | Balance as on date |
| Provident Fund | | | |
| Pension Fund | | | |
| Bank Fixed Deposits | | | |
| Mutual Funds | | | |
| Shares | | | |
| Saving based insurance policy | | | |
| Post Office Schemes | | | |
| Any other investment | | | |
| Any other investment | | | |

| **INSURANCE PROTECTION** | **SELF** | | **SPOUSE** | |
|---|---|---|---|---|
| Do you hold any insurance | Yes / No | Sum Assured | Yes / No | Sum Assured |
| **Life Cover** | | | | |
| **Total/Permanent Disability** | | | | |
| **Mediclaim** | | | | |
| **Accidental death** | | | | |

# Basic Concept & Terminology of Insurance Planning

**What is Insurance:** Insurance is a risk management strategy, which helps in mitigating risks from our daily life, which can have financial repercussions. For example A car insurance policy helps in meeting cost for repairs of the car if it meets with an accident, similarly a life insurance policy provide funds to meet living needs of dependants in case of earning member's death.

**What is Insurance Planning**: insurance planning is the process of insuring that unfortunate incidence resulting in financial loss are duly compensated by the insurance companies without getting financially burdened.

**Life Insurance:** Life insurance provides compensation to family in case of death. Life insurance coverage is granted by an insurance company based on an individual's age, earning capacity, medical fitness, family history and more.

**General Insurance:** General insurance provides compensation to family in case of loss of insured assets like House, Car, Furniture, Computers, Burglary etc. It also provides accidental & medical insurance.

**Retirement Age:** The age at which an individual expect to retire from working life.

**Inflation:** Inflation is basically the measurement of rising cost in maintaining the same living standards. For example if inflation is 6% the you can expect to spend 6% more next year on your expenses to maintain same living standard.

**Human Life Value:** This is the total insurance requirement calculated in rupee terms for an individual based on his current earning, expected growth in earning, inflation and retirement age. This is based on the concept that his earning till his retirement is required by his family for their survival. In technical terms, it is the present value of all future earning of an individual till retirement age.

**Pure life insurance plan v/s Investment insurance plans:** Pure life insurance plan are "Term insurance plan" which covers an individual only in case of death with no survival benefit with comparatively lower premium payment. While Investment insurance plans have two components, one is pure insurance and the other is savings component, which is paid on maturity.

Insurance is one strategy, if used strategically, can guarantee fulfilment of life's financial goals.

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## Insurance Planning Calculation Chart

| Age | Annual Growth in Income | Retirement Age | Inflation | Insurance Required for |
|---|---|---|---|---|
| | | | | Rs |
| 25 | 10% | 60 | 6% | 19.98 |
| 26 | 10% | 60 | 6% | 19.69 |
| 27 | 10% | 60 | 6% | 19.40 |
| 28 | 10% | 60 | 6% | 19.09 |
| 29 | 10% | 60 | 6% | 18.78 |
| 30 | 10% | 60 | 6% | 18.45 |
| 31 | 10% | 60 | 6% | 18.11 |
| 32 | 10% | 60 | 6% | 17.75 |
| 33 | 10% | 60 | 6% | 17.38 |
| 34 | 10% | 60 | 6% | 17.00 |
| 35 | 10% | 60 | 6% | 16.61 |
| 36 | 10% | 60 | 6% | 16.20 |
| 37 | 10% | 60 | 6% | 15.77 |
| 38 | 10% | 60 | 6% | 15.33 |
| 39 | 10% | 60 | 6% | 14.87 |
| 40 | 10% | 60 | 6% | 14.39 |
| 41 | 10% | 60 | 6% | 13.90 |
| 42 | 10% | 60 | 6% | 13.38 |
| 43 | 10% | 60 | 6% | 12.85 |
| 44 | 10% | 60 | 6% | 12.30 |
| 45 | 10% | 60 | 6% | 11.72 |

**How to use the above chart**

For Example

If age is 30 years and current income is Rs 100000 per annum and has a saving of Rs 5 lacs

| | | |
|---|---|---|
| Current Annual Income (Take Home) | 100000 | A |
| Insurance reqd ratio from above chart | 18.45 | B |
| Gross Insurance requirement | 1845000 | A X B |
| Investment Savings till date | 500000 | C |
| **Net Insurance requirement** | **1345000** | **(AXB)-C** |

**Calculate your EXPECTED Insurance requirement**

| Your age | Put in your age here | Rs. | Column |
|---|---|---|---|
| Your Current Annual Income(Take Home) | | | A |
| Insurance reqd ratio from above chart | | | B |
| Insurance requirement | | | A X B |
| Investment Savings till date | | | C |
| **Net Insurance requirement** | | | **(AXB)-C** |

# Basic Concept & Terminology of Retirement Planning

**What is Retirement Planning**: Retirement Planning is the process of insuring that there are sufficient financial resources to provide a desired lifestyle in the retirement years.

