**Course Title:** Principles of Financial Planning: Retirement Accumulation Planning

**Test Title:** Principles of Financial Planning: Retirement Accumulation Planning Review Test  
**Pool Title:** Retirement Planning – Accumulation

***Question 1:*** *Question Title: An executive with modified AGI of $300,000*

**An executive (single, age 49) with modified AGI of $300,000 is an active participant in his company's Qualified Defined Contribution Plan. Between himself and his employer, the total contribution into the Defined Contribution Plan is $53,000 in 2016. Given this information, which of the following statements is correct for 2016?**

He can contribute to a Traditional Deductible IRA and/or a Roth IRA.

***Incorrect. Participation in an employer-sponsored plan never impacts one's ability to open a Traditional IRA, although because his MAGI exceeds the Traditional Deductible IRA phase-out, he cannot deduct the contribution. Participation in an employer-sponsored plan doesn't impact one's ability to open a Roth IRA either, but because his MAGI exceeds the Roth IRA phase-out, he cannot contribute to a Roth IRA. However, he can contribute to a Traditional Nondeductible IRA.***

Points: 0

**He can contribute to a Traditional Nondeductible IRA, but he cannot contribute to a Roth IRA.**

***Correct. Participation in an employer-sponsored plan never impacts one's ability to open a Traditional IRA, although because his MAGI exceeds the Traditional Deductible IRA phase-out, he cannot deduct the contribution. Participation in an employer-sponsored plan doesn't impact one's ability to open a Roth IRA either, but because his MAGI exceeds the Roth IRA phase-out, he cannot contribute to a Roth IRA. However, he can contribute to a Traditional Nondeductible IRA.***

Points: 10

He cannot contribute to a Traditional Nondeductible IRA, but he can contribute to a Roth IRA.

***Incorrect. Participation in an employer-sponsored plan never impacts one's ability to open a Traditional IRA, although because his MAGI exceeds the Traditional Deductible IRA phase-out, he cannot deduct the contribution. Participation in an employer-sponsored plan doesn't impact one's ability to open a Roth IRA either, but because his MAGI exceeds the Roth IRA phase-out, he cannot contribute to a Roth IRA. However, he can contribute to a Traditional Nondeductible IRA.***

Points: 0

He cannot contribute to any Traditional IRA or Roth IRA.

***Incorrect. Participation in an employer-sponsored plan never impacts one's ability to open a Traditional IRA, although because his MAGI exceeds the Traditional Deductible IRA phase-out, he cannot deduct the contribution. Participation in an employer-sponsored plan doesn't impact one's ability to open a Roth IRA either, but because his MAGI exceeds the Roth IRA phase-out, he cannot contribute to a Roth IRA. However, he can contribute to a Traditional Nondeductible IRA.***

Points: 0

***Question 2:*** *Question Title: Of the following statements regarding similarities or differences*

**Of the following statements regarding similarities or differences between a Traditional and Roth IRA, which one is FALSE?**

Qualified withdrawals from a Roth IRA are not taxed, provided it has been at least 5 years since the initial Roth contribution, while withdrawals from a Traditional IRA are generally taxed.

***Incorrect. This is not a false statement. Withdrawals from a Traditional IRA are generally taxed, while qualified distributions from a Roth IRA are not.***

Points: 0

**Both the Traditional and the Roth IRA offer income tax deductions on contributions, provided certain conditions are met.**

Correct. This is the false statement. A deduction is generally allowed for contributions to a Traditional IRA, but is not allowed on contributions to a Roth IRA.

Points: 10

Funds are allowed to grow without taxation while in the Traditional or Roth IRA.

Incorrect. This is not a false statement. The case is that growth in either IRA is not taxed while funds are held in the IRA account.

Points: 0

Both the Traditional IRA and the Roth IRA require taxable compensation in order to make contributions.

Incorrect. This is not a false statement. The case is that there must be taxable compensation in order to make a contribution to either IRA.

