JOURNAL DISCUSSION GUIDE

JOURNAL OF FINANCIAL SERVICE Professionals

The Health Savings Account Strategy

1. All of the following statements about health savings accounts (HSAs) are correct **EXCEPT**:
   A. HSA contributions must be made from employee salary deferrals.
   B. An HSA is a tax-favored account that can be used to pay for current and/or future qualified medical expenses.
   C. In order to qualify to contribute to an HSA, the client must be covered under a high-deductible health plan (HDHP).
   D. In order to qualify to contribute to an HSA, the client cannot be enrolled in Medicare.

2. What is the health savings account (HSA) contribution limit for a plan that covers a client and family?
   A. $1,000 C. $6,750
   B. $3,400 D. $8,500

3. All of the following are qualifying medical expenses for purposes of health savings accounts (HSAs) **EXCEPT**:
   A. Medicare supplement premiums
   B. Prescription drugs
   C. Vision expenses
   D. COBRA premiums

4. Which statement(s) about using a health savings account (HSA) for retirement income accumulation is (are) correct?
   I. An HSA is more attractive from a tax standpoint than saving in other tax-qualified vehicles such as an IRA or 401(k) plan.
   II. A problem with using an HSA for retirement income accumulation is that HSA contributions are subject to state income tax in 22 states.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

5. All of the following statements about using an HSA to pay for a large expenditure in retirement are correct **EXCEPT**:
   A. Assuming the clients paid out-of-pocket for medical expenses and saved the receipts from those expenses, they can use HSA funds to pay for an essential home improvement.
   B. In the example of Ken and Patty, the taxpayers were able to save $8,400 in state and federal taxes by using HSA funds instead of making a 401(k) withdrawal.
   C. Because HSA funds can be used to reimburse a prior medical expense regardless of the fact that the expense occurred many years prior to the HSA withdrawal, the funds will not increase the client's taxable income.
   D. Clients should be advised that an HSA can be used as piggy bank for big-ticket items that would otherwise affect federal tax, state tax, local tax, Medicare Part B premium payments, and the tax owed on their Social Security benefit.

6. If Kathy contributes $4,350 (including $1,000 in catch-up contributions) to a health savings account (HSA) beginning in 2016 and assuming no withdrawals and a 5 percent interest rate, what is her HSA balance in 2026?
   A. $77,449 C. $62,818
   B. $64,535 D. $58,000

How Do the Dependency Exemption Rules Differ for Parents and Siblings of Children with Special Needs?

7. What is the dependency exemption for 2017?
   A. $1,050 C. $4,050
   B. $2,050 D. $6,050

8. All of the following statements about claiming a dependency exemption on Form 1040 are correct **EXCEPT**:
   A. In order to claim a dependency exemption, the taxpayer must satisfy one of two tests.
   B. For a qualifying child (QC), the taxpayer must satisfy a four-prong test—relationship, abode, age, and gross income.
   C. For a qualifying relative (QR), the taxpayer must satisfy a three-prong test—relationship, gross income, and support.
   D. A key difference between the requirements for claiming a dependency exemption for a QC and QR is that a QR, if actually related, need not live with the claiming taxpayer.

9. Which statement(s) about the Working Families Tax Relief Act of 2004 is (are) correct?
   I. The act provides a uniform definition of qualifying relative (QR) and a qualifying child (QC) for purposes of dependency exemptions, child tax, dependent care, and earned income tax credits.
   II. Under the Working Families Tax Relief Act, a QC must be under the age of 19 at year end; must be a full-time student under the age of 24 at year end; or must be totally and permanently disabled at any time during the year.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

10. All of the following statements about the receipt of supplemental security income (SSI) by a disabled child are correct **EXCEPT?**
   A. SSI is counted as support under the qualifying relative (QR) test.
   B. The receipt of SSI may result in forfeiting the dependency exemption for a child with special needs.
   C. SSI is not included as income, nor is it counted as support provided by a QC.
   D. Children qualifying for SSI can receive a maximum federal benefit of $733 a month for 2017.

Smart Tips for Retirement Planning

11. Which statement(s) about the three-legged retirement stool is (are) correct?
   I. The traditional three-legged retirement stool is often defined as Social Security, pension income, and wages.
   II. A more modern three-legged stool would include retirement inflows, which is defined as checks arriving in the mailbox.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

12. All of the following statements about budgeting for young families are correct **EXCEPT:**
   A. The traditional budget process involves setting spending targets.
   B. Bottom-up budgeting focuses on the savings side, not the spending side, of budgeting.
   C. Bottom-up budgeting works by setting a monthly savings target for a few key financial buckets, such as emergency cash reserves, debt reduction, and college savings.
   D. Young families tend to have greater success using the traditional, versus the bottom-up, budgeting process.

