



UNIVERSITY
OF
JOHANNESBURG

Department of Finance and Investment Management

Financial Planning 3B

FPL3B01 & FPL03B3

FINAL ASSESSMENT OPPORTUNITY

9 November 2019

Time: 2 hours

Marks: 100

Assessors: Ms Mary-ann Ebigo

Internal Moderator: Ms S Naidu

External Moderator: Mr M Janoo

INSTRUCTIONS:

- This paper consists of 16 pages.
- Answer ALL questions in the **answer book** provided. Only answers in your own handwriting in the official answer book will be considered.
- Silent, non-programmable calculators may be used, unless otherwise instructed. The use of any other electronic devices for whatever reason will lead to immediate expulsion from the examination as well as from the course
- Use today's date for all calculations unless instructed differently
- Answers that have been corrected by the use of Tippex and answers in pencil will **not** be marked.
- Scratch out all open spaces and empty pages.
- Good luck!

Question	Topic	Marks	Time
1	Multiple Choice Questions	26	28
2	Insurance & Risk Management	10	12
3	Business Assurance	10	12
4	Estate Planning	30	36
5	Healthcare Planning	8	10
6	Trusts	10	17
7	Business Entities	6	5
		100	120 minutes

QUESTION 1

[26 Marks]

REQUIRED:

Select the correct option by WRITING the corresponding letter of the answer in the answer book provided.

1.1 A trust created during the lifetime of the founder, where the income or capital received by the beneficiaries is determined at the discretion of the trustees can be described as: **(2)**

- A. Inter vivos trust; beneficiaries have vested rights.
- B. Trust mortis causa; beneficiaries have no vested rights.
- C. Inter vivos trust; beneficiaries have no vested rights.
- D. Trust mortis causa; beneficiaries have vested rights.

1.2 Sally (38) is entitled to an annuity of R10 000 from an industrial building held by Susan. On Sally's death Susan was 39 years old. Indicate which of the following statements is correct. **(2)**

- A. The value of the annuity in Sally's estate for estate duty purposes is R10 000.
- B. The value of the annuity in Susan's estate for estate duty purposes is R83 033.
- C. The value of the annuity in Sally's estate for estate duty purposes is R80 403.
- D. The value of the annuity in Susan's estate for estate duty purposes is R82 998.

1.3 Hellen died on 16 January 2009. Her net estate at the time of her death was R1 800 000 and she had left her entire estate to Peter, her surviving spouse. Peter died on 14 February 2019 and He never remarried. His net estate at death was R9 500 000. The estate duty payable on Peter's estate is _____. Indicate the **correct** option. **(2)**

- A. R1 200 000
- B. R140 000
- C. R500 000
- D. R860 000

1.4 Which of the following is not included as a benefit option regarding medical aid schemes? **(2)**

- A. Traditional options
- B. Hospital Plans
- C. Habitation Options
- D. Above-threshold benefits

1.5 Peter Watson has been a member of Healthy Living Medical Scheme for 1 year and 6 months. He no longer qualifies as a dependent on that scheme and would like to leave the medical scheme now and join the Vitality Medical scheme within 60 days. **(2)**

Which waiting periods can Vitality impose on him when he joins the scheme in 60 days?

- A. Three month general waiting period.
- B. Three month general and 12 month condition specific waiting period.
- C. There will be no waiting periods applicable.
- D. 12 month condition specific period.

