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Question 1

[50 Marks]

Question 1.1

(1)

A lump-sum inheritance to a minor, who has a legal guardian, must be dealt with as follows:

- A. The cash bequest must be paid into the minor's bank account.
- B. The cash bequest must be held in the estate until the minor turns 18.
- C. The cash bequest must be paid into the Guardian's Fund irrespective of any directions in the will.
- D. In the absence of a clause in the will authorising the legal guardian to manage money on the minor's behalf, the cash bequest must be paid into the Guardian's Fund.
- E. None of the indicated answers.

Question 1.2

(1)

Dennis wants to execute his will and asks two of his neighbours to sign as witnesses, which they did correctly. However, they did not scrutinise the contents of the will for correctness. Indicate the correct statement regarding the validity of the will:

- A. The will is invalid because witnesses must understand the will's contents as they attest to its contents.
- B. The will is valid because witnesses only attest to the signature of the testator.
- C. It is not stated whether Dennis explained the content of the will. If he did, the will is valid.
- D. The will is not valid because his neighbours are not independent witnesses.
- E. None of the indicated answers.

Question 1.3

(1)

Executor's fees are not payable on the following asset:

- A. A usufruct over property in favour of the deceased.
- B. Life policy ceded to the bank as security.
- C. A painting worth R300 000.
- D. Farming Property.
- E. None of the indicated answers.

Question 1.4

(1)

Which one of the following is **not** a requirement for the proper appointment as a trustee of a trust:

- A. The appointment must be lawful; a trustee is usually appointed in terms of the trust deed. If a trust deed fails to appoint a trustee, the Master will make the appointment.
- B. The person must have a law degree in order to be appointed as a trustee
- C. The person must have the capacity to act as trustee, and the person must not be disqualified to act as trustee.
- D. The person appointed must obtain written authorisation by the Master to act as trustee.
- E. None of the indicated answers.

Question 1.5

(2)

Liesel (29) who was married to Raymond (32) in community of property, passed away unexpectedly without a will. She is survived by:

- Her spouse Raymond;
- Her three children Jared (6), Ryan (7) and Amy (8);
- Her paternal grandmother and grandfather; and
- Her two sisters Mary and Retha.

The net value of the joint estate is R14 500 000.

Indicate the correct answer:

- A. Raymond will inherit R250 000 plus a child's share, equal to R3 875 000
- B. Raymond, Mary, Retha and the three children will inherit in equal shares
- C. Raymond will inherit R1 812 500 from Liesel's estate
- D. Raymond will inherit a child's share of the net estate, which equals R3 625 000
- E. None of the indicated answers.

Question 1.6

(1)

Collen died in 2019 and had a life policy payable to his son, Kevin. This policy was taken out on Collen's life in terms of an ante nuptial contract entered into between him and his wife. Will the proceeds of the property be treated as property or deemed property for estate duty purposes?

- A. The policy will be treated as deemed property.
- B. The policy will be treated as property.
- C. The policy will be neither property nor deemed property.
- D. The policy will be treated as deemed property, but will qualify as a deduction.
- E. None of the indicated answers.

Question 1.7

(1)

Indicate whether the following statements are true in terms of the Intestate Succession Act:

- i. In the absence of direct descendants of the deceased, parents may inherit.
- ii. In the absence of direct descendants of the deceased, if both parents are predeceased, siblings will inherit.
- iii. In the absence of direct descendants of the deceased, parents may inherit per stirpes. If one or more of the parents are predeceased, siblings or the descendants of predeceased siblings will inherit per stirpes.
- iv. In the absence of direct descendants, parents or siblings or descendants of siblings, of the deceased, grandparents may inherit per stirpes.

Indicate which of the statements are true:

- A. i, ii & iii
- B. i, ii, iii & iv
- C. i, ii, & iv
- D. ii & iii
- E. None of the given options

Question 1.8

(2)

Brent, a male (aged 68), received an annuity of R10 000 per month for the last 15 years. The annuity was payable from the profits of a business belonging to Joy, a female person, who was 39 years old, when Brent died.

Calculate the value of Brent's annuity at his death if the annuity does not accrue to anyone else at Brent's death using the applicable table:

- A. R983 839
- B. R982 063
- C. R688 084
- D. R671 018
- E. None of the given options

Question 1.9

(2)

Thandi (age 65) was the fiduciary owner of a property which was valued at R1 500 000 at the time of his death. At the time of Thandi's death, the property was transferred to James, a 41 year old male that was the fideicommissary.

