



Department of Finance and Investment Management

**Integrated Financial Planning
IFP8x01**

SUPPLEMENTARY ASSESSMENT OPPORTUNITY

November 2021

Time: 5.5 hours

Marks: 100

Assessor: Ms C Venter

Internal Moderator: Mrs S Naidu

External Moderator: Mrs R Brune

INSTRUCTIONS:

- Answer ALL questions
- This is an open booked exam. The time allocated to the exam is determined on the basis that you have studied all the required material prior to this assessment. There may not be sufficient time to complete the assessment if time is expended searching and consulting material to obtain the answers
- **Please note further that committing plagiarism is to ...**
 - present the ideas, words, or results of another person as your own, without giving appropriate recognition of the origin;
 - use the ideas or words of a person without giving appropriate credit to the person or source;
 - use sentences, paragraphs or parts of articles and books without quotation marks and appropriate acknowledgement;
 - download and/or copy and paste sentences, paragraphs, or sections of writings from the Internet and other academic sources and present these as your own. This applies equally to past assessments and exams;
 - use a person's direct words, without quotation marks, even when you credit the source;
 - use ideas without making them properly your own, although you might still have credited the original source; and/or
 - formulate your words so closely to the original that you could not have written them without having had the source next to you, i.e. your paraphrase of the author's words is too close to the original author's use of the words, even if you cited your source.

Collusion: Collusion is unauthorised collaboration with another person or persons.

- **Where there are reasonable grounds for believing that intentional plagiarism or collusion has occurred, this matter will be reported and may result in disciplinary action being taken.**

Further, I understand and agree to the following:

- I have read the UJ Plagiarism Policy posted on the institutional website.
- I understand that plagiarism means presenting the ideas and words of someone else as my own, without appropriate recognition of the source;
- I confirm that the work that I submit for this assessment is my own and;
- I am aware that the university views plagiarism as a serious punishable offence

Case Study Facts

Jacob (44) and Gavin (47) were in a long-term relationship for the last 15 years. The relationship recently ended because of a heart attack that took Gavin's life.

Jacob is distraught and does not want to handle any financial affairs. He is planning a three (3) week break with their adopted children who are too young to understand why their father is not returning home. Jacob and Gavin's adopted children are Bella (3) and Teddy (6).

Jacob has asked you, their financial planner, to assist while he is away. He will meet with you upon his return.

Fortunately, you had met with the couple just before the incident and have the latest information. Your primary concern is the fact that neither of them had executed a valid will

The information you have on file is as follows:

JACOB

Jacob and Mary are equal partners in a Partnership named Esoteric Book Store (EBS for short). They are specialists in the spiritual side of life and not only sell books, but have a publishing house under the same name. They do not keep separate accounting entries for each entity.

EBS was set up sixteen (16) years ago and has been extremely successful. Both Jacob and Mary are involved in the day-to-day running of Esoteric Book Store. They currently have 11 staff members

EBS latest Financial Statements, dated 1 September 2021, show the following entries.

Business: EBS – BOOK STORE AND PUBLISHING HOUSE

Entity: Equal Partnership between Jacob Helder and Mary Tom.

Not registered as a Microbusiness.

Notes: Jacob is not married. Mary is married in community of property to Jack Tom.

Assets and liabilities of EBS date 1 September 2021

ASSETS		
Current assets	R2 012 000	This is the total of stock on hand and some investments and accounts receivable
Long Term Assets	R880 700	These are replaceable assets such as laptops, furniture, books shelves etc. Generally replaced every 5 years.
Fixed Assets	R6 900 000	Building and machinery
LIABILITIES		
Current liabilities	R318 900	Debtors and projected bad debt
Long term liabilities	R1 907 000	Mortgage to bank on property owned.
NET ASSET VALUE	R 7 566 800	

Income and expenses for EBS for the current year of assessment.

