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MAX SECURE FINANCIAL PLANNERS—NEWSLETTER

Financial Focus

The Importance of Reviewing Financial Plan

Imagine you and your family decide to go out on a picnic. It is something which your spouse and children have been asking for a long time now. You zero down on a weekend, pack your bags with food and other belongings and begin to drive down the long road to your weekend getaway.

Since this is your first trip in this new direction, you clock your drive and within 2 hours you think you have reached your destination. But you find yourself in a barren stretch of land with no picnic spot in sight. You don't understand what happened – you reason that you stopped after 2 hours of drive as that is how far the venue was away so why have you landed in no man's land?

The issue you realize to your horror and your family's disappointment is that you have driven off onto a wrong direction and that you did not stop occasionally to check whether the route you were taking was right. You just assumed it was right.

Now imagine if a similar situation were to happen to you in life

practically and that instead of say Rs 25 lakhs for your child's marriage, you end up with say Rs 5 lakhs only with a year to go for the marriage? Caught on the wrong foot, you will now borrow money possibly via personal loans or through other available sources.

You don't want to be in such a situation, do you? If only you had reviewed your financial progress each year !

Why reviewing financial plan is important ?

A review of your financial plan and its progress is a review of whether you are on track to reach your aspirations or goals in life smoothly. It is practically impossible to assume that you can without any manual intervention.

Saving for a goal, say your child's marriage might require you to put aside, say Rs 10, 000 each month in a mix of equity and debt related instruments.

The figure of Rs 10,000 was arrived at by your financial planner by taking many parameters into account – things like rate of inflation, your expected spend on the marriage plans, the number of years away when the marriage will take place and the

Inside this issue:

Financial Gyan

Meeting life goals requires consistent, committed, disciplined approach towards one's finances. Contrary to popular wisdom, modest savings build a huge cash-pile and helps meet goals, which seem impossible, at first glance.

Prakash Praharaj, CFP^CM^

Why you need an Emergency Fund ?

Pankaj(35) a manager in a reputed BPO firm had been informed by his office colleague that investment in land was one of the best things to do for earning higher returns. After considering a proposal which came his way, Pankaj purchased half an acre of agricultural land for sum of 6 lakhs in coastal Maharashtra. For this purpose he utilized his fixed deposits and savings account balance. The shortfall of Rs 2 lakhs was raised from a personal loan. Pankaj was extremely happy as he felt he had made one of the smartest decisions in his life and created an asset apart from his self-occupied property, which also was on loan. A few months later came the news that the company was not doing well and was in the process of closing a few of their processes which included Pankaj's. Having worked for only a year in this company, Pankaj didn't get anything except 2 months' salary as notice period and was immediately laid off. Pankaj started applying for a job but it took him nearly 6 months to get one. During this period, Pankaj found it difficult to manage his home expenses and loan payments. Finally in the 5th month he sold the land that he had purchased for the same amount and cleared off his personal loan.

Job layoffs, sudden illness of self or dependent parents or accidental hospitalisation are events on which we do not have any control?

Can you avoid getting into such a situation: Job layoffs, sudden illness of self or dependent parents or accidental hospitalisation are events on which we do not have any control? No one can predict the timing or frequency of such events but at least we can be prepared for it. Why does it normally happen that even though we know the monsoon is round the corner, most still purchase the umbrella only after the first showers and after having got wet a couple of times. Getting wet may not be as much depressing as the events mentioned above. A sudden illness, especially if you are not even covered by a medical cover can upset your entire financial life if it turns out to be a major illness or surgery.

How can I be prepared: Firstly one needs to check if the basic insurance's are in place or not. Evaluate your needs with the help of an expert and cover yourself for untimely death, disability and illness which can be done by purchasing life insurance, Personal accident and mediclaim policies. This is the first level of protection that you need to do. But there could be events which may or may not be covered by the insurance policies that you have bought. For example, in case of job loss you might not get any unemployment compensation. In case if your parents are senior citizens with pre-existing illnesses, chances are that even they might not be covered by any medical insurance.

Any Thumb rules which we can follow: Ideally if you have a stable job along with a working spouse, try to maintain 3 – 6 months of your monthly expense in liquid form. Liquid form means that you could convert it to cash, at short notice. An emergency fund can help you take care of those smaller and bigger sudden expenses such as un-insurable auto repairs, replacing dysfunctional electronic items, uninsurable illnesses etc. It can also come in handy where, at times, your cashless mediclaim might not get approved and you need to pay upfront cash and claim later. Six months contingency fund is usually suggested for covering extreme situations such as a job loss where it might take that much time for getting a new job and during which you need to still pay your mortgage or insurance payments. In case you have dependent parents either senior citizen or not, but not insurable by any medical coverage, then you need to keep a higher amount.

