Women and Retirement: How a wrong Asset Allocation can be corrected

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One should invest more if she wantsher saving to be worth more. It became clear by analyzing savers long term projection and answering their questions that majority of people do not save enough. From saving for a comic book to planning for retirement, for financial wellbeing effective money measurement is Important.

Majority of people save whatever they can, they save some arbitrary number driven by tax saving need or the amount whichever is left after spending. Instead we will have to start projecting future needs and then projecting backward that how much we need to save. The best thing to do is to be pessimistic in these calculations and assume that the needs will be higher and returns will be lower.

Ms. Purvi Gupta is on a learning curve at the age of 32. She may not have a big portfolio or high net worth but she has defined her goals covered her risk with adequate life insurance and started investing in mutual fund.

While she requires guidance on achieving the correct asset allocation and reaching her goal in the best possible manner.

Existing Financial Status:

Ms. Purvi is working at Rajasthan; she stays with her 35 years husband Rakesh, who is working in a MNC, their 8 years daughter and her in –laws along with one separated sister-in-law in a rented accommodation. Their daughter and in- laws are totally dependent on them. Ms. Gupta is an Assistant Professor and brings in Rs. 550000 per annum. Out of her total income Ms. Gupta spends Rs. 242258 on household expenses which include grocery expenses of Rs. 180000 and rest contribution to her –in –laws. Beside this she also pays Rs 6742 per annum as insurance premium and Rs. 15000 as Income Tax.

After investing Rs. 150000 per annum in Public Provident Fund, Rs. 60000 per annum in Recurring Deposit and Rs. 60000 per annum in mutual Fund. She left with meager surplus of Rs. 16000 per annum as per table 2 and chart 1.

Ms. Gupta's equity portfolio comprises of RS. 70000 as an insurance Fund value. Her debt portfolio includes Rs. 6 lakh in PPF and Rs. 1 lakh in Recurring Deposit, 1 lakh in debt fund. Sheholds Rs. 30000 in cash and hold gold of Rs. 80000. She bought a plot of land worth Rs. 5 lakh bringing her net worth as mentioned in table 1.

Insurance:

Already available insurance policies:Ms. Gupta has an online term plan for which she is paying an annual premium of Rs. 6742. Researcher suggested that she continue with her term plan for cover of Rs. 7500000.

Advised Insurance policies:As per need based theory, she should buy an additional health insurance of Rs. 2 lakh. Researcher recommended a critical illness plan worth Rs. 25 lakh and an additional disability plan of same amount which will cost Rs. 12000 in annual premium. This should take care of her insurance needs.

Road map for the future:

Short Term Goals:

Ms. Gupta needs a contingency corpus of Rs. 1.22 lakh, which is equal to her six months expenses. This can be sourced from her cash holding, Recurring Deposit and Debt Fund corpus. It should be invested in ultra - short term debt fund as per table 3.

Long Term Goals:

a. Daughter's Higher Education- RS. 30 lakh (10 years) for this she should save Rs. 18000 as monthly SIP in an equity mutual fund to yield the desire amount.

b. Daughter's Wedding - Rs. 63 lakh (17 years) and to meet this she should start a SIP of Rs. 18000 in equity fund for a given period.

However she will have to defer this investment as she won't have any surplus left after planning for other goals.

c. Retirement - Finally for retirement she has estimated a need of Rs. 1.78 crore in 18 years if the inflation continues with 6%. Her current savings towards retirement is Rs. 2.86 lakh per annum and her total saving ate the age of retirement

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will be Rs. 11246377. Value of her assets at the time of retirement will be Rs. 6152138 and there will be a gap of Rs. 421886 between her saving and money required. So she needs to save additional money of Rs. 894 per month but if the inflation increases to 8% the gap between her saving and money required for retirement will increase to Rs. 16616001 and she needs to save Rs. 35213 per month.

More over if the inflation further increases to 10% the gap will increase to 49012609 and she have to save Rs. 103868 per month which is very difficult for her as she is saving most of her money in bank saving scheme.

As advised by consultant:

Asset Mix

She has divided her investment in 3 buckets but she has put most of her money in bucket 1 and less amount of money in bucket 3. She has to put all her money required to achieve short term goals in bucket 1 and will be used within three years, in bucket 2 she has to put the money which will be used after 3 years and upto 7 years, bucket 3 is the most important bucket in it she has invested all that money which is not required for next 15-20 years and invested this money in mutual funds and leave this money in the market to float in the market. It would be worth consulting personal financial planner for better results

Implementation

She is clear about her financial goals but she has not rightly invested her money to achieve her financial goals. It is much better to buy a child plan for her daughter's education and save a large part of money for her retirement instead of investing this in bank saving schemes as per chart 2.

Monitoring and control

She needs to make the relevant changed in her portfolio with the changes in economy and change in income or change in Tax slab.

Table 1: Net Worth of Ms. Gupta

Assets	Current Value (in Rs)	Liabilities	Current Value (in Rs)
Public Provident Fund	600000	Loans	0
Recurring Deposit	100000		
Debt Fund	100000		
Cash	30000		
Gold	80000		
Real Estate	500000		
Insurance	70000		
Total	1480000		

Table 2: Ms. Gupta's Cash Flow:

Total Yearly Income (in Rs.) 550000/-					
Household Expenses	Surplus	Insurance	Investment	Income Tax Paid	Contribution to dependents
180000	16000	6742	270000	15000	63000

Table 3: Funds needed to achieve goals

Cost	Time to Achieve (in years)	Future Cost (in Rs.)	Further investment/ Year (in Rs.)
Emergency Fund	0	122000	-
Daughter's Education	10	3000000	18000
Daughter's Marriage	17	6300000	18000
Retirement:			
Inflation 6%	18	17820401	10729
Inflation 8%		34014516	422552
Inflation 10%		66411124	1246411

Chart 1: Asset Allocation

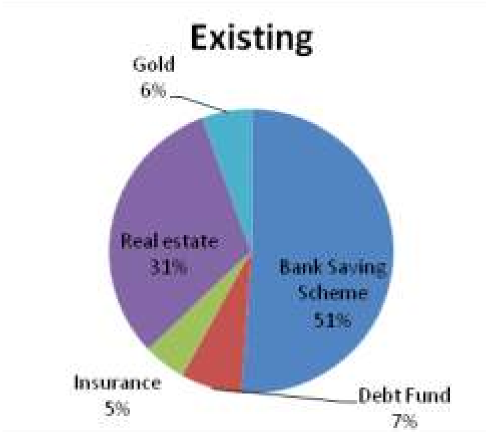
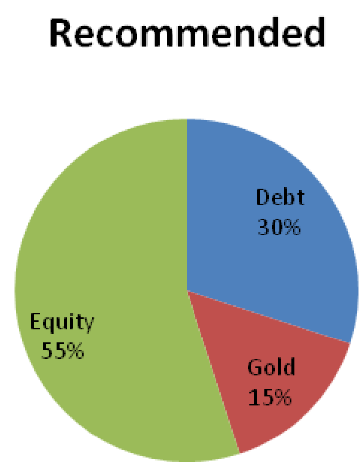


Chart 2: Asset Allocation



Conclusion:

Asset allocation is a key determinant of the financial wellbeing of an individual. While taking care of the personal finances is very important for women, the above case discusses the prescribed changes in the asset allocation if a woman has made some mistakes and appreciates some of the right decisions.

With available facts and figures we can have following questions for discussion:

1. How can asset allocation are done better through proactive measures?
2. Are there still some issues which need a debate before firming up the revised asset allocation?
3. In wake of new opportunities available in investment market of India, what can be further considered by Ms. Gupta.