

Redefining Retirement Planning

1. Which statement(s) about the distinction between unknown and unknowable conditions is (are) correct?
 - I. Unknowable conditions include future inflation rates, investment returns, and health care costs.
 - II. Client longevity and how he or she will handle the psychological effects of retirement are considered to be unknown conditions, according to an article by Branning and Grubbs.

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

2. All the following statements about managing risks for your clients as they plan for retirement are correct **EXCEPT**:
 - A. Certain retirement benefits, such as Social Security benefits, provide protection against inflation risk.
 - B. A traditional approach to retirement planning is to increase investment risk in the 5 years immediately before retirement in order to ensure the client has sufficient cash flow to sustain him or her through an approximate 20-year retirement period.
 - C. Longevity risk is more prominent currently due to increased life expectancies paired with uncertainty surrounding future income streams.
 - D. A new financial planner should ensure the client’s asset allocation is appropriate to support his or her withdrawal needs in retirement while also being sensitive to risk tolerance and risk capacity.

3. All of the following statements about Medicare are correct **EXCEPT**:
 - A. Part D Medicare benefits are available only to clients with a modified adjusted preretirement gross income of \$52,000 or less.
 - B. Most clients will not pay a premium for Medicare Part A, which covers hospital visits and hospice care.

- C. Premiums for Medicare Part B are automatically deducted from the client’s Social Security benefits—if the client has started receiving Social Security.
 - D. A new planner can add significant value by helping clients who retire before Medicare eligibility navigate health insurance options.

4. According to research by Nancy K. Schlosberg, all of the following statements about six major paths retirees follow are correct **EXCEPT**:
 - A. Retirees who are Continuers maintain their former work identity, but make slight modifications.
 - B. Retirees who are Adventurers are ready to experience something new and follow childhood dreams.
 - C. Retirees who are Easy Gliders see retirement as a time to kick up their feet and relax.
 - D. Retirees who are Spectators tend to become depressed and are often suicidal.

Executive Employment Agreements and the Evolving Role of Mandatory Arbitration

5. Which statement(s) about arbitration as compared with adjudication is (are) correct?
 - I. A dispute that might otherwise go to court becomes subject to binding arbitration only by the agreement of the parties.
 - II. Binding arbitration, unlike adjudication, involves a neutral third party who is responsible for running the process and making the decisions necessary to resolve the dispute.

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

6. All of the following describe potential advantages of arbitration **EXCEPT**:
- A. An arbitrator with expertise in the subject matter of the dispute can be chosen by the disputing parties, allowing for a better informed decision than might be the case with a judge that is assigned to the case by the court system.
 - B. Arbitration can proceed more quickly than court-based adjudication because of its comparative procedural informality.
 - C. An arbitrator's award cannot be overturned by an appellate court for mistakes of law.
 - D. Because state law requires arbitrations to be held within 30 days of the date the dispute arises, legal fees for arbitrations are usually lower than for court-based adjudications.
7. When was the Federal Arbitration Act (FAA) enacted?
- A. 1925 C. 1952
 - B. 1947 D. 1999
8. All of the following statements about the evolution of mandatory arbitration are correct **EXCEPT**:
- A. Despite enactment of the FAA, there was limited use of employment arbitration prior to the last quarter of the 20th century.
 - B. The case of *Alexander v. Gardner-Denver Co.*, decided by the U.S. Supreme Court in 1974, held that mandatory arbitration would not apply to union-represented employees.
 - C. In 1991, in *Gilmer v. Interstate/Johnson Lane*, the U.S. Supreme Court changed the legal landscape by endorsing binding arbitration of employment claims.
 - D. In 2001, the Supreme Court held that the FAA applies to contracts signed by most employees and excludes from its coverage only employment contracts of seamen, railroad employees, and other transportation workers.
9. All of the following identify factors in support of mandatory arbitration **EXCEPT**:
- A. Parties might choose arbitration to keep disputes and information relevant to them a secret.
 - B. Parties might prefer arbitration as a less expensive form of dispute resolution.
 - C. Arbitration better enables the parties to customize monetary awards.
 - D. Arbitration provides the parties with access to stronger legal and precedential expertise.
10. All the following statements about mandatory arbitration provisions (MAPs) are correct **EXCEPT**:
- A. Each MAP can be negotiated to fit the needs of each of the parties to the contract.
 - B. When choosing an arbitrator, an executive should get as much say as the employer.
 - C. While there is a growing acceptance of MAPs, the Supreme Court's arbitration jurisprudence has not endorsed the use of MAPs in antitrust or consumer protection disputes.
 - D. Since the employer is generally the party choosing mandatory arbitration for dispute resolution, the executive should be able to negotiate a provision requiring the employer to pay for the arbitration.