Determine the PV of R1 p.a that is required to calculate the value of the fiduciary right that will be included in Thandi's estate for estate duty

- A. 8.01067
- B. 6.13789
- C. 7.97844
- D. 6.00726
- E. None of the given options

Question 1.10

(1)

On Mpho's death the following amounts are paid out in respect of insurance policies on her life.

To her spouse	R4 500 000
To her son – all premiums paid by Mpho	R1 260 000
To her business partner who owns policy in terms of a valid buy and sell agreement	R950 000

Mpho was married in community of property. Which policy will be included in Mpho's estate as deemed property for estate duty purposes?

- A. Only the policy payable to spouse
- B. All the policies indicated
- C. Only the policy payable to business partner
- D. Both policies payable to spouse and son
- E. None of the given options

Question 1.11

(1)

Sharon is married to Mark and they have a Son, Godwin. As per their postnuptial contract, when Mark passes away a policy worth R3 000 000, that was taken out on his life, will be payable to Godwin. Mark passes away in a car accident. For estate duty purposes this policy will in Mark's estate.

Fill in the gap by indicating the correct option:

- A. form part of deemed property
- B. form part of the Section 4(q) deduction
- C. be exempt from deemed property
- D. form part of property
- E. None of the given options

Question 1.12

(2)

Harvey was ordinarily resident in Mauritius at the time of his death. The total value of his assets in Mauritius is R15 000 000, and his total debts in Mauritius amounts to R16 700 000. Harvey also owned a supermarket in Cape Town, with a market value of R5 000 000. For estate duty purposes in South Africa, determine whether he deduct his debts in Mauritius from his South African estate and if so, by how much?

- A. No, therefore, R0
- B. Yes, R16 700 000
- C. Yes, R1 700 000
- D. Yes, R3 300 000
- E. None of the given options

Question 1.13

(2)

Joy Cath, a trustee and beneficiary of ABC family trust (a discretionary trust) died due to Covid-19. The trust assets are a commercial property, farmland and a block of flats. As a trustee, she was only given the power to dispose of the farmland for her own benefit. The assets in the trusts will be treated as follows in Joy Cath's estate duty calculation:

- A. Commercial Property – Deemed property, farmland – Deemed property, block of flats – property.
- B. Commercial Property – Not included, farmland – Deemed property, block of flats – Not included.
- C. Commercial Property – Not included, farmland – Property, block of flats – Not included.
- D. Commercial Property – Property, farmland – Property, block of flats – Deemed property.
- E. None of the given options

Question 1.14

(1)

Forrest and George have lived together as spouses for the past ten years. They want to formalise their relationship. They have the following options at their disposal:

- A. They can get married as same-sex spouses under the Marriage Act 25 of 1961.
- B. They can get married as same-sex spouses under the Recognition of Customary Marriages Act 20 of 1998.
- C. They can get married as same-sex spouses under the Matrimonial Property Act 88 of 1984.
- D. They can get married as same-sex spouses under the Civil Union Act 17 of 2006.
- E. None of the given options

Question 1.15

(1)

Katie and Katrina, both successful professionals, lived together since 2003. They got married after the Civil Union Act of 2006 were passed on 29 November 2006, but did not conclude any contract regarding their marriage. Katie died in July 2021. Katie left her entire estate to her son Lincoln (from a previous marriage with Sean). Which statement best describe Katrina's rights in this situation?

- A. Katrina has no claim. Getting married under the Civil Union Act of 2006 does not give a partner the same status as the Matrimonial Property Act 88 of 1984 and there was no contract that they concluded.
- B. Katrina will have a claim in terms of the Maintenance of Surviving Spouses Act 27 of 1990 against the estate.
- C. Katrina is potentially entitled to 50% of Katie's estate as a spouse married in community of property.
- D. Katrina will have a claim equivalent to that of an intestate estate. Since Katie had only one descendent Lincoln, the estate will be shared equally between her and Lincoln.
- E. None of the given options.

