Financial education for Executives nearing retirement

An initiative of SEBI & NISM

Agenda

- What is financial planning
- Retirement plan
- Calculating the retirement need
- Financial planning process
- Risk v/s return
- The power of compounding
- Inflation effects on investment
- Investment vehicles
- Avoid investment scams
- Estate planning
- Enriching your retired life

Financial planning

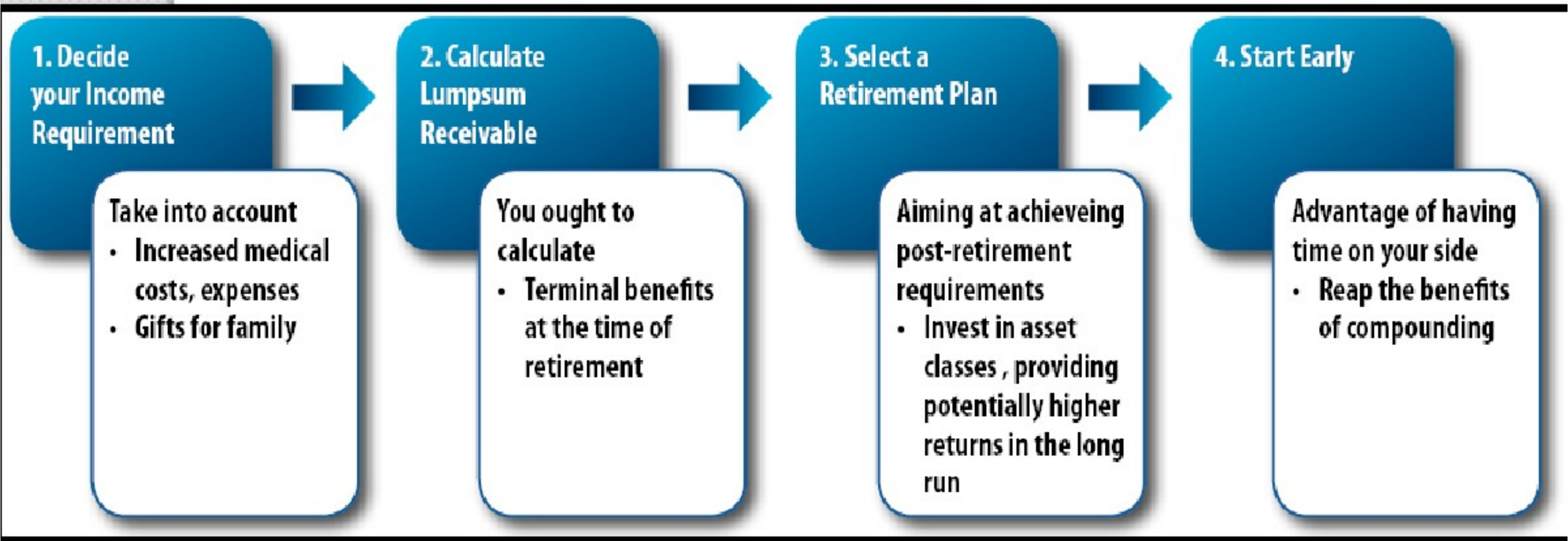
- Meet your life goals through management of your finances

Objective:

- To ensure right amount of money in future to achieve an individual's life goals

Retirement plan

- Earn a satisfying income post-retirement
- Enjoy a comfortable life post-retirement


1. Decide your Income Requirement
Take into account
• Increased medical costs, expenses
• Gifts for family
2. Calculate Lumpsum Receivable
You ought to calculate
• Terminal benefits at the time of retirement
3. Select a Retirement Plan
Aiming at achieveing post-retirement requirements
• Invest in asset classes , providing potentially higher returns in the long run
4. Start Early
Advantage of having time on your side
• Reap the benefits of compounding

Calculating the corpus

Retirement age (years)	**60**
Current age (years)	58
Life expectancy (years)	83
Years after retirement	23
Current annual expenses	Rs. 1.80 lacs (Rs. 15,000 per mth)
Average return on investment	12% p.a.
Inflation	5% p.a.
Inflation adjusted return	7% p.a.
Total retirement corpus required Rs. 21 lacs (approximately)	

Action points for retirement plan

1. It is never too late to start
2. Deposit everything you can into your retirement plan
3. Reduce expenses
4. Aim for good post-tax returns
5. Refine your goals

Financial planning

- Financial planning is a process of meeting your life goals through proper management of your finances

Financial planning process

Gather your financial data

Details on your
- Income
- Debt level
- Commitments

Identify your goals

Live your dream
- Grand wedding of your daughter
- World tour
- Buy a car

Identify financial gaps

Analyse your financial strength
- Where you are now
- Where you want to be

Prepare a financial plan

Identify recommended investments
- Address your attitude to risk

Implement financial plan

Review and revise your plan
- Up-to-date
- Relevant to economy and changing lifestyle

GATHER FINANCIAL DATA

- Data to be collected:
  - Income
  - Expenses
  - Assets
  - Liabilities

Preparation of budget

Calculation of net worth

- Preparing the budget

Importance of budgeting

- Preparing a budget help:
  - Keep track of all your incomes and expenses
  - Control the expenses
  - Make you aware of necessary and unnecessary expenses
  - You get better control of your day-to-day life

- What is your wealth?
- Correct measure of wealth is known as net worth

- Net worth = assets – liabilities
  - Assets = what you own
  - Liabilities = what you owe

Model Networth Statement

Name: Raja

Age: 58

Professional in a company

Networth as on 31-01-2010

Assets	Rs (in lakhs)	Liabilities	Rs (Lakhs)
House	56.00	Home loan	17.50
Savings a/s	00.32	Car loan	05.20
Equities	03.50	Credit card	02.40
Fixed Deposit	05.00	Personal loan	06.10
Car	06.20	Total	31.20
NSC	04.30		
Total	75.32	Networth	44.12

IDENTIFY GOALS

Goals are dreams with deadlines
- Zig Ziglar

- A goal is a destination where you wish to reach
- Defining the goal is the first step to successful plan

Incorrect Approach	Right Approach
I need to set aside money for my grand-daughter's birthday next year.	I need to set aside Rs 35,000 for my grand-daughter's birthday next year .
I will pay off most of my credit card debt soon.	In the next six months, I will pay three of my two credit card bills in full.
I will save money.	I will save Rs 48,000 each year by putting aside Rs 4,000 per month.

SMART GOALS

IDENTIFY FINANCIAL GAPS

Goal value	**Rs. 2,00,000**
Time to goal	4 years
Money that can be set aside for this goal	
1st year	Rs. 36,000
2nd year	Rs. 37,000
3rd year	Rs. 38,000
4th year	Rs. 40,000

- The gap in this case is:
  - Amount set aside: Rs. 1,51,000
  - Goal value: Rs. 2,00,000

PREPARE A FINANCIAL PLAN

- Loans or investments?

- Savings or investments?

IMPLEMENT THE PLAN

CONCEPTS OF INVESTMENT

- Time value of money
- Power of compounding
- Inflation
- Diversification
- Asset allocation

CONCEPTS OF INSURANCE

- How much insurance do you need?
- The features of various options
- Ease of claim settlement
- Costs

CONCEPTS OF ESTATE PLANNING

- Power of attorney
- Nomination
- Will
- Assignment of insurance policies

THANK YOU