# JOURNAL DISCUSSION GUIDE

JOURNAL OF FINANCIAL SERVICE Professionals

### The Tax Cuts and Jobs Act: Viatical Settlements, and the Transfer-for-Value Rules

1. Which statement(s) about the impact of the Tax Cuts and Jobs Act (TCJA) on viatical settlements is (are) correct?
   I. The TCJA reiterates that the death proceeds of viatical settlements are subject to the taxable gains rules of Revenue Ruling 2009-13, and it establishes higher tax rates than under prior law.
   II. The TCJA makes clear that viatical settlements fall under the transfer-for-value rules contained in IRC Section 101(a).
   A. I only  C. Both I and II
   B. II only  D. Neither I nor II

2. All of the following statements about the reporting requirements under new IRC Section 6050Y are correct **EXCEPT**:
   A. The buyer of the policy must report information about the purchase to the IRS, the insurance company that issued the contract, and to the seller.
   B. A buyer of the policy must report the name, address, and tax identification number of each recipient of payment in a reportable policy sale to the IRS.
   C. The statement a buyer provides to any issuer of a life insurance contract is required to include that amount of the payment for the purchase of the contract.
   D. The insurer has an obligation to file information with the IRS if the buyer of the policy is a foreign person.

3. True or False. The TCJA amends IRC Sec. 1016 to provide that no basis adjustment should occur for a life policy with regard to mortality, expense, or other reasonable charges incurred under an annuity or life insurance contract.
   A. True  B. False

4. All of the following statements about the transfer-for-value rules are correct **EXCEPT**:
   A. Under IRC Section 101(a)(2), if a life insurance contract is sold or otherwise transferred for valuable consideration, the amount paid by reason of the death of the insured that is excludible from tax is generally limited.
   B. The Internal Revenue Code provides five exceptions to the transfer-for-value rule.
   C. Even if there has been a transfer for valuable consideration, life insurance proceeds are received income tax free if the policy is transferred to another shareholder in a corporation in which the insured is also a shareholder.
   D. Under the TCJA, the exceptions to the transfer-for-value rule do not apply to a transfer of a life insurance contract if that contract is transferred in a reportable policy sale.

### The New Tax Act: Why Clients Need to Review Their Estate Plan Today

5. All of the following statements about the estate, gift, and generation-skipping transfer (GST) tax system following enactment of the Tax Cuts and Jobs Act (TCJA) are correct **EXCEPT**:
   A. The transfer tax rates have been retained, but have been decreased from 40 percent to 21 percent.
   B. The federal annual gift tax exclusion is increased to $15,000.
   C. The opportunity for a surviving spouse to use the deceased spouse's unused estate and gift tax exemption has been retained.
   D. The TCJA doubles the gift, estate, and GST tax exemption.

6. Bob and Sarah, a married couple, have taxable assets of $10 million in Bob's name. Their estate plan directs that at the first death, an amount equal to the estate tax exclusion flows into the family trust with the balance into a marital trust. Bob dies in 2018. How much of Bob's wealth will go to the marital trust?
   A. $5 million C. $10 million
   B. $0 D. $4.51 million

7. All of the following statements about the GST tax exemption are correct **EXCEPT**:
   A. Like the estate tax exemption, the GST tax exemption is portable.
   B. For high-net-worth families, the temporarily enhanced GST tax exemption creates unusually attractive opportunities to shelter more wealth through the use of long-term trusts.
   C. Granting a general power of appointment to a "poor" parent, who then exercises the power into a trust over which he or she allocates their GST tax exemption, creates long-term estate tax protection as well as a basis step-up.
   D. The doubled GST tax exemption amount is scheduled to expire in 8 years.

8. All of the following statements about estate planning in light of the Tax Cuts and Jobs Act (TCJA) are correct **EXCEPT**:
   A. For clients with estates of less than $5.5 million, it is recommended that advisors focus on estate planning (versus estate tax planning) and basis management.
   B. Clients with estates between $5.5 and $11 million should be advised to embed flexibility in the first-to-die's estate plan.
   C. For clients with estates between $11 million and $22 million, advisors should recommend the use of the enhanced gift and GST tax exclusions via lifetime transfers.
   D. For clients with estates over $22 million, basis management should be the main focus of the estate plan.

## Social Security Risks

9. All of the following statements about mortality risk are correct **EXCEPT**:
   A. Mortality risk is the risk that retirees will live longer than expected.
   B. Many mechanisms exist to pool and spread mortality risk in private-sector pension plans.
   C. Mortality risk is the most volatile risk faced by both private-sector pension plans and Social Security.
   D. Mortality rates have been generally declining for centuries.