How should we maintain this emergency fund?

For a contingency fund equal to 3 months of your monthly expense, it is suggested to maintain the same in your savings account which has an ATM card so you have the convenience of withdrawing it at any point of time. Nowadays banks provide you a Flexi-FD facility where deposits above Rs 10000 is automatically converted into fixed deposits and are also liquid, in the sense you can withdraw it using your ATM card and still get FD interest for the period it was maintained. Anything over 3 months can be maintained in a liquid fund offered by mutual fund companies as they offer better returns than savings account. The redeemed money also gets credited the next day into your bank account. Some mutual funds are also offering ATM cards along with the liquid fund schemes which makes it that much more convenient and hassle free.

Ideally if you have a stable job along with a working spouse, try to maintain 3 – 6 months of your monthly expense in liquid form.

For those who don't have enough savings to maintain an emergency fund, it is suggested that you start a recurring deposit to build one. If you are planning to build an emergency fund of say Rs 1 lakh, then look at your surplus that you generate every month and depending on that allocate a part of the surplus to this RD so that you have your emergency fund ready in a few months.

Remember- don't commit any money to long-term investments unless you have made provisions for your emergency fund. This will ensure that you are prepared and would provide peace of mind which we all need in today's uncertain times.

Are you prepared for the Milestones ?

There are various milestones which we achieve in our lifetime. Each of these bring some changes in our priorities and financial requirements. To accommodate these changes and move ahead to achieve the goals you have identified, one has to prepare well ahead. Sometimes the change may require a big financial support to proceed further in your life.

Here are some of the milestones which we will have to go through and we should be well prepared to accommodate them without affecting our financial well-being:

1) **Your First Job**: Is always a memorable milestone. You aspire to become self -dependent as you start your career. Your planning at this stage can either do wonders or may disturb your financial wellbeing in future. Start maintaining an emergency fund so that you do not have to rely on your parents if in need. Work out your expenses and build a 6-8 month contingency fund. Buy a medical insurance to meet expenses arising due to health problems. Make sure to work out your insurance amount so that you do not overcommit and drain

your savings. You can add accident and life insurance cover based on your work profile. Adding a term insurance can be advantageous for some who wish to start their married life very soon. The premiums are very affordable and remain the same for the entire term and they are cheaper when you are young.

2) **Mid-Career Changes**: You are looking for change in your job either due to dissatisfaction or increase in your financial requirements. For some who have responsibilities of their parents will find meeting both ends difficult if not prepared. Start with an emergency fund of at least 6-8 months expenses as there might be months in between job change, which may go without an income. You have to make sure you meet your basic monthly expenses during this period comfortably. When you get an increase in your salary you have to provide for all your goals- meeting expenses, provisions for a family, parents care etc. Buy adequate health & term insurance to meet the unexpected. Once you set for a change, plan for your life goals.

3) Marriage: Your lifestyle changes with addition of a family member. Since you will have to provide for each other after marriage it is good to discuss your protection needs and identify if there are any gaps. You can buy adequate insurance covers supplementing each other. Sooner, you will plan to have a child in your family. It's always wise to start planning for the child as early as possible as you have to make a long term commitment for his/her expenses. Start with a small amount of savings and increase allocation as you reach the desired stage.

4) **Birth of a Child**: Always a joyous moment in every parent's life. Sooner, the concern of child upbringing starts revolving around you. As the child is born add him in your health insurance policies to cover any health related expenses. Start allocating part of savings towards your child needs by investing in various asset classes. You can do it with child savings account and transfer periodically from your own account. The earning parents should have adequate life insurance on self to protect family financially when he/ she is not there. It will always be a wise decision to start planning for your child needs even before he/she is born.

5) **Getting Retired**: Retirement is the biggest milestone to reach as you plan to stop working beyond this. As you are near your retirement evaluate your retirement needs. This will give you estimation of how much you will exactly require for meeting your expenses. Do provide for other expenses like gifts to your grandchildren's etc, to arrive at an accurate figure. Evaluate your sources of income to check if there is any gap so that you can work on it before you retire. This should include your retirement fund expected from PF, Gratuity & superannuation, your insurance policies maturity and all other sources. Recheck your health insurance coverage and enhance it if there is any shortfall. Once retired, get all your income in place and invest to get the desired income.

The milestones discussed above are stages of your life cycle and you tend to make mistakes if not prepared. Financial Planning is a very dynamic process as it accommodates all these changes. Plan with it so that you do not put unnecessary strain on your finances and your family has adequate protection from emergencies arising in future.

