

Taking Your Retirement Planning Practice to the Next Level

1. All of the following statements about a financial planner working with a daily money manager are correct **EXCEPT**:
 - A. By aligning with a daily money manager, a financial planner may be able to provide clients with comprehensive services they need when they become physically or mentally impaired.
 - B. Services provided by a daily money manager include paying bills, making bank deposits, and reconciling the checkbook.
 - C. Financial planners need to be knowledgeable about state laws that prevent money managers from providing certain services, in particular preparing and filing tax returns.
 - D. Working with a daily money manager can help provide protection against predators who tend to prey on vulnerable clients.

2. All of the following statements about wraparound services financial planners can provide to augment their practices are correct **EXCEPT**:
 - A. A financial planner can become a certified reverse mortgage counselor in order to provide objective counseling to his or her clients on a home equity reverse mortgage.
 - B. The author recommends that all financial planners work closely with a member of the National Funeral Directors Association (NFDA) to ensure that clients have access to professional advice and guidance on predeath planning related to burial and cremation.
 - C. Providing clients with brochures and other information about retirement housing options, such as assisted living facilities and continuing care communities, can help financial planners better serve these clients and differentiate their practice.
 - D. A good financial planner adeptly deals with the financial issues confronting clients; a great planner helps clients navigate the nonfinancial and psychological issues also.

3. Which statement(s) about the “Financial Self-Defense Guide for Seniors” is (are) correct?
 - I. The guide alerts older Americans to common fraudulent or unethical practices on the part of a financial advisor.
 - II. The guide recommends that clients/consumers not buy a financial product if they don’t understand how it works.
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II

Does Engagement in the Stock Market Shape Willingness to Take Financial Risk?

4. All of the following statements about risk attitudes and market conditions are correct **EXCEPT**:
 - A. Research by Michael Guillemette and Michael Finke concluded that individual risk attitudes are shaped more by market conditions than by personal preferences.
 - B. Volatility in risk attitudes may create challenges for financial advisors, because it may become very difficult to document suitability of financial recommendations.
 - C. If there are dramatic fluctuations in risk attitudes based on the market environment, this may result in many of the models used to determine life insurance requirements, emergency funds, etc., becoming unstable.
 - D. The Guillemette and Finke research noted that there appears to be a positive association between risk-tolerance scores and equity values.

5. All of the following statements about the findings of Grable and Rabbani’s research on risk tolerance are correct **EXCEPT**:
 - A. Grable and Rabbani’s results were consistent with Guillemette and Finke’s results.
 - B. The findings supported the position that people’s willingness to take on risk moved in roughly the same direction as the equity markets.
 - C. The correlation between the average daily closing S&P 500 value and the average risk-tolerance score for males was 0.58.
 - D. The correlation between the average daily closing S&P 500 value and the average risk-tolerance score for females was 0.69.

6. Which statement(s) about the practice management implications of the Grable and Rabbani research is (are) correct?
- I. In terms of risk tolerance, female clients who own equities are like male clients who do not own equities.
 - II. Men who do not own equities report the lowest risk-tolerance across categories and time.
- A. I only C. Both I and II
 B. II only D. Neither I nor II

Does an Incentive Plan Provide Wages or ERISA Benefits? It Can Be the Employer's Choice

7. All of the following statements about a plan under the Employee Retirement Income Security Act (ERISA) are correct **EXCEPT**:
- A. There is no definition of the word "plan" in the ERISA statutory language.
 - B. *Donovan v. Dillingham* is one of the leading decisions relating to the definition of "plan, fund or program" for purposes of ERISA.
 - C. Any incentive plan that meets the requirements for being a bonus plan is automatically covered by ERISA under IRC Reg. 2510.3-2(c).
 - D. In the decision of *Fort Halifax Packing Co. v. Coyne*, the Supreme Court concluded that an arrangement had to have an ongoing administrative scheme to be an ERISA-covered plan.
8. All of the following statements about the Ninth Circuit case of *Miller v. Olsen* are correct **EXCEPT**:
- A. In *Miller*, the employer established an incentive plan known as the Equity Growth Plan to increase employees' compensation and encourage longevity.
 - B. In *Miller*, the plaintiff took the position that the incentive compensation plan was an ERISA plan.
 - C. In *Miller*, the court found the existence of an ongoing administrative scheme was critical to its determination that the plan in question was an ERISA plan.

