

Case

You are a financial planner and a registered MPF intermediary working for a large financial institution. Mr. and Mrs. Wong are your clients. Recently they came to you to get information on your financial planning services. Mr. and Mrs. Wong understood that you would offer financial planning services to them to meet their future financial needs and therefore agreed to do a thorough interview. During the interview, you collected the following information from them.

Mr. and Mrs. Wong's age are both 49. They married for 20 years and have a son, Kevin, aged 16. Both of Mrs. and Mr. Wong's parents are deceased.

Mr. Wong is an administration manager in a trading company and has been with the company for 10 years. His monthly income is HK\$35,000, which is expected to grow steadily in line with the inflation before his retirement at age 65. Mrs. Wong is a housewife and has no income. They bought their residence flat for HK\$2 million 15 years ago. With a relatively large monthly repayment, the mortgage loan has been paid up in this year. The estimated current value of the property is HK\$3.5 million.

Their son, Kevin, is currently a Form 5 student. As the chance for Kevin to get into local universities is slim, his parents would like to send him to United States for tertiary education in about 2 years. Taking the assistance from overseas relatives into account, the total tuition fees and other expenses required for Kevin to complete a four-year undergraduate program in the US are estimated to be HK\$600,000.

Because Mr. Wong is the sole source of income for the family, he is very concerned about the financial protection of his family. He bought a 30-year term life insurance policy when Kevin was born. The face amount of the policy is HK\$2.5 million and the monthly premium is HK\$300. Other than that, he does not have any other life insurance coverage.

Mr. Wong considers himself a conservative investor, one who can tolerate little risk in investment. He is reluctant to make financial decisions, because he is not familiar with financial and economic news and does not have the time or skills to perform any investment analysis. Mrs. Wong also has no interest in investment at all and is tied up with the household chores, so all investment decisions are made by Mr. Wong alone. Currently the family has approximately HK\$550,000 in liquid assets, comprising of time deposits and three stocks, namely HSBC, MTR Corporation and Link REIT. Cash surplus of the family usually piles up in Mr. Wong's saving account. Mr. Wong saw his friends made a good return using the 'momentum rebalancing strategy' in the stock market. Therefore, he plans to employ a similar strategy to rebalance the MPF portfolio monthly, shifting all of the allocation to the previous month's best performing MPF fund.

Mr. Wong and his family members are entitled to health insurance as a part of the employee benefit. According to the company's policy, if Mr. Wong is laid-off, the health insurance provided will remain effective for a maximum up to three years or until Mr. Wong has a new employer. Mr Wong has joined the MPF System since its implementation on 1 December 2000. Currently, Mr Wong invests all his assets in the MPF in the Hong Kong Equity Fund.

Recently, Mr. Wong received a sales package from his MPF provider, prompting a new investment service – special voluntary contribution. The details of special voluntary contribution to MPF are as follows:

- ◆ Participation does not need to involve the employer when making a special voluntary contribution.
- ◆ Investors can make six free withdrawals annually and do not need to wait until termination of employment.
- ◆ The fee structure of the funds choices is the same as existing MPF contribution.
- ◆ The minimum investment amount is HK\$100 a month, if investors choose to make a regular monthly contribution by direct debit from personal bank account. The minimum lump sum investment is HK\$1,000 per contribution.

Mr. Wong would like to incorporate the “special voluntary contribution” into his financial plan and asks for your views.

The couple consider their current living style quite comfortable and affordable. They would like to maintain a similar standard in the future and possibly after Mr. Wong’s retirement. However, the couple do not expect their son’s financial support in the future.

A. Information provided by Mr. Wong

Family and background information

	Mr. Wong	Mrs. Wong	Kevin
Relationship	Husband	wife	son
Age	49	49	16
Education level	MBA	Undergraduate	Form 5
Health condition	Good	Good	Good
Life Expectancy	85	85	85
Occupation	Administration Manager	Housewife	Student
Annual Income*	\$420,000	n.a.	n.a.

* *Income before MPF contribution.*

Estimated annual family Consumptions/Expenses

Family Living Expenses	Annual Expenses (HK\$)
Management Fee and Utilities	36,000
Food	84,000
Transportation	24,000
Clothing	36,000
Entertainment and Vacation	42,000
Miscellaneous	18,000
Insurance Premium Paid (Life and General)	6,000
Medical Expenses**	25,000
Mr. Wong Work Related	
Transportation	24,000
Clothing	12,000
Others	12,000
Income Tax***	56,700
Child Related	
Tuition	18,000
Pocket money	18,000

** *Medical expenses are covered by employee benefit before Mr. Wong retired. Mr. Wong accepts the assumption that each member of the family consumes equal amount of medical expenses.*

*** *Mr. Wong decided to use the standard tax rate, 13.5%, to simplify the income tax calculation in this financial plan. Also, Mr. Wong agrees to the assumption that he does not entitle to any tax allowance.*

Death Related Expenses (for one person)

	HK\$
Funeral and burial expenses	80,000
Probate costs	20,000
Emergency fund	30,000

