

Case Study – Ajay Deshmukh

Background

Ajay Deshmukh, aged 54 years, currently owns an advertising firm. His family consists of his wife Sanjana, also aged 54 years, son Ghanshyam aged 29 and daughter Reshma aged 27. Sanjana is a housewife and both the children are happily married and well settled. The couple anticipates their life expectancy to be 80 years each.

Income & Expense

The gross annual income of Ajay for the previous year 2007-08 is expected to be Rs. 19,00,000. The couples' household expenses are estimated to be Rs. 8,80,000 per annum. Taking into account incidental expenses of another Rs. 80,000 in addition to that it can be deduced that a net surplus would be generated for the year. Ajay already has a net saving of Rs. 35,00,000 which he would like to invest for his post retirement purposes.

Asset Allocation

Ajay has hardly 6 years left for retirement and thus he is not very aggressive in his investments. Returns of his portfolio based on asset allocation during the accumulation and distribution phase are calculated as below:

A) Accumulation Phase

<i>Asset</i>	<i>Allocation</i>	<i>Return</i>	<i>Weighted Return</i>
Equity	30 %	15%	4.50%
Debt	70 %	8%	5.60%
Portfolio Return			10.10 %

B) Distribution Phase

<i>Asset</i>	<i>Allocation</i>	<i>Return</i>	<i>Weighted Return</i>
Equity	15 %	14%	2.10%
Debt	85 %	7.5%	6.38%
Portfolio Return			8.48 %

Other Assets

House - Rs. 4,50,000 (Cost Price in the year 1997).

Gold Jewelry – Rs. 6,00,000

Agriculture land – Rs. 5,00,000 (Price in the year 1985)

Antiques – Rs. 4,00,000 (Current Market Value)

Ajay owns a building which he insures along with its contents for Rs. 10,00,000. However the market value of the building and its contents is Rs. 12,00,000. The building along with its contents is partially destroyed by fire and the loss assessed is of Rs. 1,00,000.

Ajay also has agriculture income of Rs. 65,000.

Assumptions:

Current inflation rates 7.5% (To remain at these levels for this case study)

Retirement Expenses 85% of Current Expenses

Retirement age 60