Health Insurance Claim Process

Making a Health insurance claim is not as easy as buying the policy online with a few clicks. And the process becomes worse when your pre-authorisation form gets rejected which means that you can't make a cashless claim but have to ask for the reimbursement later on.

I personally have gone through many claim cases and found that in reimbursement cases, you need to be very patient. There are companies which promise to give their verdict on the pre authorisation request in 4 hrs of submission of documents, but the same company when filed for reimbursement case does not even respond to you for 40 days.

But that doesn't mean one should not buy health insurance policy or as they say that "All health insurers are crooks". It's just a matter of learning from other people's experience so that you should be prepared enough in your case.

Health Insurance or as it is popularly called – mediclaim – is one of the must-have insurance covers, in one's insurance portfolio. But while making a claim just take the following precautions to make your journey of making a health insurance claim hassle free. Also please understand that all these are precautions which should be pursued over and above following the claim procedure mentioned on the claim form or website of that particular insurance company.

1. Inform the insurer or TPA (Third party administrator) yourself and if it is a planned hospitalisation, preferably in advance. Don't depend on the Hospital TPA staff, as many times they don't even know that the Insurance tie up is still there or discontinued. You keep on waiting for the cashless claim to be approved, and after few hours they inform you with sorry faces that they are not empaneled with the insurer.

Making a claim can become a horrible experience for those who are not aware of the process or are of impatient nature.

2. If your insurer is linked to a TPA then it's better to maintain a file and keep every year's insurance policy document in that. As these insurers keep on changing the TPAs often, they don't coordinate with them to provide all the previous claim details and other information related to the insured. So many times these TPAs ask for the previous policy schedules at the time of making claim. If these are not available then they will ask the insurer to provide the same which may delay the process or lead to the rejection of cashless request.

3. Keep all health related documents ready. If the problem for which the treatment is taken is pre-existing, then the insurer will ask for all the previous treatment and consultation papers. They will surely ask for the first diagnosis report.

4. In many cases the involvement of TPAs delays the process especially where the claim amount is big. As TPAs are authorised to approve claim up to a certain limit and all cases above that has to be approved by the insurer…so these types of cases takes double the time.

It is advisable to keep an emergency fund so that you should not find yourself scrambling to raise finances if this health Insurance claim procedure gets delayed.

5. With some lacking in service quality, many Insurers and TPAs keep your claim pending for the requirements raised for documents from hospital, which might have already been submitted by you. If you want your claim to be settled soon, you have to be in regular touch with the TPA and insurer. Better to update the insurer with the Mobile number and email so that if any further requirement gets raised they can inform you faster and thus speed up the whole process.

6. Many times where the claim amount is big, insurer wants letter from the treating doctor stating the condition warranting hospitalisation or surgery. So better to keep the doctor in confidence that you may bother him again due to insurance procedures.

After submission of all the documents claim has to be approved/rejected in maximum of 30 days. Do note the grievance redressal mechanism of the insurer and start the process after 30 days of submission of all the requirements raised by insurer.

Making a claim can become a horrible experience for those who are not aware of the process or are of impatient nature. If you have bought your policy through an advisor than many of these issues (Especially coordinating with the company) should ideally be taken care by him, but if you have bought it on your own or online, then definitely your patience is going to be tested.

Also it is advisable to keep an emergency fund so that you should not find yourself scrambling to raise finances if this health Insurance claim procedure gets delayed.

Like Father (un) like Son

Year 2000: Our neighbor Sen Uncle retired after a continuous service of thirty five years in a public sector company. He starts to get a regular pension income for life, which is equivalent to fifty per cent of his last income, subject to revision based on inflation. His net worth consists mainly of his employee provident fund (EPF) which would generate income to support his pension, his self-occupied house and a second house which he bought with the intent to gift to his son, on his marriage. All of this was the creation out of the meager income from salary of a public sector employee with a high resolve towards financial discipline.

In the same year his son Shekhar, graduates and starts his career with a private bank at almost the same salary as his father's last salary before retirement. Shekhar, as a college student always ran out of pocket money before the 15th of the month and he would then successfully convince his mother to top up his pocket money which would help him to crawl through the rest of month.

Come 2012, life is the same for Sen Uncle who lives the life as usual with no compromises, but continues to focus on financial and dietary discipline; so it is for Shekhar, still a banker, the only difference being that he is in his fourth job since 2000. He got married to Sangeeta in 2007 and they have a son, Arnav 4 years old. For him the bank account still hits the bottom by mid -month, the only change being it's not his mother who funds it anymore but it's either the credit card or at times, his wife who works for an advertising company. Post marriage under pressure from his wife, Shekhar has started some investments to fund his son's education; though half heartedly since the event is 15 – 20 years away and he cannot digest why worry now for something that is still far away.