Points: 0

Withdrawals must begin no later than April 1 of the year following the year in which the IRA owner reaches age 70½ for the Traditional IRA, but not for the Roth IRA.

Incorrect. This is not a false statement. Withdrawals must begin no later than April 1 of the year following the year in which the IRA owner reaches 70½ for a Traditional IRA, but there is no such requirement for a Roth IRA while the Roth IRA owner is still living.

Points: 0

***Question 3:*** *Question Title: For individuals under age 50*

**For individuals under age 50, the maximum contribution into a Traditional or Roth IRA for 2016 is:**

$2,000

Incorrect.

Points: 0

$4,500

Incorrect.

Points: 0

$5,000

Incorrect.

Points: 0

**$5,500**

Correct. For individuals under age 50, the maximum contribution into a Traditional or Roth IRA for 2016 is $5,500.

Points: 10

$6,500

Incorrect.

Points: 0

***Question 4:*** *Question Title: For individuals age 50 or over (but under 70½),*

**For individuals age 50 or over (but under 70½), the maximum contribution for 2016 into a Traditional IRA is:**

$2,500

Incorrect.

Points: 0

$4,000

Incorrect.

Points: 0

$4,500

Incorrect.

Points: 0

$5,500

Incorrect. Individuals age 50 or over (but under 70½) can make an additional $1,000 "catch-up" contribution (2016, as indexed).

Points: 0

**$6,500**

Correct. Individuals age 50 or over (but under 70½) can make an additional $1,000 "catch-up" contribution, which, when added to the $5,500 annual limit, brings the total contribution limit for 2016 to $6,500.

Points: 10

***Question 5:*** *Question Title: This year, a single individual, age 55*

**This year, a single individual, age 55, has taxable compensation of $2,000 plus dividends and interest of $15,000. The maximum this individual can contribute to a Traditional or Roth IRA is:**

$0

Incorrect. The contribution must be the lesser of $6,500 (the $5,500 limit plus the $1,000 catch-up for persons over 50) or up to 100% of taxable compensation. Since the individual only has $2,000 of taxable compensation, then $2,000 is the maximum the individual can contribute.

Points: 0

**$2,000**

Correct. The contribution must be the lesser of $6,500 (the $5,500 limit plus the $1,000 catch-up for persons over 50) or up to 100% of taxable compensation. Since the individual only has $2,000 of taxable compensation, then $2,000 is the maximum the individual can contribute.

Points: 10

$4,500

Incorrect. The contribution must be the lesser of $6,500 (the $5,500 limit plus the $1,000 catch-up for persons over 50) or up to 100% of taxable compensation. Since the individual only has $2,000 of taxable compensation, then $2,000 is the maximum the individual can contribute.

Points: 0

$5,500

Incorrect. The contribution must be the lesser of $6,500 (the $5,500 limit plus the $1,000 catch-up for persons over 50) or up to 100% of taxable compensation. Since the individual only has $2,000 of taxable compensation, then $2,000 is the maximum the individual can contribute.

Points: 0

$6,500

Incorrect. The contribution must be the lesser of $6,500 (the $5,500 limit plus the $1,000 catch-up for persons over 50) or up to 100% of taxable compensation. Since the individual only has $2,000 of taxable compensation, then $2,000 is the maximum the individual can contribute.

Points: 0

***Question 6:*** *Question Title: A married couple, filing a joint income tax return*

**A married couple, filing a joint income tax return, has modified adjusted gross income (MAGI) of $60,000 for 2016. His taxable compensation is $58,000. Her taxable compensation is $2,000, which she placed in a Traditional IRA. She also has a Roth IRA. If the wife is 45 years of age, what is the maximum the husband can contribute to the wife's Roth IRA in 2016?**

$0

Incorrect. When a married couple files a joint return, the taxable compensation of one spouse can be used to supplement the taxable compensation of the other spouse for the purposes of satisfying the contribution limits. But the contributions for each individual must be aggregated. If the limit for 2016 is $5,500, and she has already contributed $2,000 to her Traditional IRA, then the maximum contribution that can be made to her Roth IRA is $3,500.