Association Health Plans and the Evolution of Health Insurance

11. All of the following statements about Association Health Plans (AHPs) are correct **EXCEPT**:
- A. The types of groups that can participate and administer AHPs were expanded by the Department of Labor in June 2018.
 - B. AHPs were created to allow small employers to band together to achieve the same type of market power and economies of scale as large employers.
 - C. AHPs were first made available to certain small nonprofit associations with the enactment of the Tax Cuts and Jobs Act (TCJA) of 2017.
 - D. Under current AHP rules, the definition of employer includes self-employed individuals with no employees.

12. Which statement(s) about the Affordable Care Act (ACA) is (are) correct?

I. One of the goals of the ACA was to alter the small group and individual insurance markets to make them function as large groups.

II. The ACA requires health plans offered in the individual and small group markets to provide coverage for 10 essential benefits.

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

13. True or False. The Association Health Plan rule prohibits associations from denying coverage or charging higher premiums to groups in the association or individuals in the groups.

- A. True B. False

Is That Retirement Calculator Right for Your Client?

14. All of the following statements about inputting assumptions into a retirement planning calculator are correct **EXCEPT**:

A. Because it is easy to derail portfolio growth by inputting incorrect assumptions into a retirement calculator, the number of assumptions a client will be required to fill out is crucial.

B. Ideally, a calculator will include assumptions related to financial windfalls and estate information.

C. A client will want to have a calculator in which enough assumptions are presented to meet the client's complex situation without giving him/her the opportunity to alter the reality of his/her portfolio growth.

D. Calculators that perform well will likely have five to seven assumptions.

15. All of the following statements about the main criteria used to evaluate retirement calculators are correct **EXCEPT**:

A. When evaluating the user friendliness of a retirement calculator, one feature of the best calculator is that it will take just 5 to 10 minutes to complete.

B. A retirement calculator's validity may be called into question if the results include a pitch to purchase a book on retirement saving strategies published by the sponsor of the calculator.

C. Calculators that score poorly in the Ad Phishing category are likely to have advertisements for specific financial tools or financial advisors.

D. A calculator whose results deviate by 10 percent of the average of the other calculators would be considered the worst on a worst-to-best scale for retirement calculators.

16. Of the retirement calculators discussed by the authors, which one provides a replacement ratio as the primary output?

- A. AARP
B. CNN Money
C. Choose to Save's Ballpark Estimate
D. FINRA

17. Which statement(s) about the retirement calculators reviewed by the authors is (are) correct?

I. The MarketWatch calculator is particularly beneficial to younger clients who want to look at the bigger picture of their retirement while being able to analyze the impact of changing variables.

II. One of the disadvantages of the Calculator.net retirement calculator is that it overlooks the intricacies of retirement planning.

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

Insights into the Users of Robo-Advisory Firms

18. True or False. In 2016, robo-advisors held approximately \$300 billion in client assets.

- A. True B. False

19. According to data released by A.T. Kearney, what is the expected amount of assets under management at robo-advisors in 2020?

- A. \$4 trillion C. \$600 billion
B. \$2 trillion D. \$100 billion

20. Which statement(s) about individuals who are more likely to use a robo-advisor as compared with a traditional service provider is (are) correct, according to a team of researchers at A.T. Kearney?
- Robo-advisory services tend to be utilized by those who are under age 35 with a higher-than-average degree of financial knowledge.
 - Robo-advisory services tend to be utilized by individuals who have portfolios between \$500,000 and \$1.2 million.
- A. I only C. Both I and II
B. II only D. Neither I nor II
21. All of the following statements about robo-advisory services are correct **EXCEPT**:
- Early robo-advisory firms were entirely based on internet interface.
 - Selling points for robo-advisory services were low transaction costs and maximum ease of access.
 - Consumers can now receive guidance on taxes, mortgage financing, and retirement planning, in addition to investment advice, through robo-advisors.
 - The SEC has recently made a determination to apply fiduciary standards to robo-advisory firms.
22. All of the following statements about the authors' research findings as to the use of robo-advisory services are correct **EXCEPT**:
- Older respondents were less likely to use a robo-advisor.
 - Older individuals with less subjective financial knowledge, but who were overconfident in their knowledge, were less likely to use a traditional financial advisory service.
 - Individuals who had some fear of financial fraud were a bit less likely to use a robo-advisor.
 - Individuals in the 18–34 age group were slightly less likely to use a traditional advisor.

