



# Ask Mint Money |

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Hiking home loan tenor will lower EMI, provide extra cash flow  
You need to invest in instruments that offer enough liquidity

I am 30 years old and my annual income is Rs.12 lakh. My wife, aged 28, earns Rs.10 lakh per annum. However, she plans to take a break for higher studies in 2014 for two years. I pay equated monthly instalments (EMIs) for home and car (together Rs.80,000) from my salary. The remaining household expense, investment and savings (Rs.60,000) is taken care of from my wife's salary. However, two years from now, we will be reduced to a single-income family. I want to start investing so that I have at least Rs.15 lakh during the period my wife is out of work. Where and how much should I invest for this purpose?

—Jignesh

Your gross total income (both yourself and spouse) comes to Rs.22 lakh. Subject to taxation, your net income from FY13 (post tax) will be around Rs.19 lakh (this is based on the assumption that tax saving is maximized under section 80C of the Income-tax Act).

However, what matters more, especially now, is the cash in hand. Your cash flow will be reduced from the above figure on account of statutory deductions such as provident fund or PF (based on the figures mentioned, the PF deduction comes to Rs.2.20 lakh).

You have not specified by when your car EMI will get over (housing loan is assumed to be for long term). After reducing the statutory deductions and fixed expenses of housing loan and car, your take home income comes down to Rs.7.2 lakh for the year. This will get further reduced by your household expenses. Assuming the same to be Rs.30,000 per month this will translate to a net income of about Rs.3.6 lakh or Rs.30,000 per month, which is your saving potential. And this is not counting any increment in salary income from

the second year, which should also go towards savings.



This is way too short of your target amount, so you would need to increase your savings. You can try to reduce the rate of interest on housing loan as even a 0.5% reduction can help you save more by bringing down the EMI (you reduce the EMI and not the tenor as you need more cash in hand). Alternatively, you can consider increasing the loan tenor, which can also help provide extra cash.

You need to invest in instruments that offer enough liquidity and also help you earn a reasonable income. Don't consider long-term investments, which in any case you are doing under section 80C. You can consider short-term debt funds, where Templeton Short Term Income Fund is a good option and medium-term debt where Birla Sun Life Dynamic Bond has been a consistent performer. Also consider monthly income plans that have equity exposure of 5-25%. Reliance MIP is a fund with a good track record.

You should have a life insurance policy in your name and health insurance for both of you. Health insurance premium will further bring down your tax liability.

I have been investing in equity-linked saving schemes (ELSS), unit-linked insurance plans (Ulips), Public Provident Fund (PPF), 5-year bank fixed deposits (FDs) and employee's provident fund (EPF). The amount invested exceeds the exemption limit. Also, I have not seen any major growth in these investments. What should I do?

—Jinna

You have invested in multiple asset classes to exhaust your tax savings limit under section 80C of the Income-tax Act. If we consider these asset classes independently, most of them can be held in the portfolio. But the number of investments is way too many if it is done only for the purpose of saving tax.

If question of non-performance is not applicable to EPF, PPF and FDs because they come under the fixed-income category where the rate of interest is assured. Underperformance can be seen when other asset classes outperform them or in times of high inflation when the rate of interest in fixed-income investments are not able to match it.

It is only ELSS and Ulips, where you would not have seen much capital appreciation in current times. As both have equity exposure, their performance is market-linked. In addition, Ulips are products with front loaded (charges) and hence the period of investment needs to be much longer than other investments. You need to be patient as these asset classes need time to grow. At the same time, you need to evaluate whether you are in a scheme which is performing versus its peers. But you need to wait for the minimum lock-in of 3-5 years before you can consider a switch from these

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