Income		
Trade income	R3 111 200	
Interest received on credit balance of bank account	R23 190	
Dividends received by the partnership	R12 878	Investments made. All local dividends
Expenses		
Salaries paid to employees	R 918 000	
Salaries paid to the partners	R1 500 000	Each partner receives a salary of R750 000)
Contributions to pension fund	R231 900	Contributions for employees and partners
Trade expenses	R779 100	
Bad debt	R101 300	
Depreciation	R54 000	
NET PROFIT	312 968	

Jacob's current salary statement reflects the following benefits and amounts:

- | | | |
|----|--|-------------------------|
| A. | Pension interest in pension fund | R809 990 |
| B. | Employer contribution to the fund | R37 500 (10% of salary) |
| C. | Employee contribution to the fund | R37 500 (10% of salary) |
| D. | Life cover on death only – benefit within the Pension fund | R2 500 000 |

No beneficiaries were nominated for the above benefits.

The employer has a Medical Aid scheme but employees have to pay the full contribution. Jacob pays R36 000 which is the annual contribution for the entire family.

JACOB: ASSETS AND LIABILITIES

ASSET	MARKET VALUE	BASE COST	LIABILITIES	NOTES
Motor Vehicle: BMW	R315 670	R400 000	R120 123	
Bank account: cheque	R113 450			
Primary residence	Total value R4 130 900	Total cost R1 098 100	Total liability R3 999 100	Jointly owned with Gavin while he was alive
Household contents	Total value R980 760	Total cost R1 000 000	R0	Jointly owned with Gavin while he was alive
Personal belongings	R634 000	R712 000		
Credit card			R21 890	
Clothing accounts			R22 150	For the entire family's clothing needs.

JACOB : LIFE INSURANCE AND INVESTMENT PORTFOLIO

POLICY TYPE	OWNER & LIFE ASSURED	BENEFICIARY	RISK COVER	CONTRIBUTION AND NOTES
RISK POLICY 1	Owner: Jacob Life assured: Gavin	None nominated	Life cover: R2 670 000	R1 000 monthly
RISK POLICY 2	Owner & life assured Jacob	Estate	Life cover: R4 100 000	R4 000 monthly
INVESTMENT	OWNER	BENEFICIARY	VALUE	CONTRIBUTIONS
Endowment Policy	Owner and life assured Jacob	The children in equal shares	R378 000	R2 000 monthly. Increases 10% annually. Total contributions over the 7 year term since inception of the policy amount to R212 090.

GAVIN'S DETAILS JUST PRIOR TO HIS DEATH

Gavin was a Director of Good Foods (Pty) Ltd. He joined this company 17 years ago. The other directors and shareholders had implemented both a keyperson policy as well as a restraint of trade agreement shortly after Gavin joined the company. Gavin was a qualified chef and nutritionist and they did not want to lose him to competitors as they understood the impact on the company revenue in the event of Gavin's death or disability.

Gavin's annual remuneration comprised of the following benefits:

Salary	R2 500 000
Pension Fund contributions by the employer	R24 000
Unapproved cover paid by the employer	R12 510
Entertainment allowance	R200 000

Gavin's salary statement reflected the following benefits and values

Pension retirement age	65
Employee and employer both contributed same amounts towards the Pension Fund	
Pension interest	R4 679 123
Unapproved life cover on death	R5 000 000
Unapproved cover on disability	R3 900 000

No beneficiaries were nominated for the above benefits.

EMPLOYER OWNED POLICY SCHEDULE ON THE LIFE OF GAVIN. THE EMPLOYER IS OWNER AND PAYOR. WHERE APPLICABLE THE EMPLOYER IS BENEFICIARY.

POLICY TYPE	RISK COVER / INVESTMENT VALUES	NOTES
RISK COVER	Death: R 4 000 000 Disability: R 4 000 000	Keyperson policy
SINKING FUND POLICY	Investment value: R5 300 000	For settlement of any restraint of trade. The contract with Gavin was R2 900 000 for a 1 year restraint.

