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

“HONG KONG UNDERGRADUATE FINANCIAL PLANNERS OF THE YEAR AWARD 2023”

(香港傑出大學生財務策劃師比賽 2023)

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

Emily Chan (25) is a university student living in Hong Kong. She comes from a middle-class family, with her parents, David (50) and Alice (42). David works as a bank manager, while Alice is a teacher. The aggregate family income is around $1,200,000 per year. Emily is a single child, thus she is her parent's pride and joy.

Hong Kong, like many other world class cities, has been facing a significant challenge with its aging population. The proportion of people aged 65 and above is projected to increase substantially in the coming years. Such demographic shift raises concerns about the sustainability of retirement funds and the overall economic well-being of the elderly.

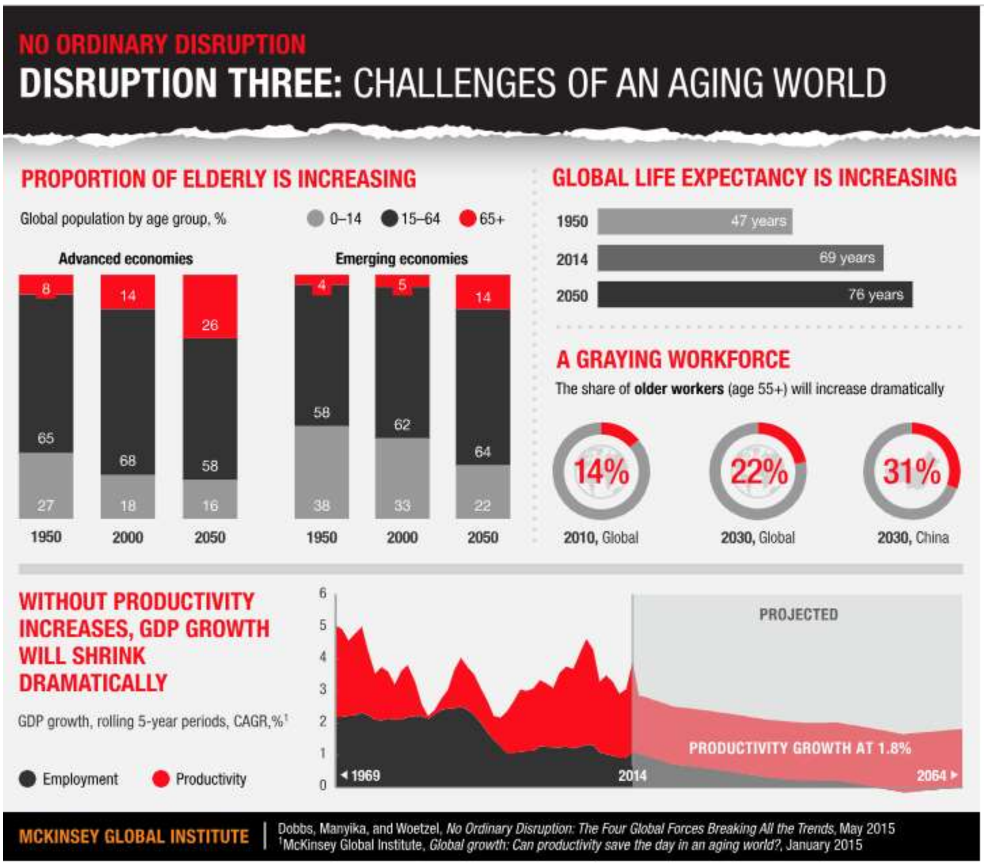
Emily recently came across a report from McKinsey on the global issues of an aging population. After reading the insightful report, Emily understands that the aging population has far-reaching implications for individuals, families, and society as a whole. As people live longer, they require more financial resources to support their retirement spendings as well as maintaining a comfortable lifestyle. Therefore, she recognizes the need to start saving early to alleviate the financial burden for her parents and to secure her own future well-being.

The following is an extract of the Mckinsey report from her own notes.

Quote

The human population is getting older. Fertility is falling, and the world's population is graying dramatically. While aging has been evident in developed economies for some time—Japan and Russia have seen their populations decline over the past few years—the demographic deficit is now spreading to China and soon will reach Latin America. For the first time in human history, aging could mean that the planet's population will plateau in most of the world.

Thirty years ago, only a small share of the global population lived in the few countries with fertility rates substantially below those needed to replace each generation—2.1 children per woman. But by 2013, about 60 percent of the world's population lived in countries with fertility rates below the replacement rate. This is a sea change. The European Commission expects that by 2060, Germany's population will shrink by one-fifth, and the number of people of working age will fall from 54 million in 2010 to 36 million in 2060, a level that is forecast to be less than France's. China's labor force peaked in 2012, due to income-driven demographic trends. In Thailand, the fertility rate has fallen from 5 in the 1970s to 1.4 today. A smaller workforce will place a greater onus on productivity for driving growth and may cause us to rethink the economy's potential. Caring for large numbers of elderly people will put severe pressure on government finances.