Current MPF Allocation

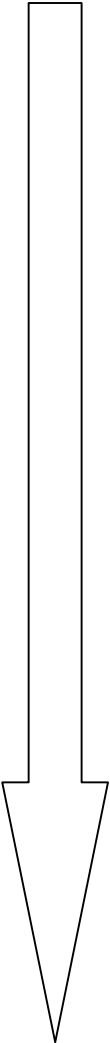
Fund	% of Total Contribution	% of Account Balance
Capital Preservation Fund	0%	0%
Capital Stable Fund	0%	0%
Global Equity Fund	0%	0%
Growth Fund	0%	0%
Hong Kong Bond Fund	0%	0%
Hong Kong Equity Fund	100%	100%
Stable Growth Fund	0%	0%
World Bond Fund	0%	0%
Total	100%	100% (\$190,000)

Investment Portfolio of Mr. Wong

Common Stocks	Market Value (HK\$)	Expected Dividend Yield
HSBC	160,000	4.0%
MTR	50,000	3.0%
Link REIT	40,000	5.0%
Cash	Market Value (HK\$)	Expected Interest Rate
HK dollar Saving Account	250,000	3.0%
Euro (EUR) One-month Time Deposit	25,000	1.6%
Australian Dollar (AUD) One-month Time Deposit	25,000	4.0%

B. Long term investment assumptions

Investment	Expected Nominal Return	Expected Standard Deviation
Hong Kong Saving Account	3.50%	0.00%
Euro (EUR) One-month Time Deposit	1.60%	0.50%
Australian Dollar (AUD) One-month Time Deposit	4.20%	0.75%
Capital Preservation Fund	5.04%	0.00%
World Bond Fund	6.08%	8.69%
Hong Kong Bond Fund	6.34%	9.75%
Capital Stable Fund	6.60%	11.00%
Stable Growth Fund	7.12%	12.95%
Growth Fund	7.64%	15.28%
Global Equity Fund	8.16%	18.13%
Hong Kong Equity Fund	9.20%	23.00%
Large Cap Stocks	10.24%	29.26%
Small Cap Stocks	11.28%	37.60%

Fund	Investment Strategy	Suitable For	Expected Risk and Likely Return
Capital Preservation Fund	Invests primarily in Hong Kong dollar short-term deposits and money market instruments.	Preserve the value of your investments with stable returns and a minimum capital risk.	Lowest Risk & Lowest Likely Return
World Bond Fund	Invests primarily in the bond markets of the world.	Receive stable returns of your investments with a minimum capital risk.	
Hong Kong Bond Fund	Invests primarily in the world bond markets with a focus on Hong Kong dollar denominated bonds and issuers.	Receive stable returns of your investments with a minimum capital risk.	
Capital Stable Fund	Invests primarily in global bonds and cash with a controlled equity exposure.	Achieve stable returns combining both income and capital gains whilst maintaining a relatively low level of investment risk.	
Stable Growth Fund	Invests in a global portfolio of equities, bonds and cash with a slight bias towards Hong Kong. Aims to have a lower weighting in equities than the Balanced Fund.	Diversify your investment across global stock, bond and cash markets in one investment and wish to provide more stable returns when compared with the Growth and Balanced options.	
Growth Fund	Growth-oriented, invests primarily in global equities with a bias towards Hong Kong.	Maximise long-term returns, whilst accepting a higher level of risk over shorter time periods.	
Global Equity Fund	Growth-oriented, invests primarily in the global equity markets.	Maximise long-term returns, whilst accepting a higher level of risk over shorter time periods.	
Hong Kong Equity Fund	Growth-oriented, invests primarily in equities with a bias towards Hong Kong and Greater China.	Maximise long-term returns, whilst accepting a higher level of risk over shorter time periods.	

#On going management fees of funds in the MPF scheme are similar to their retail peers.

Assumptions

- ♦ All the amounts given in the case are in today's value.
- ♦ All the return and inflation forecasts are for long-term.
- ♦ The education need for overseas tertiary education is a professional estimation, taking non-financial assistance from overseas relatives into account.
- ♦ The long-term inflation is 4%. The inflation rate is applicable for all the expenses, including family expenses, death-related expense and education need.
- ♦ Real Rate of Return = $[(1+\text{Nominal Return})/(1+\text{Inflation})]-1$

Direction for Detailed Financial Plan for University Students

With the information collected from Mr and Mrs Wong, you are required to submit a full detailed written financial plan that fulfils the following criteria:

- Should include a concise analysis of Mr & Mrs Wong's current financial position and future financial needs.
- Should reflect the proper perspective of retirement planning and the role of MPF as a retirement planning vehicle. Recommendations and the rationale behind on making MPF special voluntary contribution, in comparison with mutual funds and other financial products available in the market should be included.
- Should point out common mistakes, if any, made by the couple in the case when managing investments for retirement.
- Should contain recommendations of proper strategies for retirement purpose.
- Written in English on a maximum of 12 pages A4 paper (excluding front cover, back cover and appendices). Background and reference information should be attached as appendices.