Is 30% of my income enough to achieve goals?

Vishal Dhawan

I earn ₹92,000 per month after income tax and provident fund (PF) deductions. I invest about 45% of my salary, or ₹44,000, currently every month. This includes ₹21,000 in mutual funds through a systematic investment plan (SIP), ₹4,500 in voluntary provident fund (VPF), ₹2,000 in public provident fund (PPF), ₹6,000 in national pension scheme (NPS), ₹9,000 in saving insurance plan, ₹1,000 in term insurance of ₹50 lakh, and ₹1,000 in health insurance of ₹30 lakh cover. I don't intend to cut down or increase my investments but would like to limit my investments to 30% of my income when my salary increases in the future. Do I need to make any changes to my portfolio to beat inflation and secure my child's education and retirement plan?

—Name withheld on request

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It is ideal to save at least 20%-30% of your earnings and invest the same in different asset classes basis your needs. It is also suggested that you enhance your savings each year, as salary increases take place. In addition, beating inflation, for both education, which tends to be higher than consumer price inflation, as well as for living expenses for retirement is crucial.

Going forward, you should ideally stop contributing ₹9,000 per month to the savings insurance plan as it is ideal not to combine investments with insurance. Secondly you are probably under-insured.

As a rule of thumb, an individual earning ₹10-15 lakh per annum (pa) should have a cover of ₹1-1.5 crore. Assuming your age is around 30 years, the term insurance premium for a sum assured of ₹1-1.5 crore till 60 years is around ₹11,000-16,000 per annum.

Assuming that the education is a domestic education that needs to be planned for, and assuming you retire at the age of 60 and you continue to invest 30% of your salary, after a reduction in savings for the next few years due to your higher current savings rate, the retirement corpus across your PPF, EPF, NPS and mutual funds should be enough for a decent retirement.

I am a 32-year-old unmarried person drawing a monthly salary of ₹50,000. I plan to invest in funds that will be useful for my child's education in the future, buying a home and a retirement pension. Please suggest a good portfolio to meet my financial goals.

—Rohit Kumar

An analysis of your current assets suggests all of your goals can possibly be achieved provided you grow your income by 10% per annum, and your expenses are controlled at approximately 60% of your income.

It may be advisable to purchase the house when you are older, so that you can use the pool of savings to invest and grow your asset base for now, and then purchase the home later. Considering education inflation, as well as inflation on living expenses, the need to invest systematically towards these goals is crucial.

Considering the long term nature of your goals, we would recommend a portfolio tilted towards equities, with a combination of 40% in Indian index funds, 20% in an actively managed flexicap fund, 10% in small-cap funds, 15% to international funds and the rest could go towards debt to take care of short-term needs that may come up.

Vishal Dhawan is a certified financial planner and founder of Plan Ahead Wealth Advisors, a Sebi registered investment advisory firm.

Do you have a personal finance query? Send in your queries at **mintmoney@livemint.com** and get them answered by industry experts.