JOURNAL DISCUSSION GUIDE

JOURNAL OF FINANCIAL SERVICE Professionals

The Role of a Retirement Plan Specialist

1. All of the following statements identify skills needed by a retirement plan specialist **EXCEPT:**
   A. A retirement planning specialist must have strong actuarial expertise to help employers with the qualified-plan selection process.
   B. A retirement plan specialist should be able to educate the client about the tax-shelter characteristics of a qualified retirement plan.
   C. Retirement planning specialists will have expertise on the prohibited transaction rules.
   D. It is important for a retirement planner specialist to be able to assist the employer in the enrollment process to ensure strong participation rates.

2. Which statement(s) about Kim's use of a simplified employee pension (SEP) plan for her solo practitioner social work business is (are) correct?
   I. If Kim contributes $10,000 to a SEP and is in a combined 25 percent federal, state, and local tax bracket, she will save $2,500 in taxes and have $10,500 in retirement savings at the end of the year (assuming a 5 percent rate of return).
   II. If Kim saves $10,000 outside of a SEP, her account balance at the end of the year will be $7,500, and her total retirement savings after 10 years will be $75,000, compared with $105,000, if the money were saved inside the SEP.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

3. All of the following statements about Uni-K plans are correct **EXCEPT**:
   A. A Uni-K plan is a retirement plan that works well for sheltering supplemental earnings.
   B. Uni-K plans can be designed to include a Roth feature.
   C. A Uni-K plan is a 401(k) plan that enables circumvention of the so-called 20 percent Keogh rule.
   D. Uni-K plans allow for a loan provision and early withdrawals prior to age 59½ without penalty.

Proposed Regulations Clarify—No Clawback in Using the Higher Exemption Now

4. Which statement(s) about estate and gift tax changes made by the Tax Cuts and Jobs Act (TCJA) is (are) correct?
   I. The TCJA increased the exemption amount to a flat $10 million for decedents dying any time between 2017 and 2026.
   II. On January 1, 2027, the exemption amount will revert to $5 million.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

5. True or False. Congress granted regulatory authority in IRC Section 2001(g)(2) to address situations in which differences exist between the exemption applicable to a decedent's gifts and the exemption applicable to the decedent's estate.
   A. True B. False

6. All of the following statements about the guidance provided by the IRS in proposed regulations addressing the effects of the temporary increase in the gift and estate tax exclusion amounts are correct **EXCEPT:**
   A. Under the proposed regulations, the prior taxable gift amount, to the extent gift tax was paid, does not reduce the current exemption.
   B. Under the proposed regulations, a taxpayer who dies after 2025 will lose the benefit of the increased exemption for estate tax purposes.
   C. Under the proposed regulations, the increased exemption is not reduced by the portion of any prior gift on which gift tax was paid, and the full amount of the increased exemption is available to compute the credit against the estate tax.

D. The proposed regulations consider whether the gift tax on a gift made after the increased exemption period is inflated by a theoretical gift tax on that gift made, but calculated with the lower exemption when a subsequent gift is made, thus, effectively reversing the benefit of increased exemption.

Life Insurance for Business Owners: Inside or Outside?

7. What is the top tax rate for C corporations under current law?
   A. 39 percent
   B. 31 percent
   C. 28 percent
   D. 21 percent

8. Your business-owner client decides to purchase a life insurance policy to meet a variety of personal planning needs. All of the following statements about determining whether your client will achieve greater tax efficiency by purchasing a life insurance policy inside the company or outside are correct **EXCEPT:**
   A. One key factor in making the determination is whether the client's business is a pass-through entity.
   B. If the business owner's personal tax bracket is significantly higher than the corporate tax rate, it makes sense to crunch the numbers on whether a cash value life insurance policy should be owned inside the business.
   C. The analysis of whether the policy should be owned inside or outside the client's business must consider the difference between receiving a policy with a value that is all basis or one that is part basis and part gain.
   D. A starting point in the analysis is how long the policy will be held.

