PGDM (IBM), 2013-15

Financial Services and Personal Financial Planning

INS-601

Trimester – VI, End-Term Examination: February 2015

Time Allowed: 2 Hrs 30 mins **Max Marks: 50**

Roll No: __________

Sec A

(Answer any three questions out of five. Each question carries five marks)

1. Identify and define the six steps in the financial planning process. Also explain the practice standards related to each step.

2. Briefly explain the Principle of Indemnity and Principle of Subrogation as applicable in case of insurance

3. 'Monitoring a financial plan is as essential as its implementation' – Discuss.

4. 'Identify and describe the information required for analysis, creation, and implementation of a personal financial plan.

5. Explain different types of mutual fund schemes available in Indian financial market.

Sec B

(Answer any two questions out of three. Each question carries ten marks)

6. Discuss the importance of Estate Planning. Also discuss the various tools available for estate planning

7. Explain the major differences between ULIPs and Traditional Insurance Plans.

8. Write short notes on the following: (2.5 marks x 4)

a) Rupee cost averaging

b) Advantages of real estate as investment destination

c) Impact of taxes on personal financial planning

d) Importance of cash management

Sec C

(Compulsory)

9. **CASE**

(Reference date: 2nd April, 2010)

Joy Bhardwaj, aged 29 years, is working with a Multi National Company since December 2004. He has approached you, a Financial Planning practitioner, for preparing his Financial Plan. He is staying in his own house at Moradabad. His wife Swati, aged 31 years, is a fashion designer. She has earned a net profit of Rs. 4 Lakh in FY 2008-09. They have a son, Saurav of age 4 years (born on 12.02.2006), and a daughter, Shalini (born on of 23.09.2009). Joy is also supporting his parents staying in their own house at Surat to whom he sends Rs. 10,000 p.m. His monthly house hold expenses are Rs. 30,000 p.m. (excludes his investments, payment of premia and EMIs). Joy normally gets 5% increase in his gross salary year-on-year in the beginning of every financial year, apart from bonus. The effect for this year is yet to take place, though he has received a bonus of Rs. 3,31,680 for the year 2009-10. He has taken a family floater policy for Health Insurance involving an annual premium of Rs. 16,268 and a total cover of Rs. 15 lakh.

Joy's monthly salary:

Basic Salary	Rs. 42000
DA (forming part of Salary)	50% of Basic salary
House Rent allowance	Rs. 12000

Transport Allowance	Rs. 3000
Children Education Allowance	Rs. 1000 per child
Medical Reimbursement	Actual expenses up to Rs. 1,250 per month
Entertainment Allowance	Rs. 4000

Couple's Current Assets & Liabilities (As on 31st March, 2010 unless otherwise specified in foot notes)

Assets	**Rs. In lakh**
House	Rs. 35.00 lakh
Car	Rs. 3.50 lakh (Depreciated value)
PPF (maturity on 1st April 2017)	Rs. 2.90 lakh
Insurance – Money Back policy\ (Note 1)	Rs. 3.00 lakh
Child Plan – Life Insurance Co (Note 2)	Rs. 12.00 lakh Sum Assured
Gold ornaments	Rs. 4.50 lakh
Equity Mutual Fund scheme	Rs. 4.85 lakh
Balanced Mutual Fund scheme	Rs. 2.25 lakh
Portfolio of Equity Shares	Rs. 3.95 lakh
Equity Linked Saving Scheme	Rs. 1.75 lakh
Bank fixed deposit (Note 3)	Rs. 2.50 lakh
Cash/Bank Balance	Rs. 0.75 lakh

Note 1: Purchased on 25th October, 2006; annual premium paid Rs. 14,798

Note 2: Purchased on Joy's 2nd birthday for a term of 15 years; annual premium Rs. 41,374

Note 3: Subscribed on 01.09.2008 @ 10% p.a., with interest credited quarterly to his savings account; renewed at same rate for one year on 01.09.2009 without penal provision for premature withdrawal

Liabilities	**Rs. In lakh**
Home loan (Note 4)	12.97 (Principal outstanding)
Car loan (Note 5)	2.93 (Principal outstanding)

Note 4: Home loan of Rs. 17 lakh taken on 1st November, 2004 at a fixed interest of 7.5% p.a. for a 15-year term.

Note 5: Car loan of Rs. 4.50 lakh taken on 1st April, 2008 at a fixed interest of 11.25% p.a. for a 4-year term.

Goals:

1. To provide for higher education of Saurav and Shalini. Initial expenses at their respective age of 18 years, Rs. 3 lakh (current cost), and subsequently Rs. 2 lakh p.a. for the next two years, and Rs. 3.5 lakh p.a. for the following 2 years.

2. Marriage expenses of Rs. 15 lakh (current cost) for each child at their respective age of 27 years.

3. Retirement corpus at the age of 58 years to sustain 70% of pre-retirement household expenses till his lifetime and 50% till Swati's expected life.

4. A Bigger house valued at Rs. 50 lakh today, a year from now.

5. To build a separate fund for vacation expenses of Rs. 2 lakh (at current cost) every year 10 years from now so that the corpus so built is self-sustaining till the marriage of Stephanie.

Life Parameters:

Joy's expected life: 75 years

Swati's expected life: 80 years

Assumptions:

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

1. Equity & Equity MF schemes /Index ETFs: 8.00% p.a.

2. Balanced MF schemes: 7.00% p.a.

3. Bonds/Govt. Securities/Debt MF schemes: 6.00% p.a.

4. Liquid MF schemes: 4.50% p.a.

5. Gold & Gold ETF: 8.50% p.a.

B. Regarding economic factors:

1. Inflation: 6.50% p.a.

2. Risk free rate: 7.50% p.a.

3. Real Estate appreciation: 9.00% p.a.

Based on this case, answer the following questions:

i) Joy and Swati want to accumulate funds for their vacation expenses as per their determined goal. They want to invest a fixed amount immediately from the Bonus amount he has received, and then in the beginning of every financial year till April, 2020 in a separate scheme of an Equity Mutual Fund. He would withdraw the required amount annually as adjusted for inflation from the Scheme from April, 2021 till April, 2037 for undertaking vacation trips. What approximate amount should be invested every year to achieve this goal?

ii) Joy and Swati want to arrange for the funds to meet marriage expenses of their children. They plan the wedding of Saurav after 24 years from now and that of Shalini after 26 years from now. To accumulate the funds for marriage, you advise to start a monthly Systematic Investment Plan (SIP) immediately in Equity scheme of a mutual fund. Such SIP will continue for the next 16 years. You further advise to hold the investment in equity shares till Shalini's marriage to meet the wedding expenses. After meeting the expenses of Saurav's marriage, the balance funds in the equity scheme are allowed to appreciate to meet the differential expenses of Shalini's marriage. The amount of SIP comes to __________.

iii) In order to provide for higher education of Saurav and Shalini, Joy wants to utilize his existing investment in equity mutual fund scheme. Apart from that you advise him to start a monthly SIP immediately in the same scheme till March, 2023. The first withdrawal for Saurav and Shalini is expected to be made in April, 2024 and April, 2027, respectively. All withdrawals are made in the beginning of the financial year. The corpus thus accumulated should be self sustaining to meet both children's education cost as per the goal. What is the amount of monthly SIP Joy needs to make with immediate effect?

(15 marks)