McKinsey Health Institute - The four global forces breaking all the trends:
https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/the-four-global-forces-breaking-all-the-trends

Understanding the importance of preparing for the future, Emily has developed an interest in financial planning and sustainable investing. She acknowledges that addressing the aging problem requires innovative solutions that would embrace environmental, social, and governance (ESG) factors. She also realize that her parents have not taken steps on any retirement planning at all, including the purchase of any insurance or annuity plans, as well as the reverse mortgage scheme introduced by the Hong Kong Mortgage Corporation. The aggregate savings of the family is around $5,000,000, all of which are kept in time deposits earning 4% per annum. The family lives in their own property which is worth $9,000,000 with no mortgage loans.

Emily dives deeper into the concept of ESG investing and its potential to deliver both financial returns and positive social and environmental impacts. She then discovers that the Paris Agreement, a landmark international climate accord, plays a crucial role in driving sustainability efforts worldwide.

Some key elements of the Paris Agreement are extracted as follows:

1. ***Mitigation: reducing emissions***

   Government agreed

   - *a long-term goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels;*

- *to aim to limit the increase to 1.5°C, since this would significantly reduce risks and the impacts of climate change;*
- *on the need for global emissions to peak as soon as possible, recognising that this will take longer for developing countries;*
- *to undertake rapid reductions thereafter in accordance with the best available science, so as to achieve a balance between emissions and removals in the second half of the century.*

As a contribution to the objectives of the agreement, countries have submitted comprehensive national climate action plans (nationally determined contributions, NDCs). These are not yet enough to reach the agreed temperature objectives, but the agreement traces the way to further action.

2. Transparency and global stocktake

Governments agreed to

- *come together every 5 years to assess the collective progress towards the long-term goals and inform Parties in updating and enhancing their nationally determined contributions;*
- *report to each other and the public on how they are implementing climate action;*
- *track progress towards their commitments under the Agreement through a robust transparency and accountability system.*

3. Adaptation

Governments agreed to

- *strengthen societies' ability to deal with the impacts of climate change;*
- *provide continued and enhanced international support for adaptation to developing countries*

4. Loss and damage

The agreement also

- *recognizes the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change;*
- *acknowledges the need to cooperate and enhance the understanding, action and support in different areas such as early warning systems, emergency preparedness and risk insurance.*

5. Role of cities, regions and local authorities

The agreement recognizes the role of non-Party stakeholders in addressing climate change, including cities, other subnational authorities, civil society, the private sector and others.

They are invited to

- *scale up their efforts and support actions to reduce emissions;*
- *build resilience and decrease vulnerability to the adverse effects of climate change;*
- *uphold and promote regional and international cooperation.*

6. Support

- *The EU and other developed countries will continue to support climate action to reduce emissions and build resilience to climate change impacts in developing countries.*
- *Other countries are encouraged to provide or continue to provide such support voluntarily.*
- *Developed countries intend to continue their existing collective goalEN to mobilize USD 100 billion per year by 2020 and extend this until 2025. A new and higher goal will be set for after this period.*

The Paris Agreement : https://climate.ec.europa.eu/eu-action/international-action-climate-change/climate-negotiations/paris-agreement_en

Inspired by the Paris Agreement and the potential of sustainable investing, Emily envisions a future in which financial planning not only secures individuals' financial well-being but also contributes to a sustainable and resilient society.

Emily's vision aligns with a growing trend in the financial industry, where sustainable investing has gained significant traction. Sustainable investing integrates environmental, social, and governance (ESG) factors into investment decision-making to generate long-term value for both investors and society. It reflects a shift from traditional investing, which primarily focused on financial returns, to a more holistic approach that considers the broader impacts of investments.

Emily sees the integration of ESG factors into her long-term financial planning for retirement as a proactive step towards addressing this issue. By incorporating ESG principles into her wealth management strategies, she aims to invest in companies that prioritize sustainable business practices, social responsibility, and environmental stewardship. This approach not only aligns with her values but also positions her to benefit from the potential growth and resilience of ESG investments. By linking ESG investing into her financial plans, Emily takes a holistic approach to secure her financial future while contributing to a more sustainable and inclusive society."

Questions

As a financial planner, your role is to guide Emily to develop a comprehensive financial plan for Emily and her family that addresses their retirement plan and well-being, while considering the challenges posed by the incoming aging problem. Additionally, you need to help her integrate ESG principles into the family's investment and wealth management strategies to ensure that she would have enough savings when the family members retire.

You should provide Emily with recommendations on retirement savings for the family, investment portfolios, and strategies to maximize their financial well-being while considering the potential impact of an aging population on their future lifestyle. Encourage her to explore innovative solutions, such as impact investing, green bonds, and sustainable retirement products, to build a diversified and resilient portfolio.

Notes:

1. Please use Hong Kong dollars in your analysis and translate all foreign currencies into Hong Kong dollars whenever appropriate.
2. Make your own assumptions on the income level, living expenses, travel expenditures, risk profile and life expectancy of the family members mentioned in the case.
3. Please state your assumptions in your analysis, such as economic growth, inflation, investment return, key product features, risk-free rate, tax rate, deposit rate and bank borrowing rate, etc.