9. Which statement(s) about the nontax considerations involved in deciding whether life insurance for business-owner clients should be held inside or outside the business is (are) correct?
   I. A business owner needs to consider the impact of the policy ownership on other practical issues such as access to cash and death benefit protection.
   II. Business owners need to remember that assets, including a life insurance policy, held inside a C corporation are subject to the claims of corporate creditors.
   A. I only
   B. II only
   C. Both I and II
   D. Neither I nor II

Removing the Irrevocable Life Insurance Trust as the Default in Estate Planning

10. All of the following statements identifying issues related to the use of irrevocable life insurance trusts (ILITs) in estate planning are correct **EXCEPT:**
    A. The increase of the estate tax exemption enacted under the TCJA is triggering client requests to access life insurance policies trapped in ILITs and requests for judicial reform of trusts, trust decanting, and lapsing of trust-owned policies.
    B. With the enactment of the TCJA, an ILIT has potential income and gift tax liability that impact its value as an estate planning technique.
    C. Prior to the TCJA, advisors had concerns that trust-owned life insurance policies (TOLIs) weren't performing as advertised, because they may have needed more premium than illustrated or otherwise needed adjustment to meet intended objectives.
    D. Troubled life insurance policies in ILITs could be a source of potential fiduciary liability for trustees and/or attorneys.

11. Which statement(s) about the wealth conservation and protection plan (W-CAP) concept is (are) correct?
    I. The W-CAP concept is focused on the use of life insurance in estate planning.
    II. The key feature of the W-CAP concept is that it recognizes multiple uses of life insurance in estate planning.
    A. I only
    B. II only
    C. Both I and II
    D. Neither I nor II

12. All of the following statements about W-CAP's four-step process are correct **EXCEPT**:
   A. The four-step process is designed to determine the client's most important uses for life insurance in the estate plan and then to place the ownership of the policy accordingly.
   B. In Step 2 of the process, the life insurance policy features that most effectively address the estate planning needs are determined.
   C. Step 3 of the W-CAP process calls for selecting and securing the best funding option for the life insurance policy that includes the policy features that were identified in Step 2.
   D. Step 4 of the W-CAP process calls for determining the appropriate ownership structure of the life insurance policy.

13. Francie and Bob, a couple with a $3 million estate, are concerned with providing liquidity to their adult special needs child, but want to be sure their child continues to qualify for continued government programs and benefits. They also want to avoid the adverse effects of a possible long-term care incident. Using the W-CAP approach, what is an appropriate ownership structure for life insurance purchased to meet Francie and Bob's planning needs?
   A. Francie and Bob's life insurance should be individually owned.
   B. The best option for Francie and Bob is to place the life insurance in a revocable special needs trust.
   C. Francie and Bob should purchase insurance inside an ILIT.
   D. Francie and Bob's life insurance should be owned by a guardian appointed for the care of their special needs child.

Public Oversight of the Social Security Program

14. All of the following statements about the U.S. Social Security program are correct **EXCEPT**:
   A. In calendar year 2019, an estimated $941 billion in Social Security payroll taxes will be paid.
   B. The Social Security Administration is run by a staff of 60,000 employees.
   C. Approximately $38 billion in revenue is collected from the federal income taxation of Social Security benefits.
   D. For 2019, the total Social Security income of $1.061 trillion is exceeded by the sum of annual benefits paid to 64 million beneficiaries by $6 billion.

