**Course Title:** Principles of Financial Planning: Estate Planning

**Test Title:** Principles of Financial Planning: Estate Planning Review Test  
**Pool Title:** Estate Planning - NP

***Question 1:*** *Question Title: If a person dies intestate*

**If a person dies intestate, which of the following are true of the person?**

**1. Probably did no estate planning  
2. Moved to another state and did not change the will  
3. Died of unknown causes  
4. Did not have a will  
5. Sheltered the estate from all estate taxes**

3 only

***Incorrect. By definition, intestate means "without a will." Anyone who dies without a will probably did no estate planning.***

Points: 0

2 only

***Incorrect. By definition, intestate means "without a will." Anyone who dies without a will probably did no estate planning.***

Points: 0

**Both 1 and 4**

***Correct. By definition, intestate means "without a will." Anyone who dies without a will probably did no estate planning.***

Points: 10

1, 4, and 5

***Incorrect. By definition, intestate means "without a will." Anyone who dies without a will probably did no estate planning.***

Points: 0

All the choices

***Incorrect. By definition, intestate means "without a will". Anyone who dies without a will probably did no estate planning.***

Points: 0

***Question 2:*** *Question Title: Reasons for avoiding probate*

**Reasons for avoiding probate are:**

**1. Avoiding time delays  
2. Avoiding probate costs  
3. Maintaining privacy  
4. Saving on Federal estate taxes  
5. Avoiding State death taxes**

Both 1 and 2

***Incorrect. While avoiding probate also avoids time delays and probate costs, it also helps maintain privacy.***

Points: 0

**1, 2, and 3**

***Correct. Probate has nothing to do with whether or not an estate is taxable.***

Points: 10

1, 2, 3, and 4

***Incorrect. Probate has nothing to do with whether or not an estate is taxable.***

Points: 0

1, 2, 3, and 5

***Incorrect. Probate has nothing to do with whether or not an estate is taxable.***

Points: 0

All the choices

***Incorrect. Probate has nothing to do with whether or not an estate is taxable.***

Points: 0

***Question 3:*** *Question Title: Will usage*

**Wills are commonly used to accomplish all of the following EXCEPT:**

Create trusts

***Incorrect. Wills CAN be used to create trusts.***

Points: 0

Name heirs

***Incorrect. Wills DO name heirs.***

Points: 0

Name guardians

***Incorrect. Wills ARE used to name guardians.***

Points: 0

**Reduce probate costs**

***Correct. To reduce probate costs is the exception. It is trusts, not wills, that are used to reduce probate expenses.***

Points: 10

Establish domicile

***Incorrect. Wills ARE used to help establish domicile.***

Points: 0

***Question 4:*** *Question Title: Testamentary Trusts*

**Testamentary trusts are:**

Activated upon incapacity

***Incorrect. Testamentary trusts are created by the will (which is probated) when the testator dies.***

Points: 0

Used to avoid probate

***Incorrect. Testamentary trusts are created by the will (which is probated) when the testator dies.***

Points: 0

**Irrevocable**

***Correct. Testamentary trusts are created by the will (which is probated) when the testator dies, thus use of testamentary trusts do not avoid probate. Since the testator is dead, the trust is irrevocable and cannot be changed.***

Points: 10

All the choices

***Incorrect. Testamentary trusts are created by the will (which is probated) when the testator dies, thus use of testamentary trusts do not avoid probate and do not activate upon incapacity. However, since the testator is dead, the trust is irrevocable and cannot be changed.***

Points: 0

Both b. and c.