Question 1.16

(1)

Jacques and Carl are married under the Civil Unions Act 17 of 2006. Jacques bought Carl an apartment in France on their 20th anniversary worth R2 500 000. Jacques also invited his brother Fred to the apartment to join in the celebrations and paid his travel costs amounting to R100 000. Jacques also paid for Fred for a tour of France afterwards, which costed a further R100 000. Jacques will be liable for donations tax to the amount of:

- A. R20 000
- B. R40 000
- C. R10 000
- D. R520 000
- E. None of the given options

Question 1.17

(1)

Indicate the correct statement:

- A. Customary marriages can now be formalised in terms of the Marriage Act.
- B. Customary marriages are generally considered marriages in community of property.
- C. If the required Lobola for a marriage is outstanding for three years or more, the claim prescribe and the marriage becomes legal.
- D. Customary marriages are deemed to be marriages out of community of property without accrual.
- E. None of the given options

Question 1.18

(1)

Which of the following is not an essential element of a trust?

- A. The founder of a trust must have had the intention to create a trust.
- B. The trust must have at least three trustees.
- C. The trust must have at least one trustee.
- D. The trust must have at least one beneficiary or an object to achieve.
- E. None of the given options

Question 1.19

(2)

Consider the following statements regarding a trust:

- i. The founder of a trust may not be a beneficiary of the trust.
- ii. The founder of a trust may be a trustee.
- iii. The founder of a trust may not be the only trustee of a trust.
- iv. If the founder of a trust is the only trustee of a trust. The trust property will be deemed property in the estate of the founder.
- v. If the trust's founder provides an interest-free loan to the trust, the trust will be deemed to receive a donation for tax purposes.

Indicate which of the statements are true:

- A. iii & v
- B. ii, iv & v
- C. i, ii, iii, iv & v
- D. i, ii, & v
- E. None of the given options

Question 1.20

(1)

Dietrich drew up a will while in hospital with heart-disease. He emailed the will to his attorney and requested that the attorney arrange for the will's signature by himself (Dietrich) and two competent witnesses. When the attorney arrived at the hospital with the two witnesses, Dietrich was in a coma. Dietrich never woke up from the coma and died three days later. In terms of the Wills Act (indicate the most correct statement):

- A. The will does not comply with the required formalities and are therefore invalid;
- B. If the executor include the email to the attorney together with a sworn statement, the Master will accept the will;
- C. The will can be declared valid in terms of section 2(3), but it must be done via a court application;
- D. If the beneficiaries of the estate in terms of the new will agrees to it, the will is considered valid.
- E. None of the given options

Question 1.21

(1)

Parties to an insurance contract include the policyholder, the insured, the premium payer and the beneficiaries. Indicate the most **incorrect** statement:

- A. The policyholder, the insured and, the premium payer more often that not is the same person.
- B. A beneficiary can be removed or substituted without the beneficiary's permission or even knowledge.
- C. A beneficiary must accept the nomination, either before or after the death of the insured.
- D. The policy holder, the insured &, the premium payer can never be the same person.
- E. None of the given options.

Question 1.22

(2)

Consider the following statements regarding life insurance:

- i. A risk-only insurance policy, will only pay out if the life insured died (or became disabled);
- ii. If the policyholder of a pure life insurance policy that is not the life assured dies, the policy is cancelled;
- iii. The premium payer of a life policy should always be a third party.
- iv. A life insurance policy that pays out to a beneficiary will not form part of the deceased's estate for the purposes of administering the estate;
- v. A life insurance policy that pays out to a beneficiary, will be included in the deceased's estate for the purposes of determining the net estate for estate duty purposes;

Indicate which of the statements are true:

- A. ii, iv & v
- B. i, ii, iii, iv & v
- C. i, iv & v
- D. i, ii, & v
- E. None of the given options

Question 1.23

(1)

Indicate the **correct** statement regarding health insurance:

- A. The period that a member has cover under a health insurance policy is for as long as the member pays the required contributions.
- B. Health insurance pays actual medical expenditure.
- C. Insurance companies are not allowed to deny cover to an applicant.
- D. Applicants are risk-rated according to their health status.
- E. None of the indicated answers.

Question 1.24

(2)

Lungile's house is worth R1 500 000, and he insured it for R1 000 000. A freak accident caused major damage to his house to of the value of R800 000. He lodged a claim for the damage of R800 000 at his insurance company. The excess on his policy is 7.5% of the claim subject to a minimum payment of R20 000. How much of the repair cost will be covered by Lungile's policy?

- A. R513 333
- B. R493 333
- C. R800 000 because if the damage is more than the minimum excess, the full claim is paid.
- D. R473 333
- E. None of the indicated answers.