15. Which statement(s) about the public's involvement in overseeing Social Security is (are) correct?
   I. The Social Security Advisory Board (SSAB), as created in 1994 by Public Law 103-296, provides a mechanism for public involvement in overseeing Social Security and includes responsibilities related to ensuring the solvency of the Social Security program.
   II. The Social Security board of trustees includes four members of the public, two each from the Democrat and Republican parties.
   A. I only
   B. II only
   C. Both I and II
   D. Neither I nor II

16. All of the following statements about the technical panels of experts appointed by the SSAB are correct **EXCEPT**:
   A. The SSAB technical experts review the actuarial assumptions that underlie the financial projections developed annually by the Social Security Administration's actuaries.
   B. The SSAB technical experts include actuaries, economists, and demographers and can reinforce the recommendations of the government actuaries, especially in the event that politicians try to exert influence.
   C. The members of the most recent SSAB technical panel were appointed in October 2018 and will serve for a term of 4 years.
   D. The first technical panel of experts was appointed by the SSAB in 1998.

The Impact of Premium Conversion on Social Security Benefits

17. All of the following statements about premium conversion are correct **EXCEPT**:
    A. Premium conversion is authorized under IRC Section 125.
    B. Premium conversion is a method of reducing taxable income by the amount of an employee's insurance premiums.
    C. Premium conversion has the potential to reduce Social Security retirement, survivor, and disability benefits.
    D. Premium conversion can apply to health, dental, and vision insurance, but it cannot be used for life and disability insurance coverage because these tend to be discretionary.

18. What are the estimated tax savings an average worker in a high-tax jurisdiction can expect from electing premium conversion?
    A. As high as $4,200.
    B. A minimum of $2,950.
    C. As high as $1,110.
    D. A minimum of $500.

19. Which statement(s) about premium conversion is (are) correct?
    I. In considering whether premium conversion is an appropriate decision, the employee must compare the value of the immediate tax savings with the future loss of Social Security benefits.
    II. The premium conversion option was first made available to all federal employees in 1994 as a way to mitigate the cost of increasing health insurance premiums.
    A. I only
    B. II only
    C. Both I and II
    D. Neither I nor II

20. All of the following statements about health savings accounts (HSAs) are correct **EXCEPT**:
    A. HSAs may be established by employees enrolled in a high-deductible health insurance plan.
    B. HSAs are available to individuals covered by Medicare, subject to certain limits.
    C. HSA contributions made through payroll deductions (i.e., on a pretax basis) are not subject to income, Social Security, or Medicare taxes.
    D. The 2018 HSA contribution limits were $3,450 for an individual and $6,900 for a family.

21. All of the following statements about the impact of participation in premium conversion on Social Security benefits are correct **EXCEPT**:
    A. Employees with preretirement earnings of $10,620 and below will lose 90 cents in Social Security retirement benefits for every dollar that reduces their preretirement income through premium conversion.
    B. Employees with preretirement earnings between $10,620 and $64,764 will lose 32 cents in Social Security retirement benefits for every dollar that reduces their preretirement income through premium conversion.
    C. Employees with preretirement earnings between $64,764 and $128,400 will lose 22 cents in Social Security retirement benefits for every dollar that reduces their preretirement income through premium conversion.
    D. Employees with preretirement yearly incomes above $128,400 will not lose any Social Security retirement benefits through premium conversion.

22. True or False. In general, the longer the covered worker survives, the more likely that the tax savings from premium conversion will outweigh the loss of future Social Security retirement benefits.
    A. True
    B. False

23. All of the following statements about the impact of premium conversion on Social Security benefits are correct **EXCEPT**:
    A. According to the analysis by Avila, Athavale, and Gatzlaff, the benefit of lower current taxes outweighs the reduction in Social Security retirement benefits.

B. Avila, Athavale, and Gatzlaff's research indicates that, depending on the income, age, number and age of dependents, and the life expectancy of the employee in question, the loss of Social Security disability and survivor benefits may outweigh the current tax savings from premium conversion.
C. Critical bend points financial planners should pay attention to when exploring the impact of premium conversion on Social Security benefits are $10,620, $64,764, and $128,400.
D. Older employees are more susceptible to negative consequences from electing premium conversion than younger employees.