GAVIN HAD THE FOLLOWING ASSETS AND LIABILITIES JUST BEFORE HIS DEATH:

ASSET	MARKET VALUE	BASE COST	LIABILITIES	NOTES
Motor Vehicle: Jaguar	R911 120	R1 500 000		
Bank account: cheque	R222 450			
Primary residence	Total value R4 130 900	Total cost R1 098 100	Total liability R3 999 100	Jointly owned with Jacob
Household contents	Total value R980 760	Total cost R1 000 000	R0	Jointly owned with Jacob
Personal belongings	R1 034 000	R1 698 900		
Holiday apartment in Paris	R3 891 200	R3 100 000	R3 670 210 (indebted to a SA Bank)	He purchased this holiday home with a bonus payment 3 years ago.
Credit card			R111 980	

GAVIN: INSURANCE AND INVESTMENT PORTFOLIO (JUST BEFORE HE DIED)

POLICY TYPE	OWNER & LIFE ASSURED	BENEFICIARY	RISK COVER	CONTRIBUTION AND NOTES
RISK POLICY 3	Owner: Gavin Life assured: Gavin	Jacob 100%	Life cover: R3 000 670	R2 000 monthly
RISK POLICY 4	Owner & life assured Gavin	Estate	Life cover: R2 100 000	R1 600 monthly
RISK POLICY 5	Owner and life assured Gavin	Children in equal shares	Life cover: R3 000 000	R2 000 monthly
INVESTMENT	OWNER	BENEFICIARY	VALUE	CONTRIBUTIONS
Share portfolio 100% equities	Gavin	Not applicable	R687 780	R3 000 monthly. Increases 10% annually. Total contributions over the 10 year term since inception: R374 560

You have updated all the information, and received the necessary death claims forms that have to be completed for the insurer and Gavin's employer (to claim both against the unapproved scheme and the pension fund).

Any outstanding facts will be provided at the meeting with Jacob.

Assumptions to be made:

Inflation	7.6%
Investment return before retirement	9%
Investment return after retirement	10%
Contribution and any income increases	10%
Executor is not VAT registered	
Unless otherwise specified, marginal tax rates are	45%
Funeral costs	R63 100
Administration costs	R103 000
The executor has no authority to deal with foreign assets.	

QUESTION 1

[TOTAL 38 MARKS]

It is when a client dies, that a planner hopes that he has actually planned accurately for the dependants of the deceased. It is important for you to establish that there is enough liquidity to address all expenses and liabilities as well as to ensure that Gavin's dependents have surplus funds to invest going forward.

Sadly, Jacob confirms that they had not (before Gavin died) done anything about executing a Will. Gavin has therefore died intestate.

Question 1.1 (20 MARKS)

Calculate the estate duty that is payable by Gavin's deceased estate. Show all your calculations, address all transactions and include the reason why any transaction (asset) is excluded from your estate duty calculation.

Question 1.2 (14 MARKS)

Calculate if Jacob and the children will have any surplus funds that they can invest to generate an annual income of R500 000 which, must keep up with inflation. The income is required for a period of 10 years. Take into account cash amounts from **all sources** with the exception of the pension fund held by Gavin.

For the purposes of this question, you have to assume that any cash that is distributed to the children from the deceased estate, will be transferred to the Guardian's fund.

Question 1.3 (4 MARKS)

Advise Jacob of the biggest challenge that he will face as a result of Gavin having died without a Will in place. Fully motivate your answer.

QUESTION 2

[TOTAL 24 MARKS]

The trustees of the Good Foods (Pty) Ltd Pension Fund, Gavin's previous employer, has contacted both you and Jacob to attend a meeting to discuss the distribution of the pension interest.

The trustees have decided to award the full pension interest to the children but are happy to pay the money over to Jacob as the guardian of the children.

Jacob has to decide whether he would prefer to withdraw the full pension interest in cash or to transfer the full amount into a living annuity.

Question 2.1 (2 MARKS)

Calculate the amount that will be available for Jacob to invest if he decides to withdraw the full pension amount of R 4 679 123,

Question 2.2 (12 MARKS)

The employer's financial planner advises Jacob that he has one of two choices:

1. Invest the full pension interest amount of R 4 679 123 in a living annuity with an option to draw anything from 2.5% to 17.5%.

Or

2. Withdraw the full amount pension interest in cash and invest the net amount in a portfolio of unit trusts. Jacob will then have the opportunity of withdrawing any amount as and when needed.

The growth rate of the investment for both option 1 and 2, is 9%.

Jacob needs some guidance on the option that would be best suited to their needs. Take into account that their income needs of R500 000 annually will only be paid for a period of 10 years. Although there was surplus cash of R234 000, this is not sufficient to address another year's income.

REQUIRED

Advise and recommend the option you believe would be best suited to Jacob's needs. Fully motivate and show any calculations necessary to support your recommendations.