**Retirement Age:** The age at which an individual expects to retire from working life.

**Retirement Years:** The period between the retirement age and expected life expectancy is Retirement Years.

**Life Expectancy:** Life expectancy is the expected age at death of a normal individual and is assumed based on statistical data published by government agencies.

**Inflation:** Inflation is basically the measurement of rising cost in maintaining the same living standards. For example if inflation is 6% the you can expect to spend 6% more next year on your expenses to maintain same living standard.

**Retirement Corpus:** This is the total fund requirement as on your retirement age, so that the expected expenses during retirement years can be fully met. In technical terms, it is the present value of all your expenses during retirement years.

**Investment returns:** This is the expected average return on investment made.

**Asset Allocation:** Asset allocation is basically dividing your investments across different asset class categories, like Equity, Debt, Commodities, real estate etc based on investment goal and investment horizon.

**Return:** Return comes with risk. Investment in Equity based products like Equity mutual funds yields better results in long term. As retirement planning is a long term investment goal, one can consider investing in Equity based products till age 50 and thereafter gradually shift to debt based products as retirement nears.

**Safety:** Safety of investment is very important in all investment decisions and so is in retirement planning.

**Starting Early:** Starting early on an investment plan is an advantage in terms of having more safety, because of long term horizon, less return requirement and with less investment. For example a person aged 25 years requiring Rs 1,00,000 at age 60 would require to invest only Rs 15.40 per month, whereas a person who is 40 year old would require Rs 100 per month.

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## Retirement Planning Calculation Chart

| Age | Inflation | Retirement Age | life expectancy | Annual Expense on retirement | Investment return | Retirement Corpus required | Monthly Savings required |
|---|---|---|---|---|---|---|---|
| | p.a. | Year | Year | Rs | p.a. | Rs | Rs |
| 25 | 6% | 60 | 80 | 7.69 | 10% | 110.66 | 0.0323 |
| 26 | 6% | 60 | 80 | 7.25 | 10% | 104.33 | 0.0336 |
| 27 | 6% | 60 | 80 | 6.84 | 10% | 98.43 | 0.0350 |
| 28 | 6% | 60 | 80 | 6.45 | 10% | 92.82 | 0.0365 |
| 29 | 6% | 60 | 80 | 6.09 | 10% | 87.64 | 0.0381 |
| 30 | 6% | 60 | 80 | 5.74 | 10% | 82.60 | 0.0397 |
| 31 | 6% | 60 | 80 | 5.42 | 10% | 77.99 | 0.0415 |
| 32 | 6% | 60 | 80 | 5.11 | 10% | 73.53 | 0.0433 |
| 33 | 6% | 60 | 80 | 4.82 | 10% | 69.36 | 0.0453 |
| 34 | 6% | 60 | 80 | 4.55 | 10% | 65.48 | 0.0474 |
| 35 | 6% | 60 | 80 | 4.29 | 10% | 61.73 | 0.0497 |
| 36 | 6% | 60 | 80 | 4.05 | 10% | 58.28 | 0.0521 |
| 37 | 6% | 60 | 80 | 3.82 | 10% | 54.97 | 0.0547 |
| 38 | 6% | 60 | 80 | 3.60 | 10% | 51.80 | 0.0574 |
| 39 | 6% | 60 | 80 | 3.40 | 10% | 48.93 | 0.0605 |
| 40 | 6% | 60 | 80 | 3.21 | 10% | 46.19 | 0.0638 |
| 41 | 6% | 60 | 80 | 3.03 | 10% | 43.60 | 0.0674 |
| 42 | 6% | 60 | 80 | 2.85 | 10% | 41.01 | 0.0712 |
| 43 | 6% | 60 | 80 | 2.69 | 10% | 38.71 | 0.0755 |
| 44 | 6% | 60 | 80 | 2.54 | 10% | 36.55 | 0.0804 |
| 45 | 6% | 60 | 80 | 2.40 | 10% | 34.54 | 0.0860 |

**How to use the above chart**

For Example

| If age is 30 years and current expense is Rs 100000 per annum then | | | | Rs. |
|---|---|---|---|---|
| Expense on retirement would be | 100000 | x | 5.74 | 574000 |
| Retirement corpus required would be | 100000 | x | 82.60 | 8260000 |
| Monthly investment required would be | 100000 | x | 0.0397 | 3970 |

**Calculate your EXPECTED Expense on retirement, Retirment corpus and Target saving reqd per month**

| Your age | | | Current Annual Expense | | Substitute here ratio from above table | Rs. =AxB |
|---|---|---|---|---|---|---|
| | | | A | | B | |
| Expense on retirement would be | | | | x | | |
| Retirement corpus required would be | | | | x | | |
| Monthly investment required would be | | | | x | | |

# Basic Concept & Terminology in Investment Planning

**What is saving:** Saving is the amount saved from your regular income like employment income, business income. It does not take into account the investment returns.