Question 1.25

(1)

Johanny resigned from abc medical aid 85 days ago, during this time he was not a member of any medical aid scheme. He was member of this medical aid for the last 9 years. He applies for membership to the XYZ medical aid, today. Indicate the waiting period that might be imposed if any?

- A. 12 months condition specific, but not applying to PMB's.
- B. 3 months general waiting period, but not applying to PMB's.
- C. No waiting period.
- D. 12 months condition specific, also applying to PMB's.
- E. None of the indicated answers.

Question 1.26

(1)

Klink (Pty) Ltd manufactures musical instruments. They insured their equipment, work-in-progress and stock for its total replacement value of R9 000 000. One night a security guard threw a cigarette butt that was still burning on the floor. It fell on a highly combustible agent, and the factory caught fire. The total damage amounted to R1 450 000. Their policy is subject to a franchise of R150 000. Klink lodged a claim for R1 450 000. The outcome of the claim will be:

- A. R1 450 000 will be paid to Klink
- B. R1 300 000 will be paid to Klink
- C. R1 160 000 will be paid to Klink since according to the act they do not have to pay more than 80% of the damage
- D. R0 will be paid to Klink, since the fire was caused due to negligence of the guard
- E. None of the indicated answers.

Question 1.27

(1)

The income tax regime applicable to a close corporation (CC) can best be described by the following statement:

- A. A CC is taxed in exactly the same way as a company.
- B. The profit of a CC is taxed at the same rate it would have been in its members' hands.
- C. A CC pays a fixed tax rate of 30%.
- D. A CC pays a fixed tax rate of 45%.
- E. None of the indicated answers.

Question 1.28

(1)

Regarding the number of partners allowed in a partnership, indicate the **correct** statement:

- A. If all the partners are engineers, there is no limitation on the number of partners.
- B. The number of partners may not exceed ten except when the partners are all attorneys.
- C. The number of partners may not exceed 20 under any circumstances.
- D. There is no limitation on the number of partners in a partnership.
- E. None of the indicated answers.

Question 1.29

(2)

Close corporations (CC's) have certain advantages, which are:

- i. It allows for perpetual succession.
- ii. When a member resigns or dies, the CC does not have to be terminated.
- iii. The directors of a CC can be selected according to skills and qualities.
- iv. Members of a CC will always enjoy the R1.8million exemption on the selling of their interest at retirement.
- v. CC's are flexible form of business entity with minimum formalities.

Indicate which of the statements are true:

- A. i, ii, iii & iv
- B. i, ii & v
- C. i, ii, & iv
- D. i, ii, iv & v
- E. None of the given options

Question 1.30

(1)

Which one of the following statements regarding a personal liability company is **incorrect**?

- A. Even though it is a company, the directors still face unlimited personal liability (jointly and severally).
- B. It is normally used by professionals such as engineers, lawyers and stockbrokers.
- C. Unlike a partnership, the company protects its directors from personal liability.
- D. The name must end with Inc or Incorporated.
- E. None of the given options

Question 1.31

(2)

Ruben is the operational manager of Bighouse (Pty) Ltd, a company that build luxury houses. Bighouse wants to retain Ruben's services for at least another ten years. Bighouse offered Ruben participation in a preferred compensation scheme. Ruben's taxable salary at the moment is R876 000 pa, which means his maximum marginal rate is 41%. The premium of the endowment policy is R10 000 per month.

Ruben's salary needs to be increased monthly by:

- A. R10 000
- B. R24 390
- C. R16 949
- D. R14 100
- E. None of the given options

Question 1.32

(1)

Interruption insurance refers to:

- A. Insurance that is paid out if involved in an accident on roads
- B. Insurance that a business can use to cover a loss due to non-payment by debtors
- C. Insurance against loss of income due to damage to business assets
- D. Insurance that interruption of business activities due to political unrest
- E. None of the given options

Question 1.33

(1)

Short term insurance is based on the principle of indemnity, which can **best** be described as follows:

- A. It allows the insured to specify the amount of required insurance and will pay out accordingly
- B. It will put the insured back in the financial position he/she was immediately before an incident causing financial loss
- C. An equivalent new item will replace insured items
- D. Insured second-hand assets are always either repaired or reimbursed at their second-hand value
- E. None of the given options