- 1.6 Bruce has taken out a long term insurance policy. The premiums are payable on the 5th and the 26th of every month. During the month of October Bruce forgot to make the payment on the 5th of October. Indicate the correct statement: **(2)**
- A. The policy will remain in force for a period of 15 days from the due date.
 - B. The policy will remain in force for a period of 1 month from the due date.
 - C. The policy will remain in force for a period of 3 months from the due date.
 - D. The policy will remain in force for a period of 10 days from the due date.
- 1.7 Bob The Builders Ltd wants to take out an insurance policy to protect their business from losses that could arise during the process of construction. Which of the following policies would be best suited for Bob? **(2)**
- A. An engineering policy.
 - B. Product liability and defective workmanship insurance.
 - C. A contractors all risk policy.
 - D. Public liability insurance.
- 1.8 Indicate the incorrect statement regarding the capital gains tax exemption for buy and sell agreements : **(2)**
- A. The exemption will only be applicable upon death of a partner.
 - B. Capital gains tax will be exempted if the owner was the original beneficial owner.
 - C. Capital gains tax will be exempted if the policy is a pure risk policy.
 - D. None of the above.
- 1.9 Paul was married to James. The couple had an adopted son named Leo who is 16. Paul also had an illegitimate child named Given who is 20 from his previous marriage to Hanna. Unfortunately Paul passed away without having a valid will. The value of Paul's estate at death is R1 500 000. In terms of the Intestate Succession Act Paul's estate will devolve as follows. Indicate the correct option: **(2)**
- A. James R500 000, Leo R500 000 and Given R500 000.
 - B. James R375 000, Hanna R375 000, Leo R375 000 and Given R375 000.
 - C. James R750 000 and Leo R750 000.
 - D. James R500 000, Leo R333 333, Given R333 333 and Hanna R333 333.
- 1.10 William was in a polygamous marriage with Jamie and Lucy. William had two children i.e. Cari (14) with Lucy and Sal (7) with Jamie. William died without a valid will therefore his estate will devolve under the Intestate Succession Act. The value of the estate at the time of death was R900 000. Indicate the correct option: **(2)**
- A. Jamie and Lucy will each inherit R450 000 from the estate.
 - B. Jamie and Lucy will inherit R250 000 each and Cari and Sal will each inherit R200 000.
 - C. Jamie, Lucy, Sal and Cari will each inherit R225 000.
 - D. None of the above.

1.11 Carmen entered into a union in accordance with customary law with Ethan to provide him with children since his wife Jessica is unable to. Unfortunately a few years after she entered into this union Ethan passed away. He unfortunately did not have a will. Indicate the correct option: **(2)**

- A. Carmen will receive the greater of R250 000 or a child's share.
- B. Carmen cannot inherit from Ethan's estate.
- C. Carmen can only inherit a value equal to the child's share.
- D. Carmen and Jessica will both inherit the greater of R250 000 or a child's share.

1.12 Coffeepot (Pty) Ltd has three shareholders, Sipho (35%), Lisa (35%) and Tom (30%). The company has decided to take out a key person policy on the life of its managing director, Tom who is Lisa's husband. The purpose of this policy is to cover the potential operational loss of R1 500 000 that will occur if the managing director were to die, become disabled or contract a severe illness. The company will pay the premiums and own this policy which is a pure risk policy. In the policy there is no statement stating that section 11(w) (ii) applies.

The policy value will be: **(4)**

- A. R1 500 000
- B. R1 875 000
- C. R2 604 167
- D. R2 083 333

QUESTION 2

[10 Marks]

Joseph (21) and Werner (29) are married and have a daughter, Sandra (2). Werner would like to make sure that Joseph is financially secure in the event that he dies. Joseph works and earns a monthly salary of R15 000. Werner is a successful mechanical engineer and earns a monthly salary of R70 000.

If Werner were to die he would like the following provision for his spouse:

- Their current monthly expenses amount to R65 000 per month and is expected to decrease by R28 500 if Werner were to die.
- He would like Joseph to receive an additional R4 500 per month to be invested in a savings account for Sandra. This amount will increase annually in line with inflation at 8%.
- He would like to take out a life insurance policy to provide for the above requirements.
- He would like the cover to be calculated until Joseph's 95th birthday i.e. 74 years.
- He would like the expenses to be kept in line with inflation at 8%.
- He assumes an investment rate of 13% compounded monthly.
- He has a STANLIB money market investment with a current value of R1 750 000 that would also be used to supplement his family's needs.
- He would like a lump sum of R4 000 000 to be provided for his daughters education.

