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# JOURNAL DISCUSSION GUIDE

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### Supreme Court Clarifies the Definition of Church Plan, but Significant Open Issues Remain

1. All of the following statements about the U.S. Supreme Court decision in *Advocate Health Care* are correct **EXCEPT**:
   A. The Supreme Court ruling contradicts the position taken by the three agencies responsible for administering the Employee Retirement Income Security Act (ERISA).
   B. The Supreme Court's decision was unanimous.
   C. The Supreme Court's ruling is considered a landmark decision in that it is the first time the Supreme Court addressed the definition of church plan in ERISA section 3(33).
   D. The Supreme Court ruling was favorable for church-affiliated employers, such as nonprofit hospitals, religious schools and universities, and youth programs.

2. All of the following statements about the impact of the *Advocate* decision on church affiliates are correct **EXCEPT**:
   A. A church affiliate that believes its plan is exempt but has no IRS determination letter is at a serious disadvantage as a result of the *Advocate* decision.
   B. The *Advocate* decision provides some comfort to church affiliates that have established a retirement plan for their employees as long as the plan is maintained by a principal-purpose organization.
   C. The *Advocate* decision only scratched the surface of the various factual and legal issues associated with the definition of a church plan.
   D. The ruling in the *Advocate* case opens the door for rulings regarding church plans in several lower court cases that were put on the back burner pending action by the Supreme Court.

3. Which statement(s) about steps a church plan client can take to further support its reliance that the church plan exemption applies to its nonpension benefit plan is (are) correct?
   I. Church plan clients that already maintain a formal governance structure for their church plans can reevaluate the existing structure so that there is no doubt that the entity administering the plan satisfies the requirements for being a principal-purpose organization.
   II. The church plan client can review all relevant church plan documents to confirm that they are consistent with the intended plan structure and governance of the relevant nonpension benefit plan.
   A. I only
   B. II only
   C. Both I and II
   D. Neither I nor II

### I'm Retired. Now What? Making the Most of the Longevity Bonus

4. According to Erik Erikson's theory on life stages, what ages are encompassed in the seventh life stage, which focuses on generativity versus stagnation?
   A. 17–50
   B. 22–39
   C. 18–35
   D. 40–64

5. All of the following statements about retirement and purpose are correct **EXCEPT**:
   A. According to Richard Leider, author of *The Power of Purpose,* finding meaning and purpose in how individuals spend the remaining years of life is a key concept as they grow older.
   B. According to a *Wall Street Journal* interview with Brad Klontz, a psychologist who works with the super-rich, there are significant differences in what billionaires want in retirement and what middle-income individuals are seeking.
   C. The concept of leaving a legacy goes hand in hand with aging.
   D. Purpose in retirement gives individuals the will not just to live but to live long and well.

6. All the following statements regarding perspectives on the human life span are correct **EXCEPT**:
   A. Authors are identifying the time between adulthood and elderhood as the encore years, the third age, or middlesence.
   B. In the 1930s, retirement/old age was defined as ages 55 and older.
   C. The period between adulthood and elderhood is measured by functional ability, not chronology, and can extend into a person's eighties.
   D. A current concept in the human life span called adulthood 2.0 is said to begin at age 61.

### Retiree Health Benefits Revisited

7. Which statement about projected health care costs is correct?
   A. Over the next 10 years, health care costs are projected to decrease by a cumulative 5 percent.
   B. Health care costs are projected to rise an estimated 9.5 percent between now and 2025.
   C. Health care costs are projected to decrease by 2 percent every year until 2025.
   D. Health care costs are projected to rise an estimated 5.9 percent every year until 2025.

