SBI MUTUAL FUND
A PARTNER FOR LIFE

# To parents, with love.





# Vinay M Tonse

MD & CEO, SBI Mutual Fund.

*Aspirations bind all parents and guardians together for their children. The generation that walked miles to schools wants their kids to reach their schools and colleges comfortably, without hardships. World-class higher education is a realistic goal most families are actively working towards.*

*As parents, our singular focus is on bettering the lives of our next generation. Along with hard work, an element of guidance and smart planning also goes a long way. This coffee-table book is an attempt at gathering perspectives from some of the wisest thought leaders in the financial education space.*

*Some essays in this book talk directly about finances. Others have touched upon aspects traditionally considered as non-financial, which have tremendous financial impact in the long run. Reading through all these essays reminded me how our biases could come in the way of sound financial as well as parenting decisions.*

*I extend my sincere gratitude to all the contributors to this collection of essays and for their precious insights and reinforcing vital lessons that often get blurred in the hustle-bustle of our daily lives.*



# DP Singh

DMD & CBO, SBI Mutual Fund.

*Not long ago, career options were limited for most. Quality formal education was among the few gateways to success. For millions, it indeed was, and continues to be. Then came the influence of media, entertainment, and technology. Lifestyles changed and so did children's aspirations. Now, millions of youngsters aspire, to be full-time creative professionals, entertainers, sportspersons, or even entrepreneurs from an early age.*

*What hasn't changed however, is the commitment from parents to support their dreams. In older times, savings accumulated over time in a family were spent on the higher education, marriage, and other future needs of children. That may not be enough to support the newer age aspirations which demand considerable financial resources. Having investments which grow with time is perhaps one of the most critical aspects of a prudent financial plan which helps you build capital to support your child's future.*

*The articles that follow have been authored by some of the most well-known thought leaders in the personal finance domain and will give you a wide range of perspectives and some practical strategies to build capital for children.*
*I would sincerely like to thank all our esteemed contributors for their time, effort and most importantly, the wealth of insights they have shared.*

# CONTENTS




**Monika Halan**
Author & Adjunct Professor, NISM.
Your life's biggest non-financial investment

**Priya Sunder**
Director & Co-Founder, Peak Alpha Investment Services Pvt. Ltd.
7 ideas to support your child's aspirations

**Dhirendra Kumar**
Founder & Chief Executive, Value Research.
Children, Parenting and Money

**Lovaii Navlakhi**
Founder & CEO, International Money Matters Pvt. Ltd.
Feed fish, teach fishing

**Binal Gandhi**
CEO, The Learning Curve Academy.
Roots and wings

**Mrin Agarwal**

Founder & Director, Finsafe India Pvt. Ltd.

The maths behind planning for your child's dream

**Neil Borate**

Deputy Editor, Mint.

Give your child some fish, and teach them how to fish

**Pankaj Ladha**

Founder, Invest Aaj For Kal.

Children Financial Planning

**Prableen Bajpai**

Founder, FinFix Research and Analytics Pvt. Ltd.

Well begun is half done!

**Srikanth Bhagavat**

Managing Director & Principal Adviser, Hexagon Wealth.

Give Them Wings to Fly

**Kamal K Sharma**

Author - The Piggy Bank Billionaire.

**Vaibhav Bhandari**

Director, Milestone Financial Pvt. Ltd.

**Megha Malpani & Harsh Kumar**

CFA & Partners In parenting ten month old Inaayaa Arora & Business Partners At Zvest Financial Services LLP.

**Rajul Kothari**

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Changing Times, Changing Aspirations

New Dreams... New Vehicles...

An eye on their future

The best way to predict the future is to plan for it

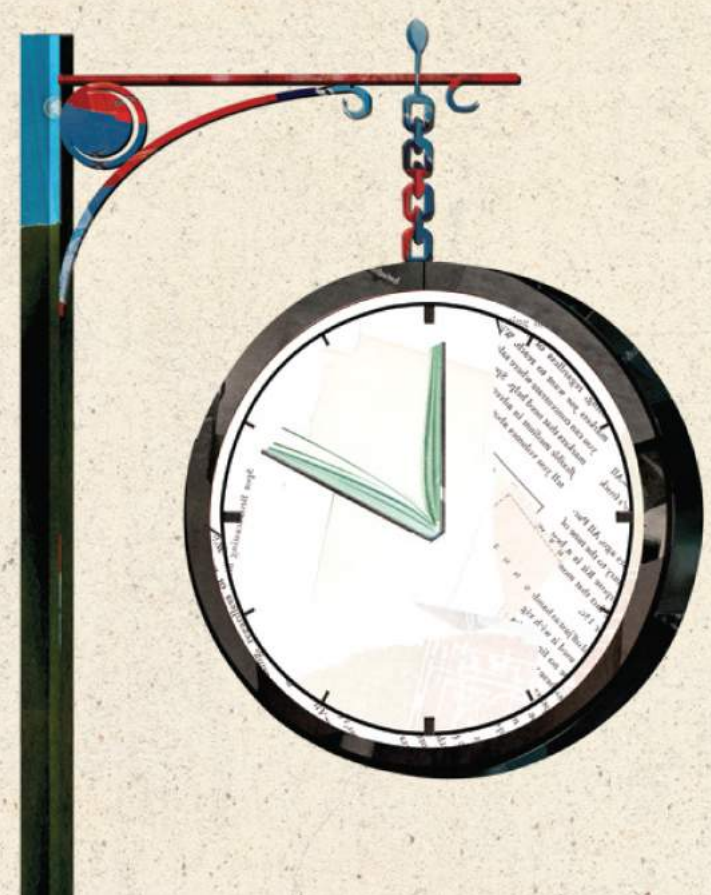
# Monika Halan

Author & Adjunct Professor, NISM.



# Your life's biggest non-financial investment: From conception to convocation

Each generation believes that it is the first to go through experiences. Experiences such as love, marriage, having kids. But mostly every generation repeats their parents' lives. The world might have changed from horse carriages and pigeon carriers to drones and instant messaging, but those making and using these devices are not that different in basic human emotions and behaviour. Each new set of parents go through the overwhelm of having their first kid. Their desire to do the best and go further than they can for the children's future is strong. They want to ensure the best education and the world's best graduation degree for their kids. These are all good things because as parents who brought to life someone that did not ask to be born, it is their duty to provide and prepare for the future. Generation after generation, parents tend to over-reach their means to provide for their kids' future, and generation after generation the complaint, once the same kids grow up and have lives of their own, is the same: of the kids not having time for the parents. Or fighting with siblings over assets or in some bad cases, demanding their 'share' of the parental wealth as a right. In fact, property - related court cases are a huge 66% of all cases in India. As you make the financial investments for the kids, remember that there is no quid pro quo. You should do it because you want to and not because of some future emotional return.

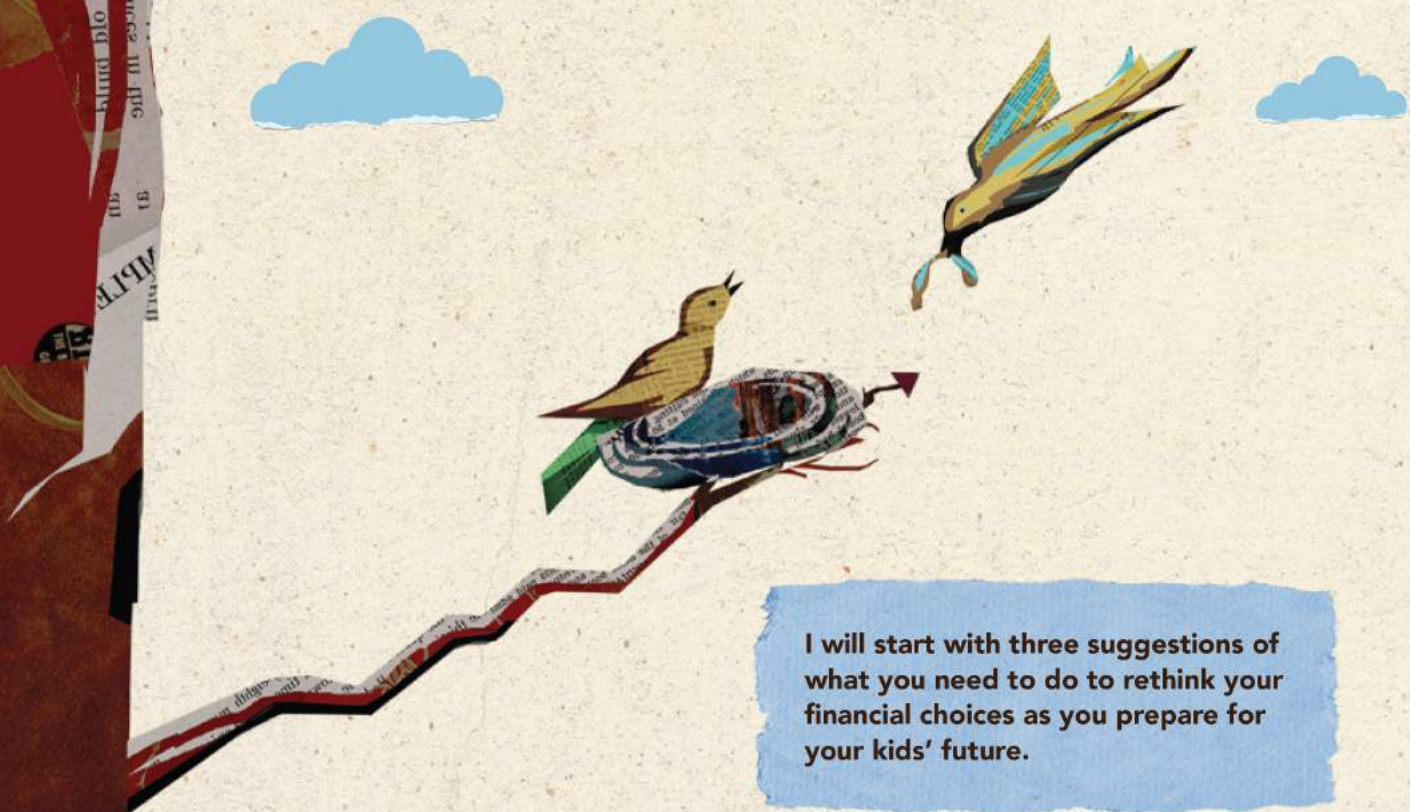


I know this is a warm fuzzy book about doing your best for your kids. But a little bit of tough love is needed to keep your own life in balance and for you to manage your own expectations over this wonderful journey called life. My neighbours in this book will tell you all the strategies of investing for the kids and ensuring that they have the money when they want it. You must do all of that. My starting point is that you must do all that it takes and more to provide for your kids' present and future. For example, at the very least you must invest in a low-cost index fund and just keep adding to it to get a long-term 14% (plus or minus a couple of percentage points) year-on-year return. That means, over a 20-year period, at 14% return, a simple SIP of ₹50,000 a year gives you ₹45 lakhs. I build on the starting point of providing today and preparing a future corpus for them, to give my advice of caution. Of managing your own expectations. Of not wrapping them in cotton-wool. Of not taking away the fire in the belly that is such a key ingredient of success, by over-promising and providing.

**1** **Don't buy physical real estate as an investment for your kids.** Real estate in India is a clunky asset that has large costs in terms of time and money to enter, maintain and exit the asset. Cash or non-tax paid money (black money) is an intrinsic part of secondary market sales across the country and it is heart-breaking to convert your white into black just for buying real estate. It is also a difficult asset to use when needed. Most money needs don't happen at one go and at times the need is only for a part of the asset for liquidation. The entire property needs to be sold and then reinvested or kept liquid till it is used up. The last 10-12 years have also proved that real estate is not a sure-shot way to get a good capital appreciation. Properties bought over the 2008-12 period are today looking at indexed capital losses.

**2** **Invest in financial assets.** There is no option but to understand how financial assets work. While gold, real estate, bank deposits and insurance policies were instruments of choice and use in the past, the arrival of mutual funds has given a better option for retail investors to target a diversified portfolio. What this means is that, just as a thali meal has a diversified serving of different kinds of foods, so also mutual funds offer choices of equity, debt, gold and in a small way real estate, and combinations of these. Within an asset class, for example equity, there are products that offer diversification across market caps (large, mid and small), across styles (value, growth), themes and sectors. If understood well, a mutual fund portfolio is all you need to target a future corpus for your child's education, marriage or entrepreneurship needs.

**3** **Take structured risk.** Being parents at this moment in time, it is most likely that you have no memory of India's socialist past and the reliance on the government for guaranteed returns. Post 1991, as the government handed over market risk to the individual, it has increasingly become important for us to understand risk-based investing. Remember, there is always a cost to getting a guarantee and that is mostly a very low rate of return. Begin understanding equity and learning to take sensible risk by starting to use entry level products such as low-cost broad market index funds. Don't let the jargon scare you away. All that this means is that you will use a cheap mutual fund scheme that mimics an index like the S&P BSE Sensex or the Nifty50 and use it for your child's future needs by investing into it regularly through a systematic investment plan. Of course, with good advice or more knowledge, you can use managed funds to your advantage as well.



**I will start with three suggestions of what you need to do to rethink your financial choices as you prepare for your kids' future.**

**The next four suggestions might seem a bit hard, but take it as tough love from a person who has seen several cycles of the market (meeting Mr Sensex when he was at just 2,000!) and has heard money stories from across generations – many of them are not about fuzzy familial love. Remember that the underlying is deep love and concern for your children, but sometimes love needs to be tough.**

**4** **Invest in your own name.** 18-20 years is a long time and we have no way of predicting how the kid turns out. It is best to invest the money that they get as pocket money or festival gifts or other gifts in their name, but the big ticket investments you do for them, do that in your own name. That way you retain control of the money and are able to guide the hot-headed hot-blooded young adult better in terms of his or her future choices.

**5** **Don't raise expectations.** Don't let the children know how much you are planning. Let them not build expectations beyond your reach. I met one father who is a top ranking professional in one of the big four consultants who shared this very experiential learning: kids will want whatever is beyond your reach. Of course, make the investments and plan for their future, but there is no point in raising expectations. The Covid period was a big wake-up call for many families where incomes suddenly went down as did the net worth and the promise of the best college in the US could not be kept leading to much heartbreak and blame fights in the home.



**6** **Don't raise raja betas and rani bitiyas.** I think I lost many friends when I documented a story of a section of urban Indian kids who have grown up to be entitled as their parents wrapped them in cotton wool. The parents did not want their kids to face the kind of difficulties they had faced in their early years, but over-protecting the kids can harm them. You can read it here:



Raising entitled children is going to backfire very badly for your own retirement and peace of mind in your silver years. Fire in the belly is an important ingredient of success and never forget that some amount of struggle is as important as providing them with a good life and a promise of a great future.

**7** **Let your wealth be a launchpad and not a couch.** The saying goes that the first generation builds the wealth, the second enjoys it and the third loses it. In a country where the per capita income is $2,000 a year, anybody with income over $10 a day per capita comes in the definition of 'rich'. While that is not practically true, the larger point is that if you are earning over ₹1 lakh a month, you are in the category of the rich in India. As newly emerged 'rich' or upper middle class, you need to be careful of what this means for kids growing up not knowing economic hardship. Not for a moment am I saying that being poor is good. To the contrary, everybody should be rich. I am alerting you to the fact that once the basic needs are met and comforts take the form of necessities, your role as a parent to point the child's aspirations higher become really important. Your hard work and wealth should be a launchpad for them and not a couch from which they can only flip screens.

