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JOURNAL DISCUSSION GUIDE

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Understanding the 72(t) 10 Percent Penalty

1. All of the following statements about the IRC Section 72(t) penalty are correct **EXCEPT**:
   A. The 10 percent penalty applies to premature distributions from qualified plans, 402(b) plans, IRAs, SEPs, and SIMPLEs.
   B. Taxpayers can avoid the 10 percent penalty if distributions are used for qualified medical expenses but only if the qualified medical expenses exceed 12 percent of the taxpayer's adjusted gross income.
   C. The IRC Section 72(t) penalty can be avoided if a distribution is attributable to permanent or total disability.
   D. The IRC Section 72(t) penalty can be avoided for distributions made to a beneficiary or an estate after the death of the client.

2. All of the following statements about the substantially equal periodic payout (SEPP) rule are correct **EXCEPT**:
   A. The SEPP rule is applicable to IRAs, SEPs, SIMPLEs, and all employer plans.
   B. Under the minimum distribution method of taking SEPPs from a retirement plan, annual payments are redetermined each year and usually go up.
   C. Under the SEPP rule, clients who have multiple IRAs can take distributions from up to three different IRAs.
   D. Under the SEPP rule, payments can begin at any age.

3. Julie had $6,000 of qualified and uninsured medical expenses in the current tax year and withdrew $6,000 from a qualified profit-sharing plan that would otherwise be subject to the early distribution tax. Julie's adjusted gross income for the year was $40,000. Julie is not eligible for any other IRC Section 72(t) exceptions. How much of the $6,000 can she exclude from the 10 percent penalty tax?
   A. $2,000 C. $6,000
   B. $4,000 D. $0

IRS Issues Positive Ruling on Trust Decanting

4. How many states have enacted decanting statutes to allow the assets from an old trust to be placed in a new trust without court supervision?
   A. 25 C. 30
   B. 28 D. 42

5. All of the following statements about decanting laws and statutes are correct **EXCEPT**:
   A. In 2015, the National Conference of Commissioners on Uniform State Laws proposed a Uniform Trust Decanting Act that has been enacted unmodified in 22 states.
   B. In 12 states, the decanting statutes apply only to irrevocable trusts.
   C. In Massachusetts, the rules for decanting were established by case law.
   D. Seven state laws allow decanting to occur without any notice to the trust beneficiaries.

6. All of the following statements about the tax implications of decanting are correct **EXCEPT**:
   A. In Notice 2011-101, the IRS stated that it was open to and was soliciting comments on the potential tax consequences of decanting.
   B. In Private Letter Ruling 201709020, the IRS concluded that the decanting process did not trigger adverse tax consequences under the specific fact situation described.
   C. In Private Letter Ruling 201709020, the IRS relied on the U.S. Supreme Court case of *Cottage Savings Association v. Commissioner* to determine whether capital gains tax would be imposed in the decanting scenario.
   D. Private Letter Ruling 201709020 overturns the IRS's previous position on the gift tax implications of decanting as outlined in Private Letter Ruling 201645024.

Advising Clients about Longevity Risk

7. All of the following statements about communicating with clients about longevity risk are correct **EXCEPT**:
   A. Planners must take the time to ask clients how they are feeling about longevity risk prior to developing a technical strategy.
   B. Uncovering the client's perspective on longevity risk is important and can be facilitated through a series of open-ended questions.
   C. For clients who are unconcerned about longevity risks, planners can shift their focus to other aspects of the client's planning needs.
   D. Because of the uncertainty associated with longevity risk, it is important for planners to let clients express the emotions associated with that uncertainty and to propose a financial strategy that will help alleviate these worries.

