Canara HSBC
LIFE INSURANCE

FINANCIAL
PLANNING GUIDE

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FINANCIAL PLANNING

Planning for one financial goal is easy, but can create a challenge of scarcity for other goals. A comprehensive financial plan allows you to balance your savings and goals. At the same time, it should also keep you and your family safe from emergencies.

Thus, a good financial plan maximises the efficiency of your money and helps you achieve more with the same amount. Having a complete financial picture in front of you will also give you more confidence in your financial decisions.

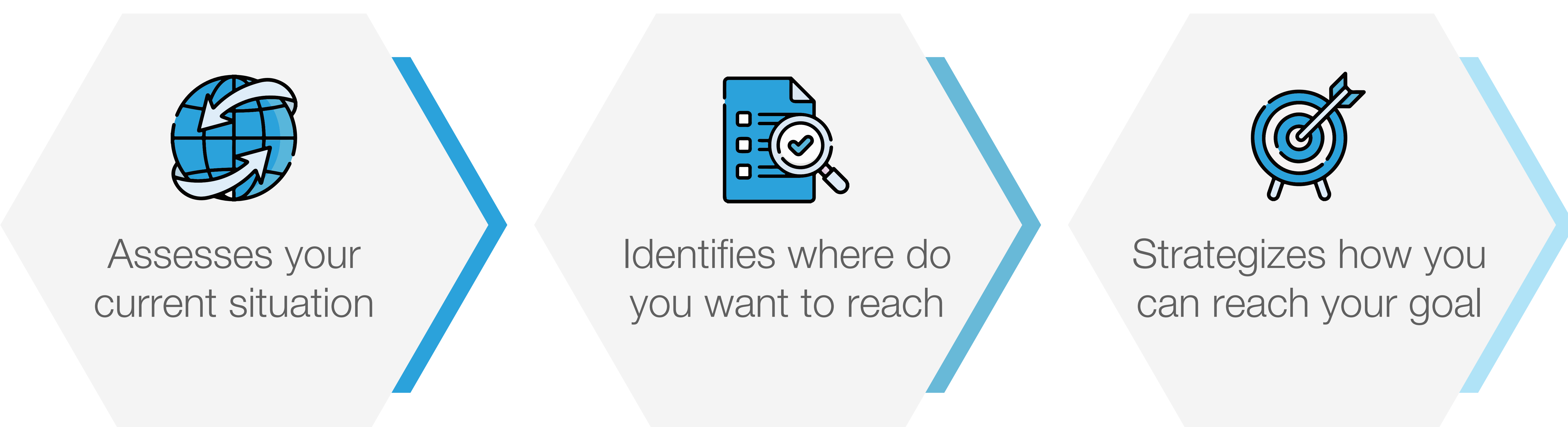
This is why financial planning is something everyone should attempt at least once. This guide will help you understand the process and its benefits in detail.

What is a Financial Plan?

A financial plan is a comprehensive and detailed roadmap with specific milestones and an action plan for achieving those milestones, i.e., your financial goals.

Thus, a financial plan helps you identify and prioritise your financial goals and the steps that you will follow to accomplish them. The goal can be anything from lowering your debts to buying a new home.

A financial plan helps you:



The financial plan will help you organise your financial life and achieve more with your money. A good financial plan makes it easier for you to work towards your goals. Here is how a financial plan can help you:

01 Achieve your Financial Goals

Even if you are the wisest man on the earth, you will have a hard time predicting what will happen in the future. If you can't predict the future, the next best option will be to prepare for it. With savings, you can create yourself a fund for emergencies. These will come to your help if something unexpected such as sudden illness, or loss of your job, house repairs come up.

02 Confidently Make Big Financial Decisions

A financial plan lays out where you are, where you want to go, and how you can get there, all in written form. Clearly set goals and directions remove confusion. When all these things are present, it motivates you to make decisions and act on them. You will not be able to reach your goal if you cannot act on it.
A financial plan thus helps you to make prompt decisions backed by the facts written in the document.

03 Stay Prepared for the Milestones in Life

Throughout our lives, we work hard to achieve various milestones in life. Throughout your life cycle, you encounter various defining moments that change your life. These moments include things like getting married, raising a family, buying a home, retiring, etc.
These are the things you would surely want to achieve. All of this, however, necessitates significant financial resources.
For example, if you are thinking of buying a home, you need to pay for the down-payment and decide on the loan period. You will also need to make sure that you manage your debts.
If you want to save for retirement, you need to start setting money aside way before you actually retire.
A financial plan helps you create a timeline that helps you be prepared for these milestones as and when they come. Also, because these plans are flexible in nature, they can adapt to your changing needs and goals.