Question 2.3 (4 MARKS)

Given Jacob's life-stage, recommend to Jacob the ideal asset allocation if he opts to invest in the living annuity or if he chooses to invest in the unit trust portfolio. Fully motivate your recommendation.

Question 2.4 (6 MARKS)

Jacob has previously been advised, on numerous occasions to set up a trust for the benefit of his children considering that they are minors. Jacob would like the investment that you have recommended in question 2.3, to be transferred or acquired by a Trust that he will set up whilst alive. He will name it the B&T Trust. The beneficiaries of the trust will be his children Bella and Teddy as well as Jacob himself.

REQUIRED

Comment on the following possible transactions and include, in summary, any tax consequences (ignore estate duty taxes) (2 x 3 marks)

- a) Possibility of transferring the pension interest to the trust and (2)
- b) Whether the trust could be the annuitant of the living annuity and (2)
- c) Whether the trust can directly own unit trusts. (2)

QUESTION 3

[TOTAL 23 MARKS]

Jacob clearly, has to start managing his financial affairs in a more responsible manner. He is fully aware that there are sufficient funds for at least 10 years. The investment of the pension proceeds that he has received from Gavin's pension fund, will also assist with provision for the children's education. He has to, however, ensure that he addresses his own retirement planning as he does not believe that the employment pension fund will be sufficient.

Question 3.1 (10 MARKS)

At this stage he would only want to contribute the maximum contribution to a retirement annuity which is beneficial from an income tax perspective. Advise him on the maximum contribution that will be allowed as a tax deduction (use calculations to support your answer). For the purpose of the calculation, assume a full year contribution, as he will contribute the total contribution needed as an annual contribution.

Question 3.2 (6 MARKS)

Assume for the purpose of this question that Jacob is able to contribute an additional R250 000 annual contribution towards a retirement annuity. This is over and above his contribution to the pension fund which the partnership EBS offers its employees.

Calculate the capital required if he were to retire at the age of 55. He will need income of R500 000 (in today's terms) a year for a period of 15 years which must keep up with inflation.

Question 3.3 (7 MARKS)

Regardless of your answer in 3.2 above, assume the capital required when Jacob is 55 is R14 000 000. Calculate whether there will be a shortfall or surplus if you take his pension fund as well as his new retirement annuity into account for retirement capital at age 55.

QUESTION 4

[TOTAL 15 MARKS]

Mary and Jacob have agreed to enter into a buy and sell arrangement funded with life insurances policies as this would be the best solution to meet everyone's needs.

Question 4.1 (6 marks)

Jacob and Mary have asked that you assist them with the implementation of life insurance policies to fund the buy and sell agreement. Although you are not qualified to draft the buy and sell agreement itself, you highlight some issues that they have to consider when they meet with their lawyers.

Explain, as comprehensively as you can, to Mary and Jacob,

A: One concern which, if not addressed, will result in the buy and sell arrangement failing

B: One concern which could unintentionally place financial strain on both or either of the partners.

Question 4.2 (5 MARKS)

Jacob and Mary have identified 3 staff members whom they know will be difficult to replace as, not only do they possess special skills but, in the event of their deaths, the company will experience a decline in customers and the business simply cannot afford this.

They want to implement life insurance policies for each of the 3 staff members for an amount of R2 500 000 (each) in the event of their deaths.

Their net profit is not substantial and Jacob and Mary would want to deduct the premiums to the keyperson policies from the partnership's taxable income to reduce the impact of the additional costs.

Explain to them whether this is possible or whether they are prohibited from deducting keyperson policy contributions from the partnership's taxable income. Fully motivate and make reference to legislation.

QUESTION 4.3 (4 MARKS)

Jacob and Mary would like you to confirm whether, at their retirement from the partnership, the value of their partnership interest will qualify as a small business for the purpose of the R1 800 000 capital gain exclusion. They are also considering perhaps selling some of their interest when they retire and retaining a portion until their death when the buy and sell arrangement will come into operation.

Briefly explain to them whether they will qualify for the exemption provided for in paragraph 57 of the Eighth Schedule when they retire as well as the possible impact, if any, if they retain some interest at retirement and dispose of the remaining interest at death. Fully motivate.