Question 1.34

(1)

A Keyman policy can be taken out by a business or company for one of the following purposes:

- i. To cover a shareholder's loan account or a mortgage bond
- ii. To secure an overdraft
- iii. To cover a contingent liability
- iv. To provide a sinking fund or cash reserve to replace equipment
- v. To provide a capital amount to compensate for the loss of income

Indicate the correct answer:

- A. i, ii, iv & v
- B. i, ii, iii & iv
- C. ii, iii, iv & v
- D. i, ii & iii
- E. All of the given options

Question 1.35

(1)

Indicate the **incorrect** option regarding buy and sell agreements:

- A. A buy and sell agreement should ideally be financed with life insurance policies
- B. Buy and sell agreements prevents the meddling of heirs in the business
- C. A buy and sell agreement consist of life insurance policies taken out by shareholders on each other's lives
- D. Buy and sell agreements can be financed by shareholders using their own funds
- E. None of the given options

Question 1.36

(5)

Tau (age 51) and Retha (age 48) have one child Freddie (age 15). They applied to join a medical aid. The quoted premiums are R3 400 for Tau, R2 800 for Retha and R900 for Freddie. Neither Tau nor Retha are currently members of any medical aid. Tau resigned from his previous medical aid when he was 40 years old. He was on his father's medical aid from birth to age 21. He then worked for the government until he was 35 years old and was a member of GEMS medical aid. Thereafter he worked for a multi-national in England to the age of 40 and was on medical insurance. Retha was a member of a medical aid in South Africa till the age of 29.

Calculate the premium Tau will pay for his family (answer this question in your answer sheet).

Tau's premium will be subject to a LJP of [A]%, the premium will be R[B]
Retha's premium will be subject to a LJP of [C]%, the premium will be R[D]
and Freddie's premium will be R[E].

Question 2**[11 Marks]**

Phil (52) and Daisy (47) are married out community of property subject to the accrual system. Two children are born from their marriage, Christine (25) and Peter (23):

Phil has the following assets:	Market Value	Note
Primary residence	R3 690 500	
BMW 320D	R659 120	1
Unit trust investment	R2 689 500	
Shares in FinPlan Pty (Ltd)	R3 630 000	2
Money market investment with Investec	R96 312	

Phil has the following liabilities:	Amount	Note
Mortgage Bond	R965 323	
Outstanding vehicle finance	R366 174	

Phil has the following life insurance policies payable upon his death:	Amount	Note
1. Life insurance payable to Daisy	R3 300 000	
2. Life assurance payable to Phil's brother	R1 000 000	
3. Life insurance ceded to the bank as security	R990 000	3
4. Life insurance payable to Brandon as the policyholder	R3 630 000	2

Phil's will includes the following provisions:	Note
1. I bequeath the residue of my estate to my spouse, Daisy.	
2. I bequeath the unit trust investment and the proceeds from selling the shares in FinPlan to my children in equal shares	2

NOTES:

1. The executor sold the BMW for R600 000.
2. Phil and Brandon are equal shareholders in FinPlan Pty (Ltd). Brandon took out a life policy on the life of Phil for the purpose of acquiring Phil's shares in FinPlan Pty (Ltd) in the event of Phil's death. Phil did not pay any of the premiums on the policy.
3. The policy must be applied to redeem the mortgage bond and the balance paid to the estate.
4. The administration costs (including all costs but excluding executor's fee) in Phil's estate amounted to R55 000
5. The executor is registered for VAT.

Required:

Calculate the estate duty payable in Phil's estate in the case of his death (ignore CGT and apportionment of estate duty).

Question 3**[9 Marks]**

Thulani and Thandi got married out of community of property with the inclusion of the accrual system on 1 March 1985. At the time, Thulani had assets to the value of R250 000 and liabilities of R50 000. Thandi owned a holiday cottage to the value of R200 000 against which she owed R190 000 as at the date of marriage. She also had a personal loan of R50 000. All the assets and liabilities were declared in the ANC. The ANC did not mention whether Thandi's holiday cottage will be excluded from the accrual or not.

They got divorced on 31 August 2021. The values of their respective estates as at the date of Thulani's death are declared in the table below:

The CPI stood at 190 on the date of the divorce and 75 at the date of their marriage.

