Comprehensive Financial Plan for Jaya

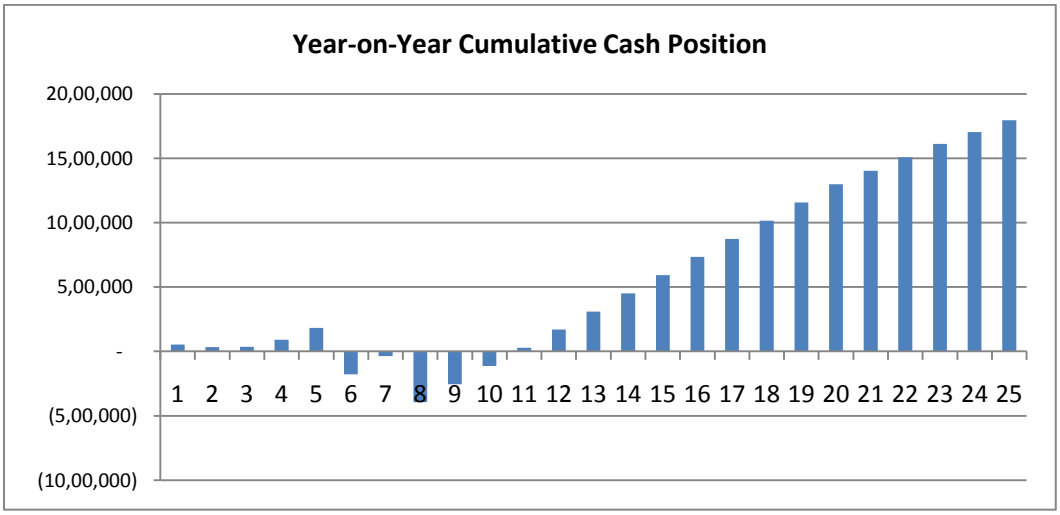
The Family - Jaya (name changed), 40, is a customer of Andipatti branch of Pudhuaaru KGFS. She lives with her husband Rajan (42) in a thatched house owned by her father-in-law. The couple has three children Neetha, Vinodini and Pramod who are 16, 18 and 20 years old respectively. While the daughters Neetha (1st Year BSc) and Vinodini (10th Std) are still studying, the eldest son Pramod has just started working in Qatar as a driver. The daughters stay at Jaya's sister's house in another village, a few kilometres away.

Their Activities - Till about 5 years back, Rajan worked in Singapore and used to remit money back home. When he returned, he decided to manage the tea shop business that his father used to run. Though there is some seasonality to the business, because of the presence of a school nearby Rajan manages to make about Rs.1,20,000 a year from the shop. Apart from this the family owns about 1.3 acres of agricultural land where they grow paddy for two seasons and black gram for one. The net income from this activity is about Rs.35,000. They also have two cows which earns them a net income of about Rs.4,000 a year. The family spends about Rs.39,000 a year on routine household expenses. These numbers have been arrived at on the basis of a detailed conversation with the family.

Goals - The household has a list of goals that it wishes to fulfill. This includes education expenses of Neetha (Rs. 1 lakhs) and Vinodini (Rs. 2.6 lakh), marriage expenses of both daughters (Rs. 5 lakhs each) and expansion of the shop (Rs20,000).

With this information about the household, the Financial Wellbeing Report has been prepared. The report talks about four pathways towards financial wellbeing – all of which try to answer the central question for the customer "How can Wealth Management help improve my financial wellbeing?"

1. **Pathway 1 - "Plan":** A diagnostic process that helps the customer to remember and plan for all her current and planned expenditures against current and planned income.



Here the education expenses of the daughters are kicking-in during the initial years thus explaining the lower bars in the graphs. The marriage expenses of the daughters in the 7th & 9th year make the cash

position negative. A simple enumeration of all the numbers and becoming aware of life-time cash inflows and outflows could have a big impact here and help Jaya forecast liquidity needs at various points of time.

2. **Pathway 2 - "Grow":** Increase my household income. This is an important aspect that relates to the growth of a customer's household. This involves actively managing the household's balance sheet. For example, investing in high TIP (Total Income Potential) assets/activities (that have a risk-adjusted return higher than cost of funding) or substituting high cost funding by lower cost loans. The strategies for funding a goal could be availing a loan, saving towards the goal or even selling a low yielding asset. The strategy is jointly agreed upon in the conversation with Jaya and Rajan. A few of the goals may get reprioritised during the conversation. Here since the shop is high TIP asset, it is best to fund it using a loan. The strategies for other goals of the household can be a combination of saving and borrowing. The amount the household can start saving for each of the goals and how sufficient it would be, happens during the conversation.

Goal	Cost	Time from today	Strategy
Vinodini's education	30000	2 months	Borrow
Renovating the shop	20,000	1 year	Borrow
Neetha's Education	1,00,000	3 years	Save + Borrow
Vinodini's Education	2,30,000	5 years	Save + Borrow
Neetha's Marriage	5,00,000	8 years	Save + Borrow
Vinodini's Marriage	5,00,000	6 years	Save + Borrow

3. **Pathway 3 ("Protect"):** This is the safety objective for the household. Some fluctuations in income and expense are to be expected and the household needs atleast Rs.10,000 liquidity (equivalent of 3 months of expenses) to manage these fluctuations. Separately, the household has to ensure that sudden and unexpected extreme shocks (in health, rainfall in the village etc) don't result in the household having to reduce basic essential expenditures and growth-related expenditures. Hence the following protection strategy for the household.

Name	Age	Life Insurance	Annual Premium	Accident Insurance	Annual Premium
Jaya	40	50,000	128	2,00,000	84
Rajan	42	0	-	1,75,000	74
Pramod	20	5,00,000	624	5,50,000	232
Vinodini	18	4,20,000	482	5,50,000	232
Neetha	16	3,80,000	391	5,50,000	232

These calculations are based on value of Human Capital (net present value of all future cash-flows that will accrue to the person). A utility maximizing utility function has also been applied to arrive at the optimal insurance levels. Lower insurance amounts have been recommended for Jaya and Rajan as they have fewer years of productive life left before their retirement and many years of expenses

– thus making the net present value of human capital really low. This is entirely different for the children and more so for Pramod who is at the peak of his human capital. The accident insurance is not only to make good the loss of human capital but also manage expenses in case of disability. Rajan may decide not to insure his daughters as they would be getting married off.

Other income earning assets like the livestock and shop too need to be covered to the extent of their market value.

4. **Pathway 4 ("Diversify"):** This relates to what the household should do with respect to the current surplus income that his household has. Once the household has set aside sufficient resources to manage consumption expenditures, growth plans, purchased an adequate amount of insurance and still has a net surplus left, he needs to invest this surplus well. Desired features for investment are: a) Good return possibility even net of inflation b) Diversification away from local risks and c) Diversification away from risks correlated to his human capital.

   For example if bad rains may not only affect his income from agriculture but also the entire local economy, including his tea shop. By sending the son abroad, the household has partly diversified his risk outside the village economy. Also returns from national assets are not correlated with the household's own human capital. The optimal portfolio recommended to the household is based on the above three desired features and Markovitz's "mean-variance model". The son's income has not been included in the calculation as the household may not expect him to contribute to the household once he is married.