04 Improved Awareness of your Finances

A financial plan will require you to create a budget. A budget is a document that contains all your income and expenses. This can help you to determine how you can remove or reduce your unwanted expenses. Thus, it will help in keeping your spending in check.

It can also help tackle the effects of inflation. Inflation raises the price of commodities over time. With a budget, you can ascertain how much money you will need in the future and thus choose your investment options accordingly.

05 Improved Awareness of your Finances

With a proper financial plan, you can use your money more productively. Following your financial plan will help you to limit your spending and reduce wasteful expenditure. This will thus help you have more money.

Thus, being able to manage money in a better way, you can improve your standard of living.

06 Stay Prepared for Financial Emergencies

Planning for emergencies is a crucial part of a financial plan. Emergency planning is preparing for unexpected outcomes that may occur during your life. It involves setting up an emergency fund and keeping a certain sum aside, specifically for it.

This emergency fund will help you deal with unforeseen circumstances, such as a medical emergency or job loss, without significantly affecting your financial position.

07 Reduce Income Tax Outflow

Every year you are required to pay tax. This is a compulsory payment you make from your salary to the government. This can thus act as a burden.

But the government does help you reduce this burden by providing some tax benefits as well. There are investments that are eligible for a tax deduction under Section 80C of the Income Tax Act. With proper financial planning, you can choose investments that will provide you with tax benefits.

What is Section 80C?

Section 80C allows you to avail of deductions of up to **Rs 1.5 lakhs** on the premium that you pay towards your investments.

08 Peace of Mind

The main purpose of financial planning is to make the most efficient use of your money. It enables you to make the best possible use of your money. By doing this, you are able to manage your expenses well and also save money.
This helps you live a stress-free life and attain peace of mind.

What Should your Financial Plan Consider?

Financial planning, if done thoroughly, can help you make the best use of your money. But before you decide to make a financial plan for yourself, there are some things that you should consider.
These are the factors you should keep in mind while you create a financial plan.

1. Goals you Want to Achieve

It is the primary thing to take into account before making a financial plan. A financial plan is made to achieve your financial goals. You need to prioritise your goals and align them with your financial plan.

2. Your Spending Habits

Are you an overspender or do you spend within your budget? Answers to such questions should be answered in order to make a financial plan that matches you. It is your spending that will determine whether you can achieve your goals.

Overspending can ruin even the best of financial plans. Try to make a budget and control your expenses.

3. Current Investments and Debts

A financial plan will help in deciding which investments to opt for and how much money to invest.

