2025 Volume 3, Issue 1
Educational Innovation Research
ISSN: 3029-1844(Print)
ISSN: 3029-1852(Online)

Comprehensive Financial Planning for Tim and Jane Janis: A Case Study

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Abstract:

This paper presents a detailed case study on the comprehensive financial planning conducted for Tim and Jane Janis, a middle-aged couple residing in Australia. The financial plan addresses key aspects such as retirement funding, superannuation consolidation, insurance coverage, debt management, and investment strategy. By employing a holistic approach, the study aims to secure the long-term financial stability and well-being of the Janis family.

Keywords:

Financial planning
Superannuation
Insurance
Debt management
Investment strategy

Online publication: February 21, 2025

1. Introduction

This assignment, an integral component of the FINS 3631 course titled "Risk, Insurance, and Superannuation," evaluates students' ability to provide scaled advice on insurance, risk management, and superannuation. Contributing 40% of the total course grade, it requires the preparation of a professional and compliant Statement of Advice (SOA) based on a case study that adheres to the Australian Securities and Investments Commission (ASIC) regulations.

The case study focuses on the Janis family, comprising Tim and Jane, both professionals with young children. The family seeks adequate insurance coverage, superannuation consolidation, and investment strategies aligned with their financial goals. Their objectives include securing sufficient superannuation savings for a comfortable retirement, funding private school education for their children, and repaying their home loan at the earliest opportunity.

In drafting the SOA, students must comply with ASIC's RG175 guidelines, emphasizing clarity, conciseness, and effective communication. The advice should meet the Best Interest Duty, adhere to the switching advice rules outlined in ASIC Info Sheet 182, and fulfill all disclosure obligations. These requirements ensure that recommendations are both technically accurate and aligned with the clients' best interests.

Students are tasked with analyzing the Janis family's current financial position, including income, assets, liabilities, and expenses. Based on this analysis, they must propose strategies that address the family's objectives and concerns, offering alternative options where appropriate.

Key areas of focus include risk management plans with detailed insurance needs analyses, superannuation consolidation, investment strategies, and retirement planning.

To ensure compliance and high-quality advice, students must justify their recommendations with appropriate projections, assumptions, and clear explanations. Full disclosure of fees, commissions, and other benefits associated with the advice is mandatory. Additionally, the SOA must be professionally presented, reader-friendly, and compliant with all relevant financial services regulations.

Strict adherence to the submission deadline is required, with late submissions subject to penalties. Students are encouraged to submit their work well in advance to avoid potential system slowdowns. Plagiarism and the use of unauthorized sources, including AI, are strictly prohibited and will result in disciplinary measures.

In summary, this assignment challenges students to apply their theoretical knowledge of risk management, insurance, and superannuation to a real-world scenario. By preparing a compliant, client-focused SOA, students demonstrate their capability to deliver professional financial advice.

2. Study background

Financial planning overview: Financial planning involves a systematic and strategic approach to managing personal finances to achieve long-term life goals and maintain financial stability. This process includes setting clear objectives, such as saving for retirement, funding education, and executing estate planning strategies [1]. It requires a thorough assessment of current financial standing, a clear understanding of future needs, and the development of a roadmap to navigate various life stages. Financial planners utilize tools such as budgets, savings plans, investment portfolios, insurance policies, and tax strategies to help individuals and families build wealth, mitigate risks, and preserve assets for future generations. By adopting a proactive and disciplined approach, individuals can achieve peace of mind and confidence in their ability to reach their aspirations.

Case study background: This paper examines the financial planning journey of Tim and Jane Janis, a couple in their early 30s with two young children.

3. Personal and financial background

Personal details: Tim and Jane are professionals employed in the financial services and marketing industries, respectively. They are parents to two children, aged 4 and 2.

Financial situation: The couple earns a substantial combined annual income of AUD 340,000, reflecting their strong financial position. Alongside their impressive earnings, they have significant balances in their superannuation funds, which are critical to securing their financial future. Currently, they hold a mortgage of AUD 750,000 on their primary residence [2]. Additionally, they own a car for transportation and various household contents that contribute to their overall asset base. With a combination of liquid assets, investments, and tangible property, the couple is well-positioned to effectively manage their finances and plan for long-term security and goals.

4. Retirement planning

Goals and objectives: Tim and Jane aim to retire in 35 years with an annual expense of AUD 70,000 in today's dollars.

Funding needs: Based on inflation and investment return assumptions, their estimated retirement funding need is calculated to be AUD 2,352,107.9.

Superannuation analysis: Their current superannuation balances, combined with expected contributions and returns, are projected to exceed their retirement funding requirements.