Retirement Income from Indexed Universal Life Insurance Policies—Risks and Solutions

24. All of the following statements about using income streams from indexed universal life (IUL) policies for retirement needs are correct **EXCEPT**:
    A. The possibility of a large tax liability due to phantom income resulting from a policy lapse is one of the risks associated with using IUL policies as a source of retirement income.
    B. According to the National Association of Insurance Commissioners, using IUL policies to fund retirement violates Actuarial Guideline 49 (AG49).
    C. Policyholders and their advisors do not have a means of assessing the effect of different sequences of returns on their policy while distributions are being made.
    D. When using an IUL policy to fund retirement, policyholders can ease concerns of phantom income through the use of an overloan rider.

25. Which statement(s) about avoiding problems related to using IUL insurance policies for retirement income is (are) correct?
    I. Insurance companies are in a better position than policyholders or advisors to prevent problems by providing more reliable means of managing retirement income streams from IUL policies.
    II. Advisors can help avoid problems by making sure the policyholder understands that the policy will need to be professionally serviced each year while income is being taken during the insured's lifetime.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

Using Roth Conversions of Legacy Retirement Plans to Fund Special Needs Planning

26. According to the National Institute on Aging, all of the following statements about the aging U.S. population are correct **EXCEPT**:
    A. There are 35 million people aged 65 or older in the U.S. today.
    B. There are 30 million people aged 80 or older in the U.S. today.
    C. People aged 85 or older constitute the fastest growing segment of the U.S. population.
    D. The population of people aged 85 and older could exceed 19 million by 2050.

27. All the following statements about similarities and differences between traditional and Roth IRAs are correct **EXCEPT**:
    A. For both Roth and traditional IRAs, individuals aged 50 or older can contribute more than younger individuals.
    B. Original owners of a Roth IRA do not have to take required minimum distributions, but required minimum distributions must be taken from traditional IRAs by April 1 following the year in which the IRA owner turns age 70½ and by December 31 of later years.

C. Unlike a Roth IRA, contributions to a traditional IRA are deductible, and withdrawals are taxable.
D. For both Roth and traditional IRAs, withdrawals can be made only once during any given calendar quarter except in cases of hardship.

28. Which statement(s) about IRA ownership in the U.S. is (are) correct?
    I. According to the U.S. Census Bureau, IRAs currently represent 52 percent of total U.S. retirement market assets compared with 10 percent 20 years ago.
    II. Nearly 25 million U.S. households own a Roth IRA.
    A. I only
    B. II only
    C. Both I and II
    D. Neither I nor II

29. All the following statements about considerations related to making a Roth conversion for clients with special needs are correct **EXCEPT**:
    A. For clients who reasonably expect to have extraordinary home assistance needs or high medical expenses, a Roth conversion is generally a very effective tool for special needs planning.
    B. Clients with longer projected lifespans often stand to benefit most from a Roth conversion.
    C. The Roth conversion strategy provides more flexibility for clients with special needs to pay for large-item expenses, such as a wheelchair, or a vehicle adaption to support handicap access and operation.
    D. One of the four key factors that financial planners must analyze when considering Roth conversions for clients with special needs is the client's overall net worth in light of the fact that the Roth conversion strategy can help high-net-worth clients increase the amount of wealth transfer to successive generations.

30. All of the following statements about using the Roth conversion strategy for special needs funding are correct **EXCEPT**:
    A. If Roth conversions are the source of funding for special needs planning, then the entire balance of the funds can be accessed at age 59½, more than 10 years sooner than funds from a traditional IRA would be available.
    B. For special needs planners, planning is greatly simplified by the fact that with a Roth IRA, all contributions, including the conversion amounts, are after tax.
    C. One of the downsides of using Roth IRAs for special needs funding is that, as a general rule, a Roth IRA will be subject to Medicaid recapture after the death of the beneficiary.
    D. Since Roth withdrawals are not needed to fund taxes on the amount taken out, special needs planners can use investment options that are less aggressive and less volatile to obtain the same level of net return on tax-deferred plans.