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JOURNAL DISCUSSION GUIDE

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Changing State of Residency: Opportunities and Challenges

1. What is the limit for deducting state and local taxes as enacted by the Tax Cuts and Jobs Act?
   A. $10,000 C. $15,000
   B. $12,000 D. $22,000

2. All of the following statements related to tax-saving opportunities created by changing a taxpayer's domicile are correct **EXCEPT**:
   A. States, such as Florida, Nevada, Washington, and Wyoming, may be attractive to those considering a change of residency, because they do not impose a personal income tax.
   B. Avoiding states, such as Connecticut, Hawaii, and New York, which have an estate tax, can be a tax savings opportunity for individuals considering a new domicile.
   C. Because New York has the highest state and local tax burden, the number of people leaving the state has exceeded the number moving into the state for 20 years.
   D. Maryland, Kentucky, and New Jersey have both an estate and an inheritance tax, and, as a result, all three states are experiencing significant declines in population among older taxpayers seeking tax-saving opportunities.

3. True or False. It is possible to be taxed as a resident in more than one state, but a taxpayer's domicile can only be in one state.
   A. True B. False

4. All of the following statements about establishing domicile are correct **EXCEPT**:
   A. Domicile is defined as the place an individual considers to be his or her permanent home.
   B. A state cannot be considered the taxpayer's state of domicile unless he or she spends at least 183 days in that state in a given year.
   C. Under the domicile test, the taxpayer has the burden of proof to establish that a change in domicile has occurred.
   D. With rare exceptions, the place where the taxpayer's spouse, minor children, and pets reside is evidence of the intended domicile.

5. Which statement(s) about the statutory residency test is (are) correct?
   I. Under statutory residency laws, states will tax an individual based on whether he or she is physically present in the state and whether he or she maintains a permanent place of abode in the state.
   II. In determining whether an individual has a permanent place of abode in a state for purposes of statutory residency, one factor that will be considered is whether the residence is suitable for year-round living.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

Planning for Material Participation

6. All of the following statements about passive versus nonpassive business activity for tax purposes are correct **EXCEPT**:
   A. A passive activity is one in which a client does not materially participate.
   B. Activities associated with owning rental properties are mostly considered to be passive activities.
   C. Losses from a business activity that is considered nonpassive are fully deductible up to a maximum of $1 million.
   D. When a client has a loss related to an activity that is deemed passive, the client can only deduct the amount of that passive loss up to the extent of his or her passive income.

7. All of the following statements about material participation are correct **EXCEPT:**
   A. There are five material participation tests set out by the IRS.
   B. Material participation indicates that the client is participating regularly and consistently in the business.
   C. If the client participates in the business activity for more than 500 hours, he or she will be considered to have materially participated in the business.
   D. If the client participates in the business activity for more than 100 hours during the tax year and participated as much as any other partner or employee, he or she will be considered to have materially participated in the business.

8. Which statement(s) about meeting the material participation rules for clients who own multiple businesses is (are) correct?
   I. The IRS will allow activities from different businesses to form an economic unit to meet the material participation test.
   II. In order for activities to be grouped into the same economic unit for purposes of the material participation rules, the IRS requires the taxpayer to meet two key factors: (1) the businesses must have 51 percent common control; and (2) the businesses must be in the same geographic location.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

End-of-Life Care

9. All of the following statements about end-of-life care are correct **EXCEPT:**
   A. Studies of Medicare enrollees find that care in the last year of life accounted for a quarter of total Medicare spending.
   B. One half of older Americans have at least one emergency room visit in the last month of life.
   C. People in the last months of life often have heavy utilization of expensive health care services, some of which are avoidable.
   D. When viewing the cost of all high-cost patients, the majority of those patients were in the last year of their life.

10. All of the following statements about palliative care are correct **EXCEPT:**
   A. Palliative care will treat the emotional, social, practical, and spiritual problems arising from illness and treatment, in addition to treating the symptoms of the disease and the side effects of treatment.
   B. Studies show that inpatient palliative care consultation services reduce hospital costs.
   C. Palliative care has been shown to lengthen survival time for some conditions, such as lung cancer.
   D. Over 90 percent of individuals receiving palliative care are covered by Medicare.