**Raising a child is a transformative process. We get a shot at relooking at our own life choices and rediscovering the world through the eyes of a child. Use this moment to rework your own financial choices and behaviour. It is at key life stage transitions that we are the most open to habits and routine changes. Don't miss this opportunity to manifest a new version of yourself and your money. And don't forget to enjoy the today even as you prepare for the tomorrow.**

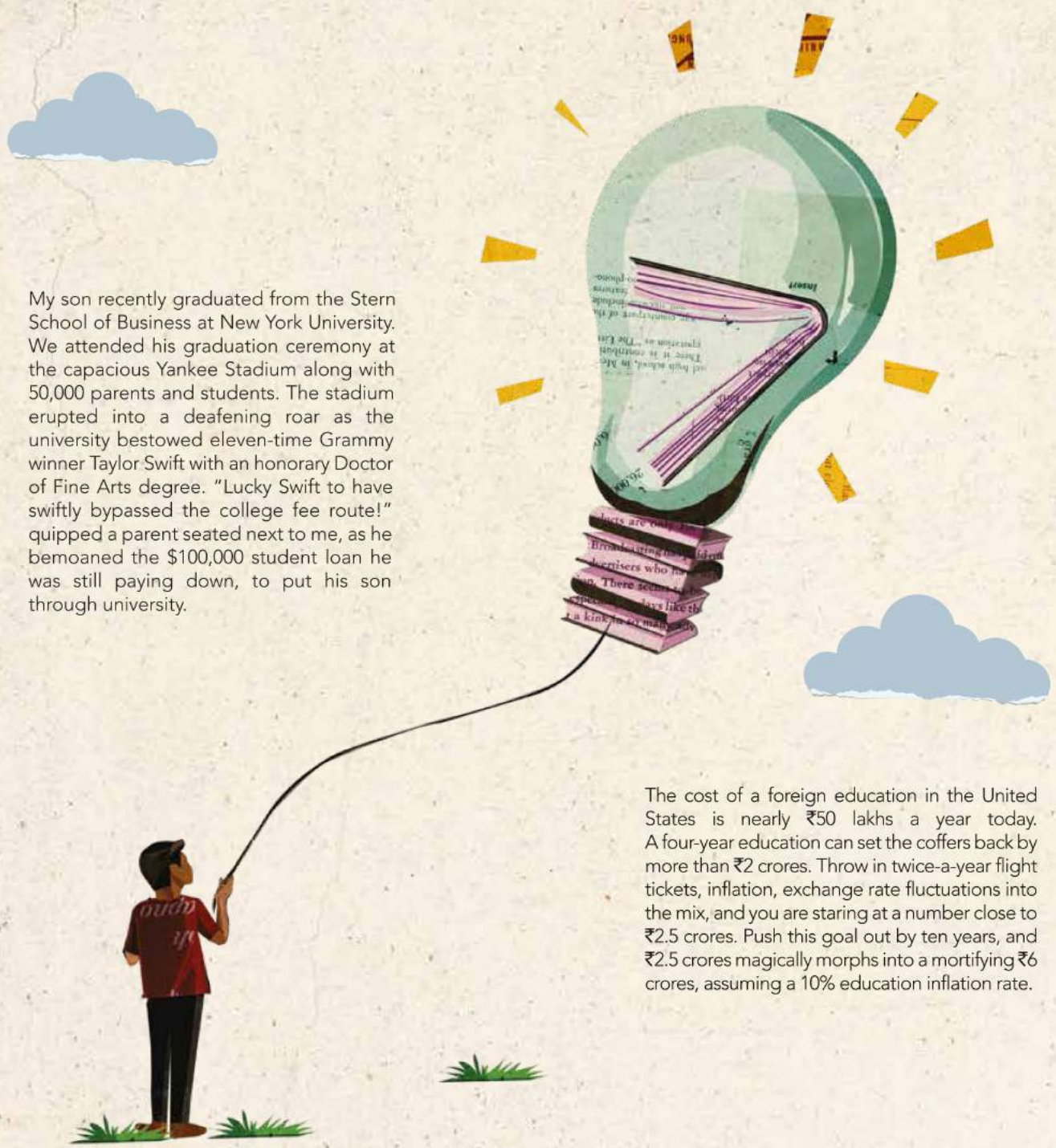
**Monika Halan**
**Author and Adjunct Professor, NISM.**



# Priya Sunder

Director & Co-Founder,
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# 7 ideas to support your child's aspirations



My son recently graduated from the Stern School of Business at New York University. We attended his graduation ceremony at the capacious Yankee Stadium along with 50,000 parents and students. The stadium erupted into a deafening roar as the university bestowed eleven-time Grammy winner Taylor Swift with an honorary Doctor of Fine Arts degree. "Lucky Swift to have swiftly bypassed the college fee route!" quipped a parent seated next to me, as he bemoaned the $100,000 student loan he was still paying down, to put his son through university.

The cost of a foreign education in the United States is nearly ₹50 lakhs a year today. A four-year education can set the coffers back by more than ₹2 crores. Throw in twice-a-year flight tickets, inflation, exchange rate fluctuations into the mix, and you are staring at a number close to ₹2.5 crores. Push this goal out by ten years, and ₹2.5 crores magically morphs into a mortifying ₹6 crores, assuming a 10% education inflation rate.

An Indian undergraduate and postgraduate education from premier universities is also expensive. A four-year undergraduate degree in an engineering college cost about ₹6-10 lakhs a year; and a two-year post-graduate degree in a premier management institution can cost anywhere between ₹30-45 lakhs a year.

To build ₹6 crores in 10 years requires a monthly investment about ₹3 lakhs, or an upfront investment of ₹2.3 crores (assuming your assets grow at the same rate as education inflation). Let that number sink in. Clearly, every bit of planning towards this mammoth goal goes a long way.



Many parents would like to explore the option of a foreign education, whether their children choose to pursue such an education or not. The first step in making this decision is to create an overall financial plan, where all the important goals of the family, such as retirement, education, marriage, property purchase etc. are laid down.

A family has limited resources and income-generating capacity, but multiple present and future drawdowns on these resources. A financial plan prioritises these goals/outflows. Allocating scarce resources to diverse needs leads to trade-offs. Unfortunately, such trade-offs can push down goals like a villa purchase, international holidays, or that Volkswagen Tiguan that a husband plans to gift his wife on their 10th wedding anniversary, way down the priority pyramid.

Once the family has mapped out its financial roadmap, it can decide the type of education it can afford. While a foreign education may be desirable, if funding such an education puts the family's non-negotiable goals such as retirement at risk, it's best to opt for an Indian education, where they meet both education and retirement goals.

**Apart from a retirement corpus, an education fund can often be the second highest corpus that families plan for. Here are some guidelines while planning towards this goal.**



**1** **Start early**.
It is common to hear of parents applying to schools even before their child is born. Parents must apply the same principle towards investing for the child's higher education. The more time in hand, the lesser money they need to invest. The power of compounding ensures that wealth grows exponentially over the years.

**2** **Invest to beat inflation.**
A common mistake while building an education fund is investing in assets that do not keep step with inflation. Investment return must match or surpass the projected inflation associated with the goal, else parents will need to invest a higher amount to meet the same goal. For example, a ₹50 lakhs investment, growing at 10% each year, will meet an education expense of ₹1.3 crores ten years hence. To build the same corpus at an annualised return of 5%, the parent will need to invest ₹81 lakhs today. It is prudent to invest in equity-oriented investments such as mutual funds when the tenure of the goal is more than five years. The long tenure reduces the volatility and risk associated with equity, enabling such instruments to deliver returns that comfortably beat inflation.

**3** **Invest conservatively when tenure is short.**
Fixed deposits or similar debt investments are suitable for short-term goals that are less than five years away. Investors pay marginal rate of tax on fixed deposit interest, thereby reducing its real returns and inhibiting its ability to beat inflation. Debt funds offer tax benefits through indexation, where a 20% tax rate is applied on Long Term Capital Gains. The post-tax returns on such funds can beat a fixed deposit return if held for more than three years for those investors who are in a high tax bracket.





**4** **Keep majority of assets liquid.**
Often, a goal that is several years away slips down in priority when a sudden, large expense takes precedence. Parents redeem an investment that has been steadily growing towards an education goal and use it for the immediate expense because they cannot readily monetise other assets. Parents need to ensure adequate liquidity in the portfolio to manage such contingencies. Also, if parents are looking to sell an illiquid asset such as property to fund an education goal, they must sell the property at least two years prior to the goal, so the funds are liquid and available when needed.



**5** **Ensure the education plan is supported by adequate life insurance.**
If the main breadwinner passes away, and the education corpus has not yet been fully funded, an insurance cover equivalent to the education corpus will ensure the child meets education goal without compromise. Parents must add permanent disability, critical illness and waiver of premium on disability, as riders on their life insurance policies, or purchase stand-alone policies for added protection.

**6** **Evaluate specialised child education plans.**
Such plans combine insurance and investment, and ensure that in the event of death of the policyholder, the insurance company waives future premiums. The company pays those premiums on behalf of the policy holder into the fund, thereby securing the education corpus for the child. Such plans work well when the tenures are greater than 10 years. On maturity, the fund value can be used to meet the child's education requirements.

**7** **Consider education loans.**
Parents can avail loans up to ₹1.5 crores for a tenure of 15 years. The interest on education loans is allowed as a deduction from the total income under Section 80E for up to eight years. However, parents must endeavour to clear the loan before they retire, so they do not carry a liability during those years when they do not generate an income.







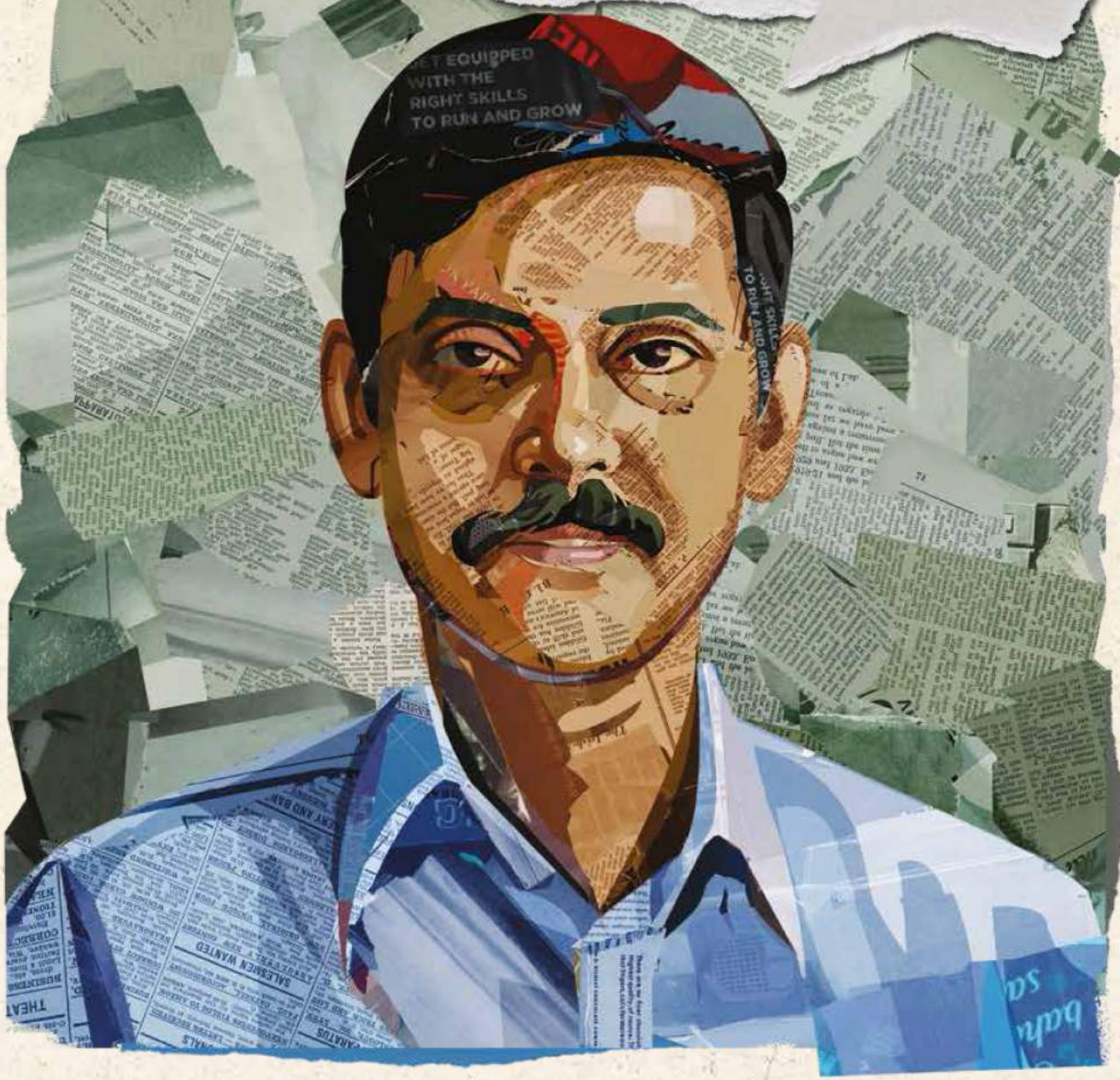
Parents must prioritise their financial independence ahead of their child's education needs. They must not invest in an expensive education if it jeopardises their retirement and makes them dependent on their children.

When boarding an aircraft, we see the airhostess demonstrate the use of an oxygen mask to its passengers. She instructs us to wear our own mask before assisting our children with it. The reasoning is simple. We can't help others unless we help ourselves first. Make sure your retirement goals are grounded before your child's education dreams take flight.

**Priya Sunder**
**Director & Co-Founder,**
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# Dhirendra Kumar

Founder & Chief Executive,
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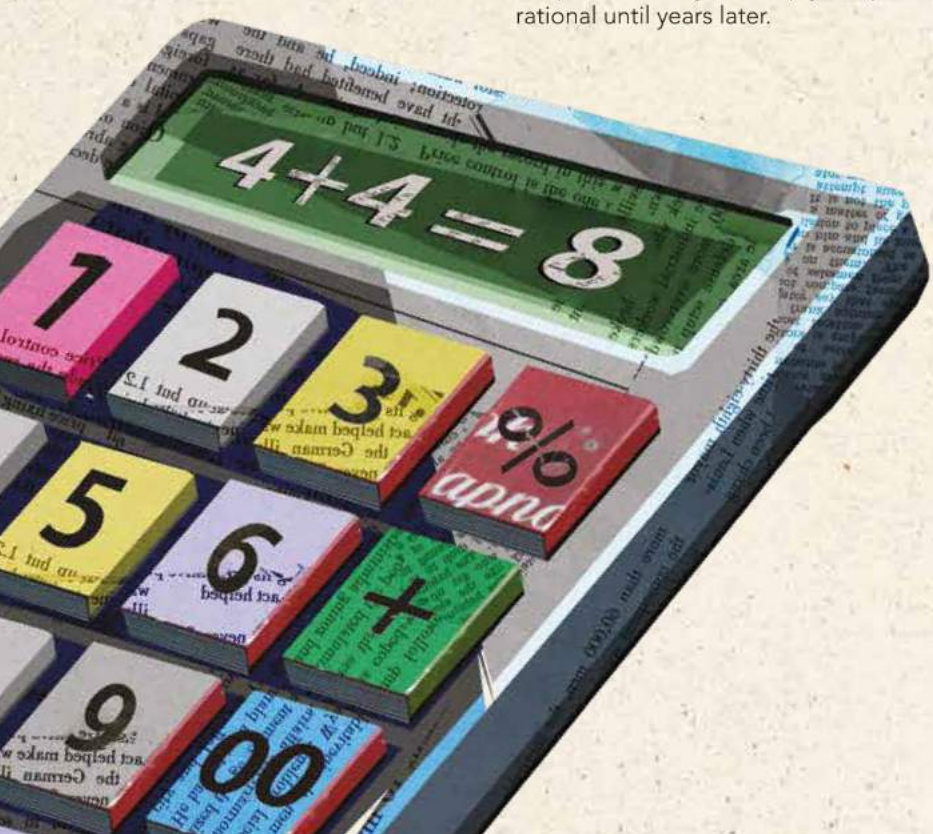
# Children, Parenting and Money

**You can get people to spend anything - often far beyond their rational spending capacity - if it's for their children. Marketers of all kinds have understood this very well. As a proportion of household expenditure, money spent on children's needs is likely to be far higher today than it was a couple of decades ago.**



Much of this expenditure is discretionary, but some of it is not - there are parts that are compulsory. As one would expect, the compulsory part's main component is education. All of us who are parents understand that education is a difficult thing to budget for. There's always something different that a child can do that might cost more. The problem is that, unlike so many other expenses, setting a limit is difficult.

There is always the looming threat of a lifetime of regret. Many of us have our regrets about something else we could have done in life had the educational opportunity been available in our time. Such feelings play a strong role in making parents' decisions less than rational. Or let me put it this way, it's simply not possible to know whether a decision is rational until years later.






## Investing

Over the last few years, educational expenses have become a major factor in people's personal finance calculations. These are normal emotions of parenthood. However, our problems are exacerbated because the marketing machinery of many products and services exploit these emotions deliberately. That is what makes decision-making so difficult. Unfortunately, the financial services industry is often in the thick of it.

Make no mistake about what I'm saying here. The financial services industry must help parents cope with these expenses, but do it fairly and rationally instead of being part of the general trend of using the emotional hooks of parenthood.

If you love your children, buy our product. As product pitches go, it's simple, direct and manipulative. Unfortunately, it's also far too widely used. While I have nothing to say on the merits or otherwise of health drinks or apparel or even cars (!) that use this tack, financial products are another matter.

