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JOURNAL DISCUSSION GUIDE

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401(k) Hardship Withdrawals

1. All of the following "deemed hardships" are acceptable for taking a hardship withdrawal from a 401(k) plan **EXCEPT:**
   A. Medical expenses
   B. Mortgage payments on principal residence
   C. College tuition
   D. Funeral expenses for a deceased relative or primary beneficiary

2. Which statement(s) about IRS requirements for 401(k) hardship withdrawals is (are) correct?
   I. A well-established IRS requirement for hardship withdrawals is that the amount withdrawn cannot exceed the participant's vested account balance.
   II. The amount of a hardship withdraw cannot exceed the amount needed for the financial hardship, but plan participants can access additional sums to pay the taxes and penalties on the distribution.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

3. At age 25 Betty takes a $10,000 hardship withdrawal from her 401(k) plan to purchase a home. Projecting 6 percent earning on her 401(k) plan investments, how much will Betty lose in retirement savings by age 65?
   A. $10,285 C. $45,259
   B. $21,724 D. $102,850

4. True or False. Beginning in 2020, 401(k) plan participants will not be allowed to make contributions to their plan for 6 months after they received a hardship distribution.
   A. True B. False

U.S. Supreme Court to Review the Issue of Taxation of Trust Beneficiaries Based on their Residency

5. All of the following statements about the Kaestner Family Trust case are correct **EXCEPT:**
   A. The U.S. Supreme Court granted certiorari in *Kaestner* to determine the constitutionality of a state statute that imposed tax on the income earned and accumulated on an out-of-state trust.
   B. One of the unusual aspects of *Kaestner* is that the Supreme Court is addressing an appeal from a state supreme court which declared its own state law unconstitutional.
   C. The state of North Carolina taxed the Kaestner trust based on the fact that the trust had beneficiaries residing within the state.
   D. A key factor in North Carolina's position that it was entitled to impose tax on the Kasetner Family Trust was that a North Carolina resident served as trustee of the trust.

6. All of the following statements about incomplete grantor (ING) trusts are correct **EXCEPT:**
   A. ING trusts have been declared unconstitutional in four states.
   B. The concept of an ING trust calls for a grantor in a high-income-tax state to place assets in an irrevocable nongrantor trust in a state without income tax.
   C. New York State enacted a law in 2014 to collect income taxes on out-of-state ING trusts.
   D. The conflict among the states as to the constitutionality of statutes designed to tax ING trusts led to the Supreme Court's decision to grant certiorari and hear arguments in the *Kaestner* case.

7. Which statement(s) about the reasoning in the North Carolina Supreme Court's decision in the *Kaestner* case is (are) correct?
   I. The court cited a U.S. Supreme Court case called *Complete Auto Transit, Inc. v. Brady* to find against the taxpayers.
   II. The court's line of reasoning looked for some minimum connection between a state and the person, property, or transaction, it wanted to tax in order to comply with the due process clause of the constitution.

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

Understanding Business Protection Needs

8. All of the following statements about business protection insurance coverage are correct **EXCEPT:**
   A. In a 2019 survey of over 1,000 business owners, business protection coverage was rated the highest priority among all benefits and solutions.
   B. Of the percentage of business owners who had some type of business protection coverage in place, key person life insurance was the overwhelming favorite.
   C. Approximately 20 percent of business owners have business protection coverage either in the form of key person coverage or disability insurance.
   D. According to a 2019 survey by Principal Financial Group, the percentage of business owners with business protection coverage increased since the prior survey in 2017.

9. All of the following statements about key person life insurance are correct **EXCEPT:**
   A. Key person coverage *per se* is not measured by the value of the company or the terms of a company's buy-sell agreement.
   B. The primary need for key person life insurance is to provide cash to recruit and hire a replacement following the death of a key person.
   C. A common benchmark for measuring key person need is 3 to 5 times the total compensation paid to that person.
   D. From an underwriting standpoint, key person coverage is a specific insurable need and insurance carriers could legitimately question the amount of coverage being sought by the business.

10. All of the following statements about the tax implications of key person life insurance are correct **EXCEPT**:
   A. Similar to other ordinary and necessary business expenses, life insurance premiums for key person life insurance are deductible.
   B. The death benefit from key person life insurance is typically exempt from tax provided notice and consent requirements, under IRC Section 101(j), are met.
   C. With the understanding that benefits from key person coverage are paid to the business, not the employee, there are no income tax implications to the employee.
   D. Amounts borrowed from a key person life insurance policy are not taxed as distributions as long as the policy remains in force and assuming the policy is not a modified endowment contract.

