INTRODUCTION TO WEALTH MANAGEMENT (B COM INVESTMENT MANAGEMENT) // SEMESTER 2// FIRST HALF 2018// Q.P CODE NO: 35056

Q1A.

1.Wealth Management

2.Premium waiver

3. equity

4. Preference holders

5. paid up value

6. Deferred

7. 150000

8. will

9. longevity

10.Regulatory

Q1B.

1.FALSE

2.TRUE

3.TRUE

4.TRUE

5.FALSE

6.FALSE

7. TRUE

8. FALSE

9. TRUE

10. FALSE

Q2.

A. **Venture capital:** It is a type of private equity that is provided to small, early stage, emerging forms that are deemed to have high growth potential. Venture capital firms invests in this early stage companies in exchange for equity (and ownership stake) in the companies they invest in venture capitalist takes on the risk on financing risky start-ups in the hopes that the firms they support become successful. The start-ups are usually based on an innovative technology or business models and they are usually from high technology industries such as IT, Social Media or bio-technology. Venture capitalist provides funding to the company selling shares in public for the first time in an IPO and also to the companies going for merger and acquisitions. They also provide strategic advice to the firms executives on its business models and marketing strategies.

HUMAN CAPITAL:

Human Capital is term popularised by Gary Becker an economist from university of Chicago that refers to the stock of knowledge, habits, social and personality attributes including creativity in the ability to perform labour so as to produce economic value. Human Capital is the collection of resources. All the knowledge, talents, skills, experiences, intelligence, training, judgement and wisdom possessed individually and collectively by individuals in a populations. This resources are the total capacity of the people that represents a form of wealth which can be directive to accomplish the goals of a nation or state, of company thereof. Much more attention was paid to factors that lead to success v/s failure when Human management was concerned. The role of leadership, talent was explored. An organisation is often said to only be as good as its people directors, employers and leaders that make up an organisation's human capital are critical to its success. Human capital is typically managed by an organisation's HCM (Human Capital Management) Department. It includes work force planning and strategy, recruitment, employee training and development, reporting and analytics. Companies that utilise Human capital out perform their peers.

B. **ROLE OF DEBT IN WEALTH MANAGEMENT:**

Investors benefit by investing in debt as they preserve and increase their invested capital and ensure the receipt of regular interest income. Returns from debt instruments are reasonable predictable.

Investors can even neutralize the default risk on their investments by investing in government Securities, which are normally referred to as risk-free investments due to the sovereign guarantee on these instruments. One of the key benefits of fixed income instruments is low risk i.e. the relative safety of principal and a predictable rate of return (yield). If the risk-tolerance level of the investor is low, fixed-income investments might suit the investment needs better.

The prices of debt securities display a lower average volatility as compared to the prices of other financial securities and ensure greater safety of accompanying investments.

Debt securities enable wide-based and efficient portfolio diversification and thus assist in portfolio risk mitigation.

OR

P. Wealth management is a high level professional service that combines financial and investment advice, accounting and tax services retirement planning and estate planning for one set of fee. Client work with single wealth manager who co-ordinates with financial experts. Some wealth manager also provide banking service or advice activities. WM (Wealth Management) is more than just investment advice, as it can encompass all parts of a person's financial life. HNI (High Net Worth Individuals. individuals benefits from this holistic approach in which a single manager co-ordinate all the services needed to manage their money and plan for their own or their family's current and future needs.

Wealth management combines both financial planning and financial services including estate planning, tax planning, retirement planning, insurance planning and investment planning services.

WEALTH MANAGEMENT PHASES:

As you move through life, your goals, needs and priorities evolve. Early in your career you focus on accumulating assets than preserving the wealth you accumulated and once you put your working years behind, you call for a careful distribution of your wealth. Hence wealth Management is divided into three different phases:

(1) Accumulation (your working years):

Age: 25-50 years.

As you work towards future milestones your investment should be positioned to help, support your long term goals working within the appropriate time frame and risk levels. Allocate a portion of your portfolio to move aggressive, growth oriented investments to hold for a longer period in addition to making sure that your plan is equipped to meet your future needs, structure your investments to help you to generate appropriate funds for your current pursuits.

(2) Preservation (Nearing Retirement):

Age: 50-60 years.

As you close in on certain long term goals, plan to help yourself provide increased stability and predictability, helping to minimise the effects of short-term market fluctuations your portfolio should be allocated towards low risk investments, designed to reduce volatility and protect against inflation and taxes. Also het the insurance alternatives in order to protect against unexpected loss.

(3) Distribution Retirement:

Age: 60 and above.

