FINAL EXAMINATION
AUTUMN SESSION 2010

SCHOOL OF ACCOUNTING

Student Family Name:

Student Given Names:

Student Number:

Course:

Unit Name (In Full): Insurance and Risk Management
Unit Number: CO804A
Time Allowed: 3 hours plus 10 minutes reading time.
Number of Questions: 4
Total Number of Pages: 14 pages
Lecturer’s Name: Sharon Taylor

INSTRUCTIONS
PLEASE READ CAREFULLY BEFORE PROCEEDING

1 Write your name and student number on the top of this examination paper and on each answer booklet that you use.
2 This is a CLOSED BOOK exam.
3 Write answers in the examination booklets provided.
4 Questions are not of equal marks. Total value of questions is 50. The final exam makes up 50% of the total marks in this unit.
5 Non programmable calculators may be used. Mobile phones may not be used as calculators.
6 SHOW ALL WORKINGS.

DO NOT TAKE THIS PAPER FROM THE EXAMINATION ROOM

<table>
<thead>
<tr>
<th>Question 1</th>
<th>Question 2</th>
<th>Question 3</th>
<th>Question 4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 marks</td>
<td>15 marks</td>
<td>12 marks</td>
<td>8 marks</td>
<td>50 marks</td>
</tr>
</tbody>
</table>
Question 1 (15 Marks)

Mr and Mrs James approach you to assess their financial position with a view to obtaining advice on the best means of securing their assets and future income. The James’s have provided the following account of the personal financial position.

- Mrs James is a Psychologist who works from home and has set aside a separate part of her home for this purpose.
- Mrs James’s current Taxable income is $250,000 per annum.
- Mr James is a stay at home dad caring for 4 children and earns no income.
- Additionally they have an investment property on the south coast for which they receive $15000 per year in rent.
- They anticipate their annual living expenses to be $100,000.
- They agree that in the past they have had a fairly lavish lifestyle.

Family Assets and Liabilities

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>$</td>
</tr>
<tr>
<td>Bank</td>
<td>30,000</td>
</tr>
<tr>
<td>Cars</td>
<td>150,000</td>
</tr>
<tr>
<td>Home Contents</td>
<td>200,000</td>
</tr>
<tr>
<td>Equipment for Practice</td>
<td>40,000</td>
</tr>
<tr>
<td>Home</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Investment Property</td>
<td>400,000</td>
</tr>
<tr>
<td>Superannuation</td>
<td></td>
</tr>
<tr>
<td>Mrs James</td>
<td>150,000</td>
</tr>
<tr>
<td>Mr James</td>
<td>200,000</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Mortgage on Home</td>
<td>500,000</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>6,000</td>
</tr>
<tr>
<td>Loan on Investment Property</td>
<td>250,000</td>
</tr>
</tbody>
</table>
1. Identify the risks faced by the James' Family (5 marks)
2 Provide a recommendation to the James family about their personal risk management. The James's are in their forties with 4 Children 17, 15, 12 & 8.

(5 Marks)
3 Identify some of the needs that would be covered by the insurance recommendations that you made in the part 2 of this question.

(5 Marks)
You have been asked to advise on the amount of life insurance cover that should be provided for the Clancy Family.

Renee is 50 and is a lecturer with an annual gross income of $85,000. Her husband Wally is 45 years old and self-employed, on a part-time basis, earning approximately $40,000 per annum, and cares for their two children aged 10 and 7. Both children attend the local public school. The family’s living expenses are $3,000 per month, which covers all their immediate needs. In addition the parents require $250 each per month and the children require $220 each per month. The children are expected to be dependent until they reach 21 years. Once the children are no longer dependant, it is anticipated that the living expenses will fall to $2000 per month.

Wally and Renee own their own home recently valued at $600,000 but still have a mortgage of $250,000. Both Wally and Renee have credit cards – the total balance is $15,000. Renee has told you that should either partner pass away the surviving partner will employ a nanny to assist in raising the children and maintaining the house. They expect that this will cost $400 per week until the oldest child is no longer dependent. They would also like to fund their children’s university education expected to be $30,000 per child. Renee has superannuation with insurance worth $250,000, and Wally has $43000 in his superannuation account.
Calculate the level of term life cover needed for Renee and Wally using both the multiple and the needs analysis approaches. Assume funeral costs $10,000, final medical $15,000, legal $5,000 and required emergency funding $25,000. Investment rate is 5% pa. Show all workings. Assume that Wally will need to be provided for till age expectancy of 82 years)

(Calculating the multiple approach correctly will earn up to 5 mark, and calculating the needs analysis approach correctly will earn up to 10 marks.)
A)

Discuss the difference between indemnity value and replacement value that occurs in House and Content insurance.
B)

Discuss the four methods available to manage risk and give an example in relation to each method.

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
C)

Discuss the four concepts that apply to insurance Law. Your discussion should include examples demonstrating your understanding of each concept.
Question 4  

There has been much discussion at both the government and public media levels relating to the constant debate over Private Health Insurance in Australia.

Present a balanced argument of this issues and the ramifications for government should current private health insurance incentives decline or private health insurance becomes largely unaffordable.