

## FN281 Assignment4

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

Down payment and loan duration, both are involved with amortization. Down payment will affect amortization, which also has impact on loan duration as well. I would explain more to be easier for understanding. Amortization is the reduction of a loan balance according to the fixed payments made over a period of time. A down payment is the initial cash of total amount due, which helps decrease the amount of money that a consumer need to ask for in a loan so that it results in less payments and lower loan period. It can be said that the larger down payment, the smaller payment on the loan. For the loan duration, it is an important part of amortization since it tells you how long the loan is for. Actually, the maximum possible loan duration is 50 years, however if a consumer make payments that are higher than the minimum set payment amount, the loan duration or the length of time paying loan will shorten.

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

Health insurance is a type of insurance coverage that covers the several types of costs including the hospital expense, surgical expense, physician expenses, major medical expense, etc. It depends on the type of health insurance coverage, either the insured pays costs out-of-pocket and is then reimbursed, or the insurer makes payments directly to the provider or healthcare services.

Everyone generally has health insurance for avoiding the risk of spending so much payment for medical care cost and treatment. As a result, in terms of general financial planning, health insurance is very essential thing we need to have by the fact that it could protect ourselves including our families from financial failure. There 2 main reasons that support this statement. Firstly, everyone cannot avoid getting sick or having some diseases, which is by nature. Even though you're healthy at this moment, when you're very sick or have quite serious health problem at one point of time in your life, no one can guarantee that how much money you need to pay for very expensive operation or medical treatment. Secondly, health insurance helps people pay for preventive care. The suitable preventive care also helps us to be far away from getting a more serious disease or condition as well. That's why this is another financial benefit from having health insurance since the cost of getting sick could not destroy the financial planning definitely. I believe that all of us must have our own financial planning such as the purchasing plan as well as retirement plan, which is very significant issue everyone need to concern since we need to work for making money, spending some of them and saving as much as we can.

In the other word, to simply explain the importance of health insurance, we can think health as a machine, but this machine work for making and saving money in order to achieve retirement plan. However it doesn't work well all

the time due to some interruption so that we need to fix it, but we don't need to spend much money to fix it when we have the protection or health insurance for this term. Besides, some health insurances also compensate income that we loss from what they determine when we can't work and need to stay at hospital. All these I mentioned can be concluded that having health insurance is very important as they help maintaining personal financial plan very well.

For the disability insurance, the reimbursement mechanism is similar to health insurance, but in this case the insurance company will pay benefits when you are sick or injured so that you are not unable to earn a living by yourself. However, most policies from disability insurance will pay the benefit to you for compensating the percentage of your earned income when you can't work, not the full coverage.

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

Life insurance is one type of insurance that has different condition of health insurance since it's the insurance that provides compensation to your beneficiaries when you die prematurely. The main feature is that there is low probability that you die or low frequency but when you die, it creates a lot of impacts or high severity risk. Accordingly, the principle is that it transfers the economic loss of death from an individual to an insurance company by way of a life insurance contract meaning that it can help us take care of our own and extended families when we die.

The purposes of life insurance are varied for each person. The first one is for estate planning, which you can pass assets to heirs or create a legacy. The benefit that heir will get from the death of insured person is from tax-free. The second one is guaranteed insurability. This purpose will come from the benefit of permanent life insurance because its product cannot be cancelled by the company, meaning that even you have the major disease, but no symptom so that the insurance company cannot reject you according to permanent policy. The third one is for retirement planning. This is the main purpose in my thought and also from permanent life insurance. You will purchase this specific insurance for your entire life with premiums divided between death protection and savings, which for retirement plan as everyone want to ensure that you will still have enough money using after the retired age. Its condition is that you need to pay the premium first for the policy amount and after that you will get payout back if you are still alive. The last purpose is forced saving, which influence from the previous purpose as we pay now for saving and using in the future. This cash value can be used for many cases such as emergency fund, collateral and investment. However, if people are without discipline, life insurance can be an expensive type of forced savings.

- 4. Joe and Jane 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. Then, with the economic downturn, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Joe's and Jane's losses?**

First of all, I would like to tell the their big problem in investment planning. Their major loss is from not using diversification method in their portfolio. After graduated, they did job and had money for investment, but they had not decide to choose asset for investment well. To invest in only high-tech stocks will be very good at some point of time or with the economic boom. Any stock price increase at very high rate resulting in huge amount of profit that they might obtain. On the other hand, when it's the period of economic downturn, they will suffer so much loss as well since the price of high-tech stock will decline significantly. Unfortunately, some cases may encounter bankrupt from this kind of stock investment. The reason supported this situation is because the stock is very risky asset among all investment assets, that means stock investor can get very large profit and also face very large loss as well from the same stock. This method to invest is not good anymore for Joe and Jane due to major losses when economic recession.

Therefore, to reduce the dollars amount of their losses and diminish the risk in the portfolio, they need to develop a diversified investment program by investing in other securities for diversifying risks or we can call "asset allocation". To illustrate, apart from stocks they should invest in government bond, mutual funds and real estate which all have lower risk for investment that they will suffer less loss for sure as well as the higher probability to get profit compensating with their previous losses.