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JOURNAL DISCUSSION GUIDE

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Retiree Voices Offer Lessons to Planners

1. All of the following statements about the combined Society of Actuaries' (SOA) research on how individuals plan for and live in retirement are correct **EXCEPT**:
   - A. The survey data indicate that it is essential for planners to educate clients about the bigger picture so that they plan for later years in retirement, including unexpected expenses.
   - B. The SOA research on individuals aged 85 and older found that the role the family plays increases as people age and become less capable of living independently.
   - C. A key finding of one SOA focus group was that many of the retirees felt pushed into retirement.
   - D. In 2017, the SOA risk survey found a mean expected age of retirement of 58 compared to an actual mean age of 65.

2. Which statement(s) about key findings from the 2015 Society of Actuaries (SOA) risk survey relating to retirement shocks is (are) correct?
   - I. More than one in three who experienced financial shocks had their financial assets reduced by more than 40 percent as a result of those shocks.
   - II. Divorce after retirement and major long-term-care events requiring paid long-term care were the two most impactful financial shocks for retirees.
   - A. I only C. Both I and II
   - B. II only D. Neither I nor II

3. All of the following statements about spending in retirement, according to Employee Benefit Research Institute (EBRI) data, are correct **EXCEPT**:
   - A. Health care is the largest area of expenditure for retirees in every age group.
   - B. Household spending drops after retirement by age within retired cohorts.
   - C. Spending on transportation, entertainment, and clothing decreases more rapidly by age group than housing and food expenses.
   - D. Nonrecurring health services, nursing home stays, and overnight hospital stays increase with age and are much higher in the period before death.

The Impact of the New Tax Law on Executive Compensation

4. True or False: One of the most significant changes to executive compensation enacted under the Tax Cuts and Jobs Act of 2017 was including nonqualified stock options and stock appreciation rights in the definition of nonqualified deferred compensation.
   - A. True B. False

5. All the following statements about the impact to individual taxpayers of the reduction in tax rates enacted under the Tax Cuts and Jobs Act of 2017 are correct **EXCEPT**:
   - A. The Tax Policy Center projects that everyone, on average, will save money from the changes to the tax brackets.
   - B. The top 1 percent of income-earners will see an average tax cut of a little less than 3.5 percent.
   - C. The top 80 percent to 95 percent of income-earners will receive an average tax cut of about 2 percent.
   - D. The top 95 percent to 99 percent of income-earners will receive an average tax cut of about 8 percent.

6. All of the following statements about compensation paid to covered employees under IRC Section 162(m) are correct **EXCEPT:**
   A. The Tax Cuts and Jobs Act of 2017 (TCJA) revises the definition of covered employee in IRC Section 162(m) to include both the principal executive officer and the principal financial officer of a publicly traded company.
   B. Under the TCJA, a covered employee includes the three most highly compensated officers for the taxable year (other than the principal executive officer or principal financial officer) who are required to be reported on the company's proxy statement.
   C. For purposes of IRC Section 162(m), if an individual is a covered employee with respect to a corporation for taxable years beginning after January 1, 2018, the individual remains a covered employee for all future years.
   D. The TCJA eliminates the exceptions for commissions and performance-based compensation from the definition of compensation subject to the deduction limit.

7. Which statement(s) about executive compensation paid by a tax-exempt employer is (are) correct?
   I. Beginning in 2018, applicable tax-exempt employers will have to pay a 21 percent excise tax on remuneration in excess of $1 million paid to a covered employee in any tax year.
   II. Beginning in 2019, applicable tax-exempt employers will have to pay a 21 percent excise tax on any excess parachute payment paid to a covered employee.
   A. I only
   B. II only
   C. Both I and II
   D. Neither I nor II

8. All of the following statements about provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) that affect executive compensation are correct are **EXCEPT:**
   A. One of the provisions expands the application of the limitation on excessive remuneration to covered employees of publicly traded corporations under IRC Section 162(m).
   B. The TCJA permits a deferral for up to 5 years for stocks pursuant to the exercise of stock options and the settlement of restricted stock units issued under broad-based plans of privately held corporations.
   C. The TCJA introduced new IRC Section 409B.
   D. The new law imposes an excise tax on excess tax-exempt organization executive compensation.

