



COR167e
Managing Your Personal Finances

Tutor-Marked Assignment 02
January 2017 Presentation

TUTOR-MARKED ASSIGNMENT 02

This tutor-marked assignment is worth 40% of the final mark for [COR167e Managing Your Personal Finances](#).

The cut-off date for this assignment is [2355hrs on 07 April 2017.](#)

Additional instructions:

Submit your solution document in the form of a single MS Word file on or before the cut-off date shown above.

You will need to indicate clearly on the front page your name, student ID, course title and assignment number.

The websites will help facilitate your research. However, you will be penalized if you simply cut & paste information from these websites in your assignment.

This TMA assesses the following learning outcomes:

- Interpret the concept of time value of money
- Demonstrate the critical aspects of Wealth Protection through Insurance Planning
- Develop the key elements in Wealth Accumulation for Retirement Planning
- Use the key aspects of Wealth Preservation in Tax Planning and Estate Planning

CASE STUDY

Darren Leong, aged 38, lives in a HDB Executive Apartment. Besides the HDB executive apartment, Darren owns the following assets as shown below:

WEALTH GROUNDING - FOUNDATIONAL PART

HDB Executive Apartment

Purchase Price	\$280,000
Original Mortgage	\$196,000
Current Mortgage Balance	\$135,000
Fair Market Value	\$735,000

Car

Purchase Price	\$128,000
Original Loan	\$96,000
Current Loan Balance	\$78,000
Fair Market Value	\$108,000

Other Assets

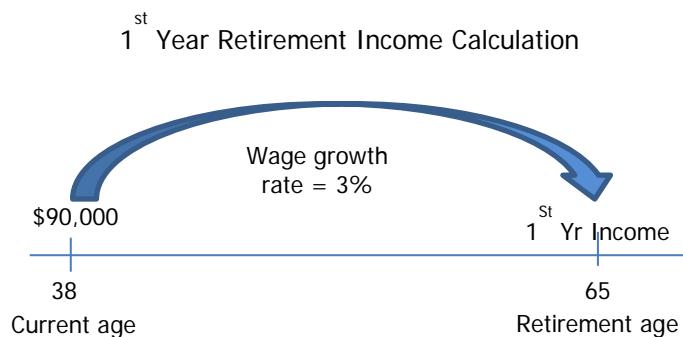
Savings Account Balance	\$3,000
Fixed Deposit Account	\$4,500
Growth Stock Unit Trust – Market Value	\$65,000
Personal Property	\$9,000
Credit Card Outstanding Balance	\$7,000
CPF Ordinary Account Balance	\$93,000
CPF Special Account Balance	\$26,000

WEALTH PROTECTION - TAX PLANNING

1. About 8 years ago, Darren bought a \$150,000 5-year limited-pay whole life plan. The annual premium for his plan was \$19,500 p.a. The Cash Value of his plan is \$48,750.
2. Darren has put in place a Hospital Income Insurance Plan that is designed to pay him a daily cash benefit of \$250 up to 180 days per hospitalization and for 1000 days per lifetime. The premium for the Hospital Income Insurance plan is \$1,975 p.a.
3. Darren recently bought a Disability Income Insurance policy with a sum assured equal to 70% of his monthly salary, i.e. \$5,250 which is 70% of (\$5,000 + \$2,500). The deferred period is 6 months in the event that he is disabled and the Disability Income Insurance policy covers him up to the age of 65 years. The annual premium for his plan is \$10,800 p.a.
4. Darren rents out one common room to Mr Leow for \$850 per month. Mr Leow has gone overseas for 6 weeks and will return in early January 2017. Mr Leow said that he would pay the rent for December 2016 and January 2017 upon his return.

WEALTH ACCUMULATION - RETIREMENT PLANNING

1. Darren Leong currently works as a freelance Logistics Consultant and for the last 5 years he has been earning an average annual gross income of \$60,000. Darren also draws an Income of \$2,500 per month from an “Interior Décor Specialist” partnership.
2. Darren expects his average annual gross income from his freelance logistics consultancy and partnership business to grow at 3% per annum. His expected retirement age is 65.



WEALTH GIVING – ESTATE PLANNING

Darren's parents are still alive and staying with him. Darren has a will which only provides for the current house to be given to his wife. His Unit Trust and insurance policy are to be shared equally between his parents and daughter, Katherine.

Question 1 (WEALTH GROUNDING – FOUNDATIONAL PART)

(a) (i) What is Darren's total investment asset to net worth ratio? (6 marks)

(ii) What are the **TWO (2)** primary considerations in determining Darren's ability to handle debt? (6 marks)

(b) WEALTH PRESERVATION – TAX PLANNING

(i) Describe the difference between a tax deduction and a tax rebate. (6 marks)

(ii) State the year of assessment Darren needs to declare the rent income. (6 marks)

(c) What type of insurance policies can Darren claim against his Life Insurance Tax Relief? (8 marks)

Question 2 (WEALTH ACCUMULATION – RETIREMENT PLANNING)

(a) Does Darren need to contribute to his CPF account? Explain. (6 marks)

(b) (i) What are the implications if Darren desires an early retirement? (6 marks)

(ii) What are the **THREE (3)** options open to Darren when he retires? (6 marks)

(iii) What **THREE (3)** options are open to the “Interior Décor Specialist” partnership in continuing the business upon Darren’s death?

(c) Calculate Darren’s First Year Income Required at Retirement age. (8 marks)

Question 3 (WEALTH DISTRIBUTION – ESTATE PLANNING)

(a) Define the following terms related to estate planning:

1. Testator
2. Contingent beneficiary
3. Probate
4. Intestate
5. Will Substitutes

(10 marks)

(b) (i) List **FOUR (4)** benefits of a Will. (8 marks)

(ii) State **FOUR (4)** kinds of problems relating to the beneficiary that a trustee may face when trying to distribute assets to beneficiaries. (8 marks)

(c) Explain who will be entitled to the following assets upon Darren’s demise:

1. Current House
2. CPF OA and SA amount
3. Unit Trust \$65,000
4. Whole Life Insurance Policy \$150,000
5. Savings and Fixed Deposit \$3,000 and \$4,500

(10 marks)

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