**What is Investment Planning**: Investment planning involves putting your savings to earn above average return with fair safety and less risk based on concepts like asset allocation, compounded growth rate, risk management, starting early etc.

**Future value of a Goal:** For all investment planning it is important to figure out the actual requirement of funds as on the event happening date. For example Today your daughter's age is 5 years and assume the cost of marriage today to be Rs 10 lacs approx. You plan to see your daughter marry at age 25 then calculating the cost of marriage after 20 years taking the today's cost as benchmark is basically the future value of goal of your daughter's marriage.

**Inflation:** Inflation is basically the measurement of rising cost in maintaining the same living standards. For example if inflation is 6% the you can expect to spend 6% more next year on your expenses to maintain same living standard.

**Rising cost of Education:** Cost of education is rising much faster than the average cost of living and therefore it is safe to assume a higher cost than running inflation.

**Investment returns:** This is the expected average return on investment made.

**Asset Allocation:** Asset allocation is basically dividing your investment basket across different asset class categories, like Equity, Debt, Commodities, real estate etc based on investment goal and investment horizon. For example for short term investment the asset allocation should be 100% in debt, while for medium term investment, the asset allocation can be 50:50 in equity & debt respectively.

**Return:** Return comes with risk. Investment in Equity based products like Equity mutual funds yields better results in long term. For someone who plans for children education before the age of 5, it can be termed as a long term investment goal and asset allocation can be in favour of Equity based products till 14-15 years and thereafter gradually shifting the preference towards debt based products as goal approaches.

**Safety:** Safety of investment is very important in all investment decisions and so is in retirement planning.

**Starting Early:** Starting early on an investment plan is an advantage in terms of having more safety, because of long term horizon, less return requirement and with less investment. For example a person aged 25 years requiring Rs 1,00,000 at age 60 would require to invest only Rs 15.40 per month, whereas a person who is 40 year old would require Rs 100 per month.

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## Children Education Planning

| Age | Education Cost to rise per year by | Graduation Joining Year | Current Assumed expenses on Graduation Education | Investment return | Education Corpus required at age 18 | Monthly Savings required |
|---|---|---|---|---|---|---|
| | p.a. | | Rs | p.a. | Rs | Rs |
| 0 | 10% | 18 | 1 | 10% | 5.560 | 0.010 |
| 1 | 10% | 18 | 1 | 10% | 5.054 | 0.010 |
| 2 | 10% | 18 | 1 | 10% | 4.595 | 0.010 |
| 3 | 10% | 18 | 1 | 10% | 4.177 | 0.010 |
| 4 | 10% | 18 | 1 | 10% | 3.797 | 0.011 |
| 5 | 10% | 18 | 1 | 10% | 3.452 | 0.011 |
| 6 | 10% | 18 | 1 | 10% | 3.138 | 0.012 |
| 7 | 10% | 18 | 1 | 10% | 2.853 | 0.012 |
| 8 | 10% | 18 | 1 | 10% | 2.594 | 0.013 |
| 9 | 10% | 18 | 1 | 10% | 2.358 | 0.014 |
| 10 | 10% | 18 | 1 | 10% | 2.144 | 0.015 |
| 11 | 10% | 18 | 1 | 10% | 1.949 | 0.016 |
| 12 | 10% | 18 | 1 | 10% | 1.772 | 0.018 |
| 13 | 10% | 18 | 1 | 10% | 1.611 | 0.021 |
| 14 | 10% | 18 | 1 | 10% | 1.464 | 0.025 |
| 15 | 10% | 18 | 1 | 10% | 1.331 | 0.032 |
| 16 | 10% | 18 | 1 | 10% | 1.210 | 0.046 |
| 17 | 10% | 18 | 1 | 10% | 1.100 | 0.087 |
| | | | | | | |

**How to use the above chart**

For Example

| If age is 5 years and current expected graduation expense is Rs 1000000 then | | | | Result |
|---|---|---|---|---|
| | Rs | x | Ratio | Rs |
| Education Corpus Required | 1000000 | x | 3.452 | 3452000 |
| **Monthly investment required** | **1000000** | **x** | **0.011** | **11000** |

**Calculate EXPECTED Expense on Graduation Education of your child and Target saving reqd per month**

| Child Age as on Today | Put here child age | | Current expected graduation expense | | Substitute here ratio from above table | Result |
|---|---|---|---|---|---|---|
| | | | A | | B | A X B |
| | | | Rs | x | Ratio | Rs |
| Education Corpus Required | | | 0 | x | 0 | 0 |
| **Monthly investment required** | | | **0** | **x** | **0** | **0** |