13. Married couple, Abigail and Brian, both participate in their respective companies' 401(k) plans. Abigail earns $100,000 and contributes 6 percent; Brian earns $80,000 and contributes 4 percent. Abigail's employer matches 100 percent of the first 3 percent contributed and 50 percent of the next 3 percent. Brian's employer matches 100 percent of the first 5 percent contributed. What is the total employer match for Abigail and Brian?
   A. $7,700 C. $4,000
   B. $5,200 D. $8,100

14. For 2017, what is the maximum employee deferral rate to a 401(k) plan for an individual who is 32 years old?
   A. $10,000 C. $18,000
   B. $14,000 D. $22,000

15. As discussed by the author, all of the following are areas to consider as components of preretirement planning **EXCEPT**:
   A. Health savings accounts
   B. Debt financing
   C. Reverse mortgages
   D. Backdoor Roth contributions

Demand for Life Insurance: A Consumer Perspective

16. All of the following statements regarding important factors related to someone's intention to purchase or drop life insurance coverage are correct **EXCEPT**:
   A. Factors such as the death of a family member and depression are generally considered important environmental factors related to an individual's decision to purchase or drop life insurance.
   B. Individual factors in the life insurance decision-making process include variables like education level, training, risk aversion, and self-esteem.

C. Factors such as marital status, marital stability, credit card debt, and the existence of health insurance are generally considered important family factors related to an individual's decision to purchase or drop life insurance.
D. Environmental factors in the life insurance decision-making process include job stability, residency, membership in a religious community, and family attitudes.

17. According to the data in Table 2, which characteristics describe wealthy consumers most likely to purchase life insurance?
    A. Individuals who are single, Catholic, and live in the northeastern part of the United States.
    B. Individuals who are married, not of a traditional religious background, and live in the western United States.
    C. Individuals who are married, come from a traditional religious background, and live in the southeastern United States.
    D. Individuals who own businesses, are Jewish, and live in the western United States.

18. According to the data in Table 2, which characteristics describe wealthy consumers most likely to drop life insurance coverage?
    A. Individuals living in urban areas and who are employed by the U.S. government.
    B. Individuals with an unclassified job who have had a death in the family, and who hold bonds in their portfolio.
    C. Individuals living in rural areas who exhibit risk aversion and who have an unclassified job.
    D. Individuals living in urban areas who exhibit risk aversion and hold bonds in their portfolio.

A Case for Incorporating Financial Wellness into Your Retirement Planning Practice

19. Which statement(s) about national retirement-readiness is (are) correct?
    I. Nearly 50 percent have saved less than $10,000 for retirement.
    II. Employers and retirement plan administrators have attempted to address retirement readiness concerns with the development of automatic enrollment plans and the introduction of autoescalation of plan contributions.

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

20. All of the following statements about participation in employer-sponsored retirement plans are correct **EXCEPT**:
    A. Twenty-six percent of individuals with access to an employer-sponsored plan are not participating.
    B. One in four active savers does not contribute enough to a retirement plan to receive the full employer match.
    C. Employees report that they fail to save for retirement because they are flat broke and need to prioritize the current demands on their financial resources.
    D. Only 42 percent of workers report having a good understanding of their workplace retirement savings plans.

21. All of the following statements about financial wellness are correct **EXCEPT**:
    A. Financial wellness is a comprehensive approach to achieving financial security.
    B. Financial wellness goes beyond financial literacy and involves behavior change as it relates to an individual's habits around money.
    C. Like physical hardship, financial hardship among employees leads to increases in the cost of health care, disability programs, and workers compensation.
    D. A 2016 Financial Risks report by Prudential found that 44 percent of employees say they worry about finances at work, and over 50 percent of employees admit to spending 8 to 10 hours a week on personal financial matters while at work.

Retirement Planning: Coping with Higher Health Care Costs

22. All of the following statements regarding life expectancy in America are correct EXCEPT:
    A. For healthy Americans aged 65 today, almost five in 10 men will reach age 90.

B. For healthy Americans aged 65 today, almost six in 10 women will reach age 90.
C. For healthy Americans aged 65 today, nearly one in five will make it to 100 years old.
D. Out of 1,000 healthy Americans aged 65 today, more than 30 women have a life expectancy of 105.

