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JOURNAL DISCUSSION GUIDE

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Best Practices in Buy-Sell Agreement Planning

1. All of the following statements about buy-sell agreements are correct **EXCEPT**:
   A. The primary purpose of a buy-sell agreement is to set forth what happens to a business upon each of several named triggering events.
   B. The most common triggering event addressed by buy-sell agreements is the disability of the business owner.
   C. After disability and death, the two most common events addressed by buy-sell agreements were bankruptcy and divorce.
   D. Key issues to be addressed by buy-sell agreements are who should purchase the business if a triggering event occurs, whether the purchase is mandatory or optional, and how the purchase price will be determined.

2. All of the following statements about cross-purchase buy-sell agreements are correct **EXCEPT**:
   A. In a traditional cross-purchase agreement, each business owner holds a life insurance policy on the other business owner(s) and would receive the death benefit from the policy to purchase the deceased owner's share of the business.
   B. A cross-purchase agreement is attractive because it increases the basis of the surviving business owner(s).
   C. A cross-purchase agreement may not be the preferred option if one business owner is much older than and/or not as healthy as the other business owner.
   D. Cross-purchase agreements tend to be preferred when there are four or more business owners.

3. All the following statements about a cross-endorsement buy-sell arrangement are correct **EXCEPT**:
   A. In a cross-endorsement arrangement, the owners of a business each own a policy on themselves and endorse part or all of the death benefit to the other owner.
   B. One of the advantages of a cross-endorsement arrangement is that each business owner bears the cost of insurance on him- or herself.
   C. The cross-endorsement arrangement avoids the need to exchange life insurance policies when the agreement is terminated.
   D. Since the cross-endorsement approach is a form of a split-dollar insurance arrangement, the death benefit will not be taxable.

4. All of the following statements about a wait-and-see approach to a buy-sell agreement are correct **EXCEPT**:
   A. The wait-and-see buy-sell structure is primarily used by businesses with three or fewer owners.
   B. With a wait-and-see approach, the choice of whether the business uses a cross-purchase or an entity-purchase arrangement is not made until the triggering event occurs.
   C. The primary advantage of a wait-and-see arrangement is its flexibility.
   D. A potential problem with the use of a wait-and-see arrangement in a C corporation is the possibility for an unintended dividend to the surviving spouse.

5. As outlined in Table 2, all of the following statements about buy-sell agreement pricing strategies are correct **EXCEPT**:
   A. Using the stipulated-dollar-amount method has the disadvantage of possibly being inconsistent with IRS guidelines.
   B. The advantage of using the agreement-of-the-parties method for determining price is that it saves the costs of an appraisal.
   C. One of the advantages of using book value to determine pricing is that it tends to track closely with the company's actual value.
   D. When using a formula approach to pricing, it is recommended that the formula be tested periodically with current financial data to see if results lead to an accurate value.

6. Which statement(s) about life and disability insurance funding for a buy-sell agreement is (are) correct?
   I. The most important issue surrounding life and disability funding is that the ownership and beneficiary designations align with the terms of the buy-sell agreement.
   II. If an existing policy will be used for funding the agreement, it is of critical importance to take into consideration the transfer-for-value rule that may make the death benefit taxable.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

7. True or False. In all community property states except for Nevada, buy-sell agreements are legally required to include a provision indicating that the business owners' spouses are aware of the agreement's provisions and agree to its terms.
   A. True B. False

An Update on Stable Value Funds Performance through 2017

8. All of the following statements about stable value (SV) funds are correct **EXCEPT:**
   A. SV is a popular asset class for investors and is offered in IRC Section 457, 403(b), 401(k), and 529 plans.
   B. The crediting rates offered to SV investors are on par with yields of intermediate-term Treasuries.
   C. SV funds are invested in underlying high-quality assets of relatively short durations.
   D. SV funds tend to have widely oscillating total rates of return.

9. True or False. From the perspective of an investor, SV funds operate somewhat like a passbook savings account from a traditional savings and loan association.
   A. True B. False

10. According to the data in Table 1, all of the following statements about quarterly returns of the asset classes analyzed in the B-H study are correct **EXCEPT**:
   A. SV funds have the overall lowest range of net quarterly rates of return from minimum to maximum.
   B. Only large company stocks and small company stocks had higher median net returns than SV funds during the 1973 through 2017 time period.
   C. SV had the lowest standard deviation of returns of any of the asset classes.
   D. The median net quarterly returns on SV exceed those on money market funds by 49 basis points.