Insights from the American Association of Individual Investors Asset Allocation Survey

23. All of the following statements about the American Association of Individual Investors (AII) Asset Allocation Survey are correct **EXCEPT**:
- The AII survey has been conducted monthly since 1987.
 - Research indicates that when AII survey responders are extremely bullish or bearish about the stock market, over the subsequent 6 months analysts tend to view them as wrong and would be more likely to bet against them.
 - AII survey members as a group may suffer from overconfidence.
 - Over the period 1987 to 2016, the stock allocation for AII survey respondents ranged from 48 percent to 78 percent.
24. Which statement(s) about the Asset Allocation Survey results is (are) correct?
- Survey results from the period November 1987 through December 2016 show stock and cash allocations to be the most erratic.
 - In 2008 and 2009, stocks showed large losses and, as expected, the proportion of investors' portfolios allocated to stocks declined considerably.
- A. I only C. Both I and II
B. II only D. Neither I nor II

The Rate of Return on Homeownership When Using FHA Financing

25. All of the following statements about homeownership as an investment are correct **EXCEPT**:
- The investment risk of a single-family home is approximately equivalent to the historical volatility of an investment portfolio of 40 percent stocks and 60 percent bonds.
 - As an asset investment, housing is the greatest source of net worth for more than half of middle-class Americans.

- C. Homeownership can be a very financially attractive investment in today's real estate market due to low mortgage interest rates and the high costs of renting in many geographic areas.
- D. Unlike investing in stocks and bonds, homeownership represents a long-term investment and serves a functional purpose during the period of ownership.
26. During the past 45 years, what was the average 30-year home mortgage interest rate?
- A. 3.87 percent C. 6.75 percent
B. 4.25 percent D. 8.26 percent
27. All of the following statements about the U.S. housing market today are correct **EXCEPT**:
- A. Current home mortgage interest rates are incredibly low by historical standards.
- B. In the current home mortgage market, conventional mortgage financing generally requires a maximum monthly mortgage payment to monthly gross income ratio of 36 percent.
- C. In the current home mortgage market, conventional mortgage financing generally requires a minimum 20 percent down payment.
- D. The share of the U.S. adult population who own homes declined from 69 percent in 2006 to approximately 64 percent in 2017.
28. All of the following statements about FHA home mortgage financing are correct **EXCEPT**:
- A. FHA home mortgage financing requires a much lower down payment but is a more costly source of financing a home purchase than conventional home mortgage financing.
- B. FHA home mortgage loans have higher closing costs.
- C. The monthly mortgage insurance premium costs of FHA financing to the borrower are 0.80 bps for a 15-year FHA mortgage when the loan-to-value ratio is 95 percent and the base loan amount is more than \$625,000.
- D. FHA financing gives prospective home buyers the opportunity to purchase a home sooner and lock in current low mortgage rates than they might otherwise be able to if they had to meet the higher requirements of conventional financing.
29. All of the following statements about the income tax benefits of homeownership are correct **EXCEPT**:
- A. In the year of purchase, a home buyer can deduct the closing costs associated with his/her home purchase provided that the home buyer's itemized tax deductions, including the closing costs, exceed the TCJA's new standard deduction limit of \$12,000 for a single taxpayer and \$24,000 for a married couple filing a joint return.
- B. The 2017 deduction for home mortgage interest is limited to \$2 million of acquisition debt for a married couple filing a joint return.
- C. Beginning in 2018, the new tax law reduces the deduction of mortgage interest on home loans to \$375,000 for single tax filers.
- D. Under the TCJA, after 2017, interest expense on home equity indebtedness is no longer deductible.
30. True or False. According to the author's research data as reflected in Tables 4–6, the rate of return on homeownership when using FHA financing is unattractive unless the historical tax benefits of homeownership can be taken into consideration.
- A. True B. False