REQUIRED:

Calculate the insured amount of the life insurance policy that Werner should take out to meet the stipulated needs. **(10)**

QUESTION 3

[10 Marks]

Question 3.1

Ted, Lily, Marshall and Barney are all shareholders in FunTimes (Pty) Ltd. Their respective shareholding in the company is 40/10/35/15 and the value of the business is R30 000 000. In addition, their respective loan accounts in the business are as follows:

Ted	=	R4 900 000
Lily	=	R 500 000
Marshall	=	R3 200 000
Barney	=	R1 200 000

The shareholders have decided to enter into a buy and sell agreement that will be funded by life insurance. They will each take out a life policy on each other's lives to purchase not only the shareholding but also the loan account of the deceased shareholder.

REQUIRED:

Calculate the total value of the life insurance policies that Barney, Marshall and Lily will have to take out to fund their obligation in terms of the buy and sell agreement on Ted's life. (Life of another basis) .

(5)

Question 3.2

Vincent, Vicky and Virgil are shareholders at Victory (Pty) Ltd. Their shareholding respectively is split 40/50/10. The value of the company is R9 000 000. In addition, their respective loan accounts in the business are as follows:

Vincent	=	R1 000 000
Vicky	=	R1 500 000
Virgil	=	R 650 000

The shareholders have decided to enter into a buy and sell agreement that will be funded by life insurance. They will each take out a life policy on each other's lives (multiple lives) to purchase not only the shareholding but also the loan account of the deceased shareholder.

REQUIRED:

Calculate the total value of the life insurance policies that Vincent will have to take out to fund this obligation in terms of the buy and sell agreement on the life of Vicky and Virgil.

(5)

QUESTION 4**[30 Marks]****Question 4.1**

Ryno (47) is married to Thandi (aged 42), out of community of property excluding the accrual and have one child namely Sipho (22). Ryno's estate consists of the following:

Assets		
Main Residence	R4 400 000	
Holiday house in Cape Town	R1 350 000	
BMW x7	R710 000	The executor sold the car at R650 000
Shares at Knowitall Ltd	R2 000 000	The executor sold the shares for R2 100 000
Shares at Happy People (Pty) Ltd	R300 000	The executor sold the shares for R450 000
Industrial Property	R1 800 000	Ryno owns the industrial building subject to a lifelong usufruct in favour of his spouse Thandi. Ryno is the bare dominium holder.
Yacht	R320 000	A week before Ryno died he donated the yacht to his son. The deed of donation stipulated that Sipho can only enjoy the benefits of the yacht upon Ryno's death.
Provident fund at Victoryiskey (Pty) Ltd	R950 000	
Liabilities		
Capital Gains Tax	R550 000	
Mortgage Bond	R1 870 000	
Credit Card	R75 000	
Personal Loan	R132 000	
Policies		
Life Insurance Policy	R 3 000 000	Ryno is a sales manager at Victoryiskey (Pty) Ltd. The company decided to take an insurance policy to insure the company against any loss that it might sustain upon Rynos untimely death. Ryno is a key member and no premiums are borne by him. The company owns the policy and pays all the premiums.
Life policy	R1 200 000	On Thandi's life, payable to Ryno
Life Policy	R2 000 000	On Ryno's life, payable to estate
Life Policy	R500 000	On Ryno's life, payable to Sipho.

On 25 September Ryno was involved in a car accident that resulted in his untimely passing.

Ryno's last will and testament makes provision for the following:

1. I bequeath my main residence to my only son.
2. I bequeath R1 000 000 to the SPCA, a registered PBO.
3. I bequeath the residue estate to my spouse.
4. I nominate my friend Frank as the executor of my estate (not VAT registered)

You may assume the following;

- Masters Fees R7 000
- Ignore any estate duty apportionment

REQUIRED:

Calculate the estate duty payable in Ryno's estate, Show all calculations.