The Risk of Financial Information Overload

11. All of the following statements about financial information overload are correct **EXCEPT**:
   A. An obvious risk of financial overload is that the client fails to take any action in making decisions about things such as buying life insurance or executing a will.
   B. One risk of financial overload is that the consumer will gravitate toward the cheapest solution.
   C. Financial information overload may create a dangerous tendency for the consumer to trust the smoothest talking advisor, rather than the most informed.
   D. Recent research indicates that, in an era of financial information overload, 42 percent of consumers are more comfortable working with a robo-advisor than a human advisor.

12. Which statement(s) about overcoming the challenge of financial information overload is (are) correct?
    I. The advisor needs to be part of the solution by keeping client communications informed on financial trends and focused on the client's needs, rather than looking at the product du jour or the latest hot investment.
    II. For the advisor, a suggested step in addressing information overload is to structure the methods for staying current by creating a playlist of sources for good financial information and budget time to access these materials.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

We May Be Seeing the Beginning of Social Security Reform

13. All of the following statements about the history of Social Security reform are correct **EXCEPT**:
    A. The last time major Social Security reform legislation was enacted was 1988.
    B. The Social Security Amendments Act of 1983 raised payroll taxes, expanded coverage, imposed income taxes on benefits for the first time, and gradually raised the age at which unreduced benefits could be paid from age 65 to 67, among other changes.
    C. President George W. Bush made Social Security reform his highest domestic priority and in 2005 he proposed a solution to establish supplemental individual accounts invested in equity markets.
    D. One of the challenges facing Social Security reform is that Congressional Republicans do not want to consider tax increases and most Congressional Democrats won't consider benefit reductions, both of which are needed to address Social Security's financial imbalance.

14. As reported by the news media, how much will the average Social Security benefit increase if Representative Larson's Social Security 2100 legislation is enacted?
    A. Approximately $28 per month
    B. $861.18
    C. $926
    D. Approximately 3 percent

15. All of the following statements about H.R. 860 are correct **EXCEPT**:
    A. H.R. 860 has more than 200 cosponsors and is identical to Senate bill S. 269.
    B. Over 90 percent of House Democrats and 10 percent of House Republicans have publicly supported H.R. 860.
    C. H.R. 860 calls for a revised cost-of-living adjustment calculation that would be based on the CPI-E, a consumer price index that is for elderly consumers and is designed to better reflect the costs that elderly consumers actually bear.
    D. H.R. 860 links the special minimum benefit provision to 125 percent of the federal poverty level for single individuals and the amount for newly eligible beneficiaries would be wage indexed.

16. All of the following statements about the taxation of Social Security benefits are correct **EXCEPT**:
    A. Currently about 40 percent of Social Security beneficiaries pay some federal income tax on their benefits.
    B. Single filers are subject to taxation on Social Security benefits beginning at $32,000.
    C. Under the Social Security 2100 bill, the two sets of thresholds for Social Security benefit taxation would be replaced with one set.
    D. The percentage of benefits included in income for federal tax purposes increases at income levels of $44,000 for married couples filing jointly.

17. For 2019, earnings above what amount are not subject to Social Security taxation?
    A. $400,000 C. $132,900
    B. $220,000 D. $97,000

18. Which statement(s) about the Social Security 2100 proposal (is) are correct?
    I. The Social Security 2100 bill, if enacted into law in its present form, would restore the Social Security program to close to actuarial balance.
    II. The Social Security 2100 bill calls for an increase in the payroll-tax rate by 1 percent per year, starting in 2010 and ending in 2050.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

Is a 401(k) Loan in Your Client's Best Interest?

19. All the following statements about 401(k) plan loans are correct **EXCEPT**:
    A. Ninety percent of large employers allow plan participants to take plan loans according to data from the Center for Retirement Research at Boston College.
    B. 401(k) plan loans allow access to retirement funds prior to retirement without tax liability or penalty.
    C. About 20 percent of 401(k) plan participants have outstanding loans at any given time according to information from EBRI.
    D. A 401(k) loan provision allows employers and plan sponsor to offer a special benefit to highly compensated employees.