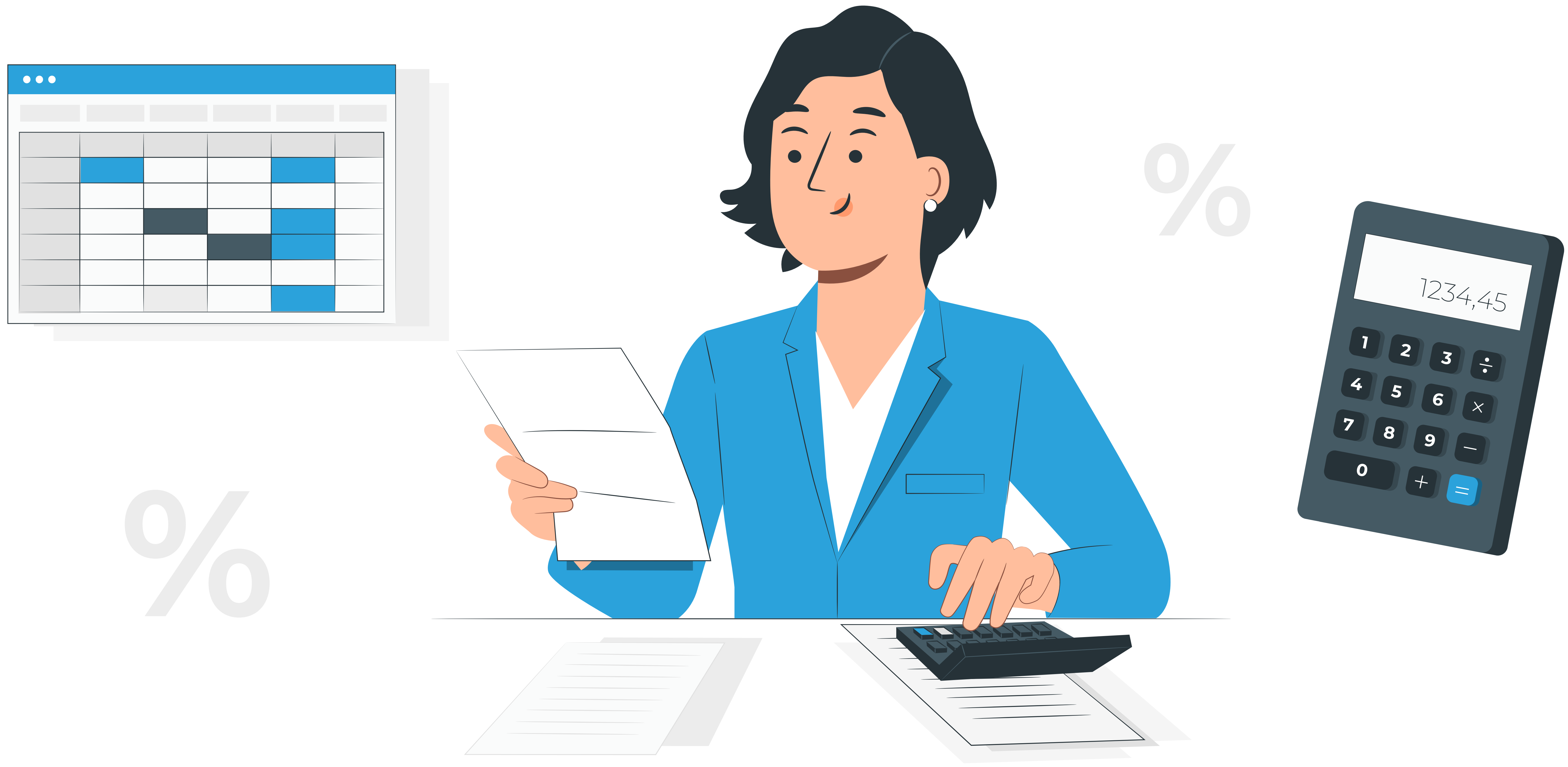
a) Calculate your Assets

But it is better to take into account the current investments that you may have. Write down all the assets and investments that you currently possess.

b) Consider your Debts

Also, determine any debts you currently have and any loans you have to pay back.

This will help you calculate your net worth. You can make a better plan if you know your current situation better.



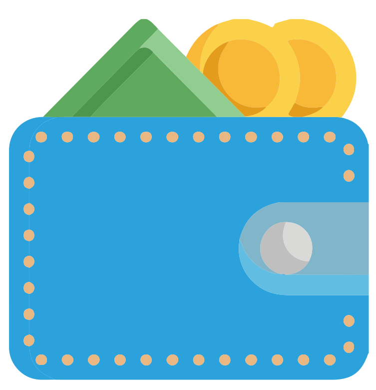
4. How much Emergency Funds have you Maintained?

It is necessary that you maintain an emergency fund along with your financial plan. A financial plan is not just for your investments but should help you with savings as well .

Emergency fund basics

What it is:

Money set aside for unexpected expences



Why it's important:

Keeps you from having to borrow money

How Much to save:

3 to 6 months' expenses

Where to keep it:

A high-yield savings account

It is advised that you should have at least 6 months of your salary as your emergency fund.

Having an emergency fund will help you in your time of need so that you do not have to withdraw from your investments.

5. People Dependent on you

This is one of the biggest factors to consider. Assess how many people are financially dependent on you before making a financial plan. These could be your wife, kids, or even your parents. Include them in your financial plan as well.

6. Details of your Insurance

Insurance protects you in case something unexpected happens. You need to take care of yourself first. Only then can you take care of your financial plan. Life and health insurance are a must, especially after COVID.

Why should you have life and health insurance?

Life insurance makes sure that your family stays protected financially, even if you are not present with them.

Health insurance will take care of your medical expenses. This ensures you do not have to bear huge medical costs if you fall ill. Thus, having insurance is a vital prerequisite to any plan.

