註冊財務策劃師協會
Society of Registered Financial Planners

"HONG KONG UNDERGRADUATE FINANCIAL PLANNERS OF THE YEAR AWARD 2018"
(香港傑出大學生財務策劃師比賽)

Case Study
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Note: Your report must be written in English and no more than 15 single-sided, single-spaced pages (font size: 12-point Times New Roman), including cover pages, tables, charts, diagrams, references and appendices. Please submit the electronic file of your excel spreadsheets, if any, with your report.

Case Study

Family at a cross road

Linda Cheng was married to Victor Jin in the 1990s. The couple raised a family with two sons who are now aged 23 and 20 respectively. Linda has been working in an NGO since her graduation from the University of Commonwealth in 1991. Her career in the NGO has been smooth and she was promoted as the Executive Director of the NGO since 2014. According to her employment contract with the NGO, Linda's current pay is $120,000 per month with no allowance or year-end bonus.

As a female executive, Linda has been maintaining her financial affairs on her own. Except for the Happy Valley home which Linda and Victor bought jointly some 30 years ago, she has kept most of her assets in her own name. The couple bought their home for $400,000 with a mortgage loan, which was paid off 10 years ago. The property is now worth around $15M. Linda has been so busy with her work such that she has no time to invest in stocks, bonds or investment funds but primarily kept her savings in time deposits. Over the years, Linda has been saving about one-third of her income in deposits, which have now grown to around $10M.

The Jin family maintains a low profile lifestyle. They do not own any cars and do not usually dine out in expensive restaurants. Except when Victor travels, the family usually eat supper at home, prepared by the Pilipino maid whom has served the family for over 10 years. Their living expenses are around $20,000 per month, including food, lunches and transportation. The monthly pay for the maid is $4,500 and the management fee and utilities for the property where they live is $4,000 per month. Linda is not a fashion lover, but she has to wear high-end executive suits for work. She usually allows herself an annual budget of $60,000 to spend on fashion and accessories, as well as outfit improvement. The family may occasionally entertain relatives and friends visiting from overseas, which they usually pay for dinner and pocket money. On average, they spend around $30,000 per year on this. Linda owns a membership at the Blue Ocean Club, which she bought many years ago and the monthly due on the membership is

$1,500. The family will also go for vacation once a year, spending around $12,000 per person.

Linda’s elder son Michael is currently pursuing a master degree in Material Science at the University of Champion in the UK. Michael is a top student and was encouraged by his mentor to develop an academic career in the research of an antimagnetic material for applications in space exploration. Michael has obtained a few young scientist awards and his academic excellence has won himself several scholarships, which have paid for his tuition and living expenses since he moved to the UK three years ago.

Linda’s younger son Edward has turned 20 this summer. His character is totally different from Michael as he is a happy youngster, spending most of his time playing Internet games. Edward loves pop music and care little about his academic performance. He only managed to achieve 2 passes in the DSE exam in 2016. As choices were limited, he was admitted to the Visual Arts program as an associate degree student in the East Asia College. Edward has expressed strong interest in pursuing a career in performing arts after leaving college. Linda understands that Edward’s endeavors would be a bumpy road for him, with tremendous hardship and uncertainties. Edward has plans to apply for the Hong Kong Academy for Performing Arts, which costs around $48,000 per year. Given Edward’s academic result and his family financial position, Edward is unlikely to qualify for any scholarship or financial aid. Moreover, it will be unlikely for Edward to earn a living on his own in the next 4 years and Linda expects that Edward would require family support of $3,000 per month.