5. Superannuation consolidation

Current accounts: Tim and Jane each hold two superannuation accounts.

Consolidation strategy: Consolidating multiple superannuation accounts into a single account for each individual is a widely recommended approach to streamline financial management and enhance overall financial health [3]. This strategy can significantly reduce fees associated with maintaining multiple accounts, as many financial institutions offer discounts or waivers for consolidated services. In addition to cost savings, consolidation simplifies tracking expenses, monitoring balances, and managing investments. It also facilitates regular reviews and updates to insurance policies, ensuring that assets and liabilities are adequately protected. By implementing this strategy, individuals can gain a clearer understanding of their financial status, make more informed decisions, and achieve their financial goals more effectively and efficiently.

6. Insurance coverage

Current insurance: The Janises currently have life and Total and Permanent Disability (TPD) insurance within their superannuation accounts.

Recommended coverage: Expanding one's insurance portfolio to include additional life insurance, TPD insurance, and income protection insurance outside of superannuation funds is strongly recommended to secure financial stability in the face of unforeseen events [4]. Life insurance provides crucial financial support to dependents following the insured's death, helping cover expenses such as mortgage payments, education costs, and daily living needs. TPD insurance offers a lump-sum payment if the insured becomes permanently disabled and unable to work, covering medical treatments, lifestyle adjustments, and ongoing financial obligations. Income protection insurance ensures that a portion of the insured's income is replaced if they are unable to work due to illness or injury, enabling the payment of essential bills and living expenses. Incorporating these insurance measures mitigates financial risks associated with death, disability, or income loss, offering peace of mind and long-term security for individuals and their families [5].

7. Debt management

Mortgage situation: The Janises currently hold a mortgage of AUD 750,000 with a variable interest rate.

Debt reduction strategy: Allocating a portion of the annual surplus towards accelerating mortgage repayments and building an emergency fund is a prudent financial strategy. Accelerated mortgage payments reduce the principal balance more quickly, shortening the loan term and potentially saving thousands of dollars in interest. Concurrently, establishing or enhancing an emergency fund strengthens financial resilience by providing a safety net for unexpected expenses, such as medical emergencies, car repairs, or temporary income loss. By balancing these priorities, individuals can improve financial stability and preparedness for life's uncertainties [6].

8. Investment strategy

Risk profile: Tim and Jane Janis exhibit a growth-oriented risk profile but prefer a conservative investment approach to minimize unnecessary risks.

Portfolio allocation: A balanced investment portfolio is recommended, comprising 20–40% growth assets and 60–80% defensive assets. This allocation aims to achieve long-term financial goals while effectively managing risk. Growth assets, such as stocks and property, offer potential capital appreciation and higher returns over time but are typically more volatile. In contrast, defensive assets, including bonds, cash, and cash equivalents, provide stability and income with lower risk but generally deliver more modest returns [7,8]. By allocating a larger proportion to defensive assets, the Janises can mitigate the potential for significant losses during market downturns. However, incorporating growth assets allows them to benefit from market upswings, thereby fostering long-term wealth creation. This strategic allocation balances risk and return, aligning their investment portfolio with their financial objectives, risk tolerance, and investment horizon.

9. Risks and mitigation strategies

Potential risks: Lower investment returns, loss of insurance coverage, and missed opportunities to capitalize on better investment prospects

Mitigation measures: To address these risks, the Janises should conduct regular reviews of their financial plans, insurance coverage, and investment strategies, ensuring they adapt to evolving circumstances [9].

10. Conclusion

The financial plan designed for Tim and Jane Janis incorporates a comprehensive approach to secure their financial stability and ensure long-term prosperity. Key recommendations include: (1) Consolidating superannuation accounts: Streamlining their retirement savings to potentially reduce fees and enhance efficiency. (2) Increasing insurance coverage: Expanding life, disability, and income protection insurance to establish a robust safety net for unforeseen events. (3) Accelerating mortgage repayments: Building equity in their home while reducing long-term financial obligations. (4) Adopting a conservative investment strategy: Prioritizing stable and predictable returns over high-risk, high-reward opportunities. By implementing these strategies, the Janises are well-positioned to achieve a secure and prosperous financial future.

Through the diligent application of these tailored recommendations, Tim and Jane Janis have embarked on a path that aligns with their financial aspirations. Their plan incorporates prudent savings strategies, thoughtful investment decisions, and disciplined expense management, ensuring both current financial stability and future security. This approach not only supports the Janises in achieving their financial goals but also reinforces their commitment to creating a legacy of financial well-being for their children. With determination and perseverance, they are set to turn their financial dreams into reality, fostering a foundation of prosperity and security that will endure for generations.

Disclosure statement

The author declares no conflict of interest.

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