Thulani		Thandi	
Assets	Market Value	Assets	Market Value
Primary residence	R2 400 000	Listed company shares	R1 800 000
Farm donated to Thulani in 2014	R1 800 000	Cash savings account	R120 000
Household items	R480 000	Holiday cottage	R1 848 000
Nasper shares	R3 000 000		
Bitcoins	R1 080 000		
Undeveloped land	R180 000		
Life assurance ceded to the bank as security	R1 200 000		
Liabilities	Value	Liabilities	Value
Bond on the primary residence	R1 020 000	Personal loan	R90 000
Outstanding debt	R120 000		

Required:

Advise which spouse will have an accrual claim against the other spouse. Show all your calculations and include zero values for assets, policies, etc., with a reason.

Question 4

[10 Marks]

Question 4.1

(4 Marks)

Mohammed owned a property that was valued at R2 000 000 at the time of his death. Mohammed inherited the property from his father, subject to the condition that on his death the property must be transferred to Theodore, the fideicommissary. Theodore (a male person) was 35 years old at the date of Mohammed's death.

Required:

Calculate the value of the fiduciary right that will be included in Mohammed's estate for estate duty purposes. Show all your calculations and provide an explanation of the steps you are following.

Question 4.2

(6 Marks)

Johannes (age 72) is the beneficiary of an annuity of R12 000 per month since 2010. The annuity is paid to him by Gerhardus, a male aged 50 years. Gerhardus must pay the annuity to Johannes as a condition for inheriting a holiday home from their father. The annuity must be paid irrespective of any income generated by the letting of the house. The holiday home was valued at R2 000 000 when their father died and the current market value is R3 100 000.

Required:

Calculate the value of the annuity in Johannes's estate if:

- 4.2.1 The annuity becomes payable for life to Darius, a male person who is 35 years and two months old.
- 4.2.2 The annuity becomes payable for a period of 5 years to Dineo, Johannes's surviving spouse. She is a female person aged 59.

Question 5**[13 Marks]**

Athos (age 38) and Miriam (age 39) is married out of community of property with two children, aged 11 and 15. Athos wants to make sure his family will be able to maintain the standard of living they are accustomed to should anything happens to him. He approached for advice regarding the adequacy of his current provisions. After a fact-finding exercise, you compiled the following relevant information (income and expenditure are monthly figures):

Net income after tax:	R75 625
Pension fund and other deductions from salary	R8 319
Unit trust investment	R1 300 000
Group life cover provided by employer:	R2 700 000
Outstanding debt	R1 747 835
Current monthly expenses:	R60 662
Reduction in expenses in the event of Athos's death	R30 674
Income to be provided to Miriam to age:	95
Required escalation:	5.75%
Expected investment return going forward:	12.50%

Note: The reduction in expenses include the repayments on current debt that will fall away when the capital is repaid.

Required:

Recommend to Athos the amount of life assurance required. Do not use the simplified approach to calculate the equivalent annual income at the beginning of the first year, calculate the value as accurately as possible. Show all your calculations with explanations of the steps you are following.

Question 6**[12 Marks]**

Abram resigned from his medical aid in December 2000. He is married to Bakang and they have two children, Leroy and Letty. Bakang resigned from her medical aid in July 2006. Abram asked you to advise him on the late joiner penalties that will be imposed should he join a medical aid now.

He provided you with the following dates of previous medical aid membership:

	DOB	Previous membership to medical aids	Quoted premium
Abram	17/07/1965	from birth to date: 31/12/2000	R4 810
Bakang	12/08/1970	from birth to date: 31/07/2006	R3 705
Leroy	21/05/2009	none	R1 001
Letty	01/01/2010	none	R1 001

Bakang was diagnosed with high blood pressure two years ago. Leroy was born with a defective heart valve.

Required:

- 6.1 Explain to Abram which waiting periods will most probably be imposed on each of his family members. Provide the reasons why these waiting periods may be imposed on them. (5)
- 6.2 Calculate the late joiner penalties that will be imposed on Abram and his family and calculate the total premium that Abram will pay. Show all your calculations. (7)

Question 7**[20 Marks]**

Adrie, Sharon, Wilma and Zola established a company manufacturing beauty products. The company's name is YouBeaut (Pty) Ltd. The value of the business was determined to be R5 000 000. They are all shareholders, and their respective shareholding and loan accounts in the business are as follows:

	Shareholding	Loan account
Adrie	12%	R1 000 000
Sharon	15%	R1 200 000
Wilma	35%	R1 700 000
Zola	38%	R2 000 000

Zola designed most of the products, and in the case of her death or disability, it will be difficult to maintain business continuity. It is estimated that if Zola dies or becomes disabled, a financial loss of R2 500 000 will be suffered before the business can operate normally again. YouBeaut wants to protect itself against this loss. The cost of the policy (including the disability cover) to insure Zola's life for R1 000 000 is R4 000 per month.