(20)

Question 4.2

Oscar and Reeve got married in 2001 out of community of property subject to the accrual system. They have two children Kallo (16) and Kyle (10). Oscar and Reeve included their commencement values in the ante-nuptial contract. Oscar's estate at the commencement of the marriage was R950 000 and Reeve's was R600 000. In terms of the antenuptial contract, Reeve excluded the furniture from the accrual, at the dissolution of the marriage.

Sadly Reeve passed away in January 2019. Reeve's estate was as follows:

Asset	R	Notes
Primary residence	R4 200 000	
Furniture	R800 000	
Aston Martin	R400 000	4
Shares in TopTech (Pty) Ltd	R4 000 000	
Investment in Collective Investment Schemes	R900 000	
Shares (JSE)	R80 000	
Cash in Bank	R900 000	5
Unit Trust Investment	R400 000	

Liabilities	Outstanding amount
Outstanding loan on house	R450 000
Vehicle Finance Loan	R120 000

Oscar's estate comprises of the following:

Asset	R	Notes
Share portfolio	R4 000 000	
Unit Trust Investment	R100 000	
Holiday House	R4 000 000	2
Block of flats	R1 500 000	3

Liabilities	Outstanding amount
Credit Card	R50 000
Bank Overdraft	R340 000

NOTES

1. The CPI at the commencement of their marriage was 44.91 and in January 2019 the CPI was 141.81.
2. In 2013 Oscar inherited a holiday house from his father.
3. During the marriage Oscar donated the block of flats to Reeve.
4. In 1999 Reeve inherited her father's Aston Martin.
5. In 2017 Reeve was awarded R600 000 in damages for defamation of character. The amount is included in her bank account.

REQUIRED:

Calculate the accrual claim at the dissolution of the marriage and state who is entitled to the accrual claim.

(10)

QUESTION 5**[8 marks]**

Kaleb (aged 47) is looking to take out medical aid at BestMid Medical Scheme. He has not been a member of a Medical Scheme since the age of 27 but feels it is essential to have medical aid as he approaches retirement. He has a health insurance policy with Liberal insurance. He has maintained the health insurance policy since he took it up when he turned 41. The monthly membership rates at BestMid Medical Scheme will be R3 500 per member.

Question 5.1**REQUIRED:**

Advise Kaleb on the total monthly premium he will pay, including any possible penalties. Show all calculations. **(4)**

Question 5.2

Vincent and Rebecca recently got married in October 2019. They would like to conduct a review with regards to their current healthcare plan. Vincent and Rebecca are unsure of the differences between a Medical Aid Scheme and a Health Insurance Policy.

REQUIRED

Tabulate **two** key differences between a Medical Scheme and Health Insurance. Complete the table below on your answer sheet: **(4)**

	Medical Scheme	Health Insurance
Benefits Paid		
Period of Cover		

QUESTION 6

[10 marks]

Question 6.1

Jacob has been approached by his close friend Piet to become a trustee of the Piet Family Trust. However, Jacob does not understand how the use of a trust will be beneficial to Piet.

REQUIRED:

Inform Jacob of **three** advantages that relate to the use of an inter-vivos or testamentary trust and briefly explain each advantage. **(6)**

Question 6.2

REQUIRED:

Trustees can lose their position in office in a number of ways. List **four** circumstances which justify the removal of a trustee by court in term of section 20(1) of the Trust Property Control Act. **(4)**

QUESTION 7

[6 marks]

Question 7.1

Kaleb and Ryan would like to establish a business however, they are undecided and would like to understand the main difference between a company and a partnership.