- D. According to the author's analysis of the *Miller* case, the court's finding that the incentive plan lacked a source of funding was a misinterpretation of the facts.
9. Which statement(s) about the pros and cons of ERISA plan status is (are) correct?
- I. One advantage for employers to establishing a formal, written plan that meets ERISA requirements is the availability of a jury trial in the event of litigation.
 - II. ERISA welfare benefit plans, such as a severance pay plan, have the advantage of being a mechanism for risk management.
- A. I only C. Both I and II
 B. II only D. Neither I nor II

The Opioid Epidemic and Health Plans

10. All of the following statements about the opioid epidemic in the United States are correct **EXCEPT**:
- A. Opioid abuse is a major public health problem in America and can have major cost and quality implications for health plans.
 - B. The Centers for Disease Control estimates that 91 Americans die each day due to opioid abuse.
 - C. According to a 2016 article from Castlight Health, it is estimated that almost 4 million individuals are abusing opioids.
 - D. The economic burden attributed to opioid abuse in the United States is estimated to be \$78.5 billion.
11. For commercial health insurance plans, what is the average annual per-patient health care cost for diagnosed opioid abusers as compared to the average enrollee?
- A. \$4,898 more
 - B. \$5,497 more
 - C. Approximately \$10,000 more
 - D. \$11,376 more

12. All of the following statements about managing the costs and adverse health outcomes resulting from opioid misuse are correct **EXCEPT**:
- A. A tool for health plans attempting to manage the costs and adverse health outcomes resulting from opioid misuse is value-based purchasing strategies in health plan provider contracts.
 - B. One challenge to managing these costs is that metrics intended to incentivize the reduction in opioid abuse may affect patient pain management and satisfaction.
 - C. Reducing the costs and adverse health outcomes resulting from opioid misuse requires integrating plan design, provider payments, population health, and patient education.
 - D. The 2017 enactment of the Opioid Treatment Act, which reduces restrictions on access to maintenance drugs and sites of care for opioid treatment, has immediately resulted in positive outcomes and reduced costs related to opioid addiction.

Taxable Social Security Benefits and High Marginal Tax Rates

13. All of the following statements about Social Security benefits and individual tax rates are correct **EXCEPT**:
- A. When a client who collects Social Security benefits has income low enough that none of those benefits are taxable, the client's effective marginal tax rate (MTR) is the same as the client's statutory tax rate (STR).
 - B. When a client who collects Social Security benefits has income high enough that the maximum amount of those benefits are taxable, the client's MTR is significantly higher than the client's STR.
 - C. When more than 0 percent but less than 85 percent of a client's Social Security benefits are taxable, the client's effective MTR is significantly higher than the client's STR bracket.
 - D. Cases in which the effective MTR is higher than the corresponding STR bracket have been dubbed the Social Security tax torpedo.
14. What is the tax rate for an individual taxpayer with \$8,000 in taxable income?
- A. The tax rate for an individual taxpayer using single filing status is 22 percent.
 - B. The tax rate for an individual taxpayer using married filing jointly status is 15 percent.
 - C. The tax rate is 10 percent of taxable income whether the taxpayer is filing using single status or married filing jointly status.
 - D. The tax rate is 15 percent of taxable income whether the taxpayer is filing using single status or married filing jointly status.
15. All of the following statements about the taxation of Social Security benefits are correct **EXCEPT**:
- A. The Social Security taxability phase in is not indexed for inflation.
 - B. The amount of Social Security benefits that are taxable depends on provisional income.
 - C. Some of a taxpayer's Social Security benefits become taxable when provisional income exceeds \$25,000, if single.
 - D. Some of the taxpayer's Social Security benefits become taxable when provisional income exceeds \$44,000, if the taxpayer is married filing jointly.
16. According to Table 7, what is the effective marginal tax rate for a single taxpayer with \$3,000 in taxable Social Security benefits and \$30,000 in taxable income?
- A. 25 percent C. 15 percent
 - B. 22.5 percent D. 10 percent
17. All of the following statements about ways to reduce the present value of a retired client's taxes are correct **EXCEPT**:
- A. A financial professional will want to advise clients how to generate cash to finance spending needs that does not cause more of Social Security benefits to be taxable.
 - B. Taking a distribution from a Roth retirement account will not increase the amount of Social Security benefits that are taxable and thus will reduce the present value of a retired client's taxes.