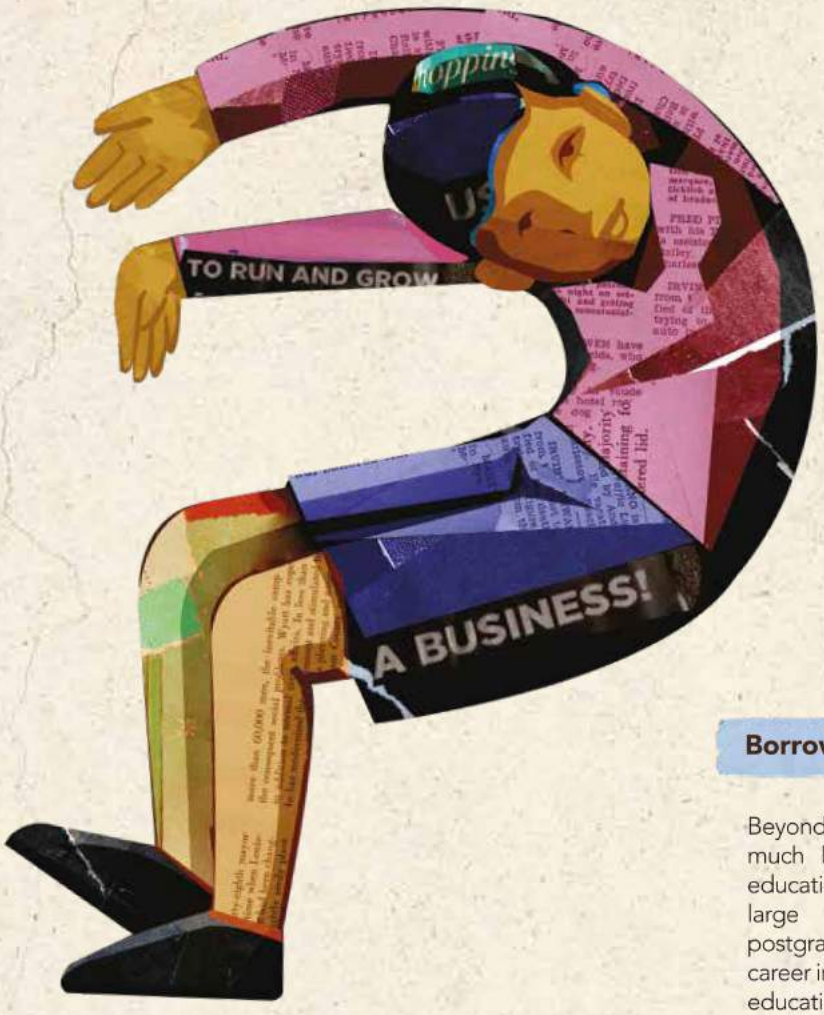


Products that use the 'children's future' ploy to sell have a long history in India, going back many decades. Insurance as well as mutual fund products that have the words 'child' or children in their name have been around for so long that many people assume that there is a specific class of products that provide some unique advantage to their children's future that other products do not.

So much so that at Value Research, we get a substantial flow of emails from worried parents who are looking for the best possible 'child plan or fund.' With years of background exposure to the phrase, they just assume that somewhat like a tax plan, a child plan is an integral part of personal finance. Well, guess what, 'child plan' is actually not a financial term at all but a marketing one.

There's nothing distinctive about them. For example, one of the largest 'child' mutual funds was for years just a vanilla balanced fund of mediocre performance. The pitch was that you should invest in it and use the money for your kids' college fees. However, the returns that such funds produce are not made up of money that is especially designed for paying college fees - it's just normal money. If the loving parents had chosen better performing funds, they would have more of it and that would probably be some actual help.

Insurance products too play a similar trick. There's nothing distinctive about the products themselves. You can pitch a product by saying that if you die then kids' college fees can be paid out of the benefits, but so could those from any insurance policy.




What exactly does a bank do with your money?

## Borrowing

Beyond investing for children, there is the much larger problem of taking loans for education. Parents and students tend to raise large loans, not just for specialised postgraduate education that has a clear career imperative, but even for undergraduate education. For any other kind of loan, one could straightaway say that a clear return-on-capital calculation should be done. However, this is impossible to do for education. Much of the returns are in the form of lifelong intangible benefits, and have so much potential hidden upside that it's hard to make a financial calculation.

And yet, some kind of a financial trade-off has to be done. The simplest is to not to get into evaluating lifelong benefits but simply take a hard look at the ability to repay. However, this must be done with the assumption that in today's economic climate, the financial return from education may or may not come immediately, and may not match up to optimistic projections. Of course, this is much easier said than done. Optimism is what carries people forward in life, and it's probably pointless to ask them to project their life in a pessimistic manner because that fits the principles of personal finance better.

## Learning

If I think in the broadest terms about children and money, there is yet another sub-topic to think of - one that often gets ignored in Indian families nowadays, specially upwardly mobile ones. This aspect appears less urgent but is actually more important in the long run. This is one of the worst things that the modern Indian parent tends to do: most of us teach children nothing about money. I find that grown children, even teenagers, have no real idea about how money works. Not only do they not know about earnings, savings and investments but they literally have no idea about the flow of money in society.



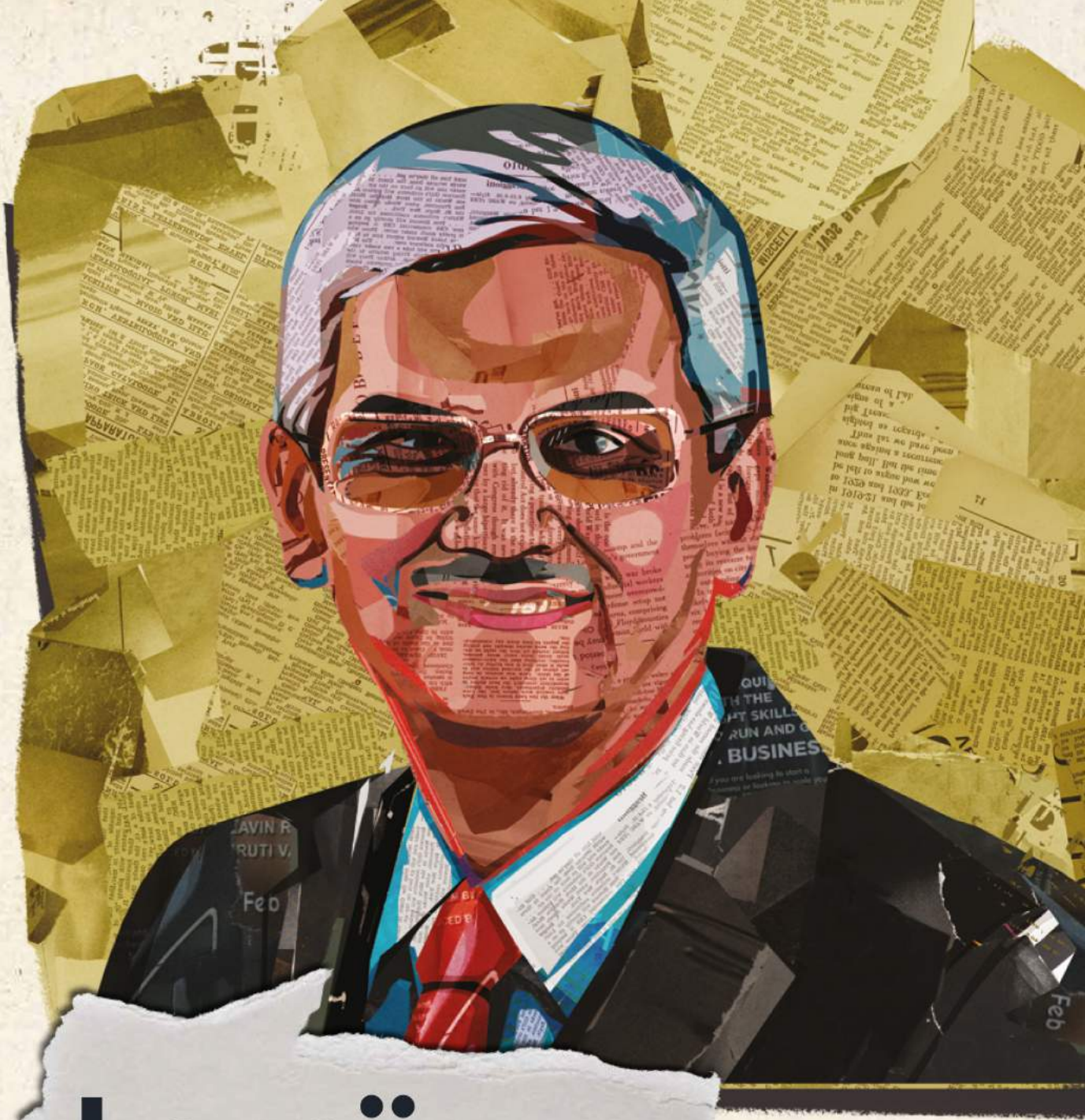

**What happens when you buy something? What exactly does a bank do with your money? How do taxes work? What are investments? How do investments grow? How is money created? Why does the value of savings and investments increase with time while that of a car or a phone that you have decreases? Why were prices of things low in the past? Why will they be higher in the future? Why do the prices of some things stay stable while others fluctuate.**

We expect that such things will be tackled in formal education and your child will learn about them in school. However, that's not happening. Even if it does, there will be some rote learning just like every other subject and nothing will connect with real life.

The best thing you can do for your child's financial future is to equip him or her to understand how money works. Even if you do not take away anything from what I've written here about education loans and child plans or whatever, do think about this last point I'm making. If your child learns about money at home in the most basic way, then you and your children's (and likely your grandchildren's) financial future will be that much more secure.




**Dhirendra Kumar**
**Founder & Chief Executive, Value Research.**



# Lovaii Navlakhi

Founder & CEO,
International Money Matters Pvt Ltd.

# Feed fish, teach fishing

**In 1885, Anne Isabella Thackeray Ritchie wrote in her novel Mrs. Dymond, "...if you give a man a fish, he is hungry again in an hour. If you teach him to catch a fish, you do him a good turn."**

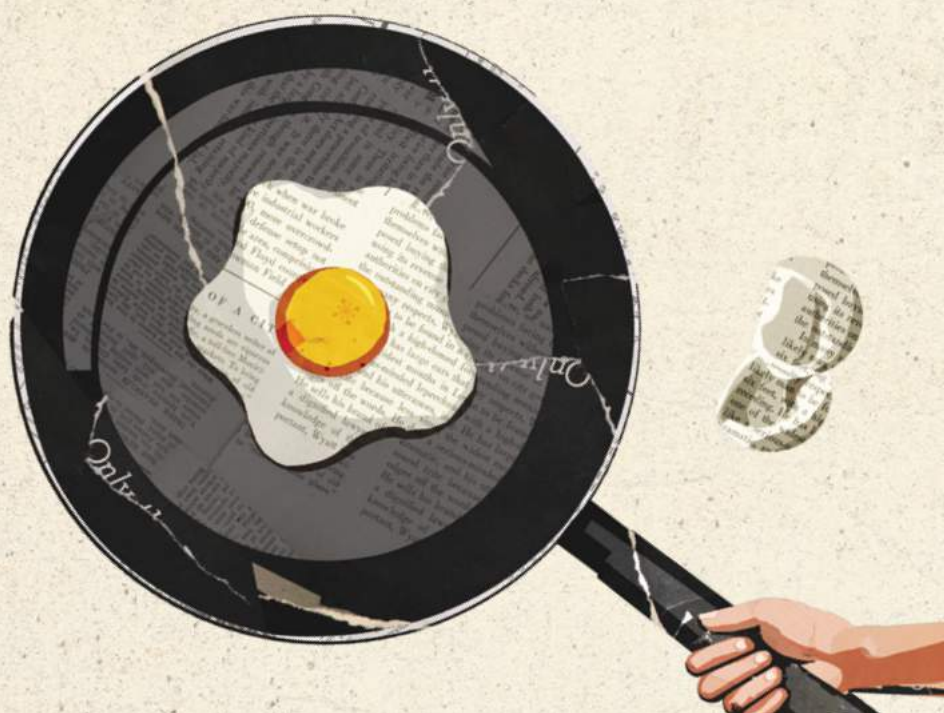
She did not just give the English language what turned out to be a popular proverb. She was also giving sound financial advice to generations of parents.

Our children are born helpless and need care for a long time. And, as parents, we are happy to feed them fish (to use it as a representative term for food and support) as long as they want.

However, if they are to truly live happily ever, we must follow the example of the kingfisher parents. Ornithologists have observed that once they are out of the nest, say about a month after hatching, the young are fed for only four days before the parents drive them out of the territory.

The point is even a species that survives on fish understands the importance of letting their young fish on their own rather early in life. That is the lesson for all of us parents, more so when no amount of money can measure the love we have for our children.

According to Habit Formation and Learning in Young Children, a study by Dr. David Whitebread and Dr. Sue Bingham of the University of Cambridge, children can understand money and learn the right money habits by the age of seven. You cannot drill the lessons into them, but they easily pick up cues. Children are influenced by the basic approaches and skills which are modelled, discussed, and demonstrated by their parents. So, parents have a great opportunity to let children pick healthy money habits simply by being role models.



## Use Right To Learn Right

Many experts have provided valuable advice on how to get children started on developing the right money habits.

Instead of an opaque piggy bank or container, let them use a transparent jar to save every rupee. Seeing the money grow can be a great motivation.

Teach them the relationship between effort and reward. Rather than an "entitled" pocket money, give them "earned" rewards for helping at home.

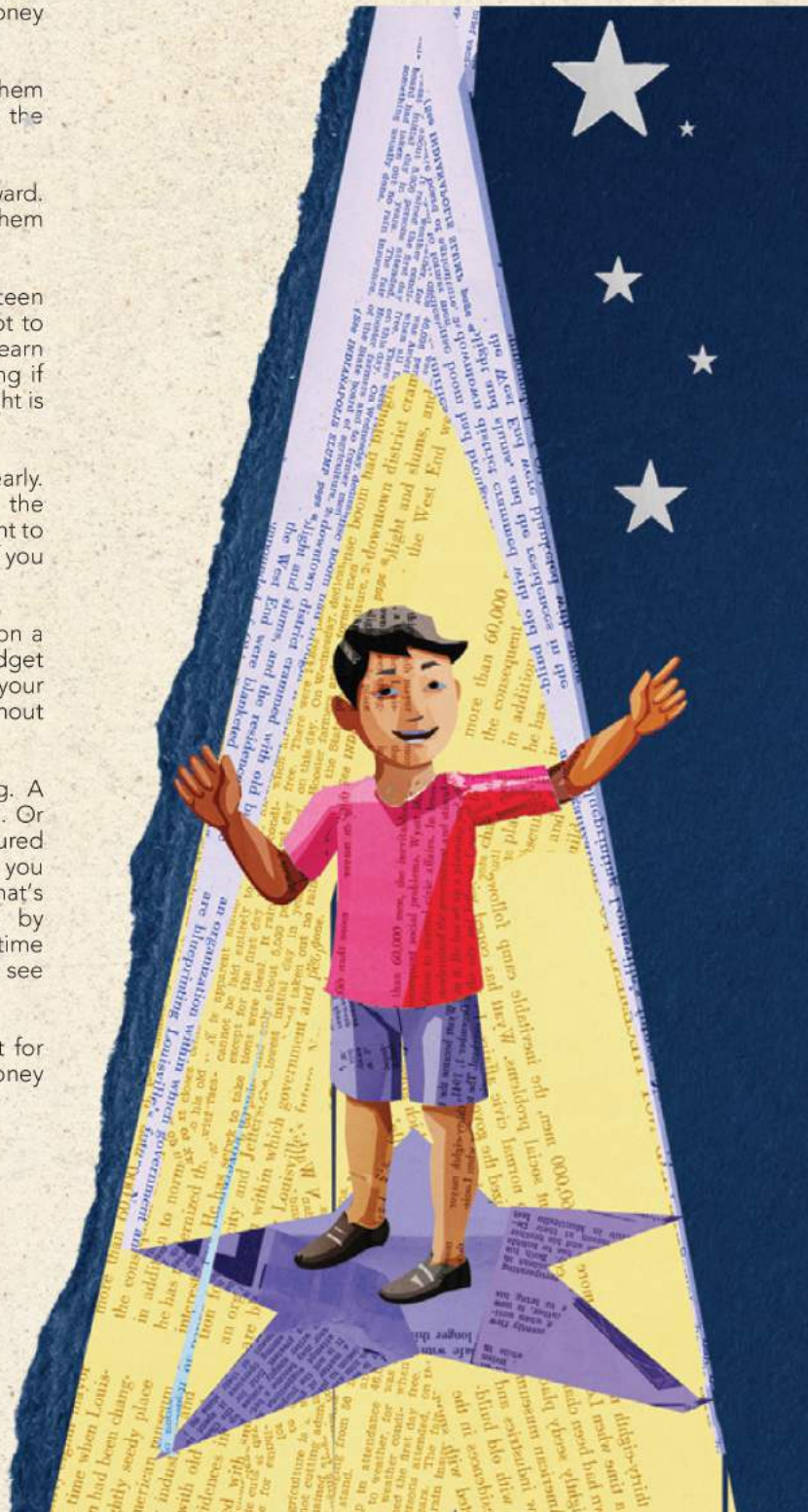
Apart from operating joint bank accounts, let your teen also start using your credit card as a co-owner. Not to make it easier for them to spend but to help them learn how the card works, and how things can go wrong if they do not use it safely and wisely. Money used right is money learnt.

Opportunity cost is a lesson that must be imbibed early. Right now, if you buy the toy car, you will lose the opportunity to buy the ball. Decide what is important to you now. Be prepared to wait to get the other one if you still want it when you have sufficient money.

Budgets need not be boring. Whether pencilled on a piece of paper or keyed into excel, show how a budget can help ensure the fridge remains stocked. If your budget supports it, you can call for a cab without having to walk to the boring bus stop and wait.

A very important lesson is that of compounding. A packet of seeds maybe cooked to yield one meal. Or some of them could be planted, watered, and nurtured to eventually yield a whole harvest that will leave you with enough and more to repeat the cycle. That's exactly how wisely invested money flourishes by compounding. Maybe you ate a little less the first time because you saved some seeds for tomorrow. Just see what that little sacrifice yielded over time!

Do remember to teach the children to watch out for dangerous strings if someone offers them easy money without having to work for it.



## Learners Differ, Lessons Matter

Just as every child is different, how each one picks up and applies the money cues also differ. Let us enter the world of Ria and Rahul to understand this better.