8. All of the following statements about health care costs for older Americans are correct **EXCEPT**:
   A. More than one-fourth of all Medicare beneficiaries spend 20 percent or more of their income on health care costs.
   B. It is estimated that a 65-year-old woman would need $150,000 in savings to be 90 percent certain of covering all future medical expenses.
   C. It is estimated that a 65-year-old man would need $127,000 in savings to be 90 percent certain of covering all future medical expenses.
   D. The percentage of employers that offer retiree health coverage has declined from over 40 percent of firms with more than 200 employees in 1999 to less than 25 percent by 2017.

9. All of the following statements about the Affordable Care Act (ACA) and retiree health coverage are correct **EXCEPT**:
   A. Access to health insurance has improved for early retirees since the full implementation of the ACA.
   B. The availability of health coverage through the ACA led to an increased probability of individuals retiring before age 65.
   C. Because of the ACA, enrollment in Medicare Advantage plans has experienced a 20 percent decrease over the last 5 years.
   D. Between 2013 and 2014, as the result of the ACA, the fraction of early retirees without health insurance declined from 14.7 percent to 11.2 percent.

### Strategy: Cross-Purchase versus Stock Redemption Buy-Sell Agreements in S Corporations

10. According to the author, all of the following statements regarding business valuation and the IRS in the context of a buy-sell agreement are correct **EXCEPT**:
    A. In the audit process the IRS will make its decision as to the defensibility of a business valuation based on a strict technical reading of the Internal Revenue Code and the Treasury regulations.
    B. When conducting an audit, the IRS pays particular attention to situations in which one party to a transaction can manipulate both sides of the transaction for its benefit.
    C. Generally, the taxpayer bears the burden of proof when the IRS audits a tax return, which means that, for purposes of a buy-sell agreement, reasonable provisions and a defensible valuation method can be critical to avoiding additional taxes.
    D. A buy-sell agreement that uses well-known, accepted valuation formulas, along with reasonable interest rate assumptions, can establish both the fair market value of the decedent's stock and its selling price.

11. How many life insurance policies will be needed to fund a cross-purchase buy-sell agreement where the business has five shareholders?
    A. 30 C. 12
    B. 20 D. 8

12. Which statement(s) about a cross-purchase buy-sell agreement is (are) correct?
    I. The most attractive feature of a cross-purchase plan is the step-up in basis for the remaining business owners.
    II. According to the author, the practical limit for a cross-purchase buy-sell agreement is just two shareholders.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

13. All of the following statements about life insurance funding and buy-sell agreements are correct **EXCEPT:**
    A. The rule of thumb for life insurance in buy-sell agreements is that the person or party with the obligation to buy the stock should be the owner and beneficiary of the policy.
    B. Options for business owners to get money out of the business to pay premiums on life insurance used to fund a buy-sell agreement include taking additional compensation or making S corporation distributions.
    C. Cross-endorsement split dollar provides a more efficient alternative to the traditional cross-ownership approach for funding a buy-sell agreement with life insurance.
    D. One of the advantages of the cross-ownership approach in a buy-sell agreement is the owner's incentive to build cash value in the life insurance policy.

14. Tom and Dave are co-owners of a business with a cross-endorsement split-dollar buy-sell arrangement. All of the following statements about what happens if Tom passes away are correct **EXCEPT**:
    A. The death benefit in excess of premiums would be subject to income tax.
    B. Dave will collect the policy death benefit and use the funds to buy Tom's stock from his estate.
    C. Dave will not be subject to the transfer-for-value rules.
    D. Dave's stock will receive a step-up in basis.

15. All of the following statements about stock redemption buy-sell agreements are correct **EXCEPT:**
    A. One of the attractions of a stock redemption plan is that only one policy is needed per stockholder.
    B. Just as with a cross-ownership arrangement, a stock redemption plan will provide the surviving co-owners with a step-up in basis when one of the co-owners dies.
    C. With a stock redemption arrangement, the business has several choices of what to do with a policy it no longer needs, including retaining it as an asset and eventually collecting the death benefit.
    D. With a stock redemption arrangement, the business can complete an IRC Section 1035 exchange and convert the insurance policy to annuity if the policy is no longer needed for buy-sell purposes.