Advising Clients about Continuing Care Retirement Communities (CCRCs)

11. According to recent data, how many U.S. residents are currently housed in continuing care retirement communities?
   A. 6 million C. 60,000
   B. 600,000 D. 1.6 million

12. All of the following statements about CCRCs are correct **EXCEPT:**
   A. Type A contracts cover housing, residential services, and use of amenities, plus assisted living or nursing home care if a resident's health needs change.
   B. Type B or modified contracts typically have lower monthly fees than Type A contracts.
   C. Depending on the type of agreement, CCRC entrance fees can be refunded when the resident leaves or dies.
   D. The advantage of a Type C contract is that the resident can set his/her own monthly fee by purchasing services such as meals and housekeeping on an as-needed basis.

13. Which statement(s) about the tax treatment of the CCRC entrance fee is (are) correct?
    I. IRS Revenue Ruling 67-185 prohibits a tax deduction for the entrance fee paid to a CCRC.
    II. In a 2007 Tax Court case, *Finzer v. United States,* it was established that the CCRC entrance fee could be deemed a loan, and, as a result, no medical-expense deduction would be available to the taxpayer.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

14. All of the following statements about a Type A continuing care retirement community contract versus a Type C contract combined with a long-term care insurance policy are correct **EXCEPT**:
    A. A significant disadvantage of a Type A life-care contract is the lack of an elimination period.
    B. A Type C contract combined with a long-term care insurance policy has the advantage of the backing of a state guaranty association.
    C. With a Type A life-care contract, the resident is essentially purchasing a lifetime long-term care benefit.
    D. The possibility of bankruptcy for the CCRC is an inherent disadvantage of committing to a CCRC utilizing a Type A contract.

A New Qualifying Event: The In-Marriage QDRO®

15. All of the following statements about a qualified domestic relations order (QDRO) are correct **EXCEPT**:
    A. The QDRO was created in 1984 as part of amendments to ERISA.
    B. The QDRO is a mechanism commonly used in divorce proceedings to divide assets from qualified retirement plans.
    C. For purposes of a QDRO, an "alternate payee" is defined as a spouse, former spouse, parent, or child of a plan participant.
    D. The Department of Labor is the federal agency that governs the scope and interpretation of QDROs.

16. Daisy has $100,000 in her retirement account. In 2019, she will be taking $3,650 in required minimum distributions (RMDs) and is subject to a 28 percent tax rate. How much will she pay in tax?
    A. $1,022 C. $0
    B. $28,000 D. None of the above

17. Which statement(s) about an In-Marriage QDRO (IMQ) is (are) correct?
    I. The IMQ allows for married spouses to contract between themselves in order to trigger the application of the federal QDRO laws, resulting in a transfer of retirement plan assets out of the name of the participant spouse and into the name of the other spouse.
    II. In Private Letter Ruling 201706022, the IRS sanctioned the use of an IMQ as long as the amount being transferred between spouses did not exceed $2 million.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

18. All of the following statements about applications and benefits of an IMQ are correct **EXCEPT**:
    A. The IMQ strategy may be able to help a couple who are facing unexpected long-term care expenses qualify for Medicaid benefits.
    B. The IMQ strategy can be utilized to transfer, tax free, up to $15,000 a year to a 529 account.
    C. The IMQ strategy can be used to delay RMDs for several years and can result in meaningful tax savings, particularly if one spouse is significantly younger than the other spouse.
    D. The application of an IMQ strategy eliminates timing pressure related to determining when to purchase an index or variable annuity to ensure guaranteed income in retirement.

19. All of the following statements about the legality of the IMQ strategy are correct **EXCEPT:**
    A. The fact that the IRS website on QDROs references the employee's "spouse or former spouse" when discussing the recipient of QDRO payments speaks to the legitimacy of an IMQ.
    B. IRS Publication 575 can be cited as supporting the IMQ concept.
    C. The Department of Labor website states that a QDRO can be signed in the absence of a divorce proceeding.
    D. In *Matassarin v. Lynch,* the Fifth Circuit Court of Appeals held that an IMQ was consistent with the greater goals of ERISA, even though it was not contemplated when the rules were enacted.

20. All of the following statements about the risks and pitfalls of an IMQ are correct EXCEPT:
    A. Two of the primary risks of an IMQ are death and divorce.
    B. One pitfall associated with the IMQ strategy is the length of time it takes to implement with the average time being 6 months from beginning to end.
    C. The costs associated with implementing an IMQ, including the attorney fees, court costs, and plan administrative fees, may be considered a deterrent and must be factored in when the financial advisor is exploring the strategy with clients.
    D. To avoid pitfalls with the IMQ strategy, the attorney should always stay away from giving any financial advice.