They are siblings. Even when she was a teenager, Ria and the money given to her were easily parted. She would spend first and think later. After she went abroad for higher studies, she would run out of her allowance within a few days and clamour for more.

The parents never let up on advising her about the importance of budgeting and why one must delay some gratification. Yes, that dress looks fabulous at that price, but do you really need it now? Your local friends are buying dollar-heavy gifts for every birthday, but do you really need to when it is the weaker rupee that is supporting you?

Rahul who grew up watching and listening to the interactions between his parents and his sister Ria, turned out to be totally different. Never once did he ask for a little extra between remittances. The parents were shocked when he informed, that he was travelling to another country with friends to watch a high-ticket football game. Where did he get the money? "Oh, I picked up a job after college. Don't worry, I have enough money."

When he came to India during a break, he requested his father to join him for a 'serious meeting'. He used cold data to explain how and why his costs had shot up. Could father please hike the remittance marginally so that he could make ends meet? The father complied happily. When love combines with cold logic, it leaves no room for arguments.



## Fund Early, Stay Flexible

Most children these days know their mind early and tend to set their goals high. Studying abroad is often part of that goal. With the ever-increasing cost of education, even an institution within the country can pose a financial challenge, unless the parents are ready.

Parents often want to know when the right time is to start an education fund. I always suggest starting one as soon as the baby starts taking the first steps, so that there is enough to boost them when they are set to fly.

Joe's son is barely six years old. In the last meeting Joe had with my colleague, he insisted on starting a US education fund for the child. Joe is clear in his mind. "If I start now, I only need to put aside a little amount every month. Later, it may be too late. I don't want either of us to carry the cross of a loan when we can least afford it."



What if the child gets a scholarship that takes care of everything? Will the fund be wasted then? "No way," Joe has thought it through. "We will have a few vacations together as a family, we may even go abroad."

Swamy, unfortunately, was a little late to take off. He was close to his retirement when his only daughter upset his plans. She was a skilled dancer and was keen on perfecting her art at a ballet school in Paris. Her father was thrilled and encouraged her. "I only wish she had given me some notice," Swamy told me later. He ended up requesting his employer for an extension and is now juggling two part-time jobs.

## Make Education Part Of Family Plan

Your plans for the children must be a part of your financial plan for the whole family. Before you get distracted by claims of funds that offer a freeway to Harvard, ask your financial adviser to suggest a roadmap best suited to your situation and every member of the family.

An education fund cannot be treated like the good old recurring deposit or yet another Systematic Investment Plan (SIP). You can't issue a standing instruction and then forget about it. As with any fund, you will need to re-evaluate the growth periodically and reallocate when required. You also need to be vigilant to provide for the extra element of currency risk.

What if things go wrong? What if your income flow thins or stops? Then the advice we give for every goal-specific fund comes into play. Be ready to delay the goal or compromise on the objective. If the objective was education abroad, you may have to settle for a college in India and only provide for domestic relocation.



It is important to be practical. When it comes to putting aside a little for your child's education, provide for your retirement first. You do not want to be a burden on your child when he or she is beginning to enjoy the fruits of your foresight and efforts.

How can a parent attending to a hundred things before the school bus arrives, day after day, spare the time to work out where the child will land years hence? This is where your trusted adviser comes in. You do not have to be blinded by parental love or distracted by the very many funding options available in the market. Count on the adviser to have the heart to know what matters to you and the head to stay focused on your goals without getting distracted by a hundred variables.

Focus on the plan. Make it happen. Stay alert. Make changes when required. It is all in your hands. Like your child's future.

**Lovaii Navlakhi**
**Founder & CEO,**
**International Money Matters Pvt. Ltd.**



# Binal Gandhi

CEO, The Learning Curve Academy.



# Roots and Wings



**A wise person once said, "There are two gifts we can hope to give our children. One is roots and the other is wings."**

Roots for security and stability; and wings to fly high and follow their dreams. We give our children roots by providing them with a loving home and instilling good values, habits, and wings by helping them build their self-confidence and discover their passion.

While schools and teachers give our children a strong educational foundation, parents play an important role in helping them find their passion and a rewarding career. For example, we can encourage our children to participate in different extra-curricular activities to help them explore their interests and aptitude. We can talk to them about our work, so that they understand and appreciate the day-to-day struggles and victories of our job. We can give them opportunities to learn about other careers by talking to and shadowing their aunts and uncles while they are at work. When they grow older, we can help them find internships where they can further discover what excites them. Giving them more access and exposure will help them make more informed and balanced decisions about their careers.







As we help our children through the process of self-discovery, we should also start planning financially for a good college education that will support their passion and help them achieve their dreams. Financial planning for our children's college education can be very challenging. It is difficult to determine how much money to set aside for their college fund if we don't know which course they will take or where they will go to college. Over the last few years, many new college courses have become available to students. When we graduated from college, we had limited options. If you were good at studies, you took Science. If you could not get into the Science stream, you took Commerce or Arts. Today - there are hundreds of options to choose from. It is not just the course options, but also where they will study, in India or abroad. A good college education costs anywhere between ₹5-70 lakhs in India and ₹1-2 crores abroad, depending on which course they choose to pursue. Also, the cost of college in India has been increasing at the rate of 10% per year in India, so by the time our children are ready to go to college, the cost will be much higher. The cost of education abroad is also increasing at roughly the same rate (US college inflation 6-7% and dollar depreciation on average 3-4% per year). With so many unknowns, it is difficult to have a clear financial goal in terms of how much money we need to save for their college fund.

**Instead of waiting for all the answers before starting their college fund, we should use the following two principles to build the corpus for our children's college education.**

## 1. Start investing early

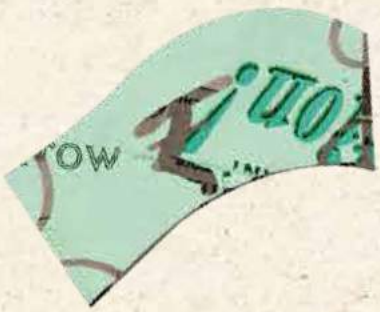
For our children to be happy and lead successful lives, we start to instil strong values and encourage our children to develop good habits from an early age. Similarly, we should start saving for their college education as early as possible, preferably as soon as they are born. The earlier you start setting money aside for their college fund, the smaller the amount you will need. Over time, the power of compounding will do all the work to build a corpus large enough to give our children more flexibility to choose the college and the course of their choice.











## 2. Achieve growth through equities

Our children go through ups and downs in their lives. E.g.: A failed exam or a lost competition. They grow as they learn how to deal with these ups and downs. Similarly, your child's college fund will grow over a long period of time if you invest in equities. The ups and downs of the stock markets can be scary in the short term. Which is why many parents prefer safer investments that more or less guarantee returns for their children's college fund. But these safer investments will not achieve enough growth over time to beat inflation, which is about 10% for college education. Investing in equities gives you the ability to grow your children's college fund over a long period of time.

The table below is a simple illustration of how these two principles can help you build a corpus for your children's college education. The table shows that the longer you wait to start investing, the amount of investment required increases dramatically to get to the same corpus size. Also, the shorter the time horizon to grow your investment, the less you can rely on equities to give you long-term growth.

### Approximate annual investment required for every ₹1 lakh in future college tuition

| Age of your child when you start investing (years) | Time horizon of investment (years) | Approximate annual investment required (₹) (1) | Portfolio Allocation | |
|---|---|---|---|---|
| | | | % Equity for long term growth (2) | % Fixed income for safety of capital (3) |
| 0 | 18 | 2,000 | 90% | 10% |
| 5 | 13 | 4,000 | 70% | 30% |
| 10 | 8 | 9,000 | 60% | 40% |
| 15 | 3 | 31,000 | 20% | 80% |

(1) For every ₹1 lakh of college tuition your child will need after 18 years of age. Note that ₹1 lakh in college tuition 18 years from now is equal to ₹18,000 in college tuition as of today (using the 10% inflation for college education in India). The calculation also assumes 12% annual return on equities and 6% annual return on fixed income investments.

(2) A longer time horizon of investment gives you more ability to weather the short-term ups and downs of the stock market to achieve long-term growth.

(3) A shorter time horizon gives you less ability to invest in equity because of the short-term risks.



As you build a corpus for your children's education, share the progress of the corpus with your children regularly. Help them see the magic of compounding at work.

**James Clear, the author of Atomic Habits, said: "Success is a product of daily habits – not once-in-a-lifetime transformations."**

None of us have earned, saved, or invested all our money at once. Small deposits and small investments will create your children's education corpus. Show your children that just as small regular savings, when invested correctly and with patience, can help build a large corpus for their education, regular habits and patience are also the key ingredients to help them achieve their dreams.

**Binal Gandhi**
**CEO, The Learning Curve Academy.**



# Mrin Agarwal

Founder & Director,
Finsafe India Pvt. Ltd.

# The maths behind Planning for your child's dream



**"I want to be an astronaut, when I grow up" said 10-year-old Zain. 12-year-old Mansi wants to learn animation to fulfil her dream of working in the movies. Gone are the days when the only option for children was to be a doctor or engineer or chartered accountant. With endless study opportunities, children with dreams are counting on parents to make it happen. And a big part of making it happen is funding the studies.**

Over the last decade, a lot has changed in India including the outlook to education. In the last few years, there is a growing trend to do undergraduate studies abroad. The youth of today aspire to study at globally top ranked universities. This could be due to the availability of a wide range of courses and niche curriculums. Students are opting for courses like international languages, music, psychology apart from sought-after management and science streams.

Apart from North America, the preferred study destinations are UK, Canada, Europe and Singapore and the expenses in these countries can range from $50,000 to $75,000 per annum. This translates to ₹40-60 lakhs per year. Not a small amount to shell out easily and something that requires detailed planning, especially since financial aid is limited for international students.

Every parent saves for their child's education. It is a tradition in India to gift gold or cash on the birth of a child. Parents too start saving up early on for children's goals. However, these savings are woefully low to meet foreign education expenses. For 2 children, the outgo would be ₹1 cr per year! With good financial planning, this should be possible.

The first step in planning for higher education expenses for children is to understand the trends early on. Even if you believe the child should study in India, your child will want to do what other kids are doing. It also pays to keep a check on education costs. With inflation on education being above 10% p.a., it is not an easy task to accumulate the required corpus.

Estimating the corpus required and amount to be invested taking into account inflation can be done with the help of a calculator.

Can be done with the help of calculators available on several Mutual Fund houses.

Choosing the right investment is very important.



For decades, parents have chosen traditional investments like fixed deposits or insurance plans to save for children's higher education but alas these options do not even beat education inflation. The only way to beat education inflation is to have exposure to equities. Sample this: ₹25,000 invested for 10 years in a traditional instrument @ 5% p.a. would grow to ₹38 lakhs while ₹25,000 invested for 10 years in equities @ 12% p.a. would grow to ₹58 lakhs. Clearly, a high equity allocation is a must to reach a large education corpus.

There are varied equity options like stocks, stock baskets and mutual funds. With over 5,000 stocks, it is difficult to choose and track stocks plus with the multitude of responsibilities, parents may not have the time to do so. The best option for equity investing remains mutual funds. They are low-cost, tax-efficient and have no lock-in. Investors who can take risk can consider pure equity funds like Index Funds, Flexicap Funds and Midcap Funds.

Another option is to consider a child plan from Mutual Funds. These schemes have a combination of bonds and stocks and work like balanced funds. They typically come with a 5-year lock-in or until the child becomes a major. This works in the favour of investors as they do not have to worry about taking any action in the portfolio and at the same time the lock-in prevents them from making hasty exit during volatile times.

Real Estate is another sought-after investment while planning for child's needs. Real Estate has been a go-to investment given the high returns. But investors should bear in mind that residential property returns have fallen, and one can expect @7-8% p.a. from residential property. With property and gold, the tangibility makes people feel secure and they get emotionally attached. Hence, there is a tendency to not sell property and gold even at the time of need.

Choosing the right instrument for child education fund needs to be based on the child's age. For children up to 5 years, it is best to choose more aggressive funds like Midcap Funds and Smallcap Funds as the time horizon is long enough to take care of the volatility and these funds outperform other categories in long-term timeframes. For children between 5-10 years, Flexicap Funds and Midcap Funds work well keeping in mind a 7-10-year timeframe.



Since Zain has 7-8 years to go, his parents could invest in Flexicap Funds which are less volatile as compared to Midcap Funds. For children between 10-14 years like Mansi, the dynamic asset allocation category would help in growing the corpus while limiting the volatility due to regular rebalancing between debt and equity. Parents whose kids will be going to college in the next 1-3 years should stick with debt funds like Ultra-Short Duration or Short Duration Debt Funds.

**All parents want to give their children the roots to grow and wings to fly. Make it happen with the right financial planning.**

Planning for these large goals can be daunting and starting early can make it easier on the wallet. To reach ₹1 crore goal, one needs to invest ₹70,000 per month if the goal is 10 years away. But if one starts 5 years earlier, the amount to be invested reduces to ₹40,000 per month. The key to reaching the goal would be to choose the right inflation beating instrument and remain invested.

Talking finances with children is considered a taboo in India. Making children aware about costs could help build financial responsibility and value for the education. Parents can also encourage children to take on-campus jobs for them to understand management of finances better and improve their financial literacy.



**Mrin Agarwal**
**Founder & Director,**
**Finsafe India Pvt Ltd.**

# Neil Borate

Deputy Editor,
Mint.



# Give your child some fish, and teach them how to fish



'The best possible education' is the standard that most parents want to hold themselves up to, when making provisions for their child. But what is the best possible education? The pandemic has changed the answer scenario for many parents in India and around the world. It showed parents that education can be delivered online, at a fraction of the cost. Does this mean you don't need to save? No, not really. Instead, it means that your savings become a multi-purpose, fungible corpus. You don't anchor your investments to the cost of a foreign degree. Your capital can be seed funding for a business, a down payment for a house or the financing of your child's marriage.

But education still comes first in the list of many parents, so let's address it first. For many families, an old-style on campus degree remains a must-have. Often, this involves forking up a huge amount. It is not something that parents have experienced in their youth. If you're a child of the 1980s, 1990s or even the early 2000s, school and college was not a costly affair. However, over the years, education costs in India have spiked, right from the junior KG to university and the expense story does not stop there. Indian parents aspire to send their children to the best universities around the globe and this means facing up to global costs.

The annual fee for a two-year MBA in Harvard University is USD 73,440. This means USD 146,880 for the whole course. If you budget another USD 25,000 for accommodation and living expenses (even on a shoe-string budget), this works out to USD 100,000 per year or roughly ₹80 lakhs per year. This is no doubt the higher end. University of California at Los Angeles (UCLA) lists its MBA fee at USD 43,940. Europe is also cheaper. The University of Warwick in the UK lists a fee of USD 49,950 for a 1 year MBA program. Studying in India is still cheaper, albeit not by a huge margin. IIM Bangalore lists a fee of ₹24.5 lakhs for its two-year post graduate programmes. All this has prompted a lot of questioning of the value of these expensive degrees. The mountain of student debt in the USA, prompted President Biden to announce a huge debt relief programme this year. Enter the pandemic. Suddenly students could not go to campuses and stay in hostels. Instead, education from school to university was delivered online. A host of online course providers such as Coursera and Unacademy have sprung up. Startups like Stoa in India question the need for an MBA altogether and offer alternatives. Does all this mean, you as a parent are off the hook? Not quite. But you have an option now.

Instead of education, you can allocate capital to a host of other needs that your child might have. It may be that your child needs money to start a business or as a down-payment to buy their first house. Millennials quite famously have spent a large part of their working lives, being locked out of an expensive housing market. According to Numbeo, the average salary per month in Mumbai is ₹50,000 while the average house price (for a 500 sq ft house) is ₹2.5 crores. This means it will take 41 years for a person on the average salary to actually afford a house in Mumbai. Recent years have also seen an explosion of startups in India and often the first backers of a startup are parents and friends. You become your child's angel investor and sometimes, your child pays you back many times over.