Careful planning is essential to make sure your hard earned wealth last throughout your lifetime and beyond. Your objectives many range from receiving a lasting stream of income to gifting assets to your loved ones and eventually living behind a legacy. Estate planning is dome in the phase of distribution to ensure that your wishes are fulfilled.

Q. DISTINGUISH BETWEEN EQUITY AND DEBT AS AN ASSET CLASS:

Equity	Debt
(1) Meaning	
Funds raised by company by issuing shares is known as "EQUITY".	Funds owned by company towards another company is known as "DEBT".
(2) Status:	
Investing in Equity makes you a shareholders who are the capital of the company.	Investing in debt makes you a Debt holders who are the capital of the company.
(3) Returns	
Equity returns as an asset class gives you in the form of DIVIDEND.	Debt returns as an asset class gives you in the form of INTEREST.
(4) Rate of Return	
Equity as an asset class gives capital returns depending upon the market.	Debt as an asset class gives capital rate of returns as promised by the company.
(5) Risk	
Investing in equity is riskier as compared to debt.	Debt investment is less risky compared to equity.
(6) Voting Rights	
Equity investors has the voting rights in the company.	Debt holders does not hold voting rights in the company.
(7) Constitution/Types	
Equity as an asset class is further divided into various instruments such as preference shares and equity share.	Debt as an asset class consists of various instrument such as Bonds and Debentures.
(8) Term	
Equity as an asset is for a long term investment.	Debt is comparatively for short term investment.
(9) Co-lateral	
Equity investments in shares cannot be used as collateral to get loans from bank.	Debt investments are Helpful to get secure loans by keeping bonds or debentures as collateral.

Q3A.

i) Endowment policy

ii) Life insurance policy

(explanation at the discretion of paper checker)

Q3B.i) **Death claim = S.A. + Accrued Bonus – Unpaid Premium – Outstanding loan.**

= 250000 + (25* 250* 20) -0-0

=375000

Q3B ii) **Accident Rider:** 100% of the rider sumasscured is payable on death due to accident along with basic sum asscured.

Critical Illness Rider: Rider sumAsscured is immediately payable to the policyholder when he is detected with the major illnesses such as organ transplant, Paralysis, Heart attack, Bypass, Cancer.

Premium Waiver: It waives the policyholder's obligation to pay future premiums when he or the becomes seriously ill on disabled. In such cases companies pays on behalf of policy holder.

Income Benefit Rider: It takes care of yearly needs of maintance of the child till the benefit of the policy is given at the time of maturity. In case of death of holder during the term a fixed percentage of rider SA is paid to the nominee on each policy year till the maturity.

OR

Q3P. MOTOR INSURANCE:

Motor insurance is one of the largest non life insurance business in the world. This is because it is statutorily mandated in most parts of the world. All motor vehicles are required to be registered with the road transport authorities and insured for third party liability. The basic premise is that the motor vehicles could either cause injury or be a subject of damage and injury, and thus require insurance. The motor vehicle act of 1939 introduced compulsory insurance to take care of those who may get injured in an accident. The insurance of damage to the vehicle is not mandatory.

In the US, every state has a separate insurance requirement that the driver of the motor vehicle has to comply with. In India the Tariffs advisory committee regulates this business.

(a) Any liability arising in respect of death or bodily injury to any person including the owner of the vehicle or his authorized person in the carriage.

(b) Any liability incurred in respect of damage to any property of third party.

(c) Liability incurred in respect of the death o r bodily injury of any passenger of a public service vehicle.

(d) Liability arising under Workman's Compensation Act, in respect of injury or death of:

- A paid driver of the vehicle.
- Conductor or ticket examiner.
- Workers carried in a goods vehicle.

(e) Liability for bodily injury or death of passengers who are carried for reward or hire by reason of a contract of employment.

(f) The policy should carry a 'no fault' liability limited to a sum of Rs. 50,000 in case of death, Rs. 25,000 in case of permanent disability and Rs. 6,000 in case of damage to property. No fault liability is based on the premise that the injured party/insured does not have to prove any fault in order to claim this amount under the policy.

Categories of vehicles:

The following categories of vehicles are covered under motor insurance policy:

(a) Private cars: Motor cycles and scooters.

(b) Commercial vehicles:

- Goods carrying vehicles.
- Passenger carrying vehicles: Auto rickshaws, Taxis, Buses.

(c) Miscellaneous vehicles: Hearses, Ambulances, Cinema vans/recording vans mobile utilities.

Q3Q.

i)Death claim = S.A. + Accrued Bonus – Unpaid Premium – Outstanding loan.

= 600000+ (60*600*15)-6000-60000

=1074000

ii) Reversionary Bonus: It is declared at the end of each policy year and is accumulated to be paid at the time of death claim or maturity.

