MARCH 2020 I VOL. 74, NO. 2

JOURNAL DISCUSSION GUIDE

JOURNAL OF FINANCIAL SERVICE Professionals

Thirty Examples Illustrating How the SECURE Act Will Enhance Retirement Plans and Retirement Planning

1. All of the following statements about the intent of the law are correct **EXCEPT**:
   A. The SECURE Act is intended to enable individuals to improve their retirement planning.
   B. The SECURE Act assists individuals in responding to changes in 529 plans.
   C. The SECURE Act provides support to small business owners who wish to adopt retirement plans for their employees.
   D. The SECURE Act enables individuals within existing qualified plans to take advantage of additional savings opportunities.

2. Which statement(s) about the change in required minimum distribution (RMD) rules under the new SECURE Act is (are) correct?
   I. Individuals who have turned 70½ and have already begun taking RMDs will not be impacted by the new RMD modifications.
   II. Individuals who turned 70 in 2019 but who will not turn 70½ until 2020 are able to benefit from the new age 72 RMD extension.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

3. All of the following statements about the SECURE Act's changes regarding early withdrawals from a traditional IRA and avoiding the 10 percent penalty are correct **EXCEPT**:
   A. Individuals who adopt a child from their spouse's prior marriage will quality for the $5,000 penalty-free withdrawal opportunity.
   B. Individuals who take advantage of the $5,000 penalty-free withdrawal can repay the $5,000 to the IRA even if they have contributed the maximum allowable amount to their IRA for the year.
   C. Even though the SECURE Act provides opportunities to avoid the 10 percent IRA early-withdrawal penalty fee, individuals taking advantage of these are still responsible for ordinary income tax owed on the withdrawal.
   D. Individuals in a traditional IRA may withdraw up to $5,000 penalty-free up to one year from the date of a birth of a child.

4. Which statement(s) regarding the eligibility of small businesses to receive an increased tax credit for retirement plan start-up costs is (are) true?
   I. Under the SECURE Act, the annual tax credit for small business retirement plan start-up costs can be as high as $5,000 per year for 50 percent of the costs, for up to 3 years.
   II. Small businesses eligible for the tax credit include those whose employees are solely highly compensated employees.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

5. All of the following statements regarding the ability of long-term part-time employees to participate in 401(k) plans are correct **EXCEPT**:
   A. If an employee completes more than 500 hours of service in 3 consecutive years, they must be allowed to make an elective contribution to the plan.
   B. Under current law, employers offering 401(k) plans can exclude employees who work less than 1,000 hours.
   C. Employers are not required to make nonelective and/or matching contributions on behalf of long-term part-time employees.
   D. Seasonal employees are exempt from the requirement that they complete 500 hours of service in 3 consecutive years and are eligible to participate in the 401(k) plan.

IRS Issues Important Regulations on Reportable Policy Sales and Clawback

6. Which statement(s) about exceptions to the transfer-for-value (TFV) reporting rule is (are) correct?
   I. Under the TFV rules, the tax-free benefit of a transferred life insurance policy is limited to the amounts paid for the transferee to obtain the contract and any premiums paid by the transferee.

II. The reportable policy sales rules require that when a policy is transferred, and the transfer is subject to the rules, a detailed reporting requirement occurs from the policy issuer to the IRS.

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

7. True or False. According to late 2019 IRS clarification of clawback regulations, if a lifetime transfer is made under a higher exemption, and death occurs at a time of a lower exemption, the difference will be clawed back in the estate tax return.

A. True B. False

Opportunity Zones—Congressional Behavior Modification

8. Which statement(s) about the Department of Treasury proposed regulations relating to qualified opportunity zones (QOZ) is (are) correct?
   I. The primary rule for QOZs is that tax deferral continues until the earlier of (a) an inclusion event or (b) December 31, 2026.
   II. The sale or exchange of the QOZ investment does not qualify as an inclusion event and therefore will not trigger capital gain recognition.

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

9. All of the following statements about tax incentives for investing in QOZ are correct **EXCEPT**:
   A. Deferral of capital gain recognition means that capital gains must be included on the investor's federal income tax return during the year in which the sale occurred.
   B. According to the final regulations, a gift is considered an inclusion event, except when the gift is given into a grantor trust.
   C. Retaining the QOZ investment for 5 years will generate a 10 percent basis.
   D. Investments before December 31, 2019, will benefit from the 15 percent increase if retained for 7 years; after December 31, no new investment will qualify for the entire 15 percent basis jump.