- C. Investing in municipal bonds is a good way to reduce the present value of a retired client's taxes.
- D. Reimbursement from a health savings account (HSA) is a source of tax-free funds that can help clients avoid the tax torpedo.

The Potential Impact of State-Based Retirement Plans on Retirement Savings

18. All of the following statements regarding demographic changes in the United States that have led to the current retirement savings crisis are correct **EXCEPT**:
- A. Life expectancy increased by more than 30 years between 1900 and 2010.
 - B. The percentage of the population aged 65 and older increased to 13 percent in 2010.
 - C. There has been an increase in the percentage of the population with multiple chronic illnesses.
 - D. The current life expectancy at birth is 76.8 years.
19. What is the estimated current average retirement account balance of all working-age households?
- A. \$3,000 C. \$30,000
 - B. \$12,000 D. \$78,000
20. All of the following statements about state-based retirement plans are correct **EXCEPT**:
- A. As of year-end 2016, five states were successful in passing bills establishing state-based retirement plans.
 - B. The first state to enact legislation creating a state-based retirement plan was Illinois.
 - C. A major concern related to the establishment of state-based retirement plans is whether these plans would be subject to ERISA.
 - D. The California state-based retirement plan has a default contribution rate of 3 percent.
21. All of the following statements about the Illinois Secure Choice Savings Program are correct **EXCEPT**:
- A. Employees do not have the ability to elect contribution levels or control how contributions are invested.
 - B. Employers with 25 or more employees that do not provide employer-sponsored plans must participate.
 - C. The implementation date is set for 2018.
 - D. The default contribution rate is 3 percent.
22. All of the following statements about the Oregon Retirement Savings Plan are correct **EXCEPT**:
- A. It was enacted with the passage of House Bill 2690 in 2015.
 - B. Employees would be automatically enrolled but can opt out.
 - C. The Oregon plan utilizes IRAs with a standard contribution rate of 3 percent.
 - D. The Oregon plan, unlike the plans enacted in other states, applies to all employers that do not maintain an employer-sponsored retirement plan.
23. Which statement(s) about the projected retirement wealth of individuals in California and Connecticut, as detailed in Table 2, is (are) correct?
- I. For a Californian entering the plan at age 45, his or her projected retirement wealth is \$77,152.73.
 - II. For a Connecticut citizen entering the plan at age 35, his or her projected retirement wealth is \$116,489.16.
- A. I only C. Both I and II
 - B. II only D. Neither I nor II

24. All of the following statements about the expectations for and/or implications of state-based retirement plans are correct **EXCEPT**:
- A. Low participation rates could result in increased expenses and potentially impact the viability of state-based retirement plans.
 - B. Retirement experts suggest that because state-based plans are currently subject to ERISA, it is unlikely that additional states will enact legislation creating such plans.
 - C. Participants in state-based retirement plans may not generate wealth comparable to that of workers participating in employer-sponsored retirement plans.
 - D. Participation in the plans combined with increased financial literacy may lead to more workers investing outside the workplace, which could result in a greater demand for financial service professionals.

Investing in Stocks inside Retirement Accounts and Bonds in Taxable Accounts

25. Which statement(s) about whether to hold stocks or bonds inside taxable accounts versus retirement accounts is (are) correct?
- I. Research by Robert Dammon et al. concludes that there is a strong preference for holding taxable bonds in the tax-deferred account and equity in the taxable account.
 - II. Research by William Reichenstein concludes that the optimal location to hold stocks is in nontaxable retirement accounts.
- A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
26. All of the following statements about the economic environment in early 2017 are correct **EXCEPT**:
- A. The expectation is for low, but increasing, inflation.
 - B. Bond returns are expected to be low.
 - C. Stock returns are expected to be double or more than that of bond returns.
 - D. The economic environment suggests that investors should invest according to the traditional view as to the placement of stocks and bonds inside taxable accounts.