### Strategy: Assessing the Impact of Required Minimum Distributions on the 4 Percent Rule

16. All of the following statements about the 4 percent rule are correct **EXCEPT**:
    A. The 4 percent rule can be attributed to William Bengen.
    B. The 4 percent rule is considered a safe retirement distribution strategy that prevents the client from losing purchasing power in retirement.
    C. A client retiring in January 2018 with $1 million in her 401(k) plan who follows the 4 percent rule would take an initial distribution of $40,000.
    D. According to the originator of the 4 percent rule, a portfolio following the rule would survive for approximately 23 years even during periods of high inflation.

17. According to Bengen, what is the retirement fund stock allocation that financial planners should advise clients to accept?
    A. As close to 50 percent as possible.
    B. No less than 50 percent but no more than 60 percent.
    C. As close to 75 percent as possible.
    D. No more than 50 percent.

18. Which statement(s) about the impact of required minimum distributions (RMDs) on the 4 percent rule is (are) correct?
    I. For a client who is expecting to retire at age 67 with 100 percent of his or her portfolio invested in intermediate-term government bonds, the portfolio failed 56.5 percent of the time when RMDs were not controlled for.
    II. For a client who is expecting to retire at age 67 with 100 percent of his or her portfolio invested in intermediate-term government bonds, the portfolio failed 58.1 percent of the time when RMDs were controlled for.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

19. All of the following statements about the analysis of the impact of RMDs on the 4 percent rule as presented in Table 3 are correct **EXCEPT**:
    A. The portfolios that failed the most were heavily weighted in bonds.
    B. The best portfolios with regard to survival comprise at least 50 percent stock.
    C. Controlling for RMDs does not affect portfolio survival in a meaningful way.
    D. Terminal values are lower when controlling for RMDs.

20. All of the following statements about the results when clients use the 3 percent rule versus the 4 percent rule as a retirement distribution strategy are correct **EXCEPT**:
    A. A client who uses the 3 percent rule will have less money at the end of the 30-year distribution period.
    B. The failure rates are lower and the average ending balances are higher with the 3 percent rule compared to the 4 percent rule.
    C. The 3 percent rule is likely to appeal to clients who want to hold portfolios heavily weighted in bonds.
    D. With the 3 percent rule, the failure rate reaches 0 percent once the portfolio includes only 15 percent stock.

### Strategy: Using an IRA Trust for Asset Protection and Wealth Preservation

21. After the death of an IRA owner, how are required minimum distributions (RMDs) determined when a see-through trust is the beneficiary of the IRA?
    A. The decedent's age at death determines the RMDs.
    B. The life expectancy of the beneficiary of the trust is used to determine RMDs.
    C. The decedent's age at retirement determines the RMDs.
    D. RMDs are determined using tables found in IRS Notice 2014-7.

22. All of the following statements about the requirements to establish a see-through trust are correct **EXCEPT**:
    A. A see-through trust must have a minimum of six beneficiaries.
    B. The trust must be valid under state law.
    C. The beneficiaries of the trust must be identifiable from the trust document.
    D. The trust must be irrevocable or become irrevocable upon the IRA owner's death.

23. All of the following identify reasons for paying IRA benefits to a trust **EXCEPT**:
    A. One reason for paying IRA benefits to a trust is to force the beneficiary to stretch the payments over the longest period of time.
    B. Naming a trust as an IRA beneficiary can protect the IRA assets from bankruptcy depending on state law.
    C. Naming a trust as an IRA beneficiary can avoid the need for appointing conservators for minor beneficiaries.
    D. One reason for paying IRA benefits to a trust is ease of drafting and administering an IRA trust.