Terminal Bonus: Terminal Bonus indicated overall performance of policy and is given on policy after staying in policy for predetermined time period. It is payable on maturity or death of policyholders.

Surrender Value: [It is the amount, the policyholder will get from the life Insurance company if he decided to exit the policy before maturity %]. [To calculate surrender Value first we need to calculate paid up value of the policy which gives us the revised sum assured. Then with the help of SV factor we can calculate the amount of surrender value of policy.]

There is no maturity value surrender value in case of term insurance plan.

Paid up Value: Paid up value is the annual benefit that the policy owners shall get if he stops paying his premiums post first five years. However, it is not applicable in unit linked Insurance plan.

Q4. A. **Features of Gratuity:**

(1) Gratuity is one of the defined benefit plans which is given to an employee only after he has completed 5 years of continuous service.

(2) Payment of Gratuity Act, 1972: This Act provides payment of gratuity to an employee employed in every factory, shop and institutions employing 10 or more persons on any day of a year.

(3) The Act shall continued to be governed even if the no. of persons employed falls below 10 at further stage.

(4) All the employees irrespective of status or salary are eligible for gratuity on completion of 5 years of service.

(5) In case of death or disablement there is no such minimum period.

→ **Calculation of Gratuity for POGA:**

$$\textbf{Gratuity} = \frac{15}{26} \times \textbf{last drawn salary} \times \textbf{No. of years of service.}$$

Where,

last drawn salary = Basic + Dearness Allowance and No. of years should be taken or considered next year if it is more than 6 months. For e.g. If an employee has completed 20 years. 6 months and 11 days of his service then no. of year of service will be taken as 21 years.

→ **Taxability 10 (10 III)**

Gratuity can be provided of Higher Amount than what the Act Specifies. However the taxability of the same remains as follows:

Govt. Employees Leave Encashment: In case of government employees the entire amount of gratuity is exempted from tax.

Other Employees:

Gratuity received by an employee covered under POGA 1972 is exempted from the tax to the least of the following:

(i) According to formula.

(ii) `20 Lakhs of maximum exemption by govt.

Amount of Gratuity actually received.

Q4B A defined-benefit plan is a type of function plan in which an employer promises a specified pension payment or lumpsum amount on retirement. The benefit is usually payable on reaching the super annuation age or the retirement age. It is calculated using factor such as:

(i) Salary History

(ii) Duration of employment.

The company undertakes the control of investment risk and portfolio management. The name itself defines that benefits are provided completely by the employer without taking any contribution from the employees.

BENEFITS OF DEFINED-BENEFIT PLANS:

(1) **Gratuity** is one of the benefit which is given to an employee on completion of 5 years of service. All the employees irrespective of status or salary are eligible for gratuity. In case of death or disablement there is no such minimum period of 5 year of credit.

(2) **VRS:** Employees retire on their own before the retirement age. If the terms and conditions of early retirement are met voluntary retirement scheme provides a lumpsum amount to an employee by the employer. It is consider to be a golden hand-shake for an employee retiring early before reaching the superannuation age.

(3) **Leave Encashment** is a lumpsum amount paid by the employer to the employee for his untilize leaves. Leave encashment can be taken from more than one employer. Leave encashment is taken during the time of employment is taxable to employees.

(4) Workmen compensation: It is for the protection, of the interest of a worker. It protect the worker from the employer deciding to retrenchment some or all of his employees. The compensation is payable to the workman in accordance with the Industrial Dispute Act 1947.

OR

Q4P. **DEFINED CONTRIBUTION PLANS:**

It is one of the another method of providing retirement benefits to the employees of an organisation. In Defined-Contribution plan a certain amount of money is set as side each year by the company as well as a % of money is deducted from the employee's salary for the benefits of the employee. In case of defined contribution the risk associated is in link with the market. Defined contribution amount at the time of retirement is not fix and shall deny the accumulation of both the employee and the employer

ADVANTAGES OF DEFINED-CONTRIBUTION PLAN:

(1) Portability: The most obvious advantages of DC plan is portability since the contribution are directly paid into the individuals account which become easy for the employees to take out the accumulated fund when they change jobs.

(2) Immediate Vesting: In DC plan the employers contribution the individual account becomes the full property of the employ upon the payment as a result the employees immediate besting of the employer retirement contribution.

(3) Personal control: In DC plan the retirement funds for each employee is under the control of employee in their own individual account. As a result it ends up with a good benefit than a traditional DB plan.

(4) Fair Benefits: The contribution to the employees account immediately vest as property of the employee and the employee gets to keep the full returns earned by those contribution over the years rather than leaving them to others based on calculated percentage of final salary . It provides fair, undistorted benefits to the employ for the full value of contribution made by them.