The shareholders have decided to enter into a buy and sell agreement that will be funded by life insurance. The agreement provides that each shareholder will take out life insurance policies on the other shareholders' lives (Policy structure: One owner and multiple lives). These policies must be sufficient to meet all obligations towards the estate of the deceased to be able to purchase the shares and settle the relevant loan accounts.

Required:

- 7.1. Advise Zola regarding the policies she will be required to take out on the lives of the other shareholders to fund her obligations in terms of the buy and sell agreement. Show all the steps and calculations in detail. **(6.0)**
- 7.2. Advise YouBeaut on their options to protect themselves in the case of Zola's death or disability. Discuss the implications of structuring the policy to make the premiums deductible from taxable income instead of making the premiums not deductible from taxable income. Illustrate, by calculating the net cost and proceeds before- and after-tax. Indicate the which legislation applicable and assume that the new tax rate (27%) will apply. **(7.0)**
- 7.3. Give the requirements for keyman policies to be exempt from estate duty - quote the applicable act and sections from the act. Advise Zola whether the value of a key-person policy on her life will have to be increased to provide estate duty. **(7.0)**

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LATE JOINER PENALTIES

Penalty Bands	Maximum Penalty
1 - 4 years	Contribution x 5%
5 - 14 years	Contribution x 25%
15 - 24 years	Contribution x 50%
25 + years	Contribution x 75%

Master's fees:

- R600 for estates between R250 000 and R400 000 (less than);
- plus R200 per R100 000 with which the gross value exceeds R400 000 (round down);
- subject to a maximum fee of R7 000.