7. Interest Rates/Inflation

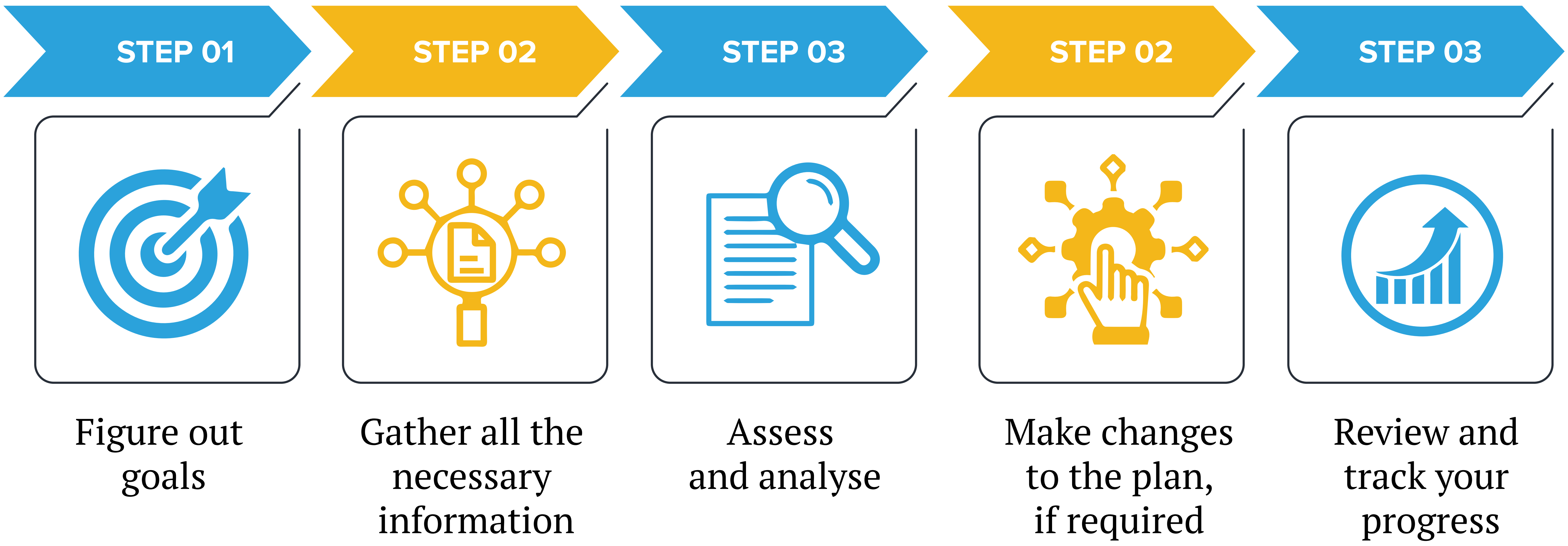
Take note of the interest rate prevailing before constructing a plan. Interest rates, along with inflation, determine your return from investments.

A high inflation rate results in an increase in the prices of commodities. Factor in the inflation rate while creating a financial plan to make sure your sum isn't short of your needs.

How to Create your Financial Plan?

Now you know what a financial plan is, the next step will be to actually create one. Here is a step-by-step process that will help you create your own financial plan.

Process of Getting your Finances Organised



1. Assess your Present Financial Situation

As discussed above, the first step to creating a financial plan is to assess your current situation. You cannot decide where you want to go unless you know where you are right now.

Financial planning is very flexible. It varies with different people. The type of plan that suits you will depend on your present situation. Make sure you assess the following and base your financial plan on these parameters:

a) Your current expenditures (daily expenses, rent, telephone/electricity bills, etc.)
b) Assets that you own (land, buildings, cars, bank accounts, etc.)
c) Liabilities you possess (debts, loans taken, EMI's)
d) Family members (the number of members in your family who are dependent on you financially)
e) Income (the amount you currently earn, your prospects, and your job security)

2. Identify your Financial Goals

Now that you are over with the first step and have assessed your current situation, the next step is identifying what do you want to achieve with this plan.

It is important that you set a goal that you want to attain. There can be many goals that you may want to achieve, but it is important to prioritize and organize your goals and take them one at a time. The more focused are you on your goal, the better your financial plan can be.

3. Plan for Contingencies

This is also an important part of your financial plan. Contingency planning refers to planning for emergency and unexpected happenings. Having a contingency fund by your side will act as a safety cushion that you can rely upon. Emergencies can occur at any time, and if you haven't planned for them in advance, then they can hit you and your plan hard. This makes sure that you do not have to tap into your investments when a serious cash crunch comes your way.

Here are the steps you can take.

a) Buy a Term Cover
b) Buy a Health Cover
c) Build your emergency fund

- Ensure investment in liquid and stable investments
- Maintain 6-9 months salary in this fund

4. Retirement Plan is Important

One important milestone that you may want to achieve will be a successful retirement. After retirement, you no longer receive your income. With all the relaxation, there are certain questions that crop up.

