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**DISCUSSION GUIDE FOR JANUARY 2017**

**Insights into the Relationship between Risk Tolerance and Market Volatility**

1. All of the following statements about market volatility are correct EXCEPT:

A. Market volatility is a reliable indicator of future market and investor behavior.

B. Increased market volatility tends to be associated with investor fear.

C. The exact association between market volatility and investor attitudes is not very well known.

D. Financial advisors sometimes think that as market volatility increases, the financial risk tolerance of their clients will decrease.

2. According to the authors' research, what was the maximum weekly volatility?

A. 49.81

B. 41.12

C. 285.36

D. 4.76

3. Which statement(s) about the authors' research related to market volatility and risk tolerance is (are) correct?

I. The actual correlation between volatility and risk-tolerance scores was low—i.e., it was positive but not particularly meaningful.

II. Respondents who were classified as having a low risk tolerance displayed an increasing willingness to take risk as volatility increased.

A. I only　　　　C. Both I and II
B. II only　　　　D. Neither I nor II

4. Per the authors' research, all of the following statements regarding males and females and risk tolerance are correct EXCEPT:

A. More females exhibited low risk tolerance.

B. For individuals with a high tolerance for risk, volatility is perceived as a negative occurrence that leads to a downward willingness to take risk.

C. For individuals with a low risk tolerance, volatility may be perceived as a situation that requires a reevaluation of their willingness to take risk.

D. Males with lower attained education comprised the majority of respondents in the highest risk tolerance group.

**Perspectives on Buy-Sell Agreements**

5. All of the following statements about buy-sell agreements are correct EXCEPT:

A. Often the terms of a buy-sell agreement that work in the buyer's interest do so because the buyer remains rooted in the business.

B. Neither the buyer nor seller will succeed if the price and terms create an unsupportable financial burden for the business.

C. Often, the interest rate for remaining payments in a buy-sell agreement is the applicable federal rate announced monthly by the IRS.

D. In a lifetime scenario, the purchaser is most likely dependent on financing from external sources.

6. Which statement(s) about a buy-sell agreement in the event of a shareholder disability is (are) correct?

I. When a shareholder's disability is the triggering event that constitutes an offer to the other shareholder, state law in all 50 states requires that the purchase is obligatory.

II. Typically, defining the disability of a shareholder as a triggering event does not occur until it is clear that the disabled shareholder will no longer be active in the business.

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|---|---|
| A. I only | C. Both I and II |
| B. II only | D. Neither I nor II |

7. All of the following statements about pricing and payments in the sale of a business pursuant to a buy-sell agreement are correct EXCEPT:

A. If life insurance funds only a portion of the sale of the business, payments by the buyer are usually made according to the terms of a promissory note in favor of the seller.

B. Clawback provisions are a good way to ensure that the seller is prevented from capitalizing on a subsequent sale of the business by the buyer.

C. One way to ensure full payment by the buyer is to have the seller's shares held in escrow until the final payment is made by the buyer.

D. A buy-sell agreement should specify that a sale of the stock or assets of the corporation by the buyer to an outside third party requires the remaining payments owed by the buyer to the seller to be due immediately.

**New Proposed Regulations Clarify and Add Flexibility to IRC Section 409A Regulations**

8. All of the following statements regarding the proposed IRC Section 409A regulations are correct EXCEPT:

A. The regulations were issued on June 22, 2016.

B. The regulations significantly modify the final Section 409A regulations issued in 2007.

C. One purpose of the proposed regulations is to fill in certain omissions in the current regulations.

D. The proposed regulations bring more flexibility into plan administration.

9. Under the current Section 409A regulations, when must a payment be made to qualify as a short-term deferral payment?

A. Within a 2½-month period following the end of the year in which the payment initially becomes vested.

B. Anytime prior to the date of the plan year end.

C. By December 31 of the year in which the payment initially becomes vested.

D. As soon as reasonably practicable following the first date on which the service recipient anticipates that making the payment would not cause a violation of law.

10. Which statement(s) about the proposed IRC Section 409A regulations is (are) correct?

I. The proposed regulations clarify that the separation pay plan exception is available for service providers whose employment begins and ends in the same taxable year.

II. The proposed regulations provide that deferred compensation includes payment of a service provider's reasonable attorneys' fees incurred to enforce a bona fide claim by the service provider against the service recipient with respect to the service relationship.

A. I only
B. II only
C. Both I and II
D. Neither I nor II

11. All of the following statements regarding the Section 409A regulations are correct EXCEPT:

A.  Under the current regulations, if a service provider is both an employee and an independent contractor, he or she must terminate both as an employee and independent contractor before he or she can be treated as having had a separation from service.

B.  Under the current regulations, a change from employee to independent contractor status is not treated as a separation from service.

C.  Under the proposed regulations, a service provider can be treated as having a separation from service when he changes from employee to independent contractor status if certain criteria are met.

D.  Under the proposed regulations, the general rule for determining when a payment is made specifically excludes the transfer of property includible in income under IRC Section 83.