10. All the following statements about risks in the Social Security environment are correct **EXCEPT**:
   A. Social Security does not face meaningful investment risk because it is basically funded on a pay-as-you-go basis and because its assets are required to be invested in securities guaranteed by the U.S. government.
   B. Regulatory risk is a concern for Social Security because of the U.S. political environment.
   C. Social Security faces a completely different set of risks than private-sector pension plans.
   D. The greatest risk of all for Social Security is the loss of public confidence.

11. All of the following statements about the financial picture for Social Security are correct **EXCEPT**:
   A. Social Security took in more tax revenue than it spent until 2010.
   B. The Social Security trust fund has grown and will continue to grow due to investment earnings on $3 trillion in fund assets.
   C. After the year 2025, the Social Security trust fund will cover only about one-fourth of its annual outgo.
   D. The Social Security program has no ability to borrow money.

12. Which statement(s) about solutions to Social Security's future financial problems is (are) correct?
    I. One solution to the Social Security funding issue is to raise payroll tax rates.
    II. Economists and politicians are generally in agreement that the best solution to Social Security's financial problems is to raise the full retirement age to 70 for individuals born in 1960 or later.

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

**Annuities and Moral Hazard: Can Longevity Insurance Increase Longevity?**

13. All of the following statements about moral hazard are correct **EXCEPT**:
    A. The concept of moral hazard relates to the idea that individuals will take greater risks when insurance bears the cost.
    B. Generally, annuities have been presumed to be susceptible to the incentive effects represented by concepts like moral hazard.
    C. In common parlance, the concept of moral hazard has a distinctly negative connotation.
    D. Economist Mark Pauly wrote about the tendency of individuals to use more medical care when insurance pays the bill than otherwise as an example of moral hazard.

14. True or False. Under certain economic models, life annuities have the unintended consequences of increasing a rational individual's life expectancy.
    A. True B. False

15. In the United States, how much longer can a 65-year-old male who purchases an annuity expect to live than the 65-year-old male who does not purchase an annuity?
    A. 25 percent
    B. 20 percent
    C. 33 percent
    D. Approximately 5 years

16. All of the following statements about the purchase of annuities and longevity are correct **EXCEPT**:
    A. The idea that individuals buy annuities because they expect to live longer is called self-selection.
    B. Individuals may buy annuities because they intend to live longer by eating well, exercising, and staying healthy.
    C. Insurance companies are unable to identify which individuals will live longer and, therefore, will raise the prices on the annuities sold to everyone.
    D. According to research by Finkelstein and Poterba, individuals who purchase back-loaded annuities tend to have shorter life expectancies than individuals who purchase annuities with guarantee periods.

17. Which statement(s) about the incentive effects of life annuities as discerned from the Civil Service Retirement System (CSRS) data is (are) correct?
    I. Individuals receiving pensions from the CSRS in the lowest group of final salary had the same or higher mortality than the general population at every age over 57 and for both genders.
    II. Individuals receiving pensions from the CSRS had lower mortality rates than the general U.S. population, with the exception of females earning less than $30,000 a year.

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

18. All of the following statements about the incentive effects of owning rights to a life annuity are correct **EXCEPT**:
    A. Individuals can buy annuities to incentivize their future selves to stay active and healthy.
    B. The incentive effects provide strong policy reasons for encouraging individuals to annuitize their savings to improve the general health and welfare of the population.
    C. The research on the incentive effects of life annuities affirms the unstated assumption that individuals have very little control over their life expectancy.
    D. Individuals can influence their heirs to follow a more wholesome lifestyle by using a life annuity to transfer wealth to the next generations.

**Buy-Sell Arrangements in Light of the Tax Cuts and Jobs Act**

19. All the following statements about uncertainties associated with the Tax Cuts and Jobs Act (TCJA) are correct **EXCEPT**:
    A. One issue is that the TCJA includes differing effective dates and sunset provisions.
    B. The uncertainty as to whether the increased estate and gift tax exemption will actually sunset in 2026, as provided in the law, creates challenges for advisors who are drafting business succession plans.
    C. The general wisdom among financial advisors is to delay planning because of the uncertainty of the TCJA and the strong likelihood that it will be repealed and replaced by the next Congress.
    D. Planning is complicated by the temporary status of the pass-through business deduction associated with IRC Section 199A.

