INVESTMENT

Managing your ailing parents' portfolio

Start by creating a power of attorney and prepare a proper will to ensure a smooth financial transition

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PHOTO: THINKSTOCK

Having ailing parents at home can put a huge strain on your finances as well as being an emotional roller-coaster. What could be more unsettling, though, is to learn that they have not done what is necessary to ensure a smooth transition of their financial assets to their kith and kin. Simple things like having investments in joint names in 'either or survivor' mode or appointing nominees can be a big help. But this alone may not be enough at times.

Take the case of Ashish Sharma who had to seek help from a financial planner to set right his in-laws' finances. The in-laws had huge savings but their portfolio was in disarray. Sample this: about ₹1 crore was sitting in their savings bank accounts and another ₹1 crore was kept in fixed deposits of various banks. Their stock portfolio, which was in both their names, amounted to ₹4 crore.

According to Sharma, the funds in savings accounts were lying there for two years. The FDs were on auto renewal mode and no one had a clue about the interest they earned. The stocks were inherited from Sharma's grandfather-in-law and were never touched for the last 25 years.

The in-laws received a pension of ₹60,000 per month but spent just ₹15,000 monthly on medical expenses. This meant they were saving ₹45,000 per month which was again accumulating in the savings account.

The portfolio had to be rejigged so that the money lying in the banks as well as the stock could earn a better rate of return. Another issue that had to be remedied was the high tax the in-laws were paying since they fell in the highest tax bracket.

Fortunately, the in-laws had the good sense to put their monies in joint and 'either or survivor' accounts. Unfortunately, the required signatures could not be taken from the father-in-law, who was ailing with Parkinson's and was the first account holder.

The first step was to get a Power Of Attorney (PoA) for the ailing gentleman. This involved getting a notary home to supervise the thumb impression to be done on the PoA. Only once this was done, could any signatures be made by his wife, on his behalf, for all the investments.

PoAs can be used to operate bank and demat accounts. There could be situations when a physical share certificate taken at a young age does not match the current signature due to aging. A PoA will be necessary in these cases. You can use it to write to companies or registrars to transfer the shares in the name of other family members or to check for uncredited dividends. It is also necessary to carry out mutual fund investments.

This is how Sharma's in-law's portfolio was tweaked. First, the amount in the savings account and the fixed deposits was invested in a mix of debt funds and tax-free bonds. Since the money was not required in the immediate future, the corpus was invested in three-year fixed maturity plans, as well as long-term bond funds. Besides better returns, this could also result in substantial tax savings (*see table*).

DEBT MUTUAL FUNDS VS BANK FIXED DEPOSITS

	Investment of more than 3 years	
	Bank FD	Debt MF (Growth option)
Investment	1,00,00,000	1,00,00,000
Annualised net interest rate/yield*	8.5%	9%
Tenor	3 Years	3 Years
Maturity amount	1,27,72,900	1,29,50,300
Gain	27,72,900	29,50,300
Indexed cost **	–	1,19,10,160
Indexed gain	–	10,40,130
Applied tax rate	30.9%	20.6%
Post-tax gain	19,16,070	27,36,030
Post-tax annualised net interest rate/yield	5.87%	8.4%

Amounts in rupees *Reputed banks are offering 8.5% for FDs of 3-5 years.
**Cost of Inflation Index for FY 2014 is 939 and assumed increase of 6% going forward.

The underperforming stocks were weeded out and the amount from the sale was reinvested in some good stocks and mutual funds. No capital gains tax had to be paid on the sales since the stocks had been purchased many years ago.

Typically, senior citizens of over 70 are advised an asset allocation of 85:15 or 90:10 towards debt. In this case, however, the current asset allocation was retained, meaning debt investments were reinvested in better-performing debt instruments that gave better post-tax returns and the equity investments were changed from high-risk stocks to blue chips and good quality equity funds.

The bank accounts were consolidated from five to two accounts per person, with both as joint holders. The ECS payments for electricity, gas, mobile phones, etc were shifted to the account where the pension got credited. The seven fixed deposits were consolidated into one for emergency purposes. This also eased the process of physically visiting a bank branch, in case such a need arose.

Things to keep in mind

Here are a few general learnings that you can take home from this family:

1) Ailing parents will need your time to sort out their assets.

2) Check if all the documents are available, whether physical or soft copies, for bank accounts, fixed deposits, lockers, demat accounts, broking accounts, properties, jewellery, vehicles, insurance papers, art, personal effects, etc.

3) Take some time checking if all investments are in joint names, if nominees are in place and a Will has been prepared.

4) If they are ailing, get a PoA made for either parent to the other or in the child's name. The parents should be legally seen to have made this of their own free will in a sound and disposing state of mind, memory and understanding.

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