TABLE A: Life expectancy and present value tables

Age ANB	Expectation of life		PV of R1 p.a. for life		Age ANB	Expectation of life		PV of R1 p.a. for life	
	Male	Female	Male	Female		Male	Female	Male	Female
0	64.74	72.36	8.32791	8.33105	46	24.58	30.14	7.81924	8.05956
1	65.37	72.74	8.32828	8.33114	47	23.79	29.27	7.77109	8.03119
2	64.50	71.87	8.32776	8.33091	48	23.00	28.41	7.71843	8.00026
3	63.57	70.93	8.32714	8.33064	49	22.23	27.55	7.66236	7.96617
4	62.63	69.97	8.32644	8.33033	50	21.47	26.71	7.60201	7.92950
5	61.69	69.02	8.32567	8.32999	51	20.72	25.88	7.53713	7.88967
6	60.74	68.06	8.32480	8.32961	52	19.98	25.06	7.46748	7.84646
7	59.78	67.09	8.32381	8.32918	53	19.26	24.25	7.39387	7.79965
8	58.81	66.11	8.32271	8.32869	54	18.56	23.44	7.31631	7.74834
9	57.83	65.14	8.32146	8.32815	55	17.86	22.65	7.23234	7.69355
10	56.85	64.15	8.32007	8.32753	56	17.18	21.86	7.14414	7.63363
11	55.86	63.16	8.31849	8.32684	57	16.52	21.08	7.05178	7.56896
12	54.87	62.18	8.31673	8.32608	58	15.86	20.31	6.95225	7.49927
13	53.90	61.19	8.31480	8.32522	59	15.23	19.54	6.85004	7.42321
14	52.93	60.21	8.31265	8.32427	60	14.61	18.78	6.74206	7.34135
15	51.98	59.23	8.31029	8.32320	61	14.01	18.04	6.63010	7.25457
16	51.04	58.26	8.30770	8.32203	62	13.42	17.30	6.51232	7.16020
17	50.12	57.29	8.30489	8.32071	63	12.86	16.58	6.39301	7.06046
18	49.21	56.33	8.30180	8.31926	64	12.31	15.88	6.26822	6.95537
19	48.31	55.37	8.29841	8.31764	65	11.77	15.18	6.13789	6.84161
20	47.42	54.41	8.29471	8.31584	66	11.26	14.51	6.00726	6.72393
21	46.53	53.45	8.29061	8.31383	67	10.76	13.85	5.87165	6.59893
22	45.65	52.50	8.28613	8.31161	68	10.28	13.20	5.73403	6.46635
23	44.77	51.54	8.28117	8.30912	69	9.81	12.57	5.59182	6.32818
24	43.88	50.58	8.27564	8.30633	70	9.37	11.96	5.45165	6.18466
25	43.00	49.63	8.26959	8.30326	71	8.94	11.37	5.30775	6.03607
26	42.10	48.67	8.26274	8.29981	72	8.54	10.80	5.16744	5.88278
27	41.20	47.71	8.25516	8.29595	73	8.15	10.24	5.02437	5.72222
28	40.30	46.76	8.24677	8.29171	74	7.77	9.70	4.87876	5.55743
29	39.39	45.81	8.23737	8.28697	75	7.41	9.18	4.73490	5.38893
30	38.48	44.86	8.22694	8.28170	76	7.07	8.68	4.59354	5.21727
31	37.57	43.91	8.21538	8.27583	77	6.73	8.21	4.44663	5.04679
32	36.66	42.96	8.20257	8.26930	78	6.41	7.75	4.30309	4.87092
33	35.75	42.02	8.18836	8.26210	79	6.10	7.31	4.15898	4.69389
34	34.84	41.07	8.17262	8.25400	80	5.82	6.89	4.02440	4.51647
35	33.94	40.13	8.15536	8.24509	81	5.55	6.50	3.89051	4.34399
36	33.05	39.19	8.13647	8.23517	82	5.31	6.13	3.76802	4.17315
37	32.16	38.26	8.11558	8.22426	83	5.09	5.78	3.65276	4.00482
38	31.28	37.32	8.09274	8.21199	84	4.89	5.45	3.54546	3.83988
39	30.41	36.40	8.06781	8.19866	85	4.72	5.14	3.45232	3.67921
40	29.54	35.48	8.04030	8.18386	86	4.57	4.85	3.36864	3.52371
41	28.69	34.57	8.01067	8.16762	87	4.45	4.58	3.30066	3.37426
42	27.85	33.67	7.97844	8.14983	88	4.36	4.33	3.24907	3.23175
43	27.02	32.77	7.94344	8.13012	89	4.32	4.11	3.22597	3.10296
44	26.20	31.89	7.90547	8.10881	90	4.30	3.92	3.21438	2.98912
45	25.38	31.01	7.86380	8.08527					

Annuity table (Table B)

Year	Amount	Year	Amount	Year	Amount	Year	Amount
1	0.8929	26	7.8957	51	8.3076	76	8.3318
2	1.6900	27	7.9426	52	8.3104	77	8.3320
3	2.4018	28	7.9844	53	8.3128	78	8.3321
4	3.0374	29	8.0218	54	8.3150	79	8.3323
5	3.6048	30	8.0552	55	8.3170	80	8.3324
6	4.1114	31	8.0850	56	8.3187	81	8.3325
7	4.5638	32	8.1116	57	8.3203	82	8.3326
8	4.9676	33	8.1354	58	8.3217	83	8.3326
9	5.3282	34	8.1566	59	8.3229	84	8.3327
10	5.6502	35	8.1755	60	8.3240	85	8.3328
11	5.9377	36	8.1924	61	8.3250	86	8.3328
12	6.1944	37	8.2075	62	8.3259	87	8.3329
13	6.4236	38	8.2210	63	8.3267	88	8.3330
14	6.6282	39	8.2330	64	8.3274	89	8.3330
15	6.8109	40	8.2438	65	8.3281	90	8.3330
16	6.9740	41	8.2534	66	8.3286	91	8.3331
17	7.1196	42	8.2619	67	8.3291	92	8.3331
18	7.2497	43	8.2696	68	8.3296	93	8.3331
19	7.3658	44	8.2764	69	8.3300	94	8.3331
20	7.4694	45	8.2825	70	8.3303	95	8.3332
21	7.5620	46	8.2880	71	8.3307	96	8.3332
22	7.6446	47	8.2928	72	8.3310	97	8.3332
23	7.7184	48	8.2972	73	8.3312	98	8.3332
24	7.7843	49	8.3010	74	8.3314	99	8.3332
25	7.8431	50	8.3045	75	8.3316	100	8.3332