Financial Planning at Different Life Stages

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✦ **Mid-career, Married**

Expenses are high, matched by the outflow of investments. Though your income could be healthy, this is the time that your portfolio requires careful handling. This is a time when, if the roadmap is drawn, it takes execution for the rewards to come in.

Insurance. Protection, protection, protection. This should be your mantra at this point in life. Your insurance cover should be large enough to enable your family to live comfortably off the interest on the corpus amount in the event of an unforeseen occurrence. It is said that if you earn ₹10 lac (1 million) a year, buy an insurance cover of ₹1 crore (10 million). But remember, you need to have bought insurance by the time you turn 40 if you want to build a cost-effective risk cover.

Financial Planning. Writing down your goals in consultation with your financial planner and then adopting a structured method to reach them is vital in the mid-career stage when expenses shoot up. If you have articulated your money plan, then it is easy to prioritise. Once you bring in some method to money management and once you identify your goals, it becomes far easier not to splurge on a fancy plasma TV and to save for your child's college education, instead.

Asset Allocation. Fine-tuning your portfolio is vital at this stage. This is the time when you need to constantly track the impact of external environment changes on your money. For instance, if profits of ₹2 lac are shaved off from your corpus of ₹10 lac (1million) due to a market slump, you must examine your equity-debt allocation. As long-term goals are crucial at this stage, diversifying across asset classes is important.

Realign Real Assets. Senior citizens will have to ensure that their net worth is not locked up in real estate. Investments in real estate in this stage should be geared to future needs. There is no point in building a four-bedroom house that lies empty in your later years and does not fetch you any returns.

Plan your Taxes. Manage your maturing investments outflow by placing it in instruments like the Senior Citizens Savings Scheme and post office deposits. Even an increased outflow of ₹20,000 in taxes in the retired years can mean a huge hit on income.

Healthcare. The focus on health cover should ideally begin early enough for you to be in fine form in later years. Pick up mediclaims for yourself and your spouse at least five years before retirement. More importantly, don't forget to pay the premium on time. A simple memory lapse can cost you your health cover in your later years, as companies can refuse to renew a policy.

Estate Planning. Financial planners caution against bequeathing assets while you are alive. The idea is to chart out a legally foolproof will that will allow your inheritors to enjoy the proceeds once you are gone.

It sounds like a lot of hard work, but financial planning is actually easy. Just think of a future without all the luxuries you take for granted today, and you may find it easier to salt away some money regularly instead of splurging all of it. Spend, but remember to plan for the future as well.

HAVE YOU DONE YOUR TAX PLANING?

Alter and adapt. Financial planning requires agility. For instance, parents typically keep a goal of setting aside ₹3-7 lac (3 to 7 lac) for a child's education. But if you consider the effect of inflation and erosion in rupee value over the next 10 years, the real cost of funding Junior's education can shoot up. Make room for changed scenarios in your financial plan. The government controls the fees at top colleges at present, but costs may go up in the future if caps on college fees go.

Spending control. Don't stint on pleasure but make your profits pay for it, not your retirement corpus. That's sage advice. This is also the time to make your children financially literate. Postponing spending decisions in a time-bound manner can teach them to handle money responsibly. Show them how profits on investments in a two-year time frame can fund a holiday abroad. For instance, you can tell your children that they would have to wait a while to get a Basset Hound pup. The pup was bought finally from the profit he booked by selling an IT stock at a high value a week after buying it during a market slump.

✦ Empty Nesters

These are often called the golden years, and so they will be if you've planned well and wisely. There are, of course, specific aspects of money that must engage you, including your tax plan, your health cover and income protection.

Growth-oriented Portfolio. Inflation is the real threat for senior citizens today. The challenge is to stretch income enough to provide for extended life spans. As equity protects against inflation, ensure that you have at least 30 per cent equity exposure in your portfolio by the time you are 55-60. Trim equity down to 20 per cent by the second decade of retirement and 10 per cent in the third decade.

"If you are patient in one moment of anger, you will escape a hundred days of sorrow."