**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FOURTH TRIMESTER (Batch 2021-23)**

**END TERM EXAMINATION, NOV-2022**

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| Course Name | **Wealth Management** | Course Code | **40232** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

*1. There are four questions in the question paper.*

*2. All questions are compulsory.*

*3. Students are supposed to save their answers in an excel workbook with their names and Roll nos.*

*4. Each workbook will comprise five worksheets named Ans 1, Ans 2, Ans 3, and Ans 4*

*5. The exam will be a closed-book examination. Students can use scientific calculators, financial calculators, and MS Excel. Internet & Intranet is NOT allowed for the students.*

*6. Please state your assumptions clearly (if any) for each question.*

**Questions.1 (Marks 10)**

Mr. Hareesh, 34 years old, is a Senior Data Analyst in a reputed MNC. His wife Harika, 30 years old, is a homemaker. They have one child Rishi, 5 years old. The CTC of Hareesh is Rs.32 lakhs. His net income after taxes and group insurance premium deductions is 75% of gross income. He spends approx. 10% of the net income on himself. The Balance amount is available to the family. His employer provides group term insurance cover of Rs.30 lacs and health insurance cover of Rs.15 lakhs covering him and his family. The cost of the insurance premium paid on self is 0.6% of CTC under the group insurance scheme.

The monthly expenditure of the family is 55% of the Net Income. Mr. Hareesh has accumulated savings (in current value terms) of Rs.12 lakhs in PPF, Rs.28 lacs in Mutual funds, and Rs.10 lakhs in Fixed Deposits.

Hareesh has outstanding loan balances as under:

i.                 Home loan Rs.50 lakhs

ii.               Car loan Rs.10 lakhs

iii.             Personal loan Rs.6 lakhs

The value of the house in which the family lives is Rs.60 lakhs and the value of the car used for personal and official purposes is Rs. 10 lakhs. He has a residential plot worth Rs.30 lakhs. Assume that the average inflation is 5.55%. Income is expected to grow at 10% p.a. till his retirement age of 60 years.

Compute the Life Insurance need of Mr. Hareesh under:

  i.          Human Life Value method (5 marks)

 ii.          Need replacement method (4 marks)

Iii Suggest a suitable insurance product for him with a brief reason

**Questions.2 (Marks 10)**

 Mr. Vipul owned a residential house, which he purchased for Rs.35, 00, 000 in January 1998. The fair value of the property as of 1 April 2001 is Rs.70, 00,000. He incurs the following expenses for making addition/alterations to the house property:

1. Cost of construction of the first floor in February 2004: Rs. 26,50,000
2. Cost of construction of the second floor in October 2010: Rs. 39,20,000
3. Repairs and renovations in July 2017: Rs.22,50,000

 Mr. Vipul sells this house property in August 2022 for Rs. 4, 55, 00,000. Expenses incurred on the transfer of the property were 0.60% of the sale value. Mr. Vipul intends to invest Rs.80, 00,000 in REC Bonds in March 2023.

You are required to:

 Calculate the long-term capital gain for the assessment year 2023-24 and the applicable tax amount. (Financial/previous year is 2022-23). Advise him regarding his intention of investing in REC bonds

Following is the CII index table:

Financial Year CII Number

2001-02 100

2002-03 105

2003-04 109

2004-05 113

2005-06 117

2006-07 122

2007-08 129

2008-09 137

2009-10 148

2010-11 167

2011-12 184

2012-13 200

2013-14 220

2014-15 240

2015-16 254

2016-17 264

2017-18 272

2018-19 280

2019-20 289

2020-21 301

2021-22 317

2022-23 331

**Questions.3 (Marks 12)**

  Mr. Samit, aged 29 years, is working with a Pharma company. His wife Aruna, aged 27 years, is self-employed. His Gross Income is Rs.1, 50,000 per month. Monthly family expenses are 60% of gross income.

Other Information:

Samit’s life expectancy is 78 years

Aruna’s life expectancy life: 82 years

Retirement age of Samit – 60 years

Retirement expenses – 75% of pre-retirement expenses till Samit’s lifetime

Thereafter 50% of pre-retirement expenses till the lifetime of Aruna and Samit’s death

The investment for accumulation of retirement corpus will be made in a Hybrid Mutual fund, which is expected to generate post-tax returns of 12% p.a.

Inflation – 5.50%p.a.

The risk-free rate of return – is 6.50%p.a.

The retirement corpus is to generate inflation-adjusted monthly income after investing in risk-free investments post-retirement.

The annuity/pension after retirement is required at the end of every month.

Expected PPF accumulation by retirement age is 135 lacs and Gratuity is estimated to be accumulated to 20 lacs.

You are required to ascertain:

 i.    What is the monthly income needed when Samit retires? (1 mark)

 ii.   What is the monthly income needed by Aruna after the death of Samit? (2 marks)

 iii.   What is the real rate of return required post-retirement? ( 1 mark)

 iv.    What is the balance retirement corpus to be accumulated? (5 marks)

1. What is the effective monthly interest rate on the investment during the accumulation stage?

 (1 marks)

 vi.    How much is to be set aside in SIP – monthly in a balanced mutual fund to reach the goal? Assume that the investment is made at the beginning of every month. (2 marks)

You can round off your answers to the nearest rupee.

**Questions.4 (Marks 8)**

Jeff (40) is working with a financial services company for the last 15 years. He is married to Annie (36) and has two kids – Aaron (14 years) and Jason (8 years). Annie is a stay-at-home spouse and is not earning currently. Jeff is planning to look for alternative earnings and simultaneously has some investments in the market. His real estate investment (including plots) today is Rs.2.0 cr. (excluding his occupied house, which is also owned by him). He has also invested in equity mutual funds to the tune of Rs. 15 lakh and has stock options of Rs. 5 lakhs. In addition, his current FD investment is Rs. 5 lakhs. This FD can be renewed every 5 years two times. His take-home salary is Rs. 40 lakh p.a. and he saves 40% of his salary. He has also taken three endowment policies (premium p.a. of Rs. 50,000 for the last 5 years) with a total sum insured of 50 lakhs with a yield of 6% p.a. The endowment policies will cover Jeff’s life till the age of 65.

Jeff has put his money in various asset classes, but he is not sure of his investment decisions. He needs help from a financial adviser to make his investments better. Assume the return on equity mutual fund is 13% p.a. and on a balanced mutual fund is 10%. He has the following goals in the coming years, and he has also made sure a certain amount is required to achieve these goals in terms of today’s value.

**Goal Year when money is required Cost (in today’s date)**

Emergency Fund 2022 500000

Elder son-Higher education 2026 3500000

Younger son-Higher education 2031 3500000

Elder Son-marriage 2037 3000000

Younger son-marriage 2044 3000000

Assume the inflation rate to be 5% and higher education costs would increase by 8% p.a. You can state your assumptions if any.

**You are required to:**

1. Identify the strong and weak points of the financial planning of Jeff’s family. (3 marks)
2. Think as an advisor and help the couple to make goal-based financial planning. You can work on any of the three goals. (5 marks)

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