24. All of the following statements about an accumulation trust are correct **EXCEPT**:
    A. An accumulation trust permits all IRA receipts, including RMDs, to be held in trust.
    B. Accumulation trusts are more complicated to draft and administer than conduit trusts.
    C. PLR 201633025 precludes accumulation trusts from being used as an IRA trust if one of the beneficiaries is a charity.
    D. It can be troublesome for an accumulation trust to comply with the see-through trust requirement that beneficiaries be individuals and identifiable at the IRA owner's death.

25. Which statement(s) about the considerations for deciding whether to use a conduit trust or an accumulation trust is (are) correct?
    I. An accumulation trust is preferable to a conduit trust when trying to minimize income taxes.
    II. A conduit trust will be preferable if the primary beneficiary is known to have creditor issues or spendthrift habits.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

26. All of the following statements about a credit shelter trust are correct **EXCEPT**:
    A. One of the advantages of a credit shelter trust is that the basis for the assets in the trust get stepped up when the first spouse dies and then again at the death of the surviving spouse.
    B. Credit shelter trusts are funded using the decedent's estate tax exemption amount.
    C. Marital and credit shelter trusts are funded typically using either the pecuniary funding formula or the fractional share formula.
    D. A credit shelter trust helps married couples reduce estate taxes.

27. All of the following statements about using a qualified terminable interest property (QTIP) trust as the beneficiary of an IRA are correct **EXCEPT**:
    A. A QTIP trust allows the first spouse to die to direct the disposition of the remaining estate upon the death of the surviving spouse.
    B. In order for an IRA payable to a QTIP trust to qualify for the marital deduction, the trustee must be required to withdraw all income earned each year on the IRA and to pay such amount to the surviving spouse on an annual basis.
    C. Using a QTIP trust as the beneficiary of an IRA can be problematic if the remainder beneficiaries are charities or someone else's estate.
    D. Making IRA benefits payable to a QTIP trust will generally result in greater income tax deferral during the surviving spouse's lifetime compared to a spousal rollover.

## Strategy: Tax Diversification

28. All of the following statements about using a Roth IRA to help with tax bracket management are correct **EXCEPT**:
    A. A taxpayer with $120,000 in adjusted gross income (AGI) and $18,000 in itemized deductions will pay tax at a 28 percent rate if he or she takes the full retirement distribution through a traditional IRA.
    B. A taxpayer with $120,000 in AGI and $18,000 in itemized deductions will pay $20,408 in tax if he or she takes the full retirement distribution through a traditional IRA.
    C. A taxpayer with $120,000 in AGI and $18,000 in itemized deductions will pay tax at a 33 percent rate if he or she takes $6,060 of his or her retirement distribution from a Roth IRA and $113,940 from a traditional IRA.
    D. A taxpayer with $240,000 in AGI and $18,000 in itemized deductions will pay tax at a 28 percent rate if he or she takes $26,400 of his or her retirement distribution from a Roth IRA and the $213,600 balance from a traditional IRA.

29. Which statement(s) about using Roth IRA distributions to reduce taxes is (are) correct?
    I. Because Roth IRA distributions are excluded from income, proper planning can be used to provide the needed distributions without bumping income into the next tax bracket.
    II. In order to maximize the tax benefit of the Roth IRA, the authors recommend just drawing the minimum amount necessary to drop one tax bracket.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

30. All of the following statements about the choice between a traditional IRA and a Roth IRA are correct **EXCEPT**:
    A. According to the authors, even when marginal tax rates remain constant, the tax-saving opportunities available from the Roth IRA will strongly favor some contributions being made to that vehicle rather than making all contributions to a traditional IRA.
    B. Recent research in this area indicates that the Roth IRA investor can achieve higher after-tax returns over the traditional IRA investor.
    C. In discussing the choice between a Roth and a traditional IRA, clients are likely to make the argument that it costs more to make a Roth contribution because there is no immediate tax deduction.
    D. According to an article by John Beshears, the frontloading nature of paying Roth taxes tends to negatively impact purchasing power in retirement.