Hackers and Scammers and Rogues, Oh My!

10. According to the FTC's most recent annual report to Congress, what was the total amount in consumer losses recorded in 2018 due to fraud, identity theft, and other forms of deceit?

A. \$3.1 million C. \$400 million
B. \$1.6 billion D. \$256,404

11. All of the following statements about the scope and cost of fraud on older adults are correct **EXCEPT**:
   A. In 2018, the most frequent type of loss for older consumers was for tech support scams.
   B. Romance scams reported in 2018 on those aged 70 and over indicated highest median losses of \$10,000.
   C. For those aged 60-79, the number of loss reports for government imposter scams in 2018 dropped 27 percent.
   D. For real estate and timeshare resale frauds, older adults were nearly four times more likely to report losing money than younger consumers.

12. According to the study by MetLife Mature Market Institute, which statement(s) about elder financial abuse is (are) correct?
   I. Financial exploitation of older adults is most commonly perpetrated by family members.
   II. The most common victims of financial elder abuse are women, aged 80-89, who live alone and require some help with health issues or home maintenance.

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

Regulatory and Ethical Concerns

13. All of the following statements about New York's Regulation 187 relating to the sale of insurance products are correct **EXCEPT**:
   A. One of the most important considerations of Reg. 187 is that recommendations of licensed agents are suitable, furthering the consumer's needs and objectives.

B. It is important that licensed agents put all recommendations, along with the processes used to derive the recommendations, in writing.
C. According to Reg. 187, the acts of licensed agents will be measured by solely addressing the client's needs with no attention to their own needs.
D. It is up to the licensed agent, their carriers, and the consumer to develop processes and procedures in support of the Reg. 187 requirements.

14. Which statement(s) about the changes that the Certified Financial Planner (CFP) Board of Standards instituted in October 2019 is (are) correct?
    I. The "best interest" standard applies only to planning advice.
    II. If there is the potential for a material conflict of interest, such as the receipt of commissions, the certificant is required to make full disclosure to the client after providing specific financial advice about insurance products.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

The Risk of Being Risk Averse—and What to Do about It

15. All of the following statements about identifying a risk-averse client are correct **EXCEPT**:
    A. Behavioral finance principles can help an advisor assess whether a client is risk averse.
    B. Loss aversion can lead to irrationality that is either too risk averse or too risky.
    C. Behavioral finance theory attributes confirmation bias qualities to the natural human fear of being alone or missing out.
    D. Herding behavior can lead individuals to join in the actions of others with similar interests, even if their needs don't line up financially.

16. Which statement(s) about solutions for working with the risk averse is (are) correct?
    I. In particular, males have been shown to want additional materials and data in order to make financial decisions.
    II. For many prospective retirees, fear of the unknown can be addressed by providing multiple "what if" analyses.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

17. True or False. According to recent research, investors not only welcome the idea of technology, such as robo-investing, in managing their portfolios, but even expect it.
    A. True B. False

How Congress Might Slow the Growth of Social Security Benefits

18. All of the following statements about reducing the growth of Social Security's future benefits costs are correct **EXCEPT**:
    A. Social Security benefits are provided pursuant to statute, and are not "property" protected from being taken by the Constitution's Fourth Amendment.
    B. Reducing the projected Social Security benefit amount for people whose receipt of benefits is not imminent is deemed the most likely path Congress could use to achieve benefit reduction.
    C. To save a significant amount of money through means testing, the benefit reductions would need to reach deeply into the upper-middle class, which would be politically expedient.
    D. Many people argue that today's cost of living adjustments (COLAs) are too small and understate the cost of living for the elderly.

19. True or False. Incoming tax revenue is expected to cover about four-fifths of benefit outgo in 2035.
    A. True B. False

A Financial Comparison of Nonqualified Deferred-Compensation Arrangements

20. All of the following statements about nonqualified deferred-compensation (NQDC) arrangements are correct **EXCEPT**:
    A. The NQDC plan offers the key employee financial resources that will generate supplemental retirement income over and above that provided by the traditional courses of savings, Social Security, and qualified plans.
    B. A large employer may offer one NQDC plan to all employees at or above a certain managerial or technical level, while individual plans might be negotiated for the CEO or CFO.
    C. When insurance producers illustrate NQDC plans being informally funded with life insurance, they typically illustrate the term of years being satisfied at age 72.
    D. The NQDC plan will promise substantial benefit to key employees, but will have a substantial risk of forfeiture attached to it.