Deep in Linda’s mind, the biggest worry is her husband’s financial situation. Victor used to work for a leading international software company but was laid off during the 2008 financial crisis. Since then, he has been running a small furniture business with manufacturing facilities in Mainland China. Victor was an excellent sales person when he worked for the software company. He was paid good perks and incentives, and was given large budgets to spend on travelling and entertainment. He travelled on business class and stayed in 5-star hotels on business trips and was given handsome budgets to entertain clients in China. Since his departure from the software company, he has been able to leverage on his relationship with his former clients to start a small furniture business. As Victor's customers are mostly his former clients, he need to continue to entertain them the way it was. To make things worse, he has to travel on business class to demonstrate that he is still well-off after leaving his former employer. Without a deep pocket as the software company, Victor soon find himself struggling with large travelling and entertainment bills which he has to absorb himself. Meanwhile, the furniture industry has been very competitive with a relatively low entry barrier. The gross margin has been falling from 30% five years ago to less than 15% in the last two years. In the early days, Victor has been able to maintain a small profit on his business but as competition intensified and profit margin squeezed, he started to feel the competitive pressure. In the beginning, Victor managed to overcome the stretch on working capital through his own personal savings as well as borrowings from micro-finance operators. However, he has to bear interest at 15% per annum on such borrowings. As a result, his business has been losing money since 2015 with tight working capital. Victor has borrowed $1.5M from micro-finance for his business up to July 2018 with an installment payment of $100,000 per month while his credit card was overdrawn by $360,000, with a minimum repayment of $30,000 per month. The credit card charges an effective interest rate of 25% per annum. He could barely stay liquid with his $500,000 deposit in the bank.

Given the tight financial position of his furniture business, Victor has been very depressed lately. He used to contribute $50,000 to family expenses but discontinued since the beginning of 2017. He mentioned to Linda that the situation should be temporary and things will get better within one year. However, things got from bad to worse as time went by. The recent trade war between the US and China aggravated the slowdown of the Chinese economy as many companies put their expansion plans on hold. Victor received many calls from clients to cancel their orders due to uncertain economic conditions. He has no choice but to lay-off half of his workforce to 30 to save working capital but he figured that he could not reduce further, otherwise he would be forced out of business. Victor is facing a tough decision as to whether he should continue finance the business or let go and close down. No matter which decision he makes, he still has to come up with a plan to pay-off his liabilities. He is reluctant to ask Linda for help as he thought that he owed her too much. She has been supporting the whole family in the last 10 years and raised the kids while he operates the furniture business.

Linda’s mother Eva is aged 70, in good health and lives in her own place. Linda gives $5,000 to Eva every month to support her living expenses. Her father passed away 3 years ago at the age of 74. Victor’s parents emigrated to Vancouver 10 years ago and currently live with his younger brother, thus they do not need Victor’s financial support. He only gives them red packets during Chinese New Year for a nominal sum.

Linda recently read from the news that the government will launch a public annuity plan (see Annex 1). She wasn’t sure if she should buy the insurance product in the name of Eva so that she would receive a monthly payout, which would reduce her contribution to her living expenses every month.

Linda’s employer does not offer term life or medical insurance as employee benefits. Therefore, she purchased term life and medical insurance to cover her family members. The life insurance has a term of 15 years with a policy amount of $3M with a monthly premium of $2,500. As for medical insurance, Linda purchased a comprehensive medical insurance with a complete combination of services including inpatient, dental and outpatient benefits. This insurance costs $72,000 per year, and includes 100% reimbursement on medical treatment and inpatient services and 80% reimbursement on outpatient services with a maximum annual limit of $500,000 per person in hospital and surgical benefits and $3,000 per person in dental benefits.

Linda’s current employment contract with the NGO will expire in 2023 by which time she would have reached the age of 55. As the funding of the NGO largely depends on the subvention given by the government, she was not certain about the future extension of her employment. In fact, the political noise against providing further subvention on the NGO has been growing and Linda felt that it would be a good idea to choose to retire in 2023. Her present MPF assets were worth $1.5M, and she estimates that the balance would grow to $2.0M by the time she retires. Given her current savings in the bank and the MPF assets, Linda believes that she should be able to maintain the same living standard if not worsened, after her retirement.