- Will your corpus be enough to take you through your retirement?
- How will you manage your finances?
- Will your health insurance be valid?

To ensure that your post-retirement life is stress-free, it is important to do retirement planning. It will ensure that you do not have to depend on anybody, even after retirement.

You could use the following steps while making a retirement plan:

- Decide how much income you require to live comfortably in your post-retirement years.

- Calculate the amount to be received in a lump sum (terminal benefits) at the time of retirement.
- Select the right retirement plan that enables you to meet your post-retirement requirements.
- Start investing very early so that you have time on your side and can enjoy the power of compounding.

5. Create an Investment Plan

The quality of your investments will ultimately determine whether or not you will be able to achieve your goal. Investment planning is a major part of your financial plan.

There are a number of investment options available in India. Each differs in its objective, duration, and return.

Appropriate investment planning needs to be done so that you can choose an investment that best fits your preferences and goals.

6. Legacy Planning

You work hard all your life and try to build long-term assets. You would like to make sure your family gets the best of these assets after you are gone. This can be done through legacy planning. Legacy planning is the process through which you will be able to pass your assets to your loved ones so that your legacy is forwarded to future generations.

A good financial plan must take into account legacy goals as well. What if you have achieved your goals and want to pass on your financial legacy to the next generation? To do this effectively, legacy planning must be done.

This should be done well in advance so that you are the one who gets to decide how your things will be passed on and not anyone else. Here are the steps you can follow:
- Make a 'Will' for yourself.
- In your policies, name and update beneficiaries/nominees. These are the people who will receive the benefits after you die under your policy.
- Legal heirs should be included.
-Talk to a professional regarding estate planning.

7. Tax Planning

Tax planning can help you reduce your tax liabilities. A good tax plan will not only reduce your tax outflow for the years of investment but also for the years of withdrawals. Tax planning includes the following:

a. Appropriate and adequate use of tax-saving investments
b.Tax savings while transferring assets.
c. Tax savings on salary or income receipts.
d. Income transfer to other family members with minimal tax conse quences.
e. Tax-free retirement income
f. Other modes of reducing direct tax outflow, e.g., medical expenses, charity, etc.

The majority of tax-savings investments are long-term investments. So, the best way to ensure maximum tax saving is to use the tax-saving investments to invest in long-term goals. However, you should pay attention to their EEE status before investing.

EEE investments are those investments that offer maximum tax exemption, i.e., the invested amount, accrued interest, and maturity amounts are all exempt.

For example, using child plans for the child's higher education and marriage goals - a mix of ULIP, EPF, NPS, and PPF for retirement goals.