Q4Q. Planning for retirement is a very involved process. One has to plan based on a forecast of things including the economy, your health and the life span. Following are the few factors that need to be considered while planning for retirement.

(i) Nature of Income: This can at times overwrite virtually all other factors when it comes to retirement planning, salaried, professionals, businessmen, workers fall under various income groups.

Doctors, lawyers and other high income professionals may be able to save away `2-3 lakhs a year whereas low income workers can hardly save `2000-3000 a year based on different income levels, goals and objectives are different for everyone, based on that retirement plan is made.

(ii) Standard of Living: Everyone has the tendency to follow the same habits which they have in pre-retirement period. Those who understand the value of saving are much more likely to make a huge retirement corpus. Bigger the retirement corpus, standard of living of a person tends to remain the same as of pre-retirement and the one who has not saved during the pre-

retirement phase has less retirement corpus to live with during post-retirement gradually decreasing the standard of living leaving aside the savings for medical needs.

(iii) Inflation in Accumulation: Inflation has an dual impact on your hard-earned savings. Inflation does not only erodes your current purchasing power but also magnifies monetary requirements for the future. For instance: if you are 30 year old and planning to retire at 60, the current expenditure of `3 lakhs per annum will increase every year at 4% (inflation rate) making a corpus of `2 crore at the time of retirement. Hence inflation should be controlled by planning a proper retirement plan which allows you to live the same standard of living.

(iv) Timing of savings: Remember it's never too late. If you start saving late make sure you are saving every penny you can in order to make up the lost time. This may mean taking on an extra job downsizing your hope and more keep in mind that it will be easier to sacrifice now compared to later.

(v) Liabilities nearing Retirement: Get out of the debt for good pay down all your debts and aim to be debt free by your retirement date or even sooner. Getting out of the debt early in life will make retirement planning a much smoother process. These is nothing more terrifying than having a significant drop in income because of retirement and having a mountain of bills to pay.

Q5.

A trust is a legal arrangement through which one person (or an institution, such as a bank or law firm), called a "trustee," holds legal title to property for another person, called a "beneficiary." The most common reason to form a trust is to avoid probate. Trusts involve three set of parties-a.the grantor, b. the trustees, c. the beneficiary. The trust is created when the grantor transfers assets to the trustees, who hold the asset in trust for the beneficiaries.

Different types of family Trust

A Family Trust is established for the benefit of a family group and usually established by one of the members in the family group. A Family Trust is also referred to as a Discretionary Trust. This means that any profit created in the trust can be distributed at the discretion of the trustee. This enables a Trustee to distribute the income of the Trust to members of the family with lower income levels to take advantage of the lower taxed thresholds.

Family Trust Type	**Main features of the Trust**	**Suitable for....**
Simple/Accumulation Trust	Beneficiaries have automatic rights to the asset and the income that maybe generated	This is the most common type of family trust. Suitable if you want to give your asset to your

	by the asset.	adult children.
Discretionary Trust	Trustees are in full control of the asset and are able to decide when and who to distribute some or all of the asset to.	Ideal if a family member wishes to hold funds in trust for young children, they can then decide to draw on the asset to pay for the beneficiaries education, lessons etc.
Interest in Possession	Beneficiaries receive all the interest or income made from the asset. The asset maybe left to someone else at a later date.	This fund is used typically when a property involved. The settlor (the person who originally owned the asset) may have passed away but has placed the house in trust, thus allowing their partner to receive rent from it or to live there, but once the partner has passed away the actual asset becomes the possession of another beneficiary, the children for example.
Accumulation and Maintenance	This trust is a discretionary trust which then turns into an interest in possession trust. In the early years, the trustees are in full control of the account, this changes usually once the beneficiaries have turned 18yrs for example.	Ideal for older family members such as grandparent's who set up this type of trust for their young grandchildren. The trustees remain in sole charge of the trust and are able to allocate the income generated from the fund to the beneficiaries. Once the beneficiaries have reached a specified age, usually between 18 and 25 years, the trust is converted into an interests in possession trust which allows the beneficiaries automatic rights to the income and asset.

Q5.B
Estate planning is the process of anticipating and arranging for the disposal of an estate during a person's life. It is the preparation of a plan of administration and disposition of
one's property before or after death, in the form of will, trusts, gifts, power of attorney, etc.
Estate planning typically attempts to eliminate uncertainties of legal process and maximize the value of the estate by reducing taxes and other expenses.

Risk and Drawback involved in Estate Planning

- An outdated Plan
- Overlooked Provision
- Improper tax planning
- Improper ownership of assets
- Failure for plan for Disability or last illness

OR

Q5 SHORT NOTES

(AT THE DISCRETION OF THE PAPER CHECKER)