8. What is the average life expectancy of a 65-year-old male living in the United States?
   A. 84.3 years C. 86.6 years
   B. 85.8 years D. 87.4 years

9. All of the following statements about managing longevity are correct **EXCEPT**:
   A. Analyzing multiple scenarios with a Monte Carlo analysis is critical to determining how sensitive the client's plan may be to longevity risk.
   B. A planner will need to work with the client to determine a proper asset allocation that aligns with the client's risk tolerance and at the same time educate the client that becoming too conservative may limit the portfolio's ability to maintain pace with inflation, thus making it more sensitive to longevity risk.
   C. Clients experiencing sequence of return risk in the early years of retirement face lower longevity risk than those who don't.
   D. Maximizing lifetime income from Social Security is a fundamental way to manage longevity risk.

10. Which statement(s) about life expectancy in the United States is (are) correct?
    I. For couples, there is a 40 percent chance that at least one will surpass average life expectancy and live until age 90.
    II. Statistics indicated that one out of four 65-year-olds will live past age 90.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

Long-Term Care Insurance for the Caregivers: A Financial Gerontology Proposal

11. All of the following statements about long-term care insurance (LTCI) providers are correct **EXCEPT**:
    A. Factors such as lower-than-expected profits and high capitalization requirements led to a rapid shrink in the number of LTCI providers.
    B. In 2002, 102 providers were offering LTCI.
    C. In 2010, six LTCI providers left the market.
    D. Between 1996 and 2012, 27 major LTCI carriers exited the market.

12. According to the Genworth Cost of Care Survey, what is the 2016 annual cost for a private nursing home room in Oklahoma?
    A. $60,225 C. $42,000
    B. $92,378 D. $297,840

13. Which statement(s) about the typical caregiver is (are) correct?
    I. The typical caregiver is a 50-year-old, full-time employed female with approximately $85,000 in household income.
    II. The typical caregiver provides care for over 5 years, spending 18 hours a week caring for a female relative.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

14. All of the following statements about the purchase of LTCI coverage are correct **EXCEPT**:
    A. In 2015, 36 percent of those surveyed identified protecting assets/leaving an estate as a primary reason for buying LTCI.
    B. Individuals purchasing LTCI have a median income of $104,000.

C. Fifty-five percent of those who have considered purchasing LTCI have stated that it is too expensive.
D. Since 2010, there has been a trend toward high-income individuals purchasing LTCI policies.

Life Insurance Advanced Markets—What Keeps Us Awake at Night

15. All of the following statements about life insurance advanced markets are correct **EXCEPT**:
    A. Life insurance advanced sales involve sophisticated planning techniques.
    B. Political uncertainty has caused client and advisor indecision that has resulted in stalled life insurance sales and unexecuted estate plans.
    C. LIMRA advanced sales members report that insurers are struggling to maintain advanced markets staff because many life insurance sales are focused on term insurance and hybrid policies.
    D. There is a trend in life insurance sales toward products that address mortality and away from those that address chronic illness and long-term care needs.

16. All of the following statements about tax factors impacting advanced life insurance marketing are correct **EXCEPT**:
    A. According to Will Heidbreder, an attorney on LIMRA's Advanced Sales Committee, clients are acknowledging the need for planning and agree with the insurance solution but want to delay the purchase pending possible tax reform.
    B. Income tax uncertainty has been a trigger for increased sales of corporate-owned life insurance (COLI).
    C. The Association for Advanced Life Underwriting (AALU) advocates for a sustainable tax regime with regard to gift and estate tax law to help overcome clients' reluctance to act.
    D. The continued up-and-down, in-and-out nature of the federal estate tax law in the last 20 years has led to uncertain estate plans, added costs, and sometimes disastrous results for families and businesses.

17. Which statement(s) about the current life insurance sales environment is (are) correct?
    I. The persistent low-interest-rate environment has been a drag on the life insurance industry.
    II. The predominant regulatory concern in advanced markets is the applicability of a fiduciary standard to life insurance sales.
    A. I only — C. Both I and II
    B. II only — D. Neither I nor II

Are Major Social Security Changes Coming Soon?