## How do you create capital for your child?

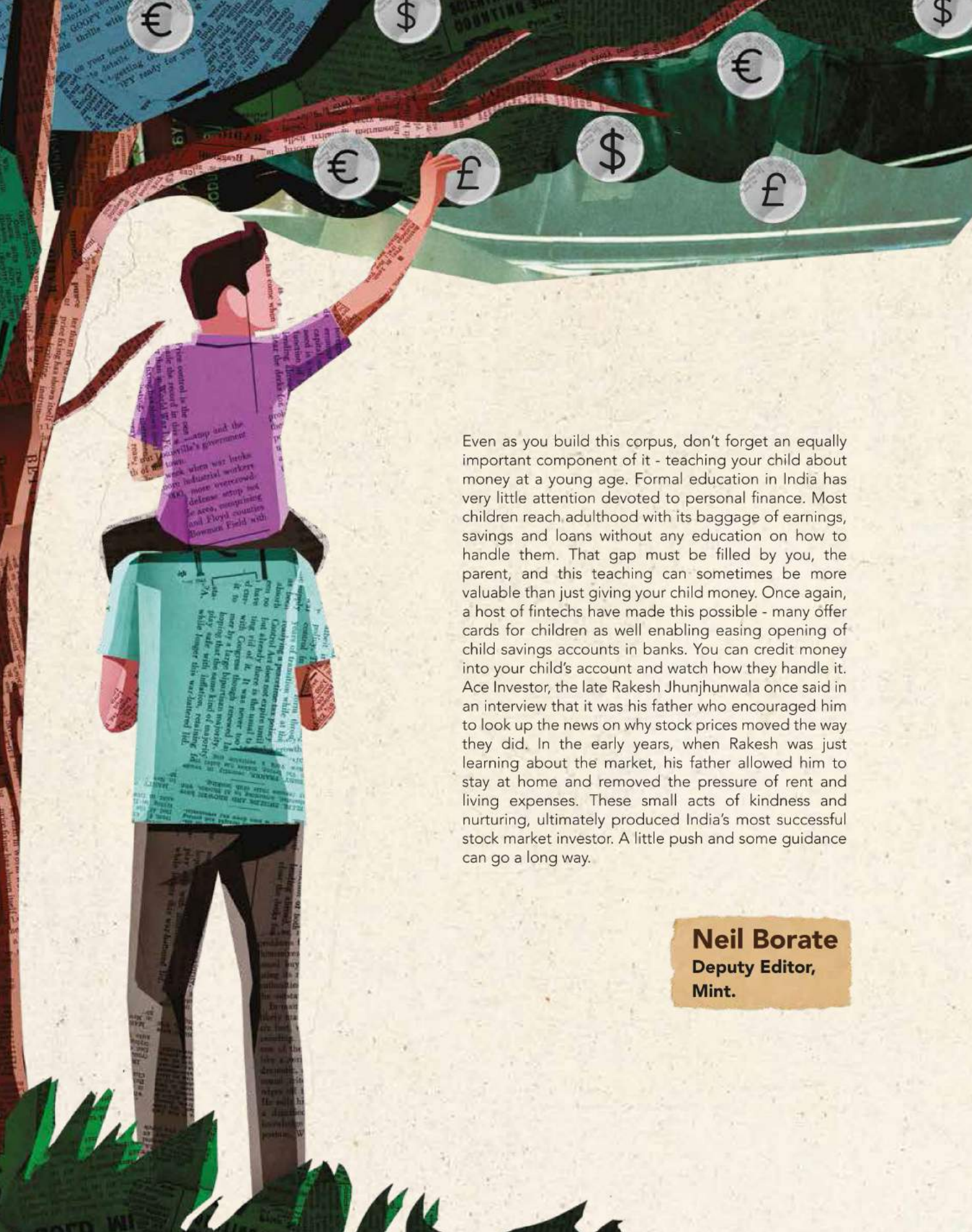
Creating capital for your child is something of a tricky question. If you have created a large pool of capital in general, your child's needs are just one of many expenses. Why do we ask about children specifically? The answer is psychology - savings that you have designated for a child, you do not tend to touch for your needs. The stronger the 'child stamp' is on these savings, the less likely you are to touch them. Traditionally parents in India open Public Provident Fund (PPF) or fixed deposit accounts for their children or buy insurance policies in their child's name. While both of these are relatively low risk ways of setting aside savings, they do not provide much scope for growth. PPF returns are generally in the 7-8% range, insurance policies offer returns of 5-6% and fixed deposit rates tend to sit between the two.

There are no major tax benefits to investing in your child's name - under the clubbing provisions in the Income Tax Act, 1961, your child's income is added to your own while they are a minor. In order to channelise your savings into some meaningful returns and growth, there is no alternative to the stock market. How do you invest in the stock market? There are a host of alternatives. You can directly buy stocks, you can buy a Mutual Fund or you can avail of the services of a professional portfolio manager (called PMS services) in India. Among the alternatives, Mutual Funds are the lowest cost and best diversified option. An investment as small as ₹100 or ₹1,000 can get you a slice of 50-100 companies.

How is this possible? Mutual Funds issue units and one unit represents a tiny share in the entire portfolio of that mutual fund scheme. Mutual Funds are also tax-efficient - you are not taxed on a growth plan of a mutual fund scheme unless you withdraw your money from it. At this point the tax is as low as 10% if the withdrawal is in an equity fund after 1 year holding period. There are no guarantees in Mutual Funds, however, over the long term, returns have tended to average at around 12%. A Systematic Investment Plan or SIP, can further reduce your risk by investing in the Mutual Fund every month rather than just in one-go at a market peak.

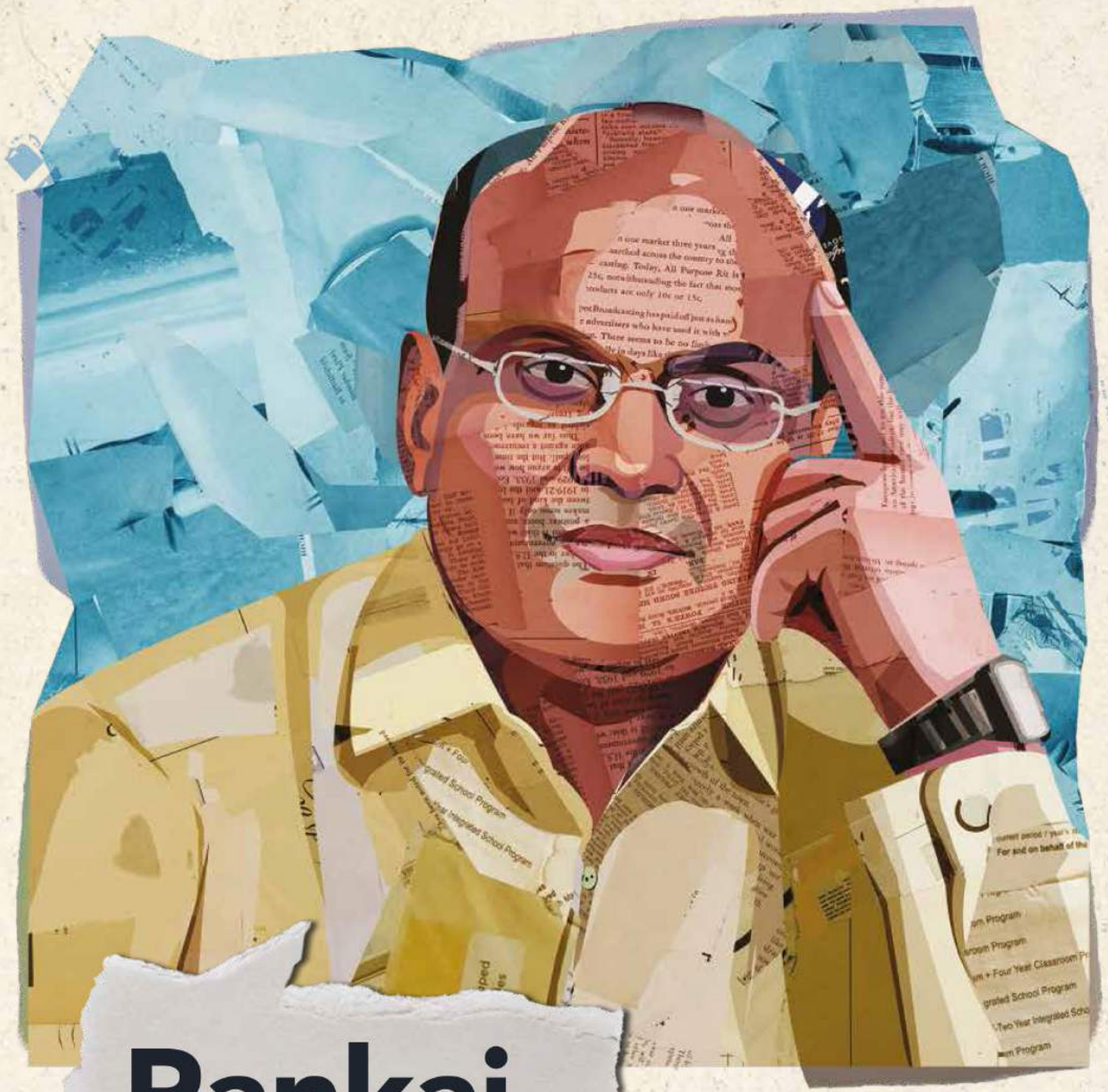
What about the children plans of Mutual Fund houses? In purely investment terms, there is no major difference between a children plan and an ordinary mutual fund - both will invest in some combination of stocks and bonds. However, a child plan has a lock-in of 5 years or until the child becomes a major, whichever is earlier. This can stop you from withdrawing from it too early. In equity, a long-term holding period of 5-7 years works best because it irons out market cycles. For instance, the S&P BSE Sensex went from 21,000 levels at its 2007 peak to below 10,000 levels in 2009. This prompted many investors to pull out - either at or close to the bottom. Much to everyone's surprise, the market had recovered to its pre-crisis peak by 2010. Even if you had invested at the peak of the Harshad Mehta bull market in 1992, your money today would have fetched an annualised return of 9.5% over the next 30 years.





Even as you build this corpus, don't forget an equally important component of it - teaching your child about money at a young age. Formal education in India has very little attention devoted to personal finance. Most children reach adulthood with its baggage of earnings, savings and loans without any education on how to handle them. That gap must be filled by you, the parent, and this teaching can sometimes be more valuable than just giving your child money. Once again, a host of fintechs have made this possible - many offer cards for children as well enabling easing opening of child savings accounts in banks. You can credit money into your child's account and watch how they handle it. Ace Investor, the late Rakesh Jhunjhunwala once said in an interview that it was his father who encouraged him to look up the news on why stock prices moved the way they did. In the early years, when Rakesh was just learning about the market, his father allowed him to stay at home and removed the pressure of rent and living expenses. These small acts of kindness and nurturing, ultimately produced India's most successful stock market investor. A little push and some guidance can go a long way.

**Neil Borate**
**Deputy Editor, Mint.**



# Pankaj Ladha

Founder,
Invest Aaj For Kal.

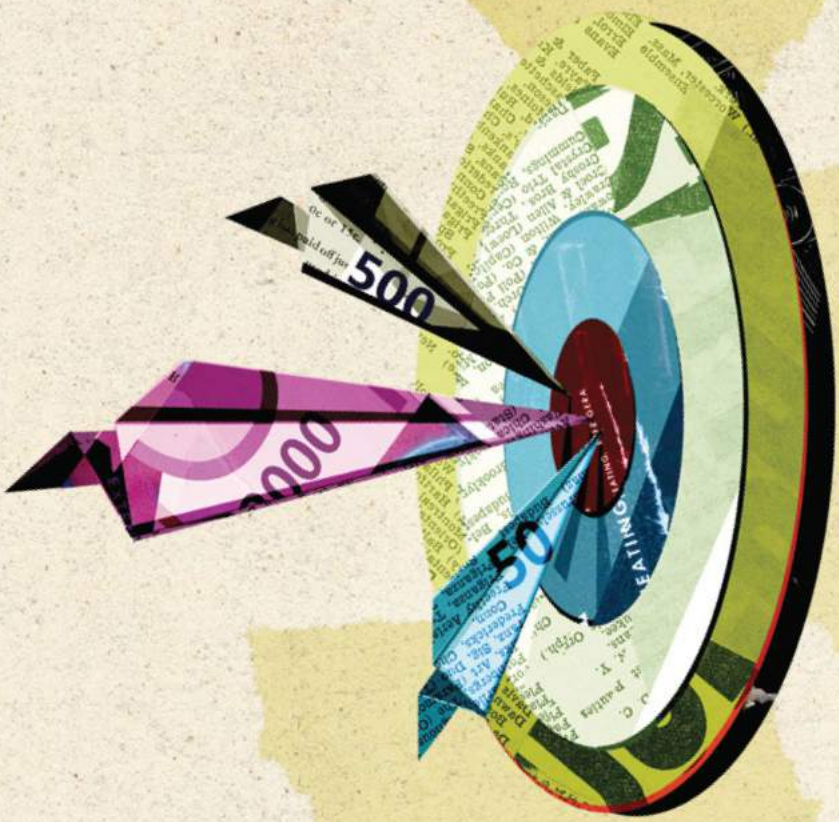
# Children Financial Planning

## Introduction

You always try to offer your child with the best of amenities and education. Although, as your kid grows, the expenditure towards education and other necessities continue to upsurge. And, it is also essential for you to prepare for other expenditures like your child's higher education and marriage, which can impact your other financial long-term or short-term goals.

Hence, it is essential to protect your child's future financially through sensible financial planning to attain their visions without any uncertainty. Additionally, it also decreases the impact of any unfortunate happenings in your family that can reduce your financial flexibility.

This is the primary reason why you must not delay financial planning to secure your child's future. There are other additional benefits too, which makes it an obligation for every parent to consider financial planning for their child's future.




**Benefits of financial planning:**
**It is a tough affair to measure your child's interest at a premature age and given the current scenario's increasing cost of pursuing higher education, further delay in financial planning can be very risky.**

**Following are three reasons why you need to make a money saving plan for your child:**



### Defined financial goals:

You invest analytically and systematically with a well-defined and much clear financial goal, through which you can allocate funds towards its accomplishment accordingly.

### Complete financial support for your child's future:

A well-defined financial plan helps to accumulate capital over a period of time for your child's higher education and other financial necessities. It also takes inflation into account and thus provides the benefit of compounding over a long run to beat the inflation cost.

### Reduced risk:

Having a financial plan safeguards your child's future from uncertain risks and your child's dreams are protected even when you are not around.

A well described financial plan helps to protect your child's future is the first stage of fulfilment of your child's dream.

**Some of the primary benefits of financial planning are as follows:**



1. **Create wealth over time**
   Starting out early helps to range your investment journey over a longer period of time and in the long run you will have the flexibility to make necessary adjustments to adapt to the dynamic environment. It also helps to put in place a realistic and rational plan which ensures you never fall short of funds without compromising on the set standard of living.

2. **Save less in future and more today**
   One of the main benefits of starting out early in life with finances is that you have to save less in the future as you have already compensated that investment in early years of your life. The compounding factor will help you to gain more wealth in the longer run. This helps you to save in an optimal manner.

3. **More financial flexibility**
   One of the benefits of planning finances for children is to make the most and best out of your limited financial resources and realise improved financial flexibility.

**How to plan?**
**For creating a plan for children, you need to get together all your resources and consider all goals and then make a financial plan.**

### Set targets and goals

You need to identify your child's interest areas and then set specific financial goals accordingly that need to be accomplished within the set period of time. This must obviously include costs linked to education, higher education, marriage and other supplementary costs like coaching, books, laptop, etc. While calculating the final corpus amount always keep inflation factor in mind. Also, review the goal amount every three to five years to keep a check, whether it matches your child's aspiration and goals or not.

### Get insurance cover

Main thing while securing your child's future is to ensure all risks are covered through insurance. Taking a term insurance policy will make sure your child's future is safe. For example, a term insurance policy promises a risk cover of approximately 12 to 15 times of your annual income. In case of any uncertainties this ensures your child's goals are not compromised even when you are not around.

### Open a separate bank account

Open a separate bank account, which should be used specifically for the purpose of securing your child's future. Do not mix it with any of your other financial goals, this will help you to maintain records of inflow, outflow as well as of returns and you will be able to measure the journey every year towards your child's financial plan. You may also use this bank account for having an emergency fund to meet any kind of unforeseen and unanticipated expenses.

## Educate your children about finances

Introducing your children to financial education is very important for securing your child's future. You can progressively introduce your children to the financial world as per their age group, rather than demonstrating the complexities of the financial system you can take it in a step-by-step manner.

**Following are some of the age-appropriate steps you can follow to make your child financially literate and sound:**

**1. Children below 10 years of age**
Introduce them to the concept of a piggy bank and teach them to the concept of saving money. You can also make them acquaint them with an allowance-based work system to teach the ownership of work done.

**2. Children between 10-18 years of age**
Introduce them to the concept of financial system by opening their first bank account and you can even send them to banks and other financial institutions for work that involves exchange of money. Also, in this way, you can teach them the value of money and why it is essential for survival.





**3. Children between 18-24 years of age**

Explain to your children, the importance and need of financial planning, setting up of financial goals and the tools that can help them achieve their financial goals. Similarly, explain them the concept of debt, savings and investment which will help in judicious and practical financial management and planning.

**Conclusion**

**As, raising your children through good values and education is very important, creating a financial plan to secure your child's future is of equal importance. In the long term, it safeguards your child's goals and dreams and assure your child stays on the path to have a bright future.**

**Pankaj Ladha**
**Founder, Invest Aaj for Kal.**

# Prableen Bajpai

Founder,
FinFix Research and Analytics Private Limited.



# Well begun is half done!

As an army officer's daughter, I have been to seven schools across the country. In those days, the choice of schools was limited to Army Schools, Kendriya Vidyalayas, a few Convents, and public schools. The fee structure across these schools was affordable and never much a topic of discussion even as I went to college. Over the years, so much has changed, and so has my experience as a parent.

The numbers and the choice of schools have increased substantially, and the fee structure even at a playschool level is at times eyebrow raising. School fee structure runs into thousands and lakhs, while college fee spills over into crores. During work years, the majority of people can manage schooling costs. However, the cost of college-level education is often a rude shock. Thus, coping with the education inflation requires deliberate thought and planning. And the sooner this planning starts the better!