REQUIRED:

Inform Kaleb and Ryan of **three** differences between a company and a partnership. **(6)**

Appendix B**The a (55) life mortality tables**

The a(55) tables for annuitants (published in 1953 by the University Press, Cambridge)								
Male					Female			
Age		Age			Age		Age	
20	53,379	60	17,520		20	57,496	60	21,144
21	52,341	61	16,773		21	56,562	61	20,330
22	51,405	62	16,041		22	55,630	62	19,526
23	50,469	63	15,323		23	54,696	63	18,733
24	49,531	64	14,622		24	53,761	64	17,9 53
25	48,593	65	13,936		25	52,827	65	17,185
26	47,656	66	13,268		26	51,892	66	16,430
27	46,717	67	12,617		27	50,955	67	15,690
28	45,778	68	11,984		28	50,020	68	14,965
29	44,839	69	11,370		29	49,084	69	14,2 56
30	43,900	70	10,774		30	48,148	70	13,563
31	42,961	71	10,199		31	47,211	71	12,887
32	42,023	72	9,643		32	46,275	72	12,229
33	41,085	73	9,107		33	45,339	73	11,590
34	40,149	74	8,592		34	44,404	74	10,9 70
35	39,214	75	8,098		35	43,470	75	10,370
36	38,281	76	7,622		36	42,537	76	9,788
37	37,349	77	7,166		37	41,605	77	9,226
38	36,420	78	6,731		38	40,674	78	8,686
39	35,495	79	6,317		39	39,745	79	8,1 67
40	34,572	80	5,923		40	38,818	80	7,669
41	33,654	81	5,547		41	37,894	81	7,192
42	32,739	82	5,192		42	36,972	82	6,736
43	31,829	83	4,856		43	36,053	83	6,302
44	30,925	84	4,539		44	35,137	84	5,8 90
45	30,026	85	4,241		45	34,225	85	5,500
46	29,133	86	3,961		46	33,316	86	5,131
47	28,247	87	3,698		47	32,411	87	4,782
48	27,368	88	3,453		48	31,511	88	4,455
49	26,496	89	3,223		49	30,615	89	4,1 47
50	25,632	90	3,009		50	29,724	90	3,859
51	24,776	91	2,818		51	28,838	91	3,596
52	23,929	92	2,640		52	27,957	92	3,352
53	23,091	93	2,477		53	27,082	93	3,126
54	22,263	94	2,326		54	26,212	94	2,916
55	21,445	95	2,186		55	25,349	95	2,723
56	20,636	96	2,058		56	24,492	96	2,544
57	29,839	97	1,941		57	23,643	97	2,379
58	19,054	98	1,832		58	22,801	98	2,228
59	18,280	99	1,731		59	21,968	99	2,087

Life expectancy and present value tables (Table A)

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
0	64,74	72,36	8,32791	8,33105	0
1	65,37	72,74	8,32828	8,33114	1
2	64,50	71,87	8,32776	8,33091	2
3	63,57	70,93	8,32714	8,33064	3
4	62,63	69,97	8,32644	8,33033	4
5	61,69	69,02	8,32567	8,32999	5
6	60,74	68,06	8,32480	8,32961	6
7	59,78	67,09	8,32381	8,32918	7
8	58,81	66,11	8,32271	8,32869	8
9	57,83	65,14	8,32146	8,32815	9
10	56,85	64,15	8,32007	8,32753	10
11	55,86	63,16	8,31849	8,32684	11
12	54,87	62,18	8,31673	8,32608	12
13	53,90	61,19	8,31480	8,32522	13
14	52,93	60,21	8,31265	8,32427	14
15	51,98	59,23	8,31029	8,32320	15
16	51,04	58,26	8,30770	8,32203	16
17	50,12	57,29	8,30489	8,32071	17
18	49,21	56,33	8,30180	8,31926	18
19	48,31	55,37	8,29841	8,31764	19
20	47,42	54,41	8,29471	8,31584	20
21	46,53	53,45	8,29061	8,31383	21
22	45,65	52,50	8,28613	8,31161	22
23	44,77	51,54	8,28117	8,30912	23
24	43,88	50,58	8,27564	8,30633	24
25	43,00	49,63	8,26959	8,30326	25
26	42,10	48,67	8,26274	8,29981	26
27	41,20	47,71	8,25516	8,29595	27
28	40,30	46,76	8,24677	8,29171	28
29	39,39	45,81	8,23737	8,28697	29
30	38,48	44,86	8,22694	8,28170	30
31	37,57	43,91	8,21538	8,27583	31
32	36,66	42,96	8,20257	8,26930	32
33	35,75	42,02	8,18836	8,26210	33
34	34,84	41,07	8,17262	8,25400	34
35	33,94	40,13	8,15536	8,24509	35
36	33,05	39,19	8,13647	8,23517	36
37	32,16	38,26	8,11558	8,22426	37
38	31,28	37,32	8,09274	8,21199	38
39	30,41	36,40	8,06781	8,19866	39
40	29,54	35,48	8,04030	8,18386	40
41	28,69	34,57	8,01067	8,16762	41
42	27,85	33,67	7,97844	8,14983	42
43	27,02	32,77	7,94344	8,13012	43
44	26,20	31,89	7,90547	8,10881	44