18. All of the following statements regarding changes to the Social Security program are correct **EXCEPT**:
    A. The last major change to the Social Security program occurred in 1983.
    B. The Bipartisan Budget Act of 2015 eliminated certain Social Security filing strategies previously available to retirees.
    C. In November 2015, legislation was enacted into law that reallocated Social Security payroll taxes between the Old-Age and Survivors Insurance and the Disability Insurance trust funds.
    D. Sweeping changes with significant effects on the Social Security program and its finances were enacted in 1940, 1959, 1971, and 1976.

19. Which statement(s) about tax changes that might be implemented to help secure Social Security is (are) correct?
    I. The Social Security payroll-tax rate could be increased from the current rate of 6.2 percent on employees and employers.
    II. The contribution and benefit base could be raised more than it would rise on its own under present law.
    A. I only — C. Both I and II
    B. II only — D. Neither I nor II

20. All of the following statements about benefit changes that might be implemented to help secure Social Security are correct **EXCEPT**:
    A. Growth in the Social Security benefits currently being paid to 62 million beneficiaries could be reduced through changes in the annual cost-of-living adjustments.
    B. A proposal for a chained Consumer Price Index was included in one of President Barack Obama's budgets and may be introduced again.
    C. Social Security benefits are protected property under the fourth amendment of the U.S. Constitution, which restricts the ability of lawmakers to make certain changes.
    D. Increasing the normal retirement age under Social Security is an option that could be considered by Congress to solve Social Security's financial problems, but it is a sensitive issue because of the fact that higher-income people have been gaining the most life expectancy.

The Home Equity Conversion Mortgage as a Long-Term Care Insurance Alternative for Financing In-Home Care

21. All of the following statements about the use of long-term care insurance by senior clients to mitigate the risk of "going broke" in retirement are correct **EXCEPT**:
    A. Many seniors fail to meet long-term care underwriting standards because they have chronic health conditions.
    B. Many seniors cannot afford long-term care insurance premiums.
    C. The 90 percent of seniors who have two or more chronic health conditions are unlikely to qualify for long-term care insurance.
    D. Only 10 percent of elderly Americans have long-term care insurance.

22. Which statement(s) about seniors' desires to age in their own homes is (are) correct?
    I. According to a Merrill Lynch survey, 75 percent of retirees preferred to receive long-term care in their own homes as opposed to assisted living facilities.
    II. A Bipartisan Policy Center report acknowledged that a substantial majority of seniors wish to age in place in their own home.
    A. I only
    B. II only
    C. Both I and II
    D. Neither I nor II

23. According to Genworth's 2016 Cost of Care survey, what is the combined monthly median care cost in Kansas?
    A. $9,505
    B. $7,293
    C. $7,674
    D. $7,811

24. All of the following statements about the general eligibility requirements for a home equity conversion mortgage (HECM) are correct **EXCEPT**:
    A. An eligible HECM borrower must be at least 58 years old.
    B. A HECM borrower's home must meet a set of FHA standards addressing safety and structural soundness.
    C. The absence of substantial income or assets will not necessarily bar a homeowner from obtaining a HECM.
    D. Unlike a long-term care insurance provider, a HECM lender cannot base any credit decision upon an applicant's physical health.

25. All of the following statements about the amount of HECM loan proceeds that can be borrowed are correct **EXCEPT**:
    A. The size of the principal limit is determined by the youngest homeowner's age, among other factors.
    B. In 2017, the FHA lending limit is $636,150.
    C. The maximum claim amount for a person who owns a house worth $300,000 is $300,000.
    D. The maximum claim amount for a person who owns a house worth $1 million is $1 million.