Michael recently returned to Hong Kong for a short vacation. His visit not only gives the Jins a happy reunion, the family members also want to take the opportunity to discuss the future of Victor's furniture business and decide the best options going forward. They have approached you as a professional financial planner to join their dinner gathering on 31 August 2018 to provide some advice. The biggest debate is whether Victor should continue to operate his furniture business with the financial support from Linda (see Annex 2). If Linda wants to retire in 2023, would she be able to maintain a decent lifestyle after her retirement. Lastly, she would want some guidance on whether she should help her mother Eva to purchase the public annuity plan and how much.

Question:

Please analyze the financial situation of the Jin family and provide a comprehensive financial plan to address Linda's concerns and her financial goals.

Notes:

1. All dollars represent Hong Kong dollars.
2. Please assume the male and female life expectancy to be 78 and 87 respectively.
3. Linda's risk profile indicates that she can tolerate medium investment risk.
4. Please make appropriate assumptions on economic growth rate, inflation rate, risk-free rate, prime interest rate, deposit rate and bank borrowing rate, etc.

Annex 1

Product Feature Overview

Eligibility Criteria	1) Holding a valid Hong Kong Permanent Identity Card; and 2) Being 65 years old or above
Policy Currency	Hong Kong Dollars
Benefit Term / Income Period	Whole of Life
Premium Term	Single Premium
Minimum Premium	HK$50,000
Maximum Premium	HK$1,000,000 (lifetime aggregate amount per insured for annuity products underwritten by the HKMCA)
Guaranteed Period	• The period commencing from the premium start date of the policy during which guaranteed monthly annuity payments will be paid subject to the policy terms until the cumulative guaranteed monthly annuity payments paid reaches 105% of the premium paid • In the unfortunate event that the insured passes away within the Guaranteed Period, designated beneficiary(ies) can (1) continue to receive the remaining unpaid guaranteed monthly annuity payments until the cumulative guaranteed monthly annuity payments received reaches 105% of the premium paid; or (2) receive a lump sum equivalent to the guaranteed cash value of the policy at that time (may result in a financial loss) • There is no death benefit after the Guaranteed Period
Surrender Value	• The policy can be surrendered within the Guaranteed Period up to the surrender value equivalent to the guaranteed cash value of the policy as at the time of the surrender (may result in a financial loss) • There is no surrender value after the Guaranteed Period (The Plan is a long-term insurance plan. Early surrender may incur a loss. The insured should reserve sufficient funds)

Annex 2

VICTOR"S FURNITURE

BALANCE SHEET
AS AT 31 JULY 2018

	2018	2017
	HK$	HK$
NON-CURRENT ASSETS		
Plant and equipment	1,123,611	1,362,326
Deferred assets	300,230	325,760
	1,423,841	1,688,086
CURRENT ASSETS		
Accounts receivable	1,224,309	792,633
Inventory	943,136	238,781
Bank balances	59,825	157,358
	2,227,270	1,188,772
CURRENT LIABILITIES		
Accounts payable	3,538,085	1,697,490
Short term borrowings	1,500,000	500,000
Amount due to shareholders	301,549	230,000
	(5,339,634)	(2,427,490)
NET CURRENT LIABILITIES	(3,112,364)	(1,238,718)
NET ASSETS	(1,688,523)	449,368
Financed by:		
SHARE CAPITAL	3,600,000	3,600,000
ACCUMULATED LOSS	(5,288,523)	(3,150,632)
SHAREHOLDER'S (DEFICIT)/EQUITY	(1,688,523)	449,368

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 JULY 2018

	2018	2017
	HK$	HK$
REVENUE		
Furniture	5,093,641	14,889,362
Parts and service income	267,664	598,461
	5,361,305	15,487,823
COST OF SALES	(4,717,665)	(13,329,450)
GROSS PROFIT	643,640	2,158,373
OPERATING EXPENSES		
Marketing and sales expenses	1,019,126	1,867,562
Administrative expenses	1,106,193	1,459,961
Interest expense	656,212	187,562
	2,781,531	3,515,085
NET LOSS FOR THE PERIOD/YEAR	(2,137,891)	(1,356,712)