12. Under the proposed Section 409A regulations, when must death benefits be paid?

A. Within 3 months of the service provider’s death.

B. By the 15th day of the 3rd month following the date of death.

C. Anytime during the period beginning on the date of death and ending on December 31 of the first calendar year following the calendar year during which the death occurs.

D. Within 6 months of the service provider’s death or the end of the calendar year, whichever date is first.

**Medicare Advantage as a Model for Affordable Care Act Marketplaces**

13.  All of the following statements regarding the Affordable Care Act (ACA) are correct EXCEPT:

A.  The goal of the ACA is to increase competition among health insurers.

B.  The ACA provided insurers certain protections against risk selection, including a subsidy for individuals with family incomes of less than 400 percent of the federal poverty level.

C.  ACA premiums in the individual market can be based only on age, location within a state, whether the individual smokes, and the plan design.

D.  Premiums can vary by age by no more than a factor of five.

14.  All of the following statements about the Medicare Advantage program are correct EXCEPT:

A. The Medicare Advantage program may provide a regulatory framework to address concerns about risk adjustment in the ACA marketplace.

B. The risk adjustment formula used to determine payments under Medicare Advantage plans is based on claims in the previous 5-year period.

C. The inability of Medicare beneficiaries to move between Medicare Advantage plans and traditional Medicare after the first 6 weeks of the calendar year prevents moving between plans for complex care.

D. Research by Jason Brown found evidence that risk adjustment used in the Medicare Advantage program decreased the incentive to avoid patients with specific diseases but increased the incentives to find the least-expensive individuals within each disease category.

**Managing In-Force Universal Life Insurance Policies: A Shared Responsibility**

15. Which statement(s) about managing in-force universal life insurance policies is (are) correct?

I. Regular reviews by the insurance agent who sold a universal life policy will help avoid leaving an older policyholder with an unfunded policy and prohibitive premiums.

II. The new influx of young insurance agents lacks the necessary training to effectively manage in-force universal life insurance policies.

A. I only
B. II only
C. Both I and II
D. Neither I nor II

16. All of the following statements about up-line sales organizations are correct EXCEPT:

A. Broker-dealers are included in the definition of up-line sales organizations.

B. Up-line sales organizations typically have more staying power than individual life insurance agents, and this puts them in a better position than individual agents to effectively manage in-force universal life insurance policies.

C. The revenue of an up-line sales organization is spread out over a broader policy base, both numerically and differentially.

D. Career general agencies could not be classified as up-line sales organizations.

17. According to the author, under normal circumstances, what is the best indicator of policyholder intent when the universal life policy is purchased?

A. The face amount of the policy.

B.  The policyholder's medical condition.

C.  The point-of-sale illustration.

D.  The policyholder's family situation.

18.  All of the following statements about life insurance companies and the post-sale customer experience are correct EXCEPT:

A. Insurance companies are likely in the best financial position to provide ongoing policy service because life insurance policies are designed to generate revenue for that purpose.

B. Life insurance company customer service departments can be relied on to remind policyholders of a planned reduction in premium or face amount.

C. Life insurance companies typically fall short when it comes to translating the policyholder's initial sales experience into a meaningful post-sale customer experience.

D. Innovative software can automate the process of bringing policyholder service needs to the attention of companies looking to provide proactive management of an in-force universal life policy.

**Is There a Better Way to Present the Social Security Claiming Decision?**

19. Susie retired this year at age 62 and receives $750 a month in Social Security benefits.  If Susie had decide to wait until age 70 to claim her Social Security benefits, how much would she receive monthly?

A. $1,000

B. $1,150

C. $1,200

D. $1,320

20.  All of the following statements about claiming Social Security benefits are correct EXCEPT:

A. Studies show that for individuals with longevity working for them, waiting until age 70 to claim Social Security will dramatically improve financial security in later years.

B. Approximately 3 percent of eligible workers delay claiming Social Security until age 70.

C. The Social Security Administration reports that about 42 percent of eligible workers claim their retirement benefits at age 62.

D. Women are more likely than men to benefit from delaying Social Security claiming.

21. Which statement(s) about the Social Security claiming decision is (are) correct?

I. Researchers were able to positively conclude that individuals do not always make the rational, optimizing decision when choosing their claiming date.

II. One research study showed that individuals claim on average 15 months earlier when using breakeven analysis to aid in their Social Security claiming decision-making process.

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| A. I only | C. Both I and II |
| B. II only | D. Neither I nor II |

**An Assessment of Wealth Accumulation Tasks and Behaviors**

22. All of the following statements about wealth building secrets of millionaire-next-door types as noted in a recent Kiplinger Web site posting are correct EXCEPT:

A. These individuals don't spend beyond their means.

B. They leverage debt to maximize the use of "other people's money."

C. They are well insured.

D. They educate themselves.

23. According to Thomas J. Stanley and William D. Danko in *The Millionaire Next Door,* how is the concept of prodigious wealth accumulation defined?

A. A prodigious wealth accumulator has net worth greater than 10 times his or her age.

B. A prodigious wealth accumulator is someone who has no current debt.

C. A prodigious accumulator of wealth is someone whose net worth is equal to or greater than 20 percent of their age, multiplied by their income minus any inherited wealth.