Points: 0

$2,000

Incorrect. When a married couple files a joint return, the taxable compensation of one spouse can be used to supplement the taxable compensation of the other spouse for the purposes of satisfying the contribution limits. But the contributions for each individual must be aggregated. If the limit for 2016 is $5,500, and she has already contributed $2,000 to her Traditional IRA, then the maximum contribution that can be made to her Roth IRA is $3,500.

Points: 0

**$3,500**

Correct. When a married couple files a joint return, the taxable compensation of one spouse can be used to supplement the taxable compensation of the other spouse for the purposes of satisfying the contribution limits. But the contributions for each individual must be aggregated. If the limit for 2016 is $5,500, and she has already contributed $2,000 to her Traditional IRA, then the maximum contribution that can be made to her Roth IRA is $3,500.

Points: 10

$4,500

Incorrect. When a married couple files a joint return, the taxable compensation of one spouse can be used to supplement the taxable compensation of the other spouse for the purposes of satisfying the contribution limits. But the contributions for each individual must be aggregated. If the limit for 2016 is $5,500, and she has already contributed $2,000 to her Traditional IRA, then the maximum contribution that can be made to her Roth IRA is $3,500.

Points: 0

$5,500

Incorrect. When a married couple files a joint return, the taxable compensation of one spouse can be used to supplement the taxable compensation of the other spouse for the purposes of satisfying the contribution limits. But the contributions for each individual must be aggregated. If the limit for 2016 is $5,500, and she has already contributed $2,000 to her Traditional IRA, then the maximum contribution that can be made to her Roth IRA is $3,500.

Points: 0

***Question 7:*** *Question Title: A single individual, age 47, has modified AGI*

**A single individual, age 47, has modified AGI of $450,000 for 2016 and does not participate in any retirement plan. If the individual opens a Traditional IRA in 2016, then the maximum contribution the individual can make to a Traditional Deductible IRA for 2016 is:**

$0

Incorrect. For 2016, this individual can contribute $5,500, which is deductible because the individual is not participating in any other retirement plan.

Points: 0

$4,500

Incorrect. For 2016, this individual can contribute $5,500, which is deductible because the individual is not participating in any other retirement plan.

Points: 0

$5,000

Incorrect. For 2016, this individual can contribute $5,500, which is deductible because the individual is not participating in any other retirement plan.

Points: 0

**$5,500**

Correct. For 2016, this individual can contribute $5,500, which is deductible because the individual is not participating in any other retirement plan.

Points: 10

$6,500

Incorrect. For 2016, this individual can contribute $5,500, which is deductible because the individual is not participating in any other retirement plan.

Points: 0

***Question 8:*** *Question Title: A single individual, age 35, has no employment*

**A single individual, age 35, has no employment compensation but has investment income of $35,000 in 2016. The maximum contribution this individual can make to a Roth IRA for 2016 is:**

**$0**

Correct. The owner is required to have taxable compensation in order to contribute to an IRA. Since this individual is unemployed and has no taxable compensation, no contribution can be made.

Points: 10

$3,000

Incorrect. The owner is required to have taxable compensation in order to contribute to an IRA. Since this individual is unemployed and has no taxable compensation, no contribution can be made.

Points: 0

$3,500

Incorrect. The owner is required to have taxable compensation in order to contribute to an IRA. Since this individual is unemployed and has no taxable compensation, no contribution can be made.

Points: 0

$5,000

Incorrect. The owner is required to have taxable compensation in order to contribute to an IRA. Since this individual is unemployed and has no taxable compensation, no contribution can be made.

Points: 0

$5,500

Incorrect. The owner is required to have taxable compensation in order to contribute to an IRA. Since this individual is unemployed and has no taxable compensation, no contribution can be made.

Points: 0

***Question 9:*** *Question Title: A Traditional Nondeductible IRA is one where contributions are nondeductible:*

**A Traditional Nondeductible IRA is one where contributions are nondeductible:**

Solely because the owner's modified AGI is too high.