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## Children Marriage Planning

| Age | Marriage Cost to rise by (Inflation) | Assumed Marriage Age | Current Assumed expenses on Marriage | Investment return | Marriage Corpus required at age 25 | Monthly Savings required |
|---|---|---|---|---|---|---|
| | p.a. | | Rs | p.a. | Rs | Rs |
| 0 | 6% | 25 | 1 | 10% | 4.292 | 0.0035 |
| 1 | 6% | 25 | 1 | 10% | 4.049 | 0.0036 |
| 2 | 6% | 25 | 1 | 10% | 3.820 | 0.0038 |
| 3 | 6% | 25 | 1 | 10% | 3.604 | 0.0040 |
| 4 | 6% | 25 | 1 | 10% | 3.400 | 0.0042 |
| 5 | 6% | 25 | 1 | 10% | 3.207 | 0.0044 |
| 6 | 6% | 25 | 1 | 10% | 3.026 | 0.0047 |
| 7 | 6% | 25 | 1 | 10% | 2.854 | 0.0050 |
| 8 | 6% | 25 | 1 | 10% | 2.693 | 0.0053 |
| 9 | 6% | 25 | 1 | 10% | 2.540 | 0.0056 |
| 10 | 6% | 25 | 1 | 10% | 2.397 | 0.0060 |
| 11 | 6% | 25 | 1 | 10% | 2.261 | 0.0064 |
| 12 | 6% | 25 | 1 | 10% | 2.133 | 0.0069 |
| 13 | 6% | 25 | 1 | 10% | 2.012 | 0.0074 |
| 14 | 6% | 25 | 1 | 10% | 1.898 | 0.0081 |
| 15 | 6% | 25 | 1 | 10% | 1.791 | 0.0089 |
| 16 | 6% | 25 | 1 | 10% | 1.689 | 0.0098 |
| 17 | 6% | 25 | 1 | 10% | 1.594 | 0.0110 |
| 18 | 6% | 25 | 1 | 10% | 1.504 | 0.0125 |
| 19 | 6% | 25 | 1 | 10% | 1.419 | 0.0145 |
| 20 | 6% | 25 | 1 | 10% | 1.338 | 0.0173 |

**How to use the above chart**

For Example

| If age is 5 years and current expected marriage expense is Rs 1000000 then | Rs | x | Ratio | Result |
|---|---|---|---|---|
| | Rs | x | Ratio | Rs |
| Marriage Corpus Required | 1000000 | x | 3.207 | 3207000 |
| **Monthly investment required** | **1000000** | **x** | **0.0044** | **4400** |

**Calculate EXPECTED Expense on Marriage of your child and Target saving reqd per month**

| Child Age as on Today | Put here child age | | Current expected marriage expense | | Substitute here ratio from above table | Result |
|---|---|---|---|---|---|---|
| | | | A | | B | A X B |
| | | | Rs | x | Ratio | Rs |
| Marriage Corpus Required | | | 0 | x | 0 | 0 |
| **Monthly investment required** | | | **0** | **x** | **0** | **0** |

| Chart showing classification of Goals based on time horizon with suitable investment products & Asset allocation | | | | |
|---|---|---|---|---|
| Goals | Time Horizon | Financial Goals Example | Investment vehicles | Asset Allocation |
| Short term Goal | Less than 3 years | Buying a Car, Down payment for buying a house, Planning a vacation, Nearing to a medium term or long term goal | Bank fixed deposits, Mutual fund Debt products, Monthly Income Plans, Bonds etc | 70-80% in Short term & long term debt products. 10-20% in equity products |
| Medium term Goal | 3 - 6 years | Education of Children, Downpayment for buying a house, Social & religious Obligations | Bank fixed deposits, Mutual fund Debt products, Mutual fund balance funds, Bonds, P.O. savings scheme, Large cap stocks | 60-70% in long term debt products. 30-40% in equity products |
| Long Term Goal | 6 - 10 years | Children education & Marriage planning, | Equit based schemes preferably large cap, long term debt products & commodities like Gold & Silver | 50-70% in equity products with some exposure in long term debt products, gold & silver etc. |
| Very Long Term Goal | 10 Years & above | Retirement planning, Estate Planning | Equit based schemes preferably large cap & medium cap stock based funds. | Mostly in equity products with some exposure in commodities like gold etc. |
| | | | | |
| Asset allocation is a very dynamic strategy. A very long term goal like Retirement Planning becomes a long term goal when an individual wishing to retire at age 60 turns 50 and at that point, the asset allocation needs to be reworked and aligned accordingly. Similarly on reaching age 55 again it needs to be changed. | | | | |