## GROUP ASSIGNMENT

1. **Explain what amortization is and how a down payment and loan duration impact it.**

**Amortization** is the reduction of loan balance by paying the fixed repayment in regular installments over a period of time. Both principal and interest payment are included in the fixed repayment of each period. The example of amortization is mortgage loan, and automobile loan. **Down payment** is a type of payment that made in cash in the beginning of the purchase of a good or service. It forces to decrease the amount of money for a consumer to ask for the loan. **Loan duration** tells that how long the loan is for. When you make the higher amount of payment, it will affect to the loan duration be shorten.

The amortization depends on both down payment and loan duration. For the down payment, it helps to decrease loan amount and resulting in less loan payment and loan period. And for the loan duration, which is the important part in amortization, if we make the payment higher than the minimum set payment amount of loan, the loan duration or the loan period will be less. Therefore, the down payment and loan duration are impacted and related to the amortization.

2. **What is the importance of health insurance and disability insurance in personal financial planning?**

**Personal finance planning** is the financial management which an individual or a family unit performs to budget, save, and spend monetary resources over time, taking into account various financial risks and future life events. When planning personal finances, the individual would consider the suitability to his or her needs of a range of banking products, investment private equity and insurance products or participation and monitoring of individual sponsored retirement plans, social security benefits, and income tax management.

For the insurance products, there are many insurance products such as auto insurance, homeowners' insurance, liability insurance, life insurance, disability insurance, health insurance, long-term care insurance, etc. Each insurance product provides a difference benefits and conditions. Insurers should have organized strategies for maintaining financial health and accomplishing financial goals.

For **health insurance**, it is available through your employer or privately.
Most people enjoy medical insurance as an employee benefit, often with their employers paying all or part of the premiums. Many employers offer a choice between HMOs (health maintenance organizations) and traditional fee-for-service care. Rates for HMOs are usually cheaper but have more constraints. Privately purchased health insurance can be much more expensive or cheap depending on such things as deductibles, coverage choices, and location.

For **disability insurance**, it will replace a portion of your lost income, when you are unable to work for an extended period. It is important protection if you cannot work. If you're buying, you should generally try to get a noncancelable policy with benefits for life, or at least to age 65, and as much salary coverage as you can afford. Insurers will generally cover up to 65% of your salary. Generally, you should have total coverage equal to two-thirds of your current pre-tax income. If your company provides disability insurance, check to see whether it's enough for your needs. Group disability insurance policies may be capped at six months and provide benefits that won't cover your expenses.

So, the importance of health insurance and disability insurance in personal financial planning is that these insurance products give you an medical service if you have an accident or illness for health insurance and it will give you an income in case that you are unable to work for disability insurance. And some insurance giving you a tax reduction rights. All in all, each product obtained you an advantage but you should consider that these products are suitable for your needs to accomplishing the financial goals or not, not only allow you to control your financial situation, but can enhance your quality of life by reducing the uncertainty you feel about money-related issues and future needs.

3. **What is life insurance? What is its purpose and principle?**

**Life insurance** is a financial contract between a policyholder and a life insurance company that protects a policyholder from the loss of income that would result from his death. Policyholders agree to make premium payments to the company, and the company agree to pay beneficiaries a sum of money if they die.

Generally, **the purpose of life insurance** is to maintain financial security and well-being of one's family in case of a wage-earners death. However, life insurance can also be used for other purposes such as to cover mortgage loan or payments, or to help cover estate taxes.

Life insurance is based on a mechanism called risk pooling, or a group of sharing losses. People exposed to risk agree to share losses on an equitable basis. They transfer the economic risk of loss to an insurance company. The insurance company then collects and pools the premium of thousands of people, spreading the risk of losses across the entire pool. If all insured contribute a fair amount to the mortality fund held by the insurance company, there will be sufficient amount in the fund to pay the death benefits of those insured that die.

4. **Jane and Bob are both 35 years old. Although they graduated from college almost 15 years ago, they have never developed a diversified investment program. What extra money they had was invested in high-tech stocks that did quite well until the last five years. Then, with the economic downturn, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Bob's losses?**

**Asset allocation** is a famous concept used to reduce limit the downside of spreading risk of losing money from investment. However, there are several variables that should be concerned regarding to the portion of asset allocation such as financial knowledge of an individual, risk tolerance, age, purpose of investment and so on. Since both Jane and Bob are middle age, they are able to bear medium level of risk tolerance. However, their current asset is solely in high-tech stock, which is considered as high risk asset. So, the proper investment portfolio for them should be quite aggressive style since they can tolerate medium to high risk and the portfolio should combine both high and low risk assets such as bond, stock, mutual fund, savings, and etc. The risky assets also should combine several number of stocks that will reduce the nonsystematic risk so that they can enjoy an attractive return with lower level of risk.

**Group members**

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