Prescription Drug Costs and Health Insurance Plan Design

9. All of the following statements about spending on prescription drugs are correct **EXCEPT:**
   A. After years of increases, the Centers for Medicare and Medicaid Services estimate drug spending will experience an average decline of over 6 percent through 2025.
   B. Spending on prescription drugs accounts for 10 percent of national health expenditures.
   C. Short-term reasons for the slowing of drug spending in 2016 were fewer new medicines coming onto the market and slower price growth for existing brand-name drugs.
   D. Prescription drug expenditures have grown faster than increases for other health care services over the last 25 years.

10. All of the following statements about payment for prescription drugs are correct **EXCEPT:**
    A. Historically the costs for prescription drugs were mostly paid directly by consumers out of pocket.
    B. Most private insurance plans did not cover prescription drugs outside a hospital stay until the early 1990s.
    C. Health insurance plan design for prescription drugs has evolved to address the complexity of the pharmaceutical marketplace.
    D. Over 90 percent of individuals covered by employment-based health insurance plans have a plan with a tiered cost-sharing formula for prescription drugs.

11. All of the following statements about pharmacy benefit managers (PBMs) are correct **EXCEPT:**
    A. Three firms provide over 75 percent of PBM services.
    B. PBMs negotiate with drug manufacturers to provide formulary placement for that manufacturer's products.
    C. PBMs help create plan formularies.
    D. PBMs may negotiate with retail pharmacies, in or out of the plan's network, to set reimbursement rates to that pharmacy.

A Split-Dollar Renaissance in the Making?

12. All of the following statements regarding economic benefit split-dollar arrangements are correct **EXCEPT:**
    A. Economic benefit split-dollar arrangements have simplicity as their primary tactical advantage.
    B. Economic benefit regime split dollar is a very attractive executive golden handcuff because the company has total control of the policy and maintains the cash value as an asset on its books.
    C. In a typical economic benefit split-dollar arrangement, the employer owns the contract, and the insurance death benefit proceeds are divided through a beneficiary designation with an executive.
    D. A disadvantage of economic benefit split dollar is that the employee's beneficiaries will have to pay tax on the death proceeds.

13. All of the following statements about loan regime split dollar are correct **EXCEPT:**
    A. Unlike the endorsement or economic benefit split dollar, the employee or the employee's trust acts as the policyowner in loan regime split dollar.
    B. The executive's lack of control is the primary drawback of the loan regime over endorsement split dollar.
    C. Under loan regime split dollar, the employer's payment for the policy premium is treated as a loan to the employee.
    D. The changes in income and estate taxes ushered in by the Tax Cuts and Jobs Act of 2017 may take loan regime split dollar from an effective to an essential tool in the practitioner's toolbox.

14. Which statement(s) about the loan regime split dollar with the credit union market is (are) correct?
    I. Over the last year the use of loan regime split dollar with credit unions has grown by just under 20 percent.
    II. From a liability-booking perspective, loan regime split dollar is a more cost-efficient executive benefit option than an IRC Section 457(f) plan.

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

15. True or False: If the Sunshine Credit Union is considering an executive benefit plan that provides $100,000 per year for 20 years, the total cost to the credit union will be higher with an IRC Section 457(f) plan than with a loan regime split-dollar plan.
    A. True　　B. False

Public Pension Issues and an Examination of CalPERS, the Largest of the Nation's Public Pension Programs

16. What year was the first public pension plan passed into law?
    A. 1829 C. 1902
    B. 1857 D. 1924

17. All of the following statements about public pension plans are correct **EXCEPT**:
    A. Public pension plans usually take more investment risk than private plans.
    B. Public sector pension plans may not alter their recipients' plan benefits after the start of employment.
    C. Public pension plans typically have a later retirement age than their private counterparts.
    D. Starting in the 1980s, in an effort to achieve higher rates of return, public pension plans began to expand their list of approved investments to include stocks.

18. Which statement about public pension plan deficits is correct?
    A. Tennessee's deficit per capita exceeds that of all other states' except Alaska, California, and New York.
    B. According to Lawrence J. McQuillan of the Independent Institute, the deficit in funding for the California Public Employee Retirement System Plan is $9 billion.
    C. Estimates of the total deficit in all states' pension funds range between $6.2 and $10 trillion.
    D. Data from the American Legislative Exchange Council indicate that Alaska has the largest pension plan deficit per capita in the United States.