27. According to Ibbotson's 2015 *Yearbook*, what was the geometric mean of annualized returns on large-cap stocks for the period from January 1, 1926, through December 31, 2014?
- A. 10.1 percent
 - B. 8.6 percent
 - C. 6.1 percent
 - D. 5.7 percent
28. What was the average inflation rate from the beginning of 2012 to the end of 2014?
- A. 2.9 percent
 - B. 2.6 percent
 - C. 1.9 percent
 - D. 1.5 percent
29. All of the following statements about determining the placement of stocks and bonds either inside or outside of retirement accounts are correct **EXCEPT**:
- A. The taxpayer's tax rates are an important consideration.
 - B. For a taxpayer who has only a Roth IRA or Roth 401(k), it will always be more tax-efficient and wealth maximizing to keep bonds inside the retirement account.
 - C. The analysis in making the determination needs to consider the expected return on the investment.
 - D. If a financial advisor expects the return on bonds to be substantially higher than 4 percent and/or the return on stocks to be substantially lower than 8 percent, then placing bonds inside the retirement account and stocks outside the account would likely be wealth maximizing.

Avoiding Accuracy-Related Penalties on Individual Income Tax Returns

30. What was the amount in penalties levied by the IRS on individual, estate, and trust tax returns for the fiscal year ending 2015?
- A. \$12 million
 - B. \$112 million
 - C. \$1.2 billion
 - D. \$12 billion

31. All of the following statements about the accuracy-related penalty of IRC Section 6662 are correct **EXCEPT**:
- It has been identified as the most litigated issue in the National Taxpayer Advocate's annual report for the last 4 years.
 - Approximately 8 percent of total IRS penalties can be traced to accuracy-related penalties.
 - IRC Section 6662(a) imposes a 10 percent penalty on any underpayment of tax attributable to negligence or disregard of the rules or regulations.
 - IRC Section 6662(a) imposes a 20 percent penalty on any underpayment of tax attributable to a substantial valuation misstatement.
32. Under IRS rules, for an individual taxpayer, what is considered a substantial understatement of tax?
- An underpayment is substantial if it exceeds the greater of 10 percent of the tax required to be shown on the return or \$5,000.
 - An underpayment is substantial if it exceeds the greater of 10 percent of the tax required to be shown on the return or \$10,000.
 - An underpayment is substantial if it exceeds \$10,000 of the tax required to be shown on the return.
 - An underpayment is substantial if it exceeds the greater of 5 percent of the tax required to be shown on the return or \$10,000.
33. All of the following statements about the exceptions to the IRC Section 6662 penalty are correct **EXCEPT**:
- According to the 2016 National Taxpayer Advocate's report, most taxpayers can successfully avoid the IRC Section 6662 penalty by taking their issue to court.
 - The penalty does not apply to understatements where the taxpayer takes a position that has substantial authority.
 - IRC Section 6664(c) states that the penalty does not apply if the taxpayer can show there was reasonable cause for the understatement and that the taxpayer acted in good faith.
34. Under IRC Reg. Sec. 1.6662-3(b)(3), there is an exception to accuracy-related penalties for tax return positions that have a reasonable basis and are disclosed on Form 8275.
34. All of the following statements about reliance on a professional advisor as a basis for abatement of the IRC Section 6662 penalty are correct **EXCEPT**:
- Reliance on the advice of a professional advisor has been the most successful strategy for establishing a reasonable cause defense.
 - In the *Jones* case, the taxpayer was unable to avoid the substantial understatement penalty because of his own high level of expertise and his failure to work with a professional advisor.
 - Neonatology Associates* is cited frequently by the courts as providing a comprehensive application of the defense of "reliance on a professional advisor."
 - The taxpayers in the *Lamas-Richie* and *Co* cases avoided the IRC Section 6662 penalty based on their lower level of expertise and reliance on professional advice.
35. Which statement(s) about documentation issues as they relate to the IRC Section 6662 penalty (are) correct?
- As reported by the National Taxpayer Advocate, a review of decisions in which there were documentation issues revealed that these issues arise more frequently in cases in which taxpayers represent themselves.
 - In 42 percent of decisions in the 2016 National Taxpayer Advocate report, lack of substantiation was at least partially responsible for the imposition of the IRC Section 6662 penalty.
- I only
 - II only
 - Both I and II
 - Neither I nor II