The Retirement Income Solution, or How to Stop Worrying and Love Equities as You Age

21. Which statement(s) about spending patterns in retirement is (are) correct?
    I. According to a RAND Health and Retirement Study, overall inflation-adjusted spending in retirement declines annually by an average of one percent.
    II. The change in spending rates for retirees declines more rapidly in the early phase of retirement than in the late phase of retirement.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

22. True or False. The Bengen rule takes the position that a portfolio with a 30/70 stock/bond allocation can safely support a 4 percent annual withdrawal over a 30-year retirement timeframe.
    A. True B. False

23. All of the following statements about asset allocation and risk tolerance in the context of retirement income planning are correct **EXCEPT:**
    A. Planners often use a risk tolerance questionnaire to determine the appropriate asset allocation for retirees.
    B. A planner will typically increase the percentage of stocks in the client's portfolio as his or her risk tolerance increases.
    C. According to the author, risk tolerance questionnaires are an effective tool for determining proper asset allocation only for clients with a net worth in excess of $2 million.
    D. A danger of using risk tolerance questionnaires as the basis for asset allocation is that a risk-averse retiree may end up with too small an allocation of equities to achieve meaningful growth over time, thereby decreasing the odds of sufficient retirement income.

24. All of the following statements about key risks in retirement are correct **EXCEPT**:
    A. Longevity risk is one of the most difficult factors to account for when putting together a retirement income plan, because ultimately no one knows at the outset of retirement how long they will live.
    B. Sequence-of-return risk is the risk that unfavorable returns during the first 3 years of retirement might result in losses from which a retirement portfolio never recovers.
    C. Growth-oriented assets, which tend to introduce a higher degree of investment risk, play a key role in protecting against longevity risk.
    D. Examples of behavioral risk include acting or reacting on the basis of greed and fear, such as panicked selling when markets are depressed, and overspending.

25. According to studies conducted by Pfau and Kitces, which statement(s) about a rising equity glide path strategy is (are) correct?
    I. Using a rising equity glide path strategy can reduce both the probability of failure and the magnitude of failure for retirement portfolios.
    II. Portfolios with a 20 to 40 percent initial equity allocation, rising to a 60 to 80 percent equity allocation had the highest odds of success.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

26. All of the following statements about retirement income planning are correct **EXCEPT**:
    A. Most planners assume their clients will have a 30-year retirement beginning at approximately age 65 and lasting until approximately age 95.
    B. According to Somnath Basu, it is constructive for retirement planners to plan for three distinct phases of retirement: the active phase, the less active phase, and the sedentary phase.
    C. Retirement planning writer David Blanchett takes the position that it is as important for retirees to determine which goals to prioritize as it is to develop the optimal portfolio to fund those goals.
    D. The traditional approach to retirement planning assumes that retirees will spend 60 percent of their preretirement income, and that this amount rises each year at the same rate as inflation.

The Tipping Point in Health Benefits—Three Strategies to Curb Unsustainable Health Benefit Cost

27. All the following statements about employer and employee premium contributions for health care coverage are correct **EXCEPT**:
    A. The National Business Group on Health (NBGH) reports that the median annual cost of employer-sponsored health coverage was expected to reach $14,156 per employee in 2018.
    B. Health benefit costs have increased by 5 percent or more for each of the last 5 years, according to the NBGH.
    C. On average, employers contribute 60 percent of the total premium costs for employee health care.
    D. Rising health benefit costs are outpacing general inflation and are suppressing wage increases.

28. True or False. Since 2008, health care deductibles have risen 212 percent, nearly 10 times higher than the rate of increase in employee wages.
    A. True B. False

29. Which statement(s) about technology-enabled/digital third-party administrators (TPAs) is (are) correct?
    I. Digital TPAs are delivering value compared to traditional TPAs by decreasing the time needed to launch new products to within 90 to 120 days.
    II. Digital TPAs allow for a reduced-paper environment.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

30. All the following statements about emerging strategies to reduce the cost of providing health care benefits are correct **EXCEPT**:
    A. One strategy being utilized by employers with self-funded plans is directly contracting with a local health system rather than purchasing a network from a carrier.
    B. Referenced-based pricing (RBP) has been identified as a strategy to break the status quo and avoid the breaking point of health benefit cost.
    C. North Carolina and Montana have moved to RBP approaches to provide health care coverage for their state employees as a way to reduce their annual health benefit costs.
    D. Technology-enabled TPAs can be an effective strategy to mitigate the grip that health insurance carriers have on employers, but are limited by regulations in many states to use by employers with fewer than 100 employees.