11. Which statement(s) about credit risk and SV funds is (are) correct?
   I. Credit risk is mitigated for SV products by the fact that they are typically at the mid-to-upper levels of investment grade.
   II. Many SV contracts have the protection of state insolvency guarantee programs.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

Financial Planning Considerations for Americans Working Abroad

12. What amount of foreign-earned income can U.S. expats exclude under the Foreign Earned Income Exclusion?
    A. $104,100 C. $38,000
    B. $72,838 D. $16,656

13. All of the following statements about an investment by an expat in a mutual fund in their country of residence are correct **EXCEPT**:
    A. A foreign mutual fund is considered a Passive Foreign Investment Company (PFIC) by the IRS and triggers high tax rates and expensive record keeping.
    B. Tax rates for investment in a foreign mutual fund can be as high as 50 percent.
    C. PFIC investments must be reported on IRS Form 8621.
    D. Investment companies in the United States offer mutual funds and exchange-traded funds (ETFs) that allow expats to invest in any part of the world, so that the PFIC trap can be avoided.

14. All of the following statements about financial planning issues that need to be considered by expats are correct **EXCEPT**:
    A. Expats should be aware that Social Security taxes may need to be paid both in the United States and in the country of residence unless the United States has a totalization agreement with the country of residence.
    B. Expats are not eligible to enroll in a 529 plan while working abroad; therefore, it is important for them to consider other options for saving for their children's education.
    C. Expats with children who plan to attend a college or university outside of their country of origin should investigate whether the institution is eligible for federal student aid, so that the students may take advantage of educational tax credits.
    D. Expats need to be aware of the special reporting requirements associated with investments in foreign financial accounts that exceed $10,000.

15. Which statement(s) about the foreign bank account report (FBAR) is (are) correct?
    I. The maximum penalty for willful noncompliance with FBAR is either $100,000 or 50 percent of the taxpayer's foreign assets, whichever is less.
    II. The deadline for filing the FBAR is April 15 with an automatic extension to October 15.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

16. George is an expat with $110,000 in foreign earned income that is subject to 30 percent foreign tax. He contributes $5,500 to a Roth IRA and claims a single standard deduction. According to Table 2, how much U.S. tax is due on George's 1040?
    A. $17,810 C. $0
    B. $12,000 D. $472

Intergenerational Split Dollar... The Beat Goes On

17. All of the following statements about intergenerational split dollar are correct **EXCEPT**:
    A. In a typical intergenerational split-dollar plan, the older-generation person purchases a life insurance policy on a younger-generation person in an amount not less than $5 million.
    B. One of the controversies surrounding intergenerational split dollar is the gift tax consequences for the older generation.
    C. In a typical intergenerational split-dollar arrangement, the older-generation person owns the life insurance policy's cash surrender value.
    D. In a typical intergenerational split-dollar arrangement, an irrevocable life insurance trust owns the net death benefit of the policy.

18. Which statement about the case of *Estate of Cahill v. Commissioner* is correct?
    A. The facts in the case were very favorable from the estate's perspective.
    B. The IRS did not assess penalties against the estate, despite finding negligence in computing the estate tax.
    C. The *Cahill* decision is final and binding.
    D. The estate discounted the cash surrender value of the life insurance policies, based on Richard Cahill's life expectancy, from $9.6 million to $183,700.

19. True or False. In the *Cahill* case, the estate sought summary judgment that IRC Sections 2036, 2038, and 2703 were inapplicable.
    A. True B. False

Data Scraping and People Analytics: What Every Estate Planner Needs to Know

20. Which statement(s) about data scraping is (are) correct?
    I. Data scraping, that is, gathering of information from a website, is carried out by automated programs called bots.
    II. Data scraping is being done by companies, such as Priceline and Amazon, and is used to determine how to target a potential consumer with precise advertising.
    A. I only C. Both I and II
    B. II only D. Neither I nor II

21. All of the following statements about the Computer Fraud and Abuse Act (CFAA) are correct EXCEPT:
    A. The CFAA was enacted to punish accessing a computer without authorization or by exceeding authorization, and then taking certain forbidden actions.
    B. The CFAA, enacted in 1988, established a minimum fine of $10,000 for violations.
    C. Terms of service agreements (TOSAs) typically outline the boundaries of acceptable behavior for a given website or service provider and violations of a TOSA could result in charges under the CFAA.
    D. One of the frustrations with the CFAA was that it would pull in individuals, such as trustees and estate executors, who were acting pursuant to authorization from family, friends, and clients.