**Here are some points which must be kept in mind while building a corpus for the education of children.**



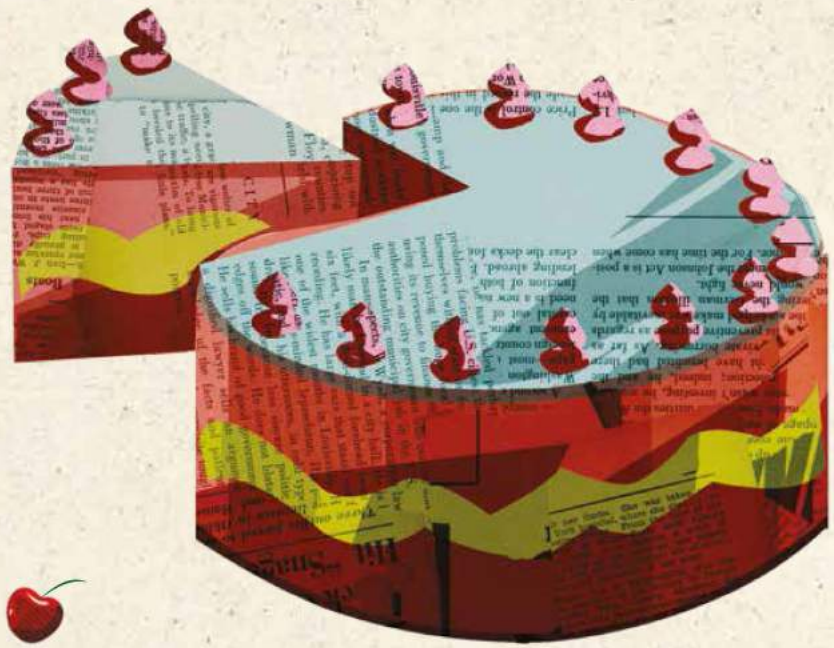

## Factor in the inflation!

Our huge population means more people, and thus more competition for the quality education offered by premier institutes in India. Over the years, there have been cuts in government funding, better infrastructure facilities, technological enhancements, and administrative costs, all of which have pushed up the cost of education. In the last ten years, education costs have shot up by 10%. While most government institutes have comparatively lesser fee with concessions for the weaker sessions, the fee structure even at these colleges has increased multifold over the years. Not too long back, IIT doubled its fee from ₹90,000 to ₹2 lakhs.

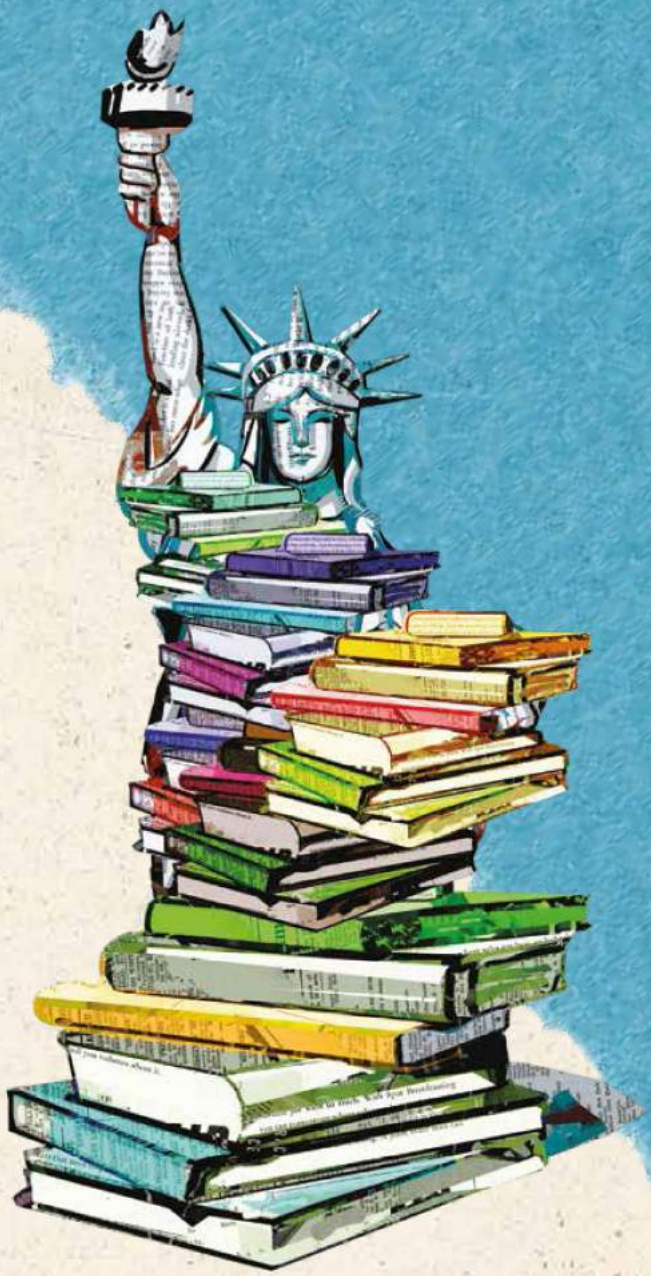
The overall mismatch between demand and supply has been filled by private colleges and universities. Today, the country has some highly reputed private colleges offering varied courses, starting from arts and medicine to robotics. However, the cost of putting a child through a private college is often more than a government institution. While calculating the future expenditure for your child's education, consider the current fee and then adjust it for inflation at 8-10% to get a realistic picture. For instance, at 8% inflation, ₹40 lakhs in today's prices will be about ₹1.25 crores in 15 years' time.

## Equities are essential

Many parents often believe that just saving and setting aside a sum is good enough. Perhaps not! The choice of the asset class and product is important. While fixed income products and traditional insurance plans appear safer on the face of it, they carry the risk of loss of purchasing power with rise in inflation. Traditional 'child' insurance plans offer 4-6% annual returns. The returns from government-backed schemes such as National Savings Certificate, Public Provident Fund, and Sukanya Samriddhi Yojana currently stand at 6.8%, 7.1%, and 7.6% (as on September 2022), respectively. While these are good instruments, the returns fall short of the inflation in education costs. Thus, to combat the steep rise in prices, equities must be added. However, the percentage allocation to equities and other fixed income products is subject to the time horizon.



Equity requires time to deliver, so if you have a longish horizon such as 7-10-15 years, allocate a majority of the sum to equities by creating a mutual fund portfolio. However, if your horizon is lesser, say 4-5 years, then a more conservative portfolio needs to be built with lesser allocation to equities. The best strategy is to start as early as possible. This gives you more time to save and invest and allows you to have a higher allocation towards equities, which in turn means that the amount of investment required gets reduced. To build the corpus of ₹1.25 crores in 15 years, you will require a monthly investment of around ₹27,000 assuming 11% returns. However, if you stick to fixed income products, then an investment of ₹40,000 per month will be needed assuming 7% returns.



## Need dollars!

Education abroad is gaining popularity amongst Indians, but this means that the fee is paid in dollars. Thus, while planning for education abroad, two things need to be accounted - inflation and the movement of currency. Education inflation abroad has typically been lower than India at around 3-5%. However, recent reports suggest a 6-9% hike in college fees in the backdrop of high inflation in the West. Thus, keeping an eye on inflation becomes crucial. Then comes the rupee (INR) movement against the U.S. dollar (USD). Since 2010 till now, INR has appreciated only twice against the USD, in 2010 and 2017. In the past ten years, INR has depreciated more than 50% with a fall of 7% in 2022. Typically, a depreciation of 3-4% annually has been witnessed in the past decade, and a similar trend may continue in coming times albeit at a slower pace as our economy gains strength. In such a scenario, taking exposure to the U.S. stock market via mutual funds can benefit you from the rupee depreciation and hedge this risk.

## Don't jeopardise your retirement

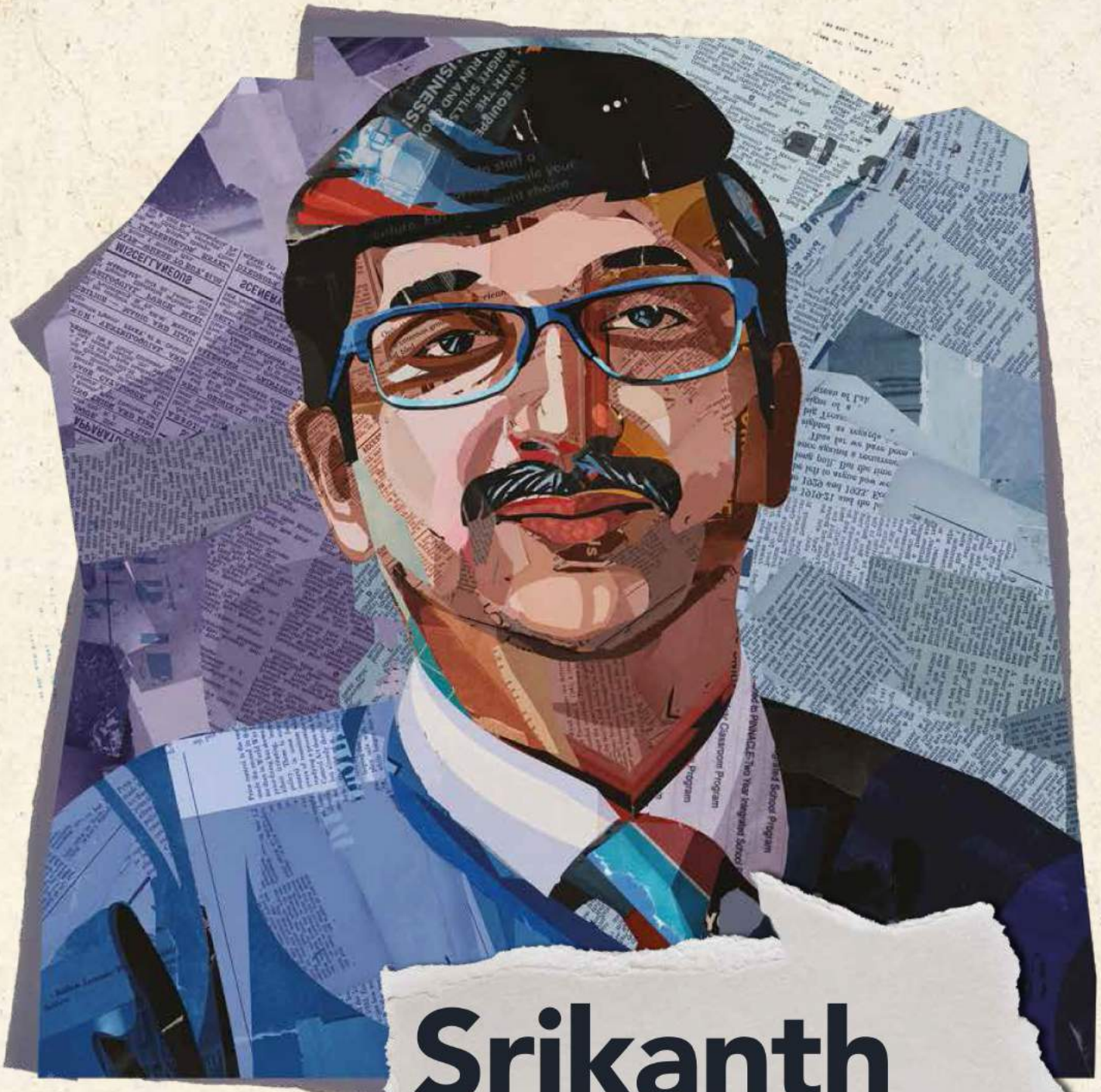
While planning for your child's education, don't forget yourself. Do invest simultaneously for your retirement. Although providing education to your child is a basic duty as a parent, don't overshoot your budget to the extent that it jeopardises your own retirement. While any parent would want to give the best to their child, having an honest conversation is important too! Discuss with your child about what you can and cannot afford. If education in the U.S. is beyond your budget, then make your child aware of the same, and work on a solution. A solution can come in the form of a scholarship or partial scholarship, going abroad for post-graduation instead of graduation. Be careful about debt; don't get swamped in education loans.





**One final step which can add clarity to the objective as well as dissuade any parent from redeeming the money for any other purpose is to keep the investment in the child's name (using an under guardian bank account).**

**Prableen Bajpai**
**Founder,**
**FinFix Research and Analytics Pvt. Ltd.**



# Srikanth Bhagavat

Managing Director & Principal Adviser,
Hexagon Wealth.

# Give Them Wings to Fly



There was complete silence in the room, till one of the parents asked me to repeat my sentence. So, I repeated, "Children are doing well in spite of their parents." And then followed some spirited laughter as the message sunk in. But that is the truth, times are changing.

Parents often want their children to succeed where they themselves could not and hence make them fulfil the dreams that they themselves could not fulfil. That children may have their own dreams and aspirations is given no importance. That the children should conform to their parents' taste is an attitude which is lacking in understanding. The other view has been that if something worked for the parent it should work for the child too - never mind that there is much more to explore now! But what is so different with the current generation?



This generation is much more exposed to different information, influences, and ideas in the age of digital media; this generation comes with far more confidence than the earlier ones. They also are benefited by an economic security net, brought on by prosperity, which earlier generations did not have. This is a significant difference, for it encourages children to explore more and experiment with their careers too, thinking beyond basic security.

It is the age of creativity. Every science, every art, every skill is finding new heights led by innovation. Children today can follow a career in sports to art or teaching with sufficient scope for being prosperous. India is in a special place today with entrepreneurship gaining fashion. Society does not look down on failure as bad – it allows experimentation and entrepreneurship. In such a scenario, what is the role of parents?

I believe that role is one of enablement and facilitation. Enable the children by exposing them to various arts and sciences. More the stimuli, greater the activity in the brain. They should be allowed to explore different fields to find their passion. But my focus here is more on the facilitation part - how can the parent make it all happen?

**The most important part of facilitation is the financing. In my experience, the annual or recurring costs incurred while schooling can come from the monthly income while the milestone payments need some particular effort. Milestone payments are the relatively large ones that occur once in a few years as listed below:**

| Age | Purpose |
|---|---|
| 6 YEARS | Montessori / Primary School |
| 17 - 18 YEARS | Under-graduate |
| 21 - 22 YEARS | Post-graduate |

High quality education is only becoming more and more expensive not just in India but across the world. Unless we put a number to 'more -and-more' it is not helpful in our endeavour to build a corpus for it. We find that this number is more than the normal CPI rate of inflation that we all read about. As compared to the average 6% or so of long-term inflation, the education rate of inflation has been closer to 10% per annum. The impact of such an increase year-on-year is that what costs about ₹25 lakhs now will cost double in about 7 years' time and 4x i.e. ₹1 crore in about 14 years' time. Now this is a number to be taken seriously, for even if you have more than one child to educate, the outflow would be substantial.

**If the dream is to get your children to pursue their undergraduate course abroad, then the complexities are more. Here are some pointers, in general:**

1. You will have to check on the education rate of inflation in that country and the impact of currency appreciation or depreciation. For instance, we recommend a long-term target rate for the USA of 7% to 8% pa which considers local inflation and relative depreciation of the INR. (In the immediate future, this is likely to be a higher number, but then we are speaking about the long term here.)

2. This is the minimum rate at which your savings for an education corpus should grow at, if it is to retain the purchasing power of your savings.

3. If the monthly savings required to build a corpus at this rate is too high, one can change the asset allocation to be more aggressive and try for a higher rate of return to reduce the monthly savings number.



**4** One must remember that more the allocation to equity in the portfolio, higher should be the time horizon - for a time horizon of less than 5 years, adding equity to the portfolio is a risk, as the uncertainty is more.

**5** If you are earmarking assets that are illiquid, like real estate, be sure to begin the liquidation process at - least 18 months before the date when it is required.

**6** Equity investments should be transferred to stable investments like a debt fund around a year before the fees are to be paid, to safeguard against short-term volatility.



Today, children train hard to pursue a career in sports, too. Sports as a career option has made its mark in India. The training, which will commence in school itself can be pretty expensive and this will have to be funded through the income stream. The defining characteristic of such a career is that if the child succeeds, the payoff is very high; in the event that this does not happen, it is a cause for concern and needs forethought. Training for a career in sports often means that academics are compromised, which can reduce the scope for an alternate career. To overcome this problem, parents can create a fund that can be used for re-skilling if required. With a new set of skills, new career options will emerge. The second point in this context is that youngsters may need couple of years after their studies to make a mark in their chosen line of sports – the parent can plan in advance for a safety net to support the child during these difficult years. Such a fund can be enough to fund the youngsters' expenses for a couple of years during which the decision will be made whether to continue in a sporting career or to switch. Sporting is but one example of the many career options today that do not have the hallmark of stability as conventional careers do. For all such, a similar approach will work.



**I have always been of the opinion that the parent's role is to enable, facilitate and support the children's dreams, and at the core of it is the financial support. To emphasize, this can be achieved through 3 simple steps:**

**1. Determine the costs**

**2. Make a financial plan with the help of an adviser**

**3. Invest regularly without getting distracted**

**Srikanth Bhagavat**
**Managing Director & Principal Adviser, Hexagon Wealth.**

# Kamal K. Sharma

Author - The Piggy Bank Billionaire.



# Changing Times, Changing Aspirations

Pramod has just sent his 22-years-old daughter Surbhi to US for her Masters while his son Aditya who is 19 years now wants to realise his passion of getting into a Healthcare-related start-up. Had he not sold his Pune ancestral flat, sending his daughter to US would have been a difficult task.