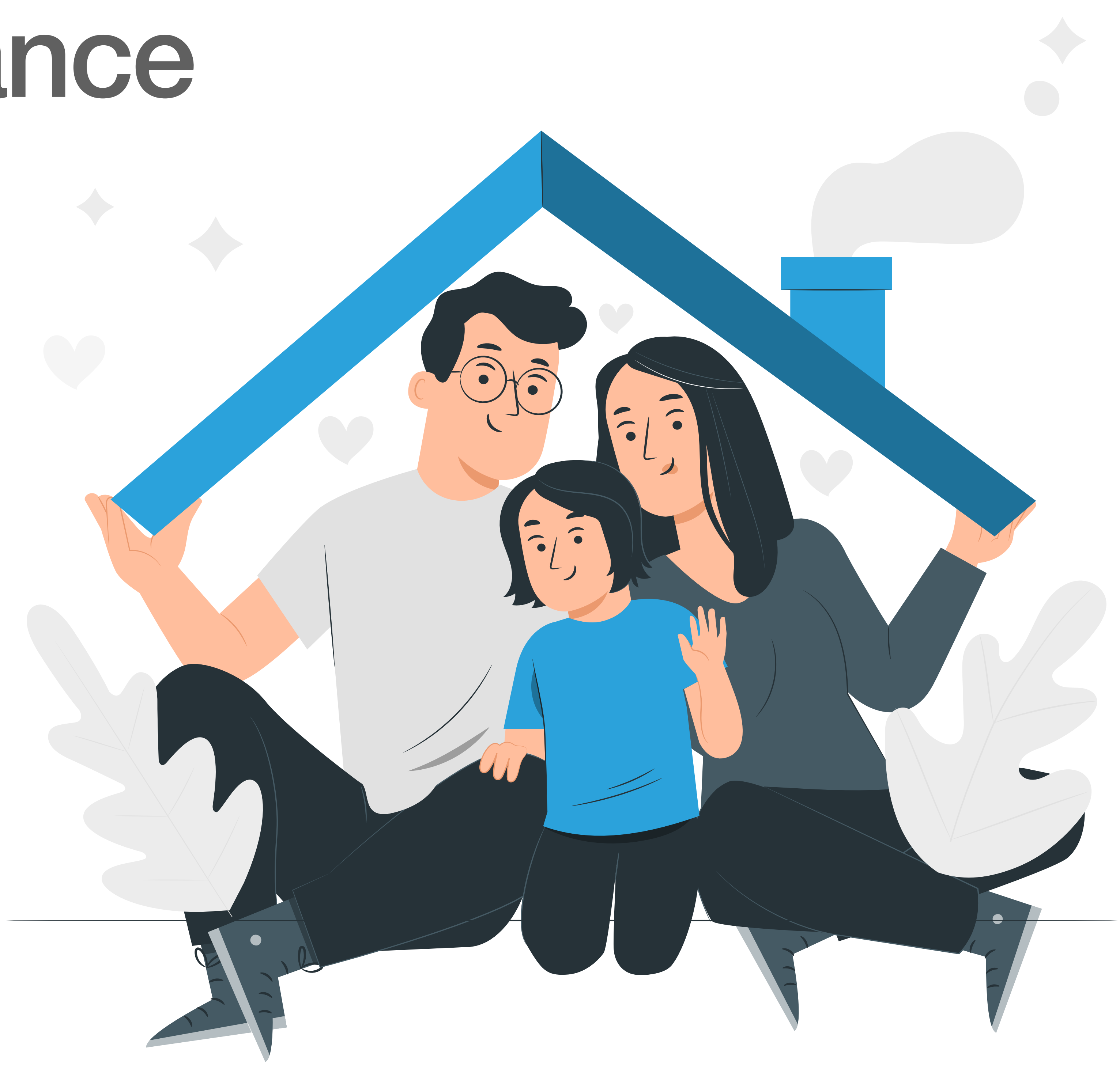
How do Life Insurance Plans Help in Financial Planning?

Life insurance plans are quite useful investments when it comes to long-term goals. The majority of life insurance plans are grounded in one of your financial needs or goals. For example, have a look at the following list:

- Financial Safety Need for the Family: Term Life and Critical Health Insurance Plans
- Saving for Child's Future: Child endowment plans or ULIPs with premium protection option
- Saving for Your Retirement: ULIP plans and Guaranteed Savings Plans to build the corpus before you retire
- Build Reliable Pension After Retirement: Annuity and pension plans like Guaranteed Pension4Life, Smart Lifelong Plan from Canara HSBC Oriental Bank of Commerce Life Insurance.
- Retirement Safety for Spouse: You can hold the life insurance annuity plans jointly. This helps the surviving spouse to continue receiving a pension after your demise without the hassles of withdrawal and reinvestment.

Importance of Life Insurance in Financial Planning

Life insurance policy is a contract between a policyholder and the insurer. In case of death of the policyholder, the benefits are paid out to the nominees of the plan. Hence, including a life insurance in your financial planning boosts your financial strength.



Here are five reasons you should buy a life insurance plan

- Provides protection in case of unforeseen circumstances
- Helps you in building wealth and offers liquidity
- Assists you in fulfilling your needs at the right time
- Builds the habit of disciplined savings that helps you during retirement years
- Offers tax benefits under Income Tax Act, India

Two of the most important reasons for using life insurance plans for your "important long-term financial goals" are that they offer:

- The required financial security to achieve the goal in the face of unforeseen events
- The maximum tax savings at the time of investment and maturity or withdrawal is

Financial Planning is 360 Degrees

Financial planning is an exercise of financial utility and a 360-degree view of your financial life. However dynamic, everyone with an income and dependents should create a comprehensive financial plan at least once in their lives. Comprehensive planning will result in a broad document detailing the roadmap of your whole financial journey.

Once created, you can continue to modify the plan as your life and finances evolve. Ideally, you should look back at your plan and modify the numbers every 12 months or after a major life event. Important life events like childbirth, exponential income growth, big liabilities like home loans, etc., have a long-term impact on your financial plan.

So, it makes sense to review your comprehensive plan regularly and modify the numbers as your life evolves.

Canara HSBC LIFE INSURANCE