22. True or False. The Revised Uniform Fiduciary Access to Digital Assets Act denies access by fiduciaries to their clients' computers as a default position, but the default may be overridden through the use of certain trigger words in the client's estate planning documents.
    A. True B. False

Social Security and Financial Security: The 1.42 Percent Solution

23. Based on data in the 2018 Social Security Trustees report, what will the replacement rate of Social Security benefits to preretirement earnings be for the typical 65-year-old worker in 2034?
    A. 22 percent C. 36 percent
    B. 28 percent D. 42 percent

24. All of the following statements about the total fertility rate (TFR) are correct **EXCEPT**:
   A. The TFR is a measure of the population age structure and its downstream components like the worker-to-retiree ratio and, as such, has significant implications for Social Security's financial projections.
   B. In 2017, the TFR declined to 1.76, the lowest rate since 1957.
   C. If the TFR continues to be low, the Social Security deficit will exceed the current projections as the beneficiary population continues to outpace the labor force contributions over the next 50 to 75 years.
   D. The reasons for the decline in TFR and birth rates include a combination of generational demographics, gender equality issues, and financial insecurity among millennial women.

25. Which statement(s) about strategies to address Social Security funding concerns is (are) correct?
   I. An increase of payroll taxes by 2.84 percent (1.42 percent each from employers and employees) would replace the entire Social Security cash shortfall through 2091.
   II. One strategy that has been proposed and is receiving positive support is to increase the age for payment of full Social Security retirement benefits to age 70 for those born after 1970.
   A. I only C. Both I and II
   B. II only D. Neither I nor II

26. All of the following statements about components of a preferred package to address the Social Security funding gap as revealed by the National Academy of Social Insurance (NASI) survey are correct **EXCEPT**:
   A. The preferred package would eliminate the earnings cap for Social Security taxes gradually over a 10-year period.
   B. Over a 20-year period, the Social Security tax rate for employees and employers would increase from 6.2 percent to 7.2 percent.
   C. Over a 10-year period, the Social Security cost-of-living adjustment (COLA) would be eliminated.
   D. The minimum benefit provided by Social Security would be increased to protect low-wage workers.

Social Security Coverage for State and Local Government Employees

27. All the following statements about Social Security coverage are correct **EXCEPT**:
   A. The percentage of the labor force currently covered by Social Security is about 96 percent.
   B. In the vast majority of cases, the law requires that both employees and employers participate in Social Security and pay the specified payroll taxes.
   C. Social Security beneficiaries who are employed are exempt from paying Social Security and Medicare payroll taxes.
   D. U.S. nationals employed by U.S. corporations outside the country are covered mandatorily by Social Security.

28. Which statement(s) about Social Security coverage for employees of state and local governments is (are) correct?
    I. Social Security coverage is mandatory for state and local government employees working in positions that are not covered by an employer-sponsored retirement plan that is deemed comparable to Social Security.
    II. The U.S. Constitution prohibits Social Security coverage for state and local government employees working in positions that are covered by an employer-sponsored defined-benefit plan.

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

29. All of the following statements about the provisions of Social Security Act section 218 are correct **EXCEPT**:
    A. Social Security Act section 218 was passed into law in 1950.
    B. Prior to the enactment of Social Security section 218, state and local government employees could not be covered by Social Security under any circumstances.
    C. Under Social Security Act section 218, if a governmental employer wants to provide Social Security coverage for its employees, a majority of the employees working in positions that would become covered by the proposed voluntary-coverage agreement must vote in favor of coverage.
    D. Social Security Act section 218 provides an option for terminating voluntary-coverage agreements under certain circumstances.

30. All of the following statements about special benefit formulas for people receiving pensions based in whole or in part on employment that was not covered by Social Security are correct **EXCEPT**:
    A. The special benefit formulas apply only to those retirees receiving pensions based on noncovered employment.
    B. The government pension offset (GPO) special benefit formula often prevents government retirees from receiving any Social Security benefits as spouses or widows.
    C. The windfall elimination provision (WEP) removes some of the weighting in Social Security's usual benefit formula that gives larger replacement rates to low-income retirees than to high-income retirees.
    D. After a worker's death, the WEP continues to apply to reduce benefits paid to the worker's widow or widower.