***Incorrect. Testamentary trusts are created by the will (which is probated) when the testator dies, thus use of testamentary trusts do not avoid probate. It is true, however, that since the testator is dead, the trust is irrevocable and cannot be changed.***

Points: 0

***Question 5:*** *Question Title: Trustee*

**A trustee of a living trust:**

Is an agent for the grantor

***Incorrect. The trustee, unlike an agent, actually takes title to the property.***

Points: 0

Has a power of attorney to handle trust assets

***Incorrect. The trustee actually owns the assets, therefore does not need a power of attorney to handle the assets.***

Points: 0

**Takes title to the property**

***Correct. The trustee, unlike an agent, actually takes title to the property.***

Points: 10

Must always have consent of the grantor to buy and sell securities, unless the grantor is incapacitated

***Incorrect. The grantor can give the trustee as much or as little latitude regarding the power to buy and sell assets as the grantor desires.***

Points: 0

Cannot be the grantor

***Incorrect. The grantor and trustee can be one and the same.***

Points: 0

***Question 6:*** *Question Title: Fiduciary*

**A fiduciary is someone who:**

**Must act in the best interests of the client on issues within the scope of their relationship**

***Correct. This is the essence of being a fiduciary.***

Points: 10

Must maximize investment returns for their client

***Incorrect. Not all situations call for “maximizing investment returns.” The fiduciary must be prudent in managing the assets, but is not liable for achieving maximum return.***

Points: 0

Must provide for every named beneficiary's current financial welfare

***Incorrect. Depending upon the terms of the agreement, the fiduciary may not be charged with providing for every beneficiary’s current financial welfare. Some beneficiaries may only have a future or contingent interest, and the instrument may limit the benefits to current beneficiaries to very limited needs, such as medical emergencies.***

Points: 0

All the choices

***Incorrect. While the fiduciary must act in the best interests of the client on issues within the scope of their relationship, the fiduciary is not required to maximize investment returns, only to prudently manage them for the purposes outlined in the agreement. Nor is the fiduciary necessarily charged with providing for every beneficiary’s current financial welfare. Some beneficiaries may only have a future or contingent interest, and the instrument may limit the benefits to current beneficiaries to very limited needs, such as medical emergencies.***

Points: 0

Both a. and b

***Incorrect. While the fiduciary must act in the best interests of the client on issues within the scope of their relationship, the fiduciary is not required to maximize investment returns, only to prudently manage them for the purposes outlined in the agreement.***

Points: 0

***Question 7:*** *Question Title: Grantor, Trustee, and Beneficiary*

**The ability of the same entity to serve as grantor, trustee, and beneficiary in a trust is most accurately described by which of the following?**

The grantor and trustee may be the same entity but the beneficiary must be a different entity.

***Incorrect.***

Points: 0

The grantor and beneficiary may be the same entity but the trustee must be a different entity.

***Incorrect.***

Points: 0

A single entity may serve in any two, but not all three, of the roles.

***Incorrect.***

Points: 0

***They can actually all three be the same entity.***

***Correct.***

Points: 10

***Question 8:*** *Question Title: Living Trusts*

**Living trusts become public documents in which, if any, of the following circumstances?**

Death of the grantor

***Incorrect. One of the benefits of a living trust is that it does NOT become a public document upon the death of the grantor.***

Points: 0

Either the death or the disability of the grantor

***Incorrect. One of the benefits of a living trust is that it does NOT become a public document upon the death or disability of the grantor.***

Living trusts always become public documents as soon as the trust is created.

***Incorrect. Living trusts are private and remain so from the date created henceforth.***

Points: 0

**None of the above**

***Correct.***

Points: 10

***Question 9:*** *Question Title: ILITs are typically*

**Irrevocable Life Insurance Trusts are typically:**

QDOT Trusts

***Incorrect. A QDOT trust is for a spouse who is not a U.S. citizen.***

Points: 0

QTIP Trusts

***Incorrect. A QTIP trust is typically a marital trust.***

Points: 0

Testamentary Trusts

***Incorrect. Irrevocable Life Insurance trusts are created while the grantor is alive.***

Points: 0

**Crummey Trusts**

***Correct. The Crummey powers are used to make contributions to avoid transfer taxes on contributions made for the purposes of making premiums.***

Points: 10

Used to pay insurance premiums on policies currently owned by the creator of the trust

***Incorrect. The whole purpose of creating an Irrevocable Life Insurance trust is to have the grantor no longer own the insurance policy.***

