Actuarial Society of South Africa

EXAMINATION

13 May 2013 (am)

Subject A302 — Communications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. Candidates will be issued with instructions to log-in using a password (which you will be provided with at the exam center).

2. Enter all the candidate and examination details at the beginning of each question Ensure that your Candidate number appears at the top of each page handed in. [Select "Insert", then "Header", input your candidate number on blank header template and select "Close Header"].

3. Save your work continuously throughout the exam, on your computers' hard drive that you have been provided.

4. You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.

5. You must not start typing your answers until instructed to do so by the invigilator/supervisor.

6. Mark allocations are shown in brackets on exam papers.

7. Attempt all questions, beginning your answer to each question on a new page.

8. Candidates should show calculations where this is appropriate.

9. Candidates are required to do a word count.

Note: The Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

AT THE END OF THE EXAMINATION

Save your answers on the hard drive.

In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.

Question 1

You work in the product development team of Agreeable Health, a large health insurance company. Your team has just finalised the launch of a new product, MedPlan. The head of your company's marketing department is putting together the product brochure for this new product, and has written the following introductory paragraphs.

> **Introducing MedPlan**
>
> At Agreeable Health, we know that medical expenses are unpredictable. Unforeseen events can have a devastating effect on your family's financial wellbeing. We are committed to providing you with comprehensive and affordable benefits, giving you complete peace of mind when it comes to your medical needs.
>
> MedPlan, our new generation medical scheme product, is designed to do just that. It not only helps you manage your out-of-hospital medical expenses but also provides comprehensive in-hospital cover.

He does not feel comfortable writing the rest of the content for the brochure, and has asked for your assistance.

You are required to complete the content for this brochure. The brochure is to be used to promote the new product. It will be distributed to potential buyers of the product and must contain a description of how the product operates.

The head of your marketing department does not expect you to format the content into a brochure format as the marketing team will do that. He is, however, expecting content from you that can be input directly into the brochure. He will not be doing any content editing or adding any headings, illustrations or graphs that you may want to include. These should be provided in your submission to him.

Your section of the brochure should be between 400 and 500 words long. It is not necessary to include the above opening paragraphs in your submission.

The basic features of the product are:

- Monthly premiums paid under the product are split to cover two main aspects of cover:
  - A savings fund from which out-of-hospital expenses are paid.
  - A benefit which covers in-hospital expenses.
- The savings fund consists of a lump sum allocation made in advance each year, which can be drawn on to pay medical expenses until the allocation has been exhausted. The allocation in advance provides access to the level of savings that would be available after a full year's premiums have been paid.
- Limits apply to what a member can claim from the savings fund per out-of-hospital treatment event. The limits are called Per Visit Maximums.
- The in-hospital benefit operates in the same way as an insurance product, paying benefits only if the medical aid member is admitted to hospital. The full cost of in-hospital benefits; including hospital costs, surgical costs and the costs of attending medical professionals is paid by Agreeable Health if a member is treated in hospital.

- After the savings fund is exhausted, the member will need to pay for out-of-hospital expenses out of his or her own pocket. This is called the Gap-In-Cover Period. The member has to pay for his or her own expenses up to a fixed amount, the Gap-In-Cover Maximum, which is set at the inception of the policy.
- A further insurance element is designed to pay for any further out-of-hospital expenses for members who have paid out the full Gap-In-Cover Maximum on their out-of-hospital expenses during the Gap-In-Cover Period. Expenses are submitted to Agreeable Health during the Gap-In-Cover Period, in order for the health insurer to assess when the Gap-In-Cover Maximum has been paid by the member.
- This further insurance element on out-of-hospital expenses is unlimited in total, but the Per Visit Maximums will apply per individual claim.
- A potential client would need to approach Agreeable Health's call centre for full information on the product and to complete the application process.
- Ignore underwriting requirements, dependant's benefits and product features not mentioned.

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PLEASE TURN OVER

Question 2

You are a financial advisor at Infinity Incorporated, a large financial services company. Mrs Ayanda Mabena, a new client of yours, is about to purchase a holiday home. She is considering how best to finance it and has asked for your advice.

You have looked at her financial situation in detail, and established that there are two options available to her:

1. Take out a mortgage to finance the purchase.
2. Make a withdrawal from the client's retirement savings account which, after tax, amounts to the cost of the holiday home. She would then set up a separate savings plan to make up this hole in her savings by the time she retires in exactly 20 years' time.

Draft a letter to the client of approximately 500 words, explaining the options available to her, and giving your recommendation as to which option to choose. You will be using a company letterhead so do not need to create sender information. Include all other format details.

Notes:

- The purchase price of the house is R2 million.
- The client will be able to take out the mortgage at the prime interest rate, which is subject to change each quarter. Your company estimates that, over the 20 year term of the loan, this interest rate will average a nominal rate of 9% per annum, convertible monthly.
- Mortgage repayments are made monthly in arrears.
- The client has a total of R3million in her retirement savings vehicle and there are no restrictions on how much she can withdraw.
- The client will pay tax on the amount withdrawn from her retirement savings at a rate of 25%.
- Assume she will be able to save in the long term at a nominal rate of 12% per annum, convertible monthly. This applies both to retirement savings and other forms of savings.
- Per the tax laws of the country, retirement contributions can be paid from pre-tax income, with contributions being allowed up to a maximum of 20% of total income. Your client has already reached this limit in her normal retirement savings plan, so any additional savings will be made out of post-tax income.
- Mortgage repayments are made out of post-tax income.
- Assume the contributions to any savings plan will be made in arrears each month.
- Ignore any income that may be derived from the ownership of the holiday home.
- Your client already has a mortgage on her primary residence, and as such has an understanding of the concept.
- Mrs Mabena would prefer the explanation to demonstrate the impact of the two options on her household expenditure on a monthly basis.

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