21. All of the following statements about NQDC plans are correct **EXCEPT**:
    A. With equity loan regime split-dollar arrangements, the premium is treated as a loan to the employee by the employer with repayment of the loan secured by the policy values and death benefit.
    B. In nonequity economic benefit split-dollar arrangements, the employer owns the policy and has interests in both the policy and the death benefit equal to the greater of premiums paid or the policy's cash value.
    C. With the restrictive executive bonus arrangement (REBA), the employee can have access to policy values only with permission of the employer, and must remain with the employer for a specific length of service or risk forfeiture.
    D. Under the REBA arrangement, at the expiration of the repayment period, access to the policy values will be unlimited once the employer transfers ownership of the policy.

401(k) Plan Distributions: Rollover or Retention of Plan Proceeds

22. Which statement(s) about the scenarios in favor of a rollover of proceeds into an IRA is (are) correct?
    I. Distributions can be made from a rollover IRA for higher education expenses, a first-time home purchase (up to $10,000 lifetime maximum), and the payment of health insurance premiums while unemployed.
    II. If a rollover is made to a traditional IRA, required minimum distributions are required no later than April 1 of the year following the year in which the owner turns 72.

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

23. True or False. Assets maintained in 401(k) plans generally receive unlimited creditor protection under ERISA.
    A. True
    B. False

24. All of the following scenarios in favor of retaining proceeds with the 401(k) are correct **EXCEPT**:
    A. If the participant is aged 55 and separates from service, he or she can take a distribution from a 401(k) without being subject to the 10 percent premature distribution penalty.
    B. It is possible to take a penalty-free loan from any type of IRA and most 401(k) plans under current tax law.
    C. If a loan from an IRA is made, the entire balance is immediately taxable at the owner's highest marginal tax rate.
    D. Loans from 401(k) plans cannot exceed a lifetime total of $50,000.

Limitations of Retirement Planning Software: Examining Variance between Inputs and Outputs

25. All of the following statements about the use of retirement planning software are correct **EXCEPT**:
    A. According to a 2010 study, about 16 percent of respondents reported using a computer program for retirement planning.
    B. To date, little is known about how much retirement software programs differ in their recommendations.
    C. Retirement planning software/calculator programs must project market characteristics that will determine how much a worker needs to save to meet a long-term retirement goal.
    D. Between 2003 and 2014, the number of different retirement software programs available increased from 11 to 72.

26. True or False. Of the selected software/calculators considered for the study by the authors, four input variables were included by all: age, retirement age, annual salary, and anticipated Social Security income.
    A. True B. False

27. Which statement(s) about the life scenarios examined by different software programs is (are) correct?
    I. For consistency of the comparisons, the assumption was made for all scenarios that Social Security benefits start at age 67, life expectancy is 95, and replacement ratio is 85 percent of current income.
    II. With different software programs, the methodology and assumptions used are all assigned by default and are not changeable.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

28. All of the following conclusions reached by this comparison of retirement planning software/calculators are correct **EXCEPT**:
    A. Defined-benefit plan providers are trying to educate retirees through the assistance of online retirement planning programs.
    B. For the selected retirement planning programs, input variables, assumptions, capabilities, and outputs are different.
    C. There is a trade-off between ease of use and the capability of any program designed for a complicated process like retirement planning.
    D. Most existing programs are adept at addressing risks that need to be considered when planning for retirement, such as longevity, investment, inflation and health.

Buy-Sell Planning with Third-Party Ownership

29. Which statement(s) about new standards under the transfer-for-value rules is (are) correct?
    I. Under the transfer-for-value rules, a portion of the death benefit becomes subject to income tax unless an exception applies.
    II. Under regulations issued in October 2019, a reportable policy sale is defined as one in which a transferee lacks a substantial business, family, or financial relationship to the insured.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

30. All of the following statements about the operation of a business continuation general partnership (BCGP) are correct **EXCEPT**:
    A. The BCGP is the premium payer, owner, and beneficiary of the policies.
    B. Upon the death of an owner, the life insurance death proceeds are paid to the partnership, but with significant tax implications for the surviving members of the partnership.
    C. The partnership agreement provides for a special allocation, meaning that when a death benefit flows into the partnership, the increased basis it creates will be allocated to the surviving partners.
    D. When the surviving partners purchase the deceased owner's interest in the underlying company, the purchase results in an increase in their cost basis in the business.