Times have changed, while in the 80s we were waiting for Bajaj Chetak delivery after 3 years of booking, in the 90s, we were waiting for our turn to get a BSNL landline connection, in early 2000s, we had the smartphone in our hands, by 2010, we were switching from Laptop to a Tab and 2022 onwards, we are witnessing 5G rollout and Toll collection through GPRS.



If you are parents to children less than 7 years of age, a lot will change in the next 15 years. We can't predict the future, all we can do is get ready for it. Education cost is rising than ever before. Undoubtedly, universities with higher price tag remain the preferred ones. Gone are the days that young children used to settle down with basic degrees, with New Education Policy (NEP) in place & a world very well connected now, there will be many innovative & skill-oriented dual courses available within India as well anywhere else, and what if your child wanted to get into sports, play IPL or had a vision to be an athlete and try in Olympics, world-class training will need a lot of money.

There is another hard fact that we Indian parents spend almost 30-40% of our earnings on Children Education & their marriage. Over last few decades, these 2 segments have seen maximum price rise as both these two are major expenses where a lot of emotions are attached to them.

When we say everything comes at a whopping cost, a child of 5 years of age today will require about ₹1.25 Crores worth Education Fund to pursue her/his 4 years degree and may be another ₹1 Crore for Masters outside India. While India shapes up as a Start-Up Hub, aspirational young children will need about ₹2-5 Crores worth seed funding.




This is the time to shift gears and think beyond ₹50-75 Lakhs worth Education Fund, need of the hour is looking at building a solid capital for your beloved Daughter / Son. You gave your child the best of everything, right from her/his first birthday, you identified the best play way, you surveyed and zeroed on the best school in the city, best coaching, best tutors, best sports gear and taught your child to be the best among all…will you not help your child realise their career goals when they really understand the world and look at it through their own eyes.

They say magic of thinking big works wonders, its time you plan gifting your child a solid capital on their 18th or 21st birthday. India, 5th largest economy of the world would have moved among the Top 3 slots in the next 12-15 years. The time is ripe enough to get into equities and make a disciplined effort to build this capital brick by brick. Children Investment Plans in the Mutual Fund space have shown exceptional growth during the last couple of years, since fund managers have the freedom to manage the fund with their high conviction ideas given that these funds have 3-5 years of lock-in period.



₹21,000 per month SIP discipline for 21 years is good enough to gift your child a capital worth ₹2.39 crores on her/his 21st birthday. As this is often said in investments, the cost of delay is very expensive. Your child certainly deserves the blessing of a well-timed investment, while building this capital you certainly need to think practically rather than being emotional.

# Happy Parenting!

**Kamal K. Sharma**
**Author - The Piggy Bank Billionaire.**



# Vaibhav Bhandari

Director,
Milestone Financial Pvt. Ltd.

# New Dreams... New Vehicles... Importance of a Financial Plan for Children




The responsibility of a couple begins with the news that they are soon going to be parents and they start planning the best for their child to be born. Each parent wishes to provide the maximum from what they can afford for their children. The appropriate way to give the best to your child is to start planning for their future from the day one or as soon as you are aware about it. Your financial planning is directly linked to your children's future and hence utmost care is to be taken while taking any financial decisions.

The expenses of children are growing day by day with the increase in inflation. Can you just imagine the LKG admission cost is ₹25,000 - ₹50,000 in an average school in a class B City. Metro school's cost more and so does premium school. The level of expenses for higher education and other basic needs to satisfy the children's social standard are beyond our imagination. So, if you don't start planning from today itself then you will not be able to fulfil your children's dream which will create a lifelong guilt for you.

## Benefits of financial planning for children

### Secured Education:

Ask any parent about his primary concern about their child's future, and almost all will quip about the escalating cost of education in the times that we live in today. Putting your child through a good school will not come cheap. Over and above that as the years fly by, your child may decide to go in for higher studies that will cost the moon. If you plan well and invest in a child investment plan that matures during such times, your financial burden will be relieved.



## Savings Habit is Developed:

Child care plans come with the twin benefit of insurance and investment. Before buying a child care plan, go back to your financial plan and calculate the need for funds during the various stages of life. Calculate what you are saving for; primary and secondary education, higher studies, marriage etc. Also take into consideration your other responsibilities such as a mortgage etc. and zero in on an insurance scheme that is a perfect fit with your financial plan. While initially it may seem as a burden, paying periodical premiums will soon become a habit that will put you in good stead when your ward grows up.

## Emotional Bonding:

Financial planning for the children creates a unique emotional attachment between parents and children. Due to this emotional bond, children are more determined to achieve their goals and make their parents feel proud.

**Vaibhav Bhandari**
**Director, Milestone Financial Pvt. Ltd.**



# Megha Malpani and Harsh Kumar

CFA & Partners in parenting ten month old Inaayaa Arora & Business Partners at Zvest Financial Services LLP.



# An eye on their future

**"I made my first investment at age eleven.
I was wasting my life until then."**
**Warren Buffett**

**Almost all conversations with new parents centre around nurturing children well and to the best of their abilities. While we acknowledge the need and have a desired end goal, the journey of ensuring a smooth financial trajectory starts late for most parents and hence, becomes unnecessarily bumpy.**

## What to do?

Starting early is an open secret. While we may build physical capital for our children, the most important asset that they will always retain will be their human capital and hence, planning for their education is critical. The critical aspect to understand here is that the meaning of education has changed a lot over time. It's no more the conventional engineering and medical profession that today's generation aspires but much beyond that. The education inflation in general and also in specific for niche courses has been heading northwards for a few decades now and ensuring investments are not just meant for accumulating the assets but also generating a positive real return is vital. It is important to follow a glide path strategy and plan for the education well in time. Starting late will not only mean adopting a riskier approach but it could also result in a sub optimal corpus.

## How to do?

Systematic investments with monthly frequency in funds matching the time horizon is an easy deployment technique. For beginners, one may also look at Solution Oriented Funds with specific focus on children. The objective is not just higher education but also, intermittent courses, vacations and discretionary spending on experiences. It is important to categorise the goals as critical and discretionary so that negative liquidity needs can be planned in a more prudent manner.



## What to keep in mind?

If one is planning to build some part of the corpus via physical assets, the suggested route would be to keep those as liquid as possible. Be it investing in Gold or Real Estate, an electronic form is suggested given the fact that children may not be interested in managing the complexities of physical assets and they may not even be domiciled in the same geography as the parents. For a girl child, Sukanya Samriddhi Yojana (SSY) may be considered. One may also explore opening a Public Provident Fund in the child's name. These investments may look small to start with but have huge potential to generate meaningful returns with negligible volatility.

## What not to miss?

It is important to ensure Risk Transfer happens on the first day the child is eligible. Most health insurance companies allow a child to be added to existing individual/floater policy 90 days after their birth and the rules of group health policies must be individually explored. Since a child comes with added financial responsibilities, it becomes important to evaluate if the Term Plan cover for the primary care givers are adequate. Effort should be made in assessing the Human Life Value as close as possible. It is of utmost importance to keep investments and insurance separate.

## Whom to involve?

An important factor which most parents miss is the importance of involving these young minds in money matters. It is important to teach them young and explain them the nuances of inflation, savings and compounding. It could not just mean giving them a budget and leaving/guiding them to decide how they wish to spend but also explaining them the difference between needs, wants and desires. Mid-teens are a good age to start training them on money. It's important to introduce them to your financial advisers and have them engage with them at least, annually. Explaining the concepts of risk and sharing your investment mistakes with them is of paramount importance in a world which likes to make the easy buck.



## Play time

It may sound a simple activity but playing board games like Monopoly, Payday etc. with the entire family can build the comfort of all family members to discuss money matters at ease with each other.

## Summary

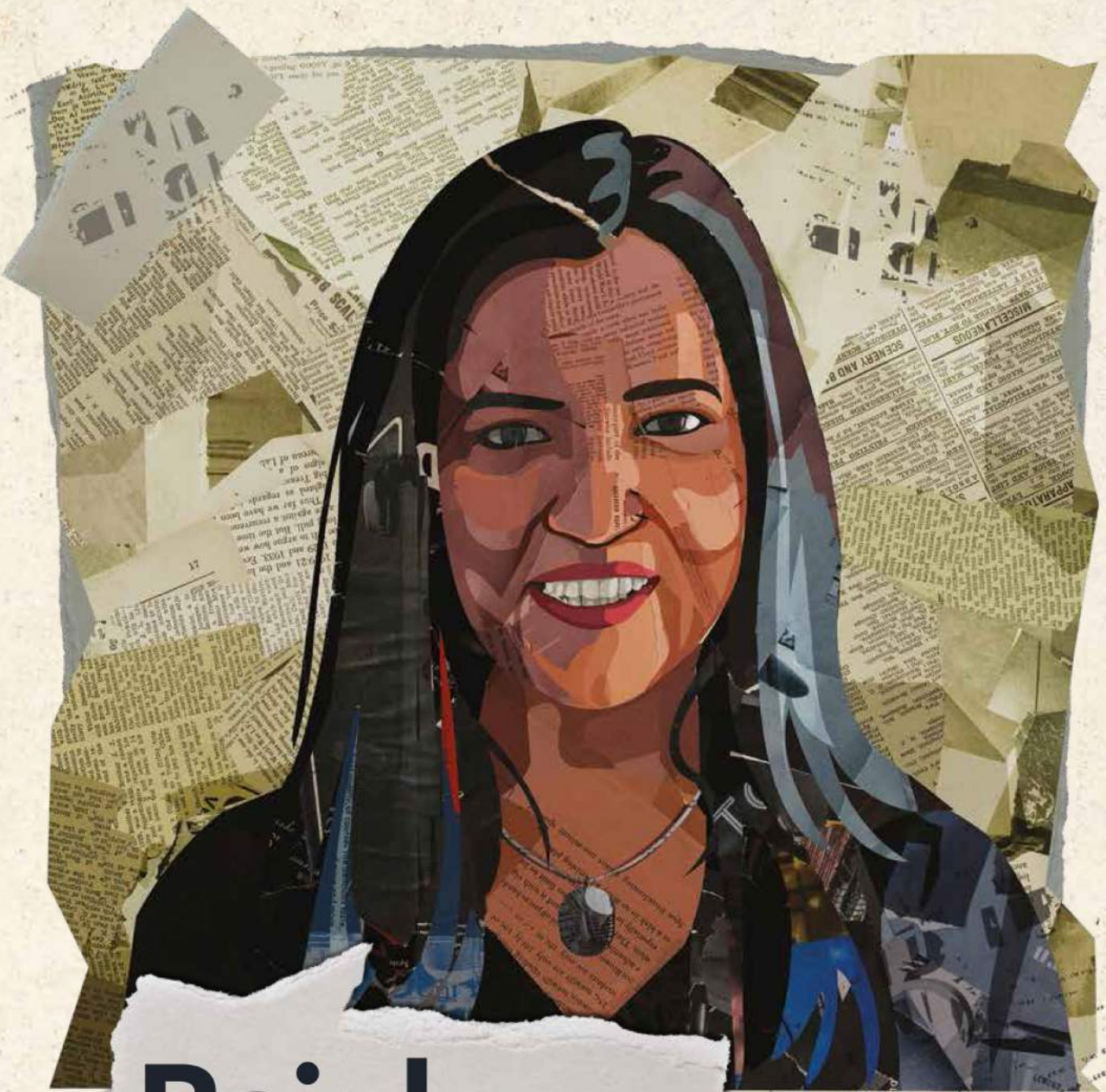
While the few points above can help one get started with the financial planning of young ones, one can't negate the importance of quality family time. It's prudent to spend undivided time with the next generation as that helps to impart them important life skills which not only make them just financially independent but also imbibe in them the wisdom to live life more meaningfully.

**"If you want your children to turn out well, invest twice as much time with them and half as much money." Abigail Van Buren**




**Megha Malpani & Harsh Kumar**

**CFA & Partners in parenting ten month old Inaayaa Arora & Business Partners at Zvest Financial Services LLP.**



# Rajul Kothari

Partner,
Capital League.

# The best way to predict the future is to plan for it

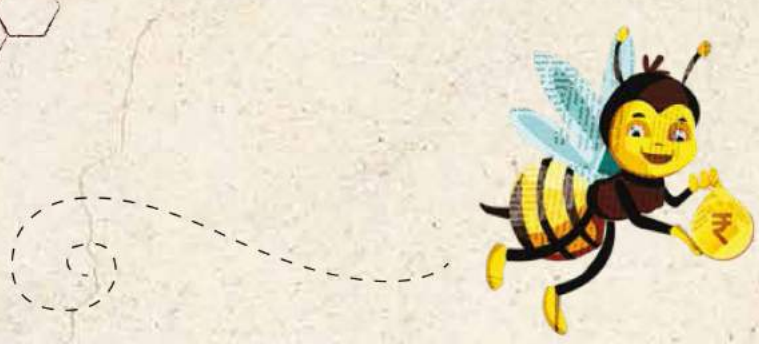
**"The best way to predict the future is to invent it."**
**-Alan Kay**

This was the newspaper cut-out I had posted on my elder son, Tanay's soft board when he was 7. However, as it turned out, it became our mantra for parenting and planning for their future. Tanay's passion and extraordinary talent in math/computer science, essentially problem-solving, and entrepreneurial bent of mind was evident at an early age. Like all parents, we realised we had to nurture his talent as well as plan to give him the best education in the world.

So our journey of planning and executing began early. A little homework on the cost of higher education in Indian and International colleges made it clear that it was a big enough goal and required financial planning. Being a wealth manager helped. We set up a financial plan for his college education taking into account the cost of education, living expenses, the effect of expected rupee depreciation, and the lead time as our goal was 10 years away.

We decided to invest our savings for his college corpus in equity mutual funds. Equity as an asset class helped in maximising the returns and volatility became our friend during the accumulation phase.





We set up Systematic Investment Plans (SIPs) in a couple of diversified equity funds. Monthly investments over a long period of time bring in the benefits of averaging the cost of purchase. I am glad we started early, as more the years the equity investments have to compound, the better the outcome. Every year matters in your journey of compounding! To be honest, I never took out the money from this bucket for another purpose or to time the market for better returns. It is said that time in the markets is more important than timing the markets and I have seen this playing out with my personal investments as well as investment portfolios that I have worked on for various clients. Two years prior to the beginning of his college education, we started putting away the proportionate equity funds into less risky fixed-income funds every year. As a result, when the time came, we were at complete ease.



Simultaneously, I opened a minor bank account in Tanay's name, and on every achievement of his, I would put a few thousand rupees into his bank account and invest in his own name. This not only motivated him but also resulted in his own personal investment journey. I would occasionally sit with him and take him through his portfolio both during good and bad times. By the time he turned 18, not only was there a decent corpus but Tanay had also learned an important life lesson. Long-term wealth could be created with regular investment and patience.

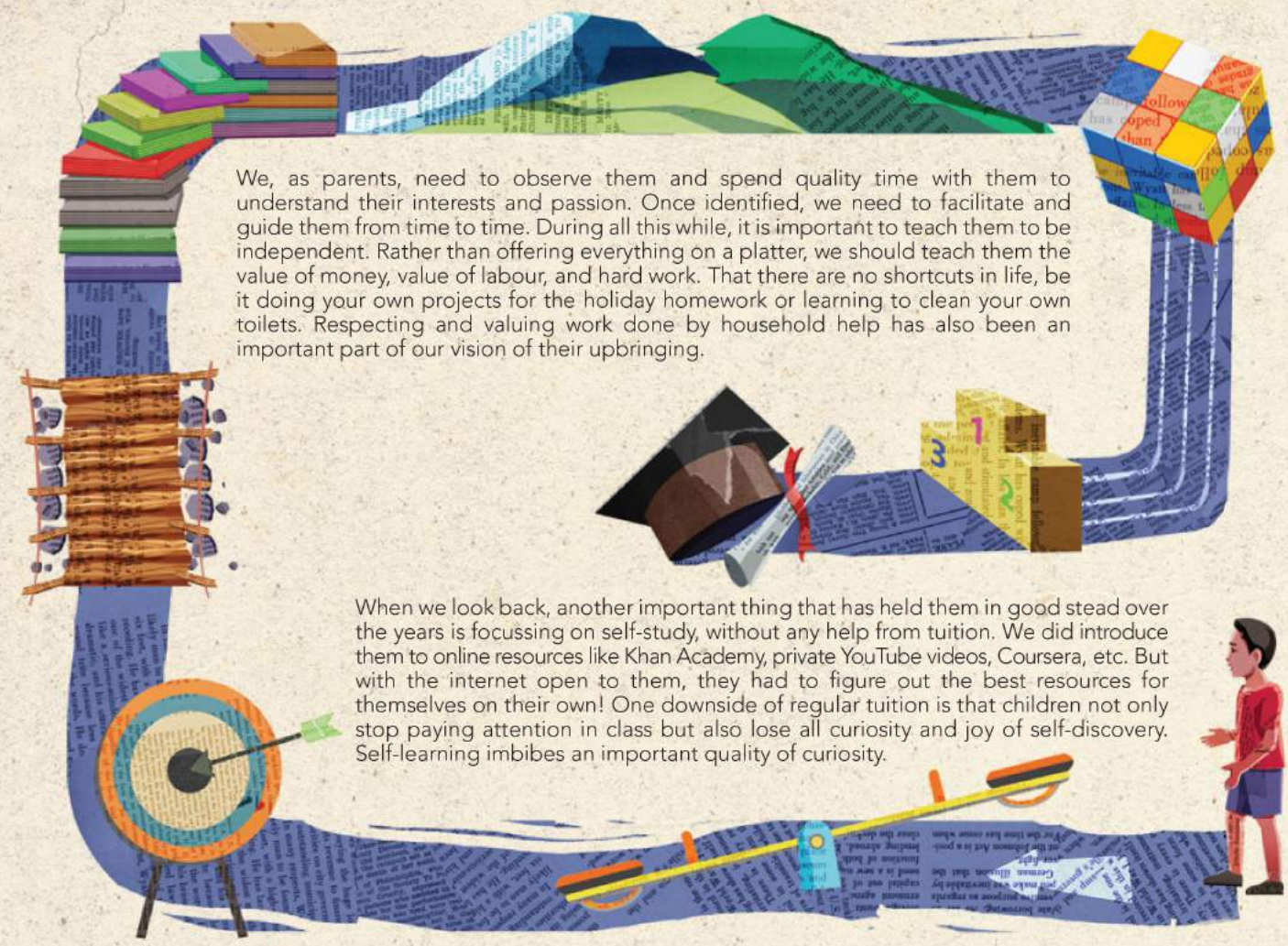


When we were expecting our second child, Tanay was clearly told that we were getting him company and he needed to look after the baby too. And he being a diligent one, took it rather seriously! At 6, Tanay became the third parent to Jaisal. He found a novel and effective way to make Jaisal study while he was only in kindergarten. He would issue him hand-drawn coupons to watch Cartoon Network for half an hour on completion of homework. Over the years, they developed a deep bond and wonderful relationship. This is probably our most treasured legacy. It came as a surprise that our experiment in trusting and giving responsibility to Tanay proved to be extremely fruitful. The problem is one finds it very difficult to trust, to let go of control. This is true both in personal and professional lives.