26. Which statement(s) about HECM disbursement options is (are) correct?
    I. One disbursement option for receiving HECM loan proceeds is a line of credit.
    II. HECM rules do not allow for a lump-sum disbursement of loan proceeds in order to protect against spendthrift activities by the homeowner.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

27. All of the following statements about repayment of a HECM are correct **EXCEPT**:
    A. A HECM becomes due when all of the borrowers and any qualified nonborrowing spouse have died.
    B. A HECM becomes due if none of the borrowers has occupied the property as a principal residence for 6 consecutive months due to physical or mental illness.
    C. A HECM becomes due when the property has fallen into disrepair and the borrower refuses to repair it.
    D. A HECM becomes due if all of the borrowers have sold or conveyed their interest in the property.

28. Which statement about out-of-pocket costs for a HECM is correct?
    A. The fee for the HECM counseling agency typically ranges between $250 and $500.
    B. Comparing the HECM's one-time, out-of-pocket cost to the cost of long-term care insurance demonstrates a dramatic difference between the two options.
    C. One of the out-of-pocket costs for a HECM is an appraisal deposit, which is approximately $150 for a single-family home.
    D. The most an average single-family homeowner should expect to pay out-of-pocket to initiate a HECM is about $1,000.

29. In Case Study 1, where Client A, at age 62, sets up a HECM line of credit on his $600,000 house on Cape Cod, how much money will be available to Client A to pay for in-home care after having a serious health event at age 82?
    A. $1,088,392 C. $600,000
    B. $1,500,000 D. $294,600

Beyond Illustrations—
The Importance of Contract Language

30. All of the following statements about basic components of a life insurance policy are correct **EXCEPT**:
    A. The base policy is boilerplate contract language that is filed with the state.
    B. Endorsements and riders are often included as standard additions to a life insurance policy but are prohibited under state insurance laws if they modify the terms of the base policy.
    C. The first several pages of a life insurance contract are the policy specification pages and are where the policy is essentially customized for a given insured's age and risk classification.
    D. Most policies will include a glossary of terms ranging from very basic to complex concepts.

31. All of the following statements about premium grace period provisions in life insurance are correct **EXCEPT**:
    A. The grace period for a term policy is usually 30 days.
    B. The grace period for most permanent life insurance policies is 61 days from the monthly anniversary date on which the policy entered the grace period.
    C. Many policies are sold with a no-lapse guarantee provision that keeps a policy from entering the grace period.
    D. The grace periods associated with no-lapse provisions are often shorter than the base policy grace period.

32. Which statement(s) about making changes to the face amount of a life insurance policy is (are) correct?
    I. When it comes to reducing the face amount on in-force policies, term contracts are generally the most flexible.
    II. Flexible life insurance products like universal life and variable universal life have no restrictions or detrimental provisions related to face amount reductions.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

33. All of the following statements about minimum premium requirements are correct **EXCEPT**:
    A. Universal life (UL) and variable universal life (VUL) policies normally give the policyowner the contractual right to alter the premiums.
    B. If there is sufficient cash value in a policy, whole life policy provisions may allow for premiums to be skipped and paid via dividends, surrender of paid-up additions, or policy loans.
    C. Typically there will be more premium payment flexibility in the first 5 years of a UL or VUL life insurance policy than in later years.
    D. Some policies have de facto premium requirements that are not explicitly spelled out in the contract.

34. All of the following statements regarding minimum and maximum rates in indexed universal life (IUL) products are correct **EXCEPT**:
    A. It is common to see the minimum cap rate in an IUL policy in the 3 percent to 4 percent range.
    B. The participation rate (percentage of earnings growth credited) is commonly guaranteed at 100 percent.
    C. Carriers have tremendous leeway in establishing participation rates in an IUL contract.
    D. IUL contractual provisions related to the hurdle rate often specify a maximum hurdle rate of 10 percent.

35. What is the usual range for the amount that can be borrowed under the policy loan provisions of a life insurance contract?
    A. 90 percent to 95 percent of the cash value
    B. 50 percent of the cash value up to $100,000
    C. 50 percent of the cash value up to $1 million
    D. 20 percent to 25 percent of the cash value