Incorrect. A Traditional Nondeductible IRA is simply a Traditional IRA into which the owner cannot make deductible contributions because the owner also participates in an employer-sponsored plan AND the owner's modified AGI exceeds specific limits.

Points: 0

Solely because the owner also participates in an employer-sponsored retirement plan.

Incorrect. A Traditional Nondeductible IRA is simply a Traditional IRA into which the owner cannot make deductible contributions because the owner also participates in an employer-sponsored plan AND the owner's modified AGI exceeds specific limits.

Points: 0

Solely because the contributions are made by the employer.

Incorrect. A Traditional Nondeductible IRA is simply a Traditional IRA into which the owner cannot make deductible contributions because the owner also participates in an employer-sponsored plan AND the owner's modified AGI exceeds specific limits.

Points: 0

**Because the owner participates in an employer-sponsored plan AND has modified AGI that exceeds specific limits.**

Correct. A Traditional Nondeductible IRA is simply a Traditional IRA into which the owner cannot make deductible contributions because the owner also participates in an employer-sponsored plan AND the owner's modified AGI exceeds specific limits.

Points: 10

Because the owner participates in an employer-sponsored plan AND the contributions are made by the employer.

Incorrect. A Traditional Nondeductible IRA is simply a Traditional IRA into which the owner cannot make deductible contributions because the owner also participates in an employer-sponsored plan AND the owner's modified AGI exceeds specific limits.

Points: 0

***Question 10:*** *Question Title: Which of the following statements about spousal IRAs is TRUE?*

**Which of the following statements about spousal IRAs is TRUE?**

Only a Traditional IRA can be a Spousal IRA.

Incorrect. A Spousal IRA can be either a Traditional or a Roth IRA.

Points: 0

Only a Roth IRA can be a Spousal IRA.

Incorrect. A Spousal IRA can be either a Traditional or a Roth IRA.

Points: 0

**Couples must file jointly to fund a Spousal IRA.**

Correct. To fund a Spousal IRA, both spouses must file a joint return.

Points: 10

If a Spousal IRA is created for a spouse, that spouse cannot have any other IRA accounts.

Incorrect. A Spousal IRA does not restrict a spouse from having other IRA accounts.

Points: 0

***Question 11:*** *Question Title: For which of the following withdrawals from a Traditional IRA would a 10% penalty be assessed?*

**For which of the following withdrawals from a Traditional IRA would a 10% penalty be assessed?**

A withdrawal by a 62-year-old owner.

Incorrect. There is no withdrawal penalty once the owner reaches age 59½.

Points: 0

Distribution of assets upon the death of a 40-year-old owner.

Incorrect. There is no withdrawal penalty upon death of the owner.

Points: 0

A withdrawal for ongoing support of a permanently disabled owner.

Incorrect. There is no withdrawal penalty if the owner is disabled.

Points: 0

Withdrawals by a 50-year-old IRA owner who has set up distributions in substantially equal periodic payments based on the IRA owner's life expectancy and lasting for the longer of 5 years or until the owner reaches age 59½.

Incorrect. It is possible to take penalty-free distributions, known as substantially equal periodic payments, which are based on the IRA owner's life expectancy, provided they last for the longer of 5 years or until the owner reaches age 59½.

Points: 0

**A withdrawal by a 55-year-old owner to cover the cost of property taxes on the person's home.**

Correct.

Points: 10

***Question 12:*** *Question Title: For which of the following is the employer REQUIRED*

**For which of the following is the employer REQUIRED to make an annual contribution?**

1. **SEP IRA**
2. **SIMPLE IRA**
3. **Money Purchase Plan**

SEP IRA only

Incorrect. A SEP IRA does not require an annual contribution by the employer.