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
45	25,38	31,01	7,86380	8,08527	45
46	24,58	30,14	7,81924	8,05956	46
47	23,79	29,27	7,77109	8,03119	47
48	23,00	28,41	7,71843	8,00026	48
49	22,23	27,55	7,66236	7,96617	49
50	21,47	26,71	7,60201	7,92950	50
51	20,72	25,88	7,53713	7,88967	51
52	19,98	25,06	7,46748	7,84646	52
53	19,26	24,25	7,39387	7,79965	53
54	18,56	23,44	7,31631	7,74834	54
55	17,86	22,65	7,23234	7,69355	55
56	17,18	21,86	7,14414	7,63363	56
57	16,52	21,08	7,05178	7,56896	57
58	15,86	20,31	6,95225	7,49927	58
59	15,23	19,54	6,85004	7,42321	59
60	14,61	18,78	6,74206	7,34135	60
61	14,01	18,04	6,63010	7,25457	61
62	13,42	17,30	6,51232	7,16020	62
63	12,86	16,58	6,39301	7,06046	63
64	12,31	15,88	6,26822	6,95537	64
65	11,77	15,18	6,13789	6,84161	65
66	11,26	14,51	6,00726	6,72393	66
67	10,76	13,85	5,87165	6,59893	67
68	10,28	13,20	5,73403	6,46635	68
69	9,81	12,57	5,59182	6,32818	69
70	9,37	11,96	5,45165	6,18466	70
71	8,94	11,37	5,30775	6,03607	71
72	8,54	10,80	5,16744	5,88278	72
73	8,15	10,24	5,02437	5,72222	73
74	7,77	9,70	4,87876	5,55743	74
75	7,41	9,18	4,73490	5,38893	75
76	7,07	8,68	4,59354	5,21727	76
77	6,73	8,21	4,44663	5,04679	77
78	6,41	7,75	4,30309	4,87092	78
79	6,10	7,31	4,15898	4,69389	79
80	5,82	6,89	4,02440	4,51647	80
81	5,55	6,50	3,89051	4,34399	81
82	5,31	6,13	3,76802	4,17315	82
83	5,09	5,78	3,65276	4,00482	83
84	4,89	5,45	3,54546	3,83988	84
85	4,72	5,14	3,45232	3,67921	85
86	4,57	4,85	3,36864	3,52371	86
87	4,45	4,58	3,30066	3,37426	87
88	4,36	4,33	3,24907	3,23175	88
89	4,32	4,11	3,22597	3,10296	89
90	4,30	3,92	3,21438	2,98912	90

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

Late Joiner Penalty Rates:

<u>Penalty Bands</u>	<u>Maximum Penalty</u>
<u>1-4 years</u>	Contribution *0.05
<u>5-14 years</u>	Contribution *0.25
<u>15-24 years</u>	Contribution * 0,5
<u>25 + years</u>	Contribution * 0,75