Points: 0

***Question 10:*** *Question Title: Which is not an incident of ownership*

**Which one of the following is NOT an incident of ownership:**

The right to change the beneficiaries

***Incorrect. This is an incident of ownership.***

Points: 0

The right to borrow against the policy

***Incorrect. This is an incident of ownership.***

Points: 0

The right to cash in the policy

***Incorrect. This is an incident of ownership.***

Points: 0

**There is no exception. All the choices listed above are incidents of ownership**

***Correct. All the choices are incidents of ownership.***

Points: 10

***Question 11:*** *Question Title: Mr. Jones*

**Mr. Jones purchased a $1,000,000 whole life insurance policy on himself when his daughter was born, naming her as the beneficiary. Twenty-one years later Mr. Jones gifted ownership of the policy to his daughter. The following year Mr. Jones died and his daughter received $1,000,000 from the insurance company. Which of the following is FALSE?**

The policy is includable in Mr. Jones' estate.

***Incorrect. Since Mr. Jones died within three years of the transfer, it IS includable in his estate.***

Points: 0

Mr. Jones probably made a taxable gift.

***Incorrect. After 21 years, the policy probably had over $13,000 of cash value, making it a taxable gift when he transferred the policy.***

Points: 0

**The insurance proceeds are taxable income for the daughter.**

***Correct. This is a false statement. There are no income taxes on the insurance proceeds.***

Points: 10

The gift-tax value of the transfer was less than $1,000,000.

***Incorrect. The cash value may reach $1,000,000 when he is 100 years old, which is not likely since his daughter was born 21 years ago. Otherwise, cash value will always be less than the face value.***

Points: 0

Mr. Jones and his wife could have combined their annual gift tax exclusion in making the gift of the policy.

***Incorrect. It is a true statement that they could have combined their annual gift tax exclusion in making the gift of the policy.***

Points: 0

***Question 12:*** *Question Title: Owner of ILIT is*

**The owner of the policy in an Irrevocable Life Insurance Trust is:**

**The Trust**

***Correct. The primary purpose of the trust is to transfer ownership into the trust.***

Points: 10

The Insured

***Incorrect. The primary purpose of the trust is to transfer ownership into the trust.***

Points: 0

The Beneficiary

***Incorrect. The primary purpose of the trust is to transfer ownership into the trust.***

Points: 0

The Grantor

***Incorrect. The primary purpose of the trust is to transfer ownership into the trust.***

Points: 0

Whoever pays the premiums

***Incorrect. The primary purpose of the trust is to transfer ownership into the trust.***

Points: 0

***Question 13:*** *Question Title: Inadvisable for grantor of ILIT to also be trustee*

**It is inadvisable for the grantor of an Irrevocable Life Insurance Trust to also be the trustee because:**

The grantor may not pick the best insurance policy

***Incorrect. The reason it is inadvisable is that it might be possible to construe an incident of ownership that would cause the policy’s inclusion in the grantor’s estate.***

Points: 0

The grantor may lack the experience to act as a trustee

***Incorrect. The reason it is inadvisable is that it might be possible to construe an incident of ownership that would cause the policy’s inclusion in the grantor’s estate.***

Points: 0

**It could be construed as an incident of ownership**

***Correct. The grantor should remove all indications of an incident of ownership.***

Points: 10

By law in most states, the trustee and the grantor cannot be the same person

***Incorrect. The reason it is inadvisable is that it might be possible to construe an incident of ownership that would cause the policy’s inclusion in the grantor’s estate.***

Points: 0

**Test Title:** Principles of Financial Planning: Estate Planning Review Test  
**Pool Title:** Referral Pool - Estate Planning

***Question 14:*** *Question Title: Estate Planning Techniques*

**Each of the following is an estate planning technique typically used during a person's lifetime EXCEPT:**

**Credit shelter trust**

***Correct. A credit shelter trust is only created upon death.***

Points: 10

Revocable Living Trust

***Incorrect. A revocable living trust is created while alive.***

Points: 0

Annual gifts

***Incorrect. Annual gifts are made while alive.***

Points: 0

Payment of tuition

***Incorrect. Payment of tuition is a lifetime technique for reducing one's estate without having to pay a gift tax.***

Points: 0

Payment of health care

***Incorrect. Payment of health care expenses is a lifetime technique for reducing one's estate without having to pay a gift tax.***

Points: 0

***Question 15:*** *Question Title: QTIP Trust*

**What Powers of Appointment, if any, may be given to the surviving spouse in a QTIP Trust?**

Any Power of Appointment

***Incorrect. Not all Powers of Appointment may be given to surviving spouse.***

Points: 0

A General Power of Appointment that is exercisable during surviving spouse’s lifetime.