We repeated saving and investing for Jaisal the same way we had done for Tanay. On his 7th birthday, he innocently asked for gold as a gift. So I actually invested in a Gold Fund for him and watched the volatile journey with him over a couple of years before concluding that he was better off in a productive asset like equity.

Children are like fresh clay with immense potential. Their brains develop far more when we give them uninhibited stimuli and learning opportunities. Our learning is that as parents, we mustn't assume anything is too complicated for our child. Also, our job as parents isn't to control children. It is to fuel their growth by teaching them to think critically for themselves.

Tanay, now 24, has completed his undergrad in computer science at Stanford University and is running his own start-up in the Silicon Valley. He has turned into a fine young man respected and loved by his family, friends, and colleagues. During his time at college, after the first year, other than the tuition and dorm fee, we did not remit any funds for his personal expense. He would undertake teaching assignments for other students, children of his professors, and other small coding projects to earn his pocket money.



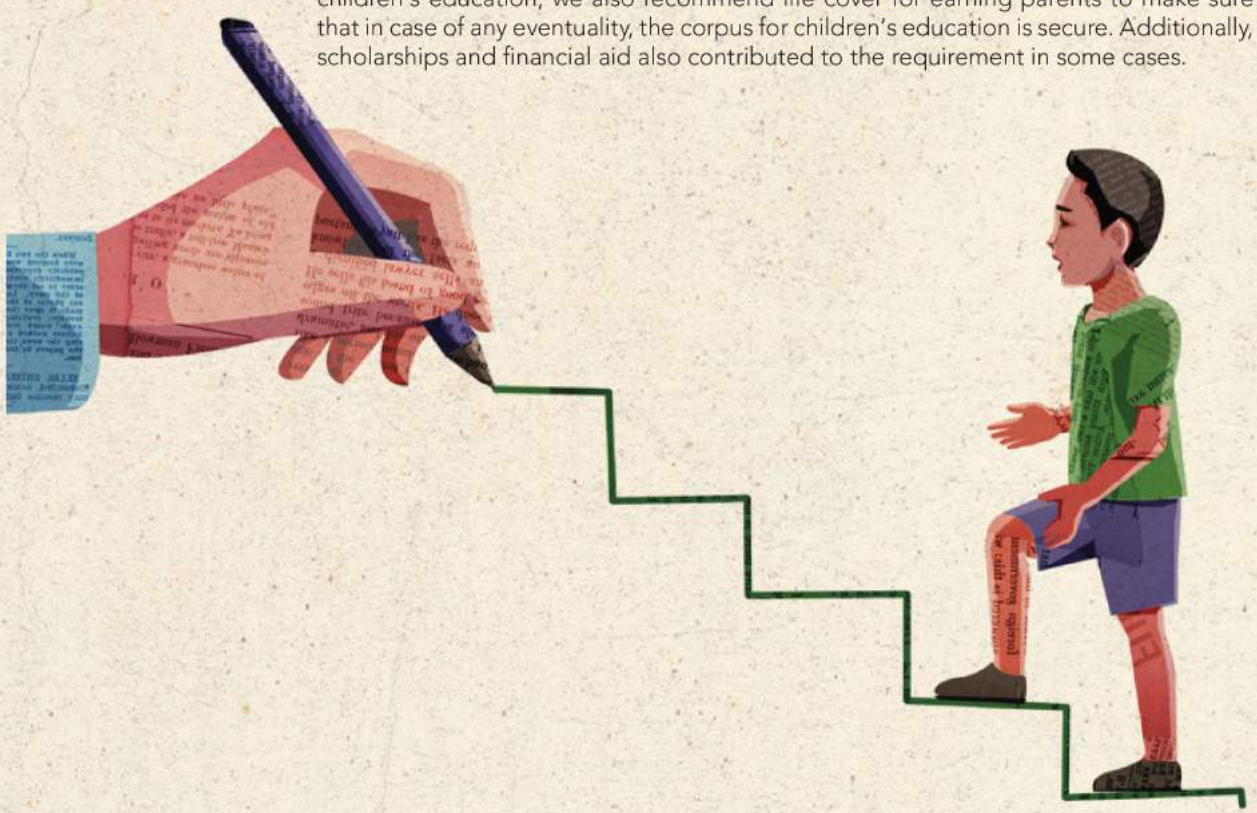
We, as parents, need to observe them and spend quality time with them to understand their interests and passion. Once identified, we need to facilitate and guide them from time to time. During all this while, it is important to teach them to be independent. Rather than offering everything on a platter, we should teach them the value of money, value of labour, and hard work. That there are no shortcuts in life, be it doing your own projects for the holiday homework or learning to clean your own toilets. Respecting and valuing work done by household help has also been an important part of our vision of their upbringing.

When we look back, another important thing that has held them in good stead over the years is focussing on self-study, without any help from tuition. We did introduce them to online resources like Khan Academy, private YouTube videos, Coursera, etc. But with the internet open to them, they had to figure out the best resources for themselves on their own! One downside of regular tuition is that children not only stop paying attention in class but also lose all curiosity and joy of self-discovery. Self-learning imbibes an important quality of curiosity.

This proved to be his most precious pool of funds. He not only went for concerts and holidays with his earnings but also dabbled in stock markets, cryptocurrency, etc. There is no substitute for learning to invest your own hard-earned money while making your own decisions based on your own research. While doing this he has also learned to file his own taxes in the US. Now, having learned his lessons, he has a proper financial plan in place with very specific goals, proper asset allocation, and a diversified portfolio.

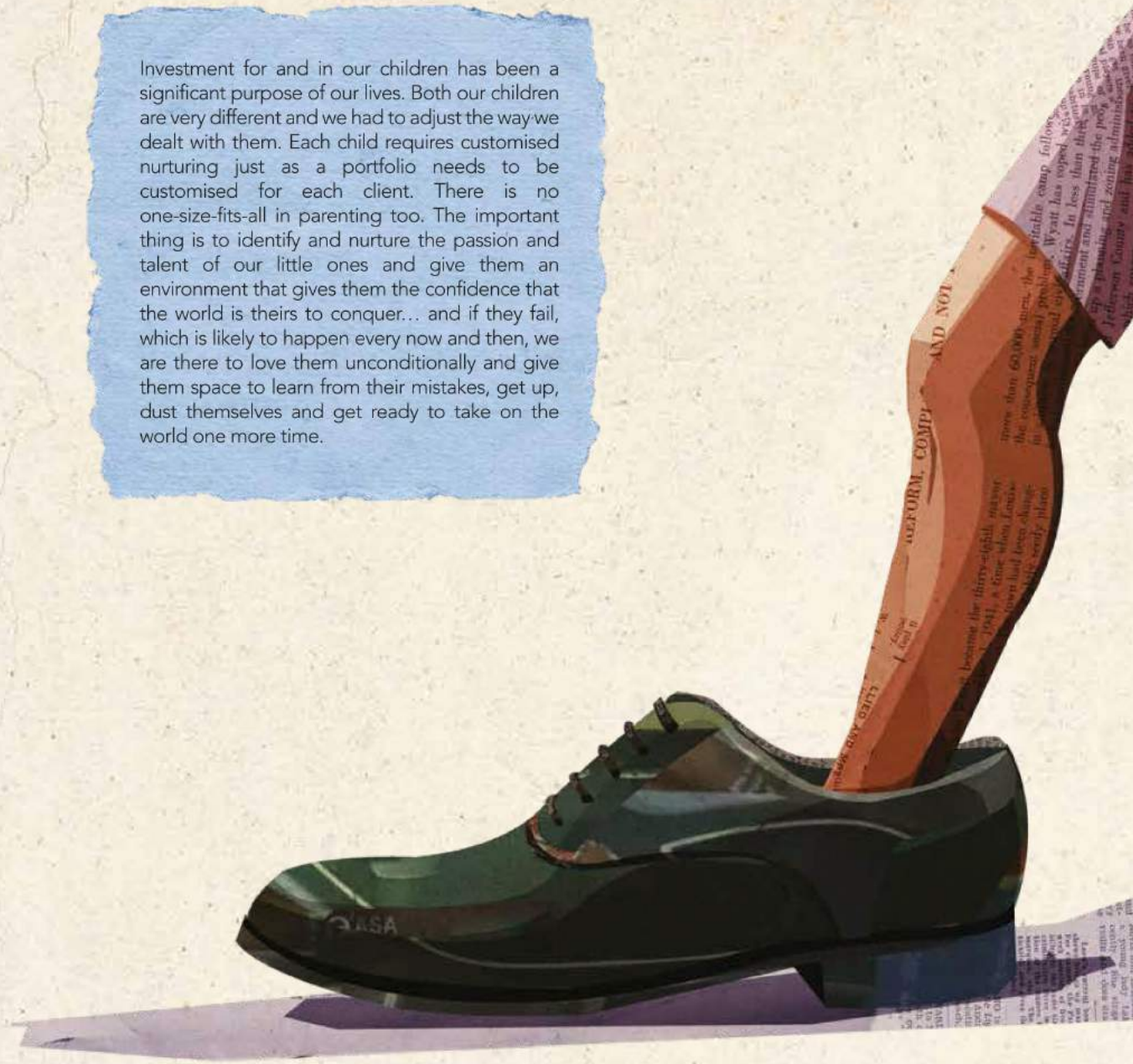
Jaisal had the challenge of being always compared to Tanay. We, as parents, had to be mindful to remind everyone around us that they were very different and Jaisal was sharp in his own way. To Jaisal's credit, he learnt to say "No" at an early age, clearly knowing his boundaries and limitations and doing the best within them rather than stretching himself thin over several projects. I admire the fact that despite all the pressure, he has carved out his own unique identity with his diverse interests and talent, dedication, hard work and excellent team skills.

With God's grace, being a dual-earning family, things have worked out comfortably for us. Over the years, running a successful wealth management firm, I have assisted innumerable families with financial planning for their children's higher education. We have realised that more than even retirement planning, helping children to follow their aspirations in life is a far more important and emotional goal for parents. Sometimes, it has been a little challenging when parents were caught unaware of the cost of higher education and did not have enough lead time to build a suitable corpus. Where the goal was less than 5 years away, we recommended a higher exposure to hybrid - balanced funds to reduce the volatility in the portfolio. We have also recommended Children's funds which are balanced funds with a lock-in of 5 years or till a child turns 18. These have been particularly useful to make sure that funds for children's education are not diverted to another goal like buying a house. On top of creating a separate corpus for children's education, we also recommend life cover for earning parents to make sure that in case of any eventuality, the corpus for children's education is secure. Additionally, scholarships and financial aid also contributed to the requirement in some cases.



While Tanay had been clear about his career path and choices, like many children, Jaisal does not have a specific goal in mind - and there is nothing wrong with that. Among many things, he is passionate about guitar, graphic designing, digital art, software development, and scientific research. We trust him to figure it out himself and will support his decision when he does; and our job as parents ends there. Jaisal, 17 will be leaving home this fall to join Stanford too. The deal between the brothers is that on monthly visits, Jaisal will wash Tanay's car and Tanay will make Kadai paneer for him!

Investment for and in our children has been a significant purpose of our lives. Both our children are very different and we had to adjust the way we dealt with them. Each child requires customised nurturing just as a portfolio needs to be customised for each client. There is no one-size-fits-all in parenting too. The important thing is to identify and nurture the passion and talent of our little ones and give them an environment that gives them the confidence that the world is theirs to conquer... and if they fail, which is likely to happen every now and then, we are there to love them unconditionally and give them space to learn from their mistakes, get up, dust themselves and get ready to take on the world one more time.

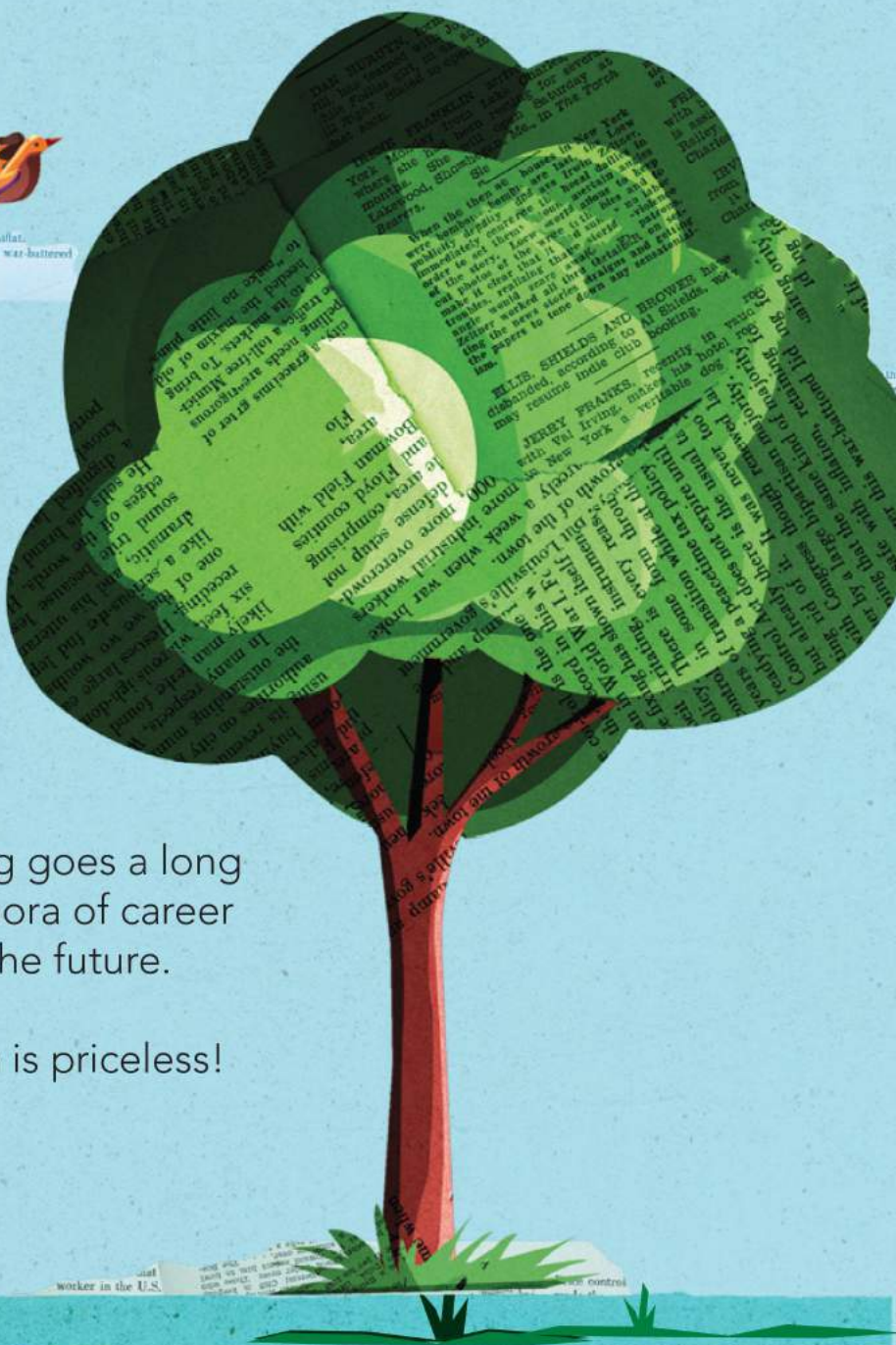


**Rajul Kothari**
**Partner, Capital League.**

# Growth is true freedom







The discipline of investing goes a long way in supporting a plethora of career options for your child in the future.

And that kind of freedom is priceless!