When it comes to planning for retirement the earlier the better because retirement is not a short weekend but a whole life in itself.

What really went wrong when Shekhar had a perfect role model, his father, with him at home to look up to:

1. The fundamentals /basics of finance as a subject are never taught at school and most of the times neither is it openly discussed at home, particularly in front of kids. Hence Shekhar missed the best that his father could have passed on to him. And now that he is independent and in a different era, it is difficult to take advice from his father, not realising that the basics always remain the same.

2. Every new day is taking us closer to that destination in future where our commitment/goal lays, hence the money like water, if not directed rightly finds its ways. Shekhar always believed in living the day as it comes, prioritisation was missing and the income found its ways into new cars, exotic vacations and even sponsoring a friend's birthday party.

3. Credit card is a great tool if used judiciously, but lethal if used as if it's Aladdin's genie that shall bear the cost. Shekhar, a banker himself, uses it to such extent that at any given time he has some outstanding towards it and pays interest on it at the rate of 36% per annum.

4. Insurance is about transferring of risk to the insurer at a small cost called premium and a hedge against financial losses due to medical uncertainties or untoward incidents. For Shekhar, the probability of such an event happening is a marginal percentage, so he decided against transferring the risk without realizing that it can steal away entire savings and /or future earnings in case such an event strikes. He ended up paying a huge hospital bill when he was shifting jobs and was caught without a medical cover.

5. The purpose of EPF is to fund important goals like retirement, education, home purchase etc and at times uncertainties and can be carried forward to the new employer on change of job. Shekhar however invited friends and colleagues to parties out of the withdrawn EPF proceeds received on changing organizations.

Sekhar finds the pain of sacrificing today is far greater than the pleasure of having that corpus tomorrow, not realizing that neither mother nor the Aladdin's genie shall come to the rescue when salary cheque shall not hit his account any more from any employer. Unlike his father, who built his retirement corpus by way of EPF, Shekhar spent the EPF on those short vacations & parties, not realizing that it was actually meant for the long vacation (which is retirement) and all long vacations need to be planned well, whether it is the destination, the bookings, the budget etc.

When it comes to planning for retirement the earlier the better, as the time available is more, because retirement is assumed rate of return Cont… Page 6

Cont.. Page 1 — Financial Plan Review

that equity and debt will return. If you ponder for a moment, many of these things will change month on month, if not each year. If the underlying parameter changes, so will the amount of Rs 10,000 that you are currently saving each month !

If the new amount is less than what it was earlier, then you are probably safe but if the new amount is more, then you might be in trouble as it now means you need to save more each month. But if you do not perform this activity, you will be like the lost soul driving in the wrong direction.

Reviewing a financial plan each year is mandatory. If you can possibly do that each quarter, nothing like it. While you can consider this as a thumb rule, you also need to ensure that certain events can make this review more important.

For example, if the stock market tanks and remains depressed for a number of months continuously, then you will know that the review will throw up some interesting observations. You might not be able to do much to mitigate such scenarios or circumstances as they are beyond your control but it is necessary to be aware of what you are going to get than be surprised and shocked when you have a lot lesser than what is needed for your child’s marriage.

Advantages of a review

The advantages of the review of a financial plan are:

1. It gives you a holistic picture of where you are currently.
2. It shows how you have progressed from the last time you did your plan. So in essence, it tells you how well or how bad you have performed.
3. It gives you an opportunity to tweak things to make the goals more practical.
4. It allows you to respond practically to your financial situation – so you could forgo a less important goal say of an expensive vacation for a more important goal like saving for your retirement.
5. It tells you what you can have in your life and what you need to let go.
6. It gives you a chance to make amends so that you can stay on track to meet your commitments to your family and yourself.
7. It allows you an opportunity to weed out the bad performers in your portfolio and bring the stellar ones that will help you get to your destination.
8. It allows you to ask, understand and clear your doubts with your financial planner.
9. It lets you gel and bond with your advisor and helps you know more about money, the thing we all work for and

Max Secure Financial Planners

Nurturing trusting relationships

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Vision: To provide affordable fee based financial planning services, by adhering to Professional practice standards and code of ethics as prescribed

Mission: Nurturing and maintaining long term relationship based on trust with clients by keeping their interest uppermost in mind, providing unbiased advice and financial planning services using six steps planning process, promoting financial literacy.

Financial Planning takes into account the inter-related nature of the goals that one has & helps in deploying the finances so that the high priority goals are given precedence & are met. It takes away the uncertainty out of life and brings in peace of mind.