***Incorrect. Trust property cannot be appointed to anyone other than surviving spouse during the surviving spouse’s lifetime.***

Points: 0

***A Limited Power of Appointment***

***Correct. For example, the surviving spouse might have the power to determine how assets will ultimately be divided among the children at the death of surviving spouse. But the surviving spouse's power might be "Limited" or confined to the children and no one outside of them.***

Points: 10

None of the above.

***Incorrect. There is one correct answer choice listed above.***

Points: 0

***Question 16:*** *Question Title: QTIP Trust Income*

**How is trust income distributed in a QTIP Marital Trust?**

Trust income is split equally between the surviving spouse and grantor’s children.

***Incorrect. The grantor’s children are not entitled to QTIP Trust income.***

Points: 0

Trust income is split between the surviving spouse and grantor’s children based upon need.

***Incorrect. The grantor’s children are not entitled to QTIP Trust income.***

Points: 0

**Surviving spouse must receive all trust income.**

***Correct.***

Points: 10

Children of the grantor must receive all trust income.

***Incorrect. The grantor’s children are not entitled to QTIP Trust income.***

Points: 0

***Question 17:*** *Question Title: Advantages to a QTIP Trust*

**Which of the following is an advantage the QTIP Trust has over a General Power of Appointment Marital Trust?**

It allows both the surviving spouse and the children to receive income.

***Incorrect. The QTIP trust allows the deceased to leave property in trust for the surviving spouse, making use of the marital deduction and giving the deceased spouse "power from the grave."***

Points: 0

Both income and principal distributions are at the discretion of the trustee.

***Incorrect. The QTIP trust allows the deceased to leave property in trust for the surviving spouse, making use of the marital deduction and giving the deceased spouse "power from the grave."***

Points: 0

Principal can be used for both the spouse and the children.

***Incorrect. The QTIP trust allows the deceased to leave property in trust for the surviving spouse, making use of the marital deduction and giving the deceased spouse "power from the grave."***

Points: 0

**It prevents the surviving spouse from changing the intent of the deceased spouse regarding final disposition of the trust assets.**

***Correct. The QTIP trust allows the deceased to leave property in trust for the surviving spouse, making use of the marital deduction and giving the deceased spouse "power from the grave."***

Points: 10

The surviving spouse can revoke the trust at any time.

***Incorrect. The QTIP trust allows the deceased to leave property in trust for the surviving spouse, making use of the marital deduction and giving the deceased spouse "power from the grave."***

Points: 0

***Question 18:*** *Question Title: Estate Planning*

**All of the following are goals of estate planning EXCEPT:**

Designating heirs

***Incorrect. All the choices are legitimate goals of estate planning.***

Points: 0

Determining when and how you want to transfer assets

***Incorrect. All the choices are legitimate goals of estate planning.***

Points: 0

Minimizing taxes

***Incorrect. All the choices are legitimate goals of estate planning.***

Points: 0

Minimizing court costs upon death

***Incorrect. All the choices are legitimate goals of estate planning.***

Points: 0

**No Exception. All choices are goals of estate planning.**

***Correct. All the choices are legitimate goals of estate planning.***

Points: 10

***Question 19:*** *Question Title: Trust Characteristics*

**The primary distinguishing characteristic of the QTIP Marital Trust vs. a Non-QTIP Marital Trust is:**

**A QTIP Marital Trust gives the first spouse to die the ability to name ultimate beneficiaries, while utilizing the marital deduction.**

***Correct. The distinguishing feature is that the trust can defer taxes by use of the marital deduction even though the deceased spouse retains "power from the grave" to direct the ultimate distribution of the assets.***

Points: 10

It provides additional estate tax savings.