20. True or False. The effective date of the lowered corporate tax rate is 2018 and it has a scheduled sunset date of 2020.
    A. True B. False

21. All of the following statements about how the changes in the tax law might influence the timing and payout terms in a buy-sell agreement are correct **EXCEPT**:
    A. The change in the family attribution rules will make it easier for stockholders to receive capital gains treatment upon redemption of their stock pursuant to a buy-sell agreement.
    B. Because alimony loses its tax deductibility starting in 2019, a business owner who is apprehensive about a future divorce and its resulting alimony may want to alter the buy-sell agreement's terms to account for the changed tax situation.
    C. With the overall reduction in individual tax rates, business owners may be comparatively less concerned about the sale of their stock and, therefore, may want the buy-sell to be changed to accelerate installment terms.
    D. Closely held business owners who converted their company from a pass-through entity to a C corporation to take advantage of lower corporate tax rates may want to amend their buy-sell agreement to delay stock sales for as long as possible.

22. Which statement(s) about using split-dollar life insurance as a funding source for a buy-sell agreement is (are) correct?
    I. Decades ago, the split-dollar approach was a popular way to pay for life insurance used in a buy-sell agreement because business tax rates and personal tax rates were significantly different.
    II. Under the TCJA, it makes more sense for a C corporation to pay for life insurance premiums using a split-dollar arrangement rather than having the owners of a company pay individually.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

23. According to a study of 1,000 buy-sell agreements by the Principal Financial Group, what percent of the agreements reflect the current fair market value of the business at the time of review?
    A. 92 percent    C. 33 percent
    B. 58 percent    D. 6 percent

24. All of the following statements about the need to review buy-sell agreements in light of the TCJA are correct **EXCEPT**:
    A. Because the TCJA extends and modifies bonus depreciation rules, the buyer in a buy-sell agreement will be seriously motivated to have the agreement provide for sale of the individual assets of the business rather than sale of the stock.
    B. The $10,000 cap on state and local taxes implemented by the TCJA may lead the business owner to change his or her business location or personal residence and, therefore, generate the need for a review of the buy-sell agreement as to choice-of-law and other relevant provisions.
    C. Buy-sell agreements that contemplate an IRC Sec. 1031 exchange need immediate attention because, under the TCJA the breadth of this section has been significantly reduced.
    D. The TCJA includes a provision that precludes having a preset value for closely held business stock in certain circumstances.

25. Which statement(s) about estate planning using buy-sell agreements before the owner's death is (are) correct?
    I. Traditionally, one factor for using a buy-sell agreement before the owner's death is to minimize transfer taxes by freezing the value of the business interest.
    II. A business owner will want to sell the business while he or she is still alive to facilitate a smooth premortem transfer of the business, preparing family, customers, creditors, and other stakeholders for the inevitable change of management.
    A. I only    C. Both I and II
    B. II only    D. Neither I nor II

**Defined-Benefit Plans Remain a Planning Opportunity**

26. All of the following statements about defined-benefit plans are correct **EXCEPT**:
    A. One disadvantage of a defined-benefit plan is the inability to guarantee a secure benefit at retirement.
    B. In a recent study by the Employee Benefits Security Administration, growth among private defined-benefit plans outpaced that of defined-contribution plans.
    C. A defined-benefit plan will allow for accelerated retirement funding for small-business owners nearing retirement.
    D. A defined-benefit plan allows business owners to generate liquidity that can help them transition into retirement.

27. All of the following statements about the impact of the Tax Cuts and Jobs Act (TCJA) on small-business owners are correct **EXCEPT**:
    A. The TCJA introduced Section 199A which allows certain business owners to deduct up to 20 percent of qualified business income.
    B. For small-business owners whose companies operate as a pass-through entity, joint filers with income above $315,000 can claim a full deduction on any income earned from service industries.
    C. The TCJA removes or reduces some of the common business expense deductions for small-business owners, such as certain meal and travel expenses.
    D. For businesses taxed as C corporations, the TCJA reduces the corporate income tax rate permanently to a flat 21 percent.

28. For defined-benefit plans, what is the maximum annual benefit that may be funded in 2018?
    A. $125,000    C. $200,000
    B. $175,000    D. $220,000

29. All of the following statements about a cash-balance defined-benefit plan are correct **EXCEPT**:
    A. The plan must satisfy IRS rules for eligibility, participation, benefits, vesting, and funding.
    B. One of the advantages of a cash-balance plan is that it does not need to meet discrimination rules and, as such, can favor key employees.
    C. A cash-balance plan is considered a hybrid defined-benefit plan.
    D. Cash-balance plans may be designed to optimize the owner's contribution.

30. Which statement(s) about qualified business income (QBI) is (are) correct?
    I. Under IRC Section 199A, QBI includes qualified real estate investment trust dividends and qualified publically traded partnership income.
    II. Under IRC Section 199A, the QBI deduction calculation can be aggregated for each qualified business the taxpayer owns.
    A. I only  C. Both I and II
    B. II only  D. Neither I nor II