19. True or False: The December 2016 Second California Court of Appeals ruling that held that the state can reduce or eliminate pension benefits is consistent with a November 2016 Arizona Supreme Court ruling.
    A. True B. False

20. All of the following statements about the challenges facing public pension plans are correct **EXCEPT**:
    A. It is believed that the funding challenges for public pension plans will become devastating in the event of a major stock market correction.
    B. One factor contributing to increasing public pension plan deficits is the increase in the life expectancy of the plan participants.
    C. Most states have laws that require at least 30 percent of their public pension funds to be invested in U.S. Treasury bonds, which are currently yielding 2.74 percent.
    D. A change in the Governmental Accounting Standards Board's rules is having a dramatic effect on the calculation of state fund deficits.

21. All of the following statements about the California Public Retirement System Plan (CalPERS) are correct **EXCEPT**:
    A. CalPERS is the largest public pension plan in the United States, with over 1.8 million members.
    B. CalPERS is less than 65 percent funded.
    C. CalPERS has taken on increasing investment risk in order to defer addressing the growing deficit and increasing employer and employee contributions.
    D. CalPERS was able to reduce the fees it pays for investment management services by 33.9 percent during the period from 2001 to 2016.

22. According to the authors, which statement(s) identifies proposed solutions to resolve CalPERS funding issues?
    I. In order to stop the hemorrhaging on a year-to-year basis, CalPERs needs to assume a reasonable rate of return.
    II. CalPERS must increase the contributions of both the member employees and its employers.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

A Financial Advisor's Guide to Avoiding Required Minimum Distribution Land Mines

23. All of the following statements about required minimum distributions (RMDs) are correct **EXCEPT**:
    A. In general, the beginning date for RMDs is April 1 of the calendar year after the taxpayer turns 70½.
    B. RMD rules were created to prevent taxpayers and their beneficiaries from receiving perpetual tax deferral on tax-advantaged accounts.
    C. An IRA-owning taxpayer who turns 70 in October would be required to take his/her first RMD the following April.
    D. The institution housing the qualified retirement account customarily calculates a taxpayer's RMD.

24. What is the penalty for failing to withdraw a required minimum distribution?
    A. Fifty percent of the undistributed amount.
    B. Thirty percent of the undistributed amount.
    C. Five percent of the balance of the retirement account from which the distribution should have been made.
    D. One percent of the balance of the retirement account from which the distribution should have been made.

25. Which statement(s) about handling required minimum distributions (RMDs) in situations where the client has multiple retirement accounts is (are) correct?
    I. If a taxpayer has multiple IRAs, each IRA must be used to calculate a separate RMD, and the RMD must be taken from each individual IRA.
    II. Taxpayers can take RMDs from one type of qualified account to satisfy RMDs from a different type of qualified account.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

26. All of the following statements about inherited IRAs are correct **EXCEPT**:
    A. A spouse who inherits an IRA will treat it as if it were his or her own for purposes of required minimum distributions (RMDs).
    B. If both the surviving spouse and the deceased were under age 70½ at the time of death, no distributions are immediately required.
    C. If both the surviving spouse and the deceased were under age 70½ at the time of death, the surviving spouse will calculate RMDs based on his or her life expectancy once he or she reaches age 70½.
    D. If the surviving spouse is over age 70½, no RMDs are required until the time the deceased spouse would have turned age 70½.

27. True or False: Nonspousal beneficiaries of an IRA must keep the inherited IRA separate for a period of 5 years.
    A. True B. False

28. Mary died at age 95 with $1 million in an IRA. She left the IRA to a trust. What is the required minimum distribution (RMD) for the year after Mary's death?
    A. $322,580.65.
    B. It depends on the ages of the trust beneficiaries.
    C. RMDs are not required until year 5 following Mary's death.
    D. $100,000.

29 All of the following statements about required minimum distributions (RMDs) for Roth IRAs and/or Roth 401(k) plans are correct **EXCEPT**:

A. There are typically no RMDs for Roth IRAs since they are funded with after-tax contributions.
B. Inherited Roth IRAs and Roth 401(k)s do have required distribution rules.
C. Roth IRA distributions may be used to satisfy RMDs for other retirement accounts.
D. In order to make a rollover from a Roth 401(k) to a Roth IRA, the 401(k) plan document must specifically permit such a rollover.

30. All of the following statements about qualified charitable distributions (QCDs) are correct **EXCEPT**:

A. A QCD is a distribution made directly from the IRA trustee to a qualified charity that can be used to satisfy the taxpayer's required minimum distributions (RMDs).
B. A QCD must be acknowledged by the charity receiving the gift.
C. The maximum allowable QCD is $250,000 per taxpayer per year.
D. QCDs must be from amounts that would otherwise be includible in gross income.