***Incorrect. The distinguishing feature is that the trust can defer taxes by use of the marital deduction even though the deceased spouse retains "power from the grave" to direct the ultimate distribution of the assets.***

Points: 0

It provides income for the surviving spouse.

***Incorrect. The distinguishing feature is that the trust can defer taxes by use of the marital deduction even though the deceased spouse retains "power from the grave" to direct the ultimate distribution of the assets.***

Points: 0

It provides income for the children.

***Incorrect. The distinguishing feature is that the trust can defer taxes by use of the marital deduction even though the deceased spouse retains "power from the grave" to direct the ultimate distribution of the assets.***

Points: 0

It provides discretionary principal distributions for the entire family.

***Incorrect. The distinguishing feature is that the trust can defer taxes by use of the marital deduction even though the deceased spouse retains "power from the grave" to direct the ultimate distribution of the assets.***

Points: 0

***Question 20:*** *Question Title: QTIP Trust*

**For which of the following situations would the use of a QTIP Marital Trust make more sense in estate planning documents as opposed to other types of trusts.**

For a retired couple with no children who plan to leave everything to charity.

***Incorrect. As a Marital Trust, the QTIP makes sense for any of the three couples. But it is most useful when there is likelihood that the surviving spouse will remarry or when there are children from a prior marriage.***

Points: 0

For a married couple who are in their 80's, with one child.

***Incorrect. As a Marital Trust, the QTIP makes sense for any of the three couples. But it is most useful when there is likelihood that the surviving spouse will remarry or when there are children from a prior marriage.***

Points: 0

**For a newly married couple who each have children from a prior marriage.**

***Correct. As a Marital Trust, the QTIP makes sense for any of the three couples. But it is most useful when there is likelihood that the surviving spouse will remarry or when there are children from a prior marriage.***

Points: 10

For a single adult.

***Incorrect. As a Marital Trust, the QTIP makes sense for any of the three couples. But it is most useful when there is likelihood that the surviving spouse will remarry or when there are children from a prior marriage.***

Points: 0

For a recently widowed spouse, with 8 minor children.

***Incorrect. As a Marital Trust, the QTIP makes sense for any of the three couples. But it is most useful when there is likelihood that the surviving spouse will remarry or when there are children from a prior marriage.***

Points: 0

***Question 21:*** *Question Title: Which of the following factors should affluent clients consider*

**Which of the following factors should affluent clients consider when planning their estates in 2016?**

1. **Assets in a Credit Shelter Trust will not be eligible for a stepped-up tax basis upon the death of the surviving spouse.**
2. **While a testamentary trust (i.e., a trust created by the will) may no longer be needed for minimization of federal estate taxes, it might nonetheless continue to be a useful vehicle for asset protection and to accomplish personal goals for the beneficiaries.**
3. **The funding formulas for Credit Shelter Trusts in pre-existing estate plans may result in undesirable results and should be reviewed with the client’s attorney.**

1 only

***Incorrect. This is only one correct choice.***

Points: 0

2 only

***Incorrect. This is only one correct choice.***

Points: 0

1 and 2 only

***Incorrect. There is a better choice.***

Points: 0

2 and 3 only

***Incorrect. There is a better choice.***

Points: 0

**1, 2, and 3**

***Correct!***

Points: 10

***Question 22:*** *Question Title: The Credit Shelter Trust*

**The Credit Shelter Trust is often referred to as (choose the most complete answer):**

The Family Trust

***Incorrect. While it is often referred to as the family trust, this is not the only correct answer.***

Points: 0

The "B" Trust

***Incorrect. While it is often referred to as the "B" trust, this is not the only correct answer.***

Points: 0

The Dynasty Trust

***Incorrect. This is a different type of trust.***

Points: 0

**Both a. and b.**

***Correct.***

Points: 10

a., b., and c.

***Incorrect.***

Points: 0