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| **Group Assignment 3 (10%)**  **Case Study** |

**Fin 1194-1-F,2024-Asgn.3-G (1)**

Assignment #3 (Online) – Group #1

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This assignment is based on material regarding Insurance & Investment Concepts. Needs analysis is a requirement to complete the assignment.

It was the summer of 2011, and your client, Mr. Werner, called you to let you know that he would like you to attend a family gathering within two weeks.

In the Meeting Mr. Werner, 55 years old, announced that he will retire and turn his business, a confectionary production facility with 6 outlets, to his son Adam (37 years old, married, have two sons9, 11 years old and a daughter 6 years old) and his daughter Jessica (34 years old, single, independent lady with no near future marriage plans) which they are currently partners with 25% each in the business, the rest is Mr. Werner’s share 40% and his wife Monica 10%. The business net worth is CAD 25M.

A huge dividend from the retained earnings account amounting to a net of CAD 15M will be made as per the partners’ shares will take place after which a donation will be granted from Mr. Werner to each of his kids for CAD 2.5 M. with one condition to be fulfilled.

Due to the tough childhood Mr. Werner had due to his father’s gambling habit that resulted in losing his fortune and dying leaving the family in an agony, Mr. Werner wanted to secure his children and grand children future.

In the meeting Mr. Werner introduced you as his trusted financial advisor and asked you to conduct a comprehensive financial plan for him and his son and daughter, tailor made to their personal conditions and status taking into consideration the cash dividends that will be received.

In other words, his condition for this mega cash release is to use this cash for securing the family, aside from the running business.

The cash each family member will get:

Mr. Werner and his wife CAD 2.5 M

Adam and his Family CAD3.75M dividends CAD2.5M father’s grant a total of CAD6.25 M.

Jessica CAD3.75M dividends CAD 2.5M father’s grant a total of CAD6.25 M.

Mr. Werner plan is to use this cash to have a world tour with his wife and secure his needs, want to have the business easily transformed to his siblings and to secure their life against any economic turbulence.

You left the meeting with a preliminary plan about what you are going to propose to each family member related to their either insurance or investment needs.

Feel free to add any assumptions for the case, just make sure to clearly mention them is a separate section. Make the right blend of insurance and investment products to minimize risk and taxes.

protect their wealth, navigate economic uncertainties, and secure their legacy across generations.

**Financial Plan for Mr. Werner and Family**

**Assumptions:**

1. **Mr. Werner's Retirement:** Effective in two weeks.
2. **Business Structure:** Confectionery business valued at CAD 25M.
3. **Tax Rates:** Combined average tax rate of 25% for income and capital gains.
4. **Lifestyle Costs:**
   * Mr. Werner and Monica: CAD 100,000 annually.
   * Adam’s family: CAD 150,000 annually.
   * Jessica: CAD 80,000 annually.
5. **Investment Growth:** 6% annual return for balanced investments.
6. **Inflation Rate:** 3% per annum.
7. **Insurance Needs:** Based on income replacement, estate protection, and future life events.

**1. Financial Plan for Mr. Werner and Monica**

**Total Cash Available:** CAD 2.5M

**Goals:**

* Secure a stable retirement income.
* Fund a world tour.
* Maintain a comfortable lifestyle.
* Plan for a smooth estate distribution to heirs.

**Proposed Strategy:**

1. **Retirement Income:**
   * **Annuity Purchase:**  
     Allocate CAD 750,000K to a *joint life annuity* to provide guaranteed lifetime income for Mr. Werner and Monica.
2. **20 Year Term-Life Insurance:** Allocate CAD 750,00K for term life insurance.
3. **Travel & Emergency Savings:** Allocate CAD 1 M for world tour and emergency fund.

**2. Financial Plan for Adam and Family**

**Total Cash Available:** CAD 6.25M

**Goals:**

* Provide for children’s education.
* Ensure financial security for the family.
* Diversify wealth outside the family business.
* Plan for retirement and long-term financial growth.

**Proposed Strategy:**

1. **Life Insurance:**
   * Purchase a CAD 1M *universal life insurance policy* for Adam to protect his family and provide income replacement in case of premature death.
2. **Mutual Funds:**
   * Invest CAD 3M in a *balanced mutual fund* (60% equities, 40% fixed income) for long-term capital appreciation and diversifying wealth.
3. **Segregated Funds with guaranteed death benefits:**
   * Allocate CAD 2M into *segregated funds* with a guaranteed death benefit to ensure long-term retirement security.
4. **Emergency Savings:**
   * Set aside CAD 250,000 in a *high-interest savings account* for immediate liquidity.

**3. Financial Plan for Jessica**

**Total Cash Available:** CAD 6.25M

**Goals:**

* Achieve financial independence.
* Plan for future life events, including marriage.
* Maximize long-term wealth growth.
* Prepare for retirement.

**Proposed Strategy:**

**1. Wealth Growth**

A combination of **Mutual Funds** and **Segregated Funds** to achieve long-term growth while managing risk.

* **Allocation:** CAD 5M
* **Investment Mix:**
  + **70% in Growth Mutual Funds** (CAD 3.5M)
    - Fund Type: Equity Growth Fund (70% equities, 30% fixed income)
    - Objective: Maximize long-term capital appreciation with moderate risk.
  + **30% in Balanced Segregated Funds** (CAD 1.5M)
    - Fund Type: Balanced Fund with a 75% maturity guarantee.
    - Objective: Provide steady growth, capital protection, and estate planning benefits.

**2. Emergency Fund**

* **Allocation:** CAD 200K
* **Product:** High-interest savings or short-term segregated fund.
* **Objective:** Immediate liquidity for unforeseen expenses.

**3. Business Growth**

* **Allocation:** CAD 1.5M
* **Strategy:** Reinvest in expanding the family business

**Conclusion**

This financial plan provides a comprehensive strategy to ensure the Werner family’s financial security, preserve their wealth, and achieve their life goals. By utilizing a mix of insurance products, mutual funds, and segregated funds, the family is well-positioned to navigate economic uncertainties, diversify their assets, and secure their financial future across generations.