23. What are the projected out-of-pocket health care costs during retirement for a couple retiring at age 65, excluding the cost of chronic illness care?
    A. $158,000 to $392,000
    B. $567,878
    C. $523,737
    D. $125,000 to $152,000

24. Which statement(s) about chronic illness care is (are) correct?
    I. Some 15 million family members and friends provide 18 billion hours of unpaid care to those with Alzheimer's and other dementias.
    II. Demographic trends indicate that the current heavy reliance on family caregivers for chronic illness care is unsustainable because there will be more older people and fewer middle-aged people.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

25. All of the following statements about health care costs are correct **EXCEPT**:
    A. Monthly Medicare Part B premiums rose more than 16 percent in 2016.
    B. The percentage of Medicare beneficiaries who pay extra premiums is expected to grow from 5 percent today to 20 percent in 2019.
    C. In 2017, the average Medicare Part D premium is expected to rise 9 percent from 2016.
    D. From 2017 to 2024, the cost of Medicare Part D premiums could accelerate an annual average of 8 percent.

26. According to Social Security Administration data on aggregate retirement income by source, what source provides the largest percentage of retirement income?
    A. Pensions
    B. Social Security
    C. Earnings/wages
    D. Investment income

27. All of the following statements suggest solutions to managing the challenges of higher health care costs in retirement **EXCEPT**:
    A. A health savings account (HSA) is a good way for a client to start saving for long-term needs while still employed.
    B. Certain cash value life insurance policies can act as a supplemental retirement income tool to help offset rising health care costs.
    C. With life insurance coverage in place to protect legacy planning, a client may be more willing to take a growth-oriented approach to investing.
    D. Cutting back on contributions to retirement plans is a good way to free up cash for health care costs.

28. All of the following statements about using life insurance to help manage the challenges clients may face in addressing higher health care costs are correct **EXCEPT**:
    A. Taking a loan from a cash value life insurance policy to pay for an unexpected catastrophic health event can allow a client to avoid cashing out equity investments at a time when the value of the investment is in decline.
    B. Flexible premium insurance policies can provide flexible premium payment patterns, allowing clients the flexibility to pay more when they have more cash and less when they need to use the cash for health care expenses.
    C. Withdrawals from the accumulated cash value in a modified endowment contract (MEC) life insurance policy can be taken without any federal income tax consequences to the policyholder.

D. Certain riders on particular life insurance products will provide accelerated death benefits in the event of chronic illness or the need for long-term care.

The Farmer at Retirement: The Ordinary Income Dilemma and a Charitable Alternative

29. All of the following statements about income tax issues for farmers are correct **EXCEPT**:
    A. IRC Sections 167, 168, and 179 allow the farmer to rapidly expense the cost of equipment.
    B. The cost of seed and fertilizer and the cost of planting and fertilizing are currently deductible by the farmer.
    C. The farmer is faced with taxable ordinary income when deciding to liquidate farm equipment to fund his retirement.
    D. Under IRC Section 2601, the farmer can get certain tax breaks for the sale of stored crops.

30. In the Tom and Joan Jackson case study, what is the Jacksons' net worth?
    A. $3 million
    B. $4.5 million
    C. $5.8 million
    D. $6.4 million

31. According to the case study, which statement(s) about Tom and Joan Jackson is (are) correct?
    I. The Jacksons' farm equipment and crops have a $0 cost basis.
    II. A portion of the sale of Tom and Joan's farm equipment and crops will be taxed at capital gains rates.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

32. All of the following statements about a charitable remainder trust (CRT) are correct **EXCEPT**:
    A. A CRT is an irrevocable split-interest trust.
    B. Under a CRT, a noncharitable beneficiary receives period payments from the trust for a specified period of time after which the remainder of the trust funds are paid to a designated charity.
    C. In a typical CRT arrangement, a husband and wife will donate property with little appreciation.
    D. One of the benefits of a CRT is that the income generated in the trust is tax free to the trust.

33. All of the following statements about a charitable remainder annuity trust (CRAT) are correct **EXCEPT**:
    A. A CRAT will pay out a specified dollar amount.
    B. A CRAT must pay the remainder beneficiary (the charity) a minimum of 10 percent of the original trust corpus.
    C. A CRAT cannot accept any donations after the original donation.
    D. A CRAT allows earnings of invested trust corpus to accumulate in the trust income tax free.

34. In the outright sale model, how much is the tax bill for Tom and Joan Jackson in year one?
    A. Almost $900,000
    B. $522,658
    C. Less than $40,000
    D. $155,782

35. According to the author, all of the following statements about alternative planning considerations for Tom and Joan Jackson are correct **EXCEPT**:
    A. A charitable remainder unitrust (CRUT) can be used as an alternative to a charitable remainder annuity trust (CRAT) if, because of low interest rates, a CRAT is not feasible.
    B. A charitable gift annuity (CGA) provides a simpler alternative to a CRT.
    C. Tom and Joan could sell their stored crops in an installment sale and get installment sale tax treatment.
    D. One of the negative aspects for Tom and Joan in using a CGA is that they would have to bear the investment risk.