D. A prodigious accumulator of wealth is someone whose net worth is equal to or greater than 10 percent of their age multiplied by their income.

24. According to the survey data referenced by the authors, what percent of the respondents were categorized as prodigious accumulators of wealth?

A. 8 percent

B. 18 percent

C. 28 percent

D. 58 percent

25. Which statement(s) about differentiating between those in the wealth underaccumulation category and those in the average/prodigious wealth accumulation category, as illustrated in Figure 1, is (are) correct?

I. “Determine net worth of household” emerged as important in differentiating among the wealth accumulation categories.

II. “Work with attorney and/or estate planning professional to create wills” emerged as important in differentiating among the wealth accumulation categories.

A. I only
B. II only
C. Both I and II
D. Neither I nor II

26. According to the research presented by the authors, all of the following behaviors fit the profile of wealth accumulators EXCEPT:

A. Wealth accumulators tend to decrease their savings when they have an unexpected drop in income.

B. Wealth accumulators tend to allocate their human capital and financial resources more productively.

C. Wealth accumulators rarely carry a credit card balance.

D. Wealth accumulators tend to be more conscientious in creating a plan.

**The New Labor Department Fiduciary Rules and IRA Rollovers**

27. All of the following statements about persons acting as a fiduciary to an IRA are correct EXCEPT:

A. A fiduciary cannot deal with the income or assets of a plan or IRA in his own interest.

B. A fiduciary cannot receive payments from third parties in connection with transactions involving a plan or IRA.

C. A fiduciary violates the prohibited transaction provisions of the Internal Revenue Code if he or she receives a commission on the sale of an annuity he or she recommended related to the client’s IRA or qualified plan.

D. Receiving a commission on the sale of an insurance policy by a fiduciary that recommended the investment violates the prohibited transaction provisions of the Internal Revenue Code unless the commission is less than 20 percent of the policy premium.

28. What is the effective date of the new Labor Department fiduciary rules?

A. April 17, 2017

B. January 1, 2017

C. January 1, 2018

D. April 17, 2016

29. Which statement(s) about the impact of conflicted advice to consumers from advisors is (are) correct?

I. With regard to mutual funds, the Department of Labor (DOL) has determined that conflicted advice will cost IRA investors over $200 billion over the next 10 years.

II. With regard to mutual funds, the DOL has determined that conflicted advice results in underperformance by approximately 150 basis points.

A. I only
B. II only
C. Both I and II
D. Neither I nor II

30. All of the following statements about the definition of fiduciary investment advice are correct EXCEPT:

A. An investment advisor will have provided fiduciary investment advice if he or she meets all components of the five-part test established in 1975.

B. An investment advisor will have provided fiduciary investment advice if he or she makes a recommendation as to portfolio composition.

C. An investment advisor will have provided fiduciary investment advice if he or she makes a recommendation as to how securities should be invested after the securities are rolled over, transferred, or distributed from an IRA.

D. An investment advisor will have provided fiduciary investment advice if he or she makes recommendations on investment policies or strategies.

31. Which statement about prohibited transaction exemption 84-24 (PTE 84-24) is correct?

A. Under the new Labor Department regulations, PTE 84-24 applies to fixed-rate annuity contracts, indexed annuities, and mutual funds.

B. Under the new Labor Department regulations, PTE 84-24 now requires that the investment advisor adhere to impartial conduct standards.

C. Under the new Labor Department regulations, PTE 84-24 provides an exemption for the receipt of compensation received by the investment advisor for any recommendation to purchase insurance by an IRA.

D. Similar to the best interest contract exemption, PTE 84-24 requires the parties to contractually commit to certain standards.

32. All of the following statements about the best interest contract exemption (BICE) are correct EXCEPT:

A. The BICE allows advisors to continue receiving commission-based compensation while still insuring that investors receive advice that is in their best interest.

B. The BICE does not apply to 12b-1 fees or revenue-sharing payments.

C. The BICE requires the financial institution to acknowledge fiduciary status for itself and its advisors.

D. The BICE contractual requirement is effective January 1, 2018.

33. Which statement(s) about the best interest contract exemption (BICE) is (are) correct?

I. There is a streamlined BICE for level-fee fiduciaries.

II. The BICE allows for arbitration of claims.

A. I only C. Both I and II
B. II only D. Neither I nor II

34. All of the following statements regarding considerations in deciding whether to roll over funds from a qualified plan to an IRA are correct EXCEPT:

A. When considering a rollover, the fiduciary must assess whether leaving the money in the employer-sponsored plan is the best option in light of investment options and fees.

B. Consideration needs to be given to whether a lump-sum or partial distribution might be the best option for the client.

C. The fiduciary must evaluate issues such as flexibility, withdrawal restrictions, and creditor protection.

D. When considering a rollover, under the best interest contract exemption rules, the fiduciary cannot provide advice on using a Roth versus traditional IRA.

35. What is the effective date of the full disclosure provisions of the new DOL fiduciary rules?

A. April 17, 2017

B. January 1, 2017

C. January 1, 2018

D. April 17, 2016