PGIM
India Mutual Fund

What is your Plan B?

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I have been writing to you about the thumb rules related to the world of investments. The Idea behind sharing these simple thumb rules is to simplify the various aspects of financial planning for you. One basic challenge with the investment thumb rules is that the rules are based on the assumption that the income earner will have a long enough earning life to save for all the financial goals. We all hope to lead a productive and long life, however planning for life cannot be based on hope. The most important question to address while creating a financial plan is that if something untoward was to happen to an earning member of the family what happens to the goals, aspirations of the family and who takes care of the liabilities like home loan? Can an individual create a safety net for his/ her near and dear ones? The answer is to buy an insurance cover.

Very often one gets to hear a debate on whether one should buy Mutual funds or should one opt for insurance policies. In my opinion it is not an either or option, both the products are required to create a comprehensive financial plan including other asset classes like gold, real estate and creating a will. Mutual Funds are investment vehicles whereas insurance products cover risk and have to be used accordingly.

Like all other aspects of financial planning, the key question is how much insurance is enough?

Some of the factors to consider while arriving at the appropriate insurance cover are:

- **Current annual income-** Objective is to have an amount of cover adequate enough to help generate income equal to replace the annual income.
- **Financial liabilities-** This should include current liabilities like home loans, car loans. Any deferred payments also need to be considered.
- **Financial goals-** like children's education, marriage etc
- **Life stage of the person-** A person in the mid stage with liabilities, responsibilities would need a higher cover as opposed to a person at a later stage in the life cycle, whose responsibilities/liabilities have been taken care of.

In arriving at the number, one needs to deduct the corpus one has in form of investments and savings by way of Mutual funds, bank FDs etc.

It may look like a complex mathematical problem to solve but thankfully thumb rules come in handy here as well. In the developed economies, the thumb rule is that one needs to have an insurance cover equivalent of 7 to 10 times of annual income. Experts believe that in an economy like India where inflation could be higher than developed economies, it is better to have a cover equivalent of 10 to 15 times the annual income plus the outstanding liabilities. For example, if a person has annual income of Rs.5,00,000 then the adequate insurance cover would be anywhere between Rs.50 lacs to Rs.75 lacs plus liabilities, if any. Obviously, the insurance premium has to be paid every year and hence it is important to give weight age to ones ability to pay the premium year on year, while deciding on the extent of insurance cover.

At PGIM India, to make financial planning simpler for our investors, we have launched SMART SIP which offers an insurance cover upto Rs.50 lacs to eligible investors. The cost of insurance is borne by the company and insurance comes free of cost. The idea is to create a safety net for financial goals in case of any unfortunate occurrence. Please read detailed addendum w.r.t. Smart SIP available on our website. Do connect with your advisor to know more about the eligibility criteria and features of SMART SIP.

As mentioned in my earlier communication, thumb rules are just guiding principles, it is advisable to have a good advisor / financial planner who can customize the financial plan to your goals, aspirations and circumstances. Do keep investing in mutual funds for financial goals but don't forget to buy adequate insurance as well.

Happy investing.