20. How much can a 401(k) plan participant borrow from his/her 401(k) plan account (assuming their plan has a loan option)?
    A. $50,000
    B. $10,000
    C. The lesser of $50,000 or half of the vested account balance
    D. A minimum of $2,000

21. Which statement(s) regarding advising clients who are considering whether to take a hardship withdrawal or a plan loan is (are) correct?
    I. Clients need to be aware that a 20 percent penalty tax may apply on a hardship withdrawal on top of ordinary income tax.
    II. Hardship withdrawals may be considered advantageous because the withdrawn funds don't need to be paid back.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

22. All the following statements about 401(k) plan loans versus commercial loans are correct **EXCEPT**:
    A. As a general rule, a commercial loan will have an overall lower transaction cost than a 401(k) plan loan.
    B. A plan loan is easy to access with a typically short, simple, and intuitive loan application that can be found on the plan sponsor's website.
    C. Plan loans may be preferable to commercial loans because there is no need to verify eligibility or provide evidence of sufficient collateral.
    D. Clients may opt for a commercial loan versus a 401(k) plan loan because they have a longer payback period that makes the cost of borrowing more affordable.

What Matters in Exchange-Traded Fund (ETF) Selection?

23. True or False. According to the Trends in Investing Survey Report, 87 percent of advisors surveyed in 2018 indicate that they currently use or recommend ETFs with their clients.
    A. True B. False

24. All the following statements about what matters in ETF selection are correct **EXCEPT**:
    A. To study the issue of what matters in ETF selection, researchers looked at annual report net expense ratios, yearly net-of-expense returns, and the names of primary prospectus benchmark indexes from Morningstar Direct's survivor-bias-free U.S. ETF universe.
    B. Matt Hougan has developed a compelling theory that it is more important for investors to consider tracking difference, that is, the difference between the net-of-expense return on an ETF and the return on its benchmark index, when they select an ETF.
    C. Experts have indicated that low expenses are the main characteristic that investors look for when selecting an ETF.
    D. The author's research found that despite the findings of the Trends in Investing Survey, expense ratio is the main characteristic financial service professionals look for when selecting an ETF.

No Debt and Underwater: The Need for Flood Insurance Especially as Home Equity Rises

25. All of the following statements about causes of homeowners' insurance losses are correct **EXCEPT**:
    A. Flood is the most frequently uninsured or underinsured loss experienced by homeowners.
    B. According to data from the Insurance Information Institute, the highest percent of losses incurred result from fire and lightning.
    C. Wind and hail account for 33.1 percent of homeowners' insurance losses according to 2016 statistics provided by the Insurance Information Institute.
    D. According to the Insurance Information Institute, theft accounts for 1.9 percent of homeowners' insurance losses.

26. All of the following statements about flood risk in the United States are correct **EXCEPT**:
    A. The United States has had 24 500-year flood events since 2010.
    B. In North Carolina, flooding and hurricanes are the principal natural disaster risks.
    C. In 2017, the city of Houston had its third 500-year flood in 3 years.
    D. Because of the desert climate in much of Arizona, it is the only state in the United States that has not experienced a 100-year, 500-year, or 1000-year flood during the last 20 years.

27. Which statement(s) about coverage under the national flood insurance program (NFIP) is (are) correct?
    I. The maximum coverage for homes under the NFIP is $250,000.
    II. The NFIP provides $100,000 for personal property valued at actual cash value, not replacement cost.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

28. All of the following statements about determining the need for flood insurance are correct **EXCEPT**:
    A. The primary factor to consider in determining the need for flood insurance is whether the mortgage is in a nonrecourse state.
    B. One factor to be considered in determining the need for flood insurance is the probability of a loss.
    C. One of the three factors that should be addressed in determining the need for flood insurance is home equity ownership.
    D. The potential severity of a loss must be addressed when determining the need for flood insurance.

29. True or False. It was estimated that residential flood losses from Hurricane Harvey were $25 to $35 billion with approximately 50 percent of these losses being uninsured.
    A. True B. False

30. All of the following statements about the National Flood Insurance Program (NFIP) are correct **EXCEPT:**
    A. One of the reasons it was established in 1968 was to address a perceived lack of flood insurance in the private market.
    B. The NFIP had $1.3 trillion in insurance coverage in force as of January 31, 2019.
    C. NFIP coverage is available only to properties that are located in the approximately 22,000 communities that participate in the program.
    D. The number of NFIP policies in force as of January 2019 is at an all-time high of 5 million.