Points: 0

SIMPLE IRA only

Incorrect. While it is correct that a SIMPLE IRA requires either an annual non-elective or matching contribution by the employer, this is not the only plan listed that requires employer contributions

Points: 0

Money Purchase Plan only

Incorrect. While it is correct that a Money Purchase Plan requires an annual contribution by the employer, this is not the only plan listed that has required employer contributions.

Points: 0

**SIMPLE IRA and Money Purchase Plan only**

Correct. Both a SIMPLE IRA and a Money Purchase Plan require employer contributions.

Points: 10

None require annual contributions by the employer

Incorrect. Two of these choices have required employer contributions.

Points: 0

***Question 13:*** *Question Title: Important benefits of a SEP or SIMPLE IRA are:*

**Important benefits of a SEP or SIMPLE IRA are:**

1. **The ability of the employer to deduct employer contributions.**
2. **The ability to make larger contributions than with a Traditional IRA.**
3. **The ability to make penalty-free withdrawals at an earlier date than a Traditional IRA.**
4. **The employer does not have to make contributions each year.**

**A and B**

Correct. Important benefits of a SEP or SIMPLE IRA are the ability of the employer to deduct employer contributions and the ability to make larger contributions than is possible with a Traditional IRA.

Points: 10

A and C

Incorrect. Important benefits of a SEP or SIMPLE IRA are the ability of the employer to deduct employer contributions and the ability to make larger contributions than is possible with a Traditional IRA.

Points: 0

B and C

Incorrect. Important benefits of a SEP or SIMPLE IRA are the ability of the employer to deduct employer contributions and the ability to make larger contributions than is possible with a Traditional IRA.

Points: 0

A and D

Incorrect. Important benefits of a SEP or SIMPLE IRA are the ability of the employer to deduct employer contributions and the ability to make larger contributions than is possible with a Traditional IRA. While the employer has flexibility with a SEP, annual employer contributions are required for a SIMPLE IRA.

Points: 0

B and D

Incorrect. Important benefits of a SEP or SIMPLE IRA are the ability of the employer to deduct employer contributions and the ability to make larger contributions than is possible with a Traditional IRA. While the employer has flexibility with a SEP, annual employer contributions are required for a SIMPLE IRA.

Points: 0

***Question 14:*** *Question Title: All of the following statements regarding*

**All of the following statements regarding nonqualified deferred compensation (NQDC) are correct EXCEPT?**

These plans are typically implemented by employers to provide tax-advantaged deferred benefits to supplement retirement benefits for a select group of employees/executives.

Incorrect. This is a correct statement.

Points: 0

NQDC plans are not restricted by ERISA requirements applicable to qualified retirement plans; thus, they can offer more flexibility to employers in terms of plan design, albeit with less guaranteed security to employee participants.

Incorrect. This is a correct statement.

Points: 0

**An NQDC plan requires the employee to defer 10% of his/her compensation to a later date, thereby also deferring the income tax liability on the compensation.**

Correct! An NQDC plan allows the employee to opt to defer a certain portion of his/her compensation to a later date, thereby also deferring the income tax liability on the compensation.

Points: 10

An NQDC Plan, like a qualified plan, allows the employee to leverage the investment return on their compensation and time receipt of compensation when it is more advantageous or specifically needed.

Incorrect. This is a correct statement.

Points: 0

The employer can deduct the amount of compensation deferred only when it is ultimately paid to the employee.

Incorrect. This is a correct statement.

Points: 0

***Question 15:*** *Question Title: Which of the following are correct statements regarding 401(k) in-service withdrawals?*

**Which of the following are correct statements regarding 401(k) in-service withdrawals?**

1. **Withdrawals from 401(k) Plans are much more restrictive than other profit sharing plans and apply to both employer and employee contributions.**
2. **The employer may not elect to make distributions if the participant has incurred a “financial hardship.”**
3. **At an employee's request, distributions can be made from a 401(k) Plan account before employment termination, disability, death, or before the participant has attained the age of 59½**

**1 only**

***Correct! The employer MAY elect to make distributions if the participant has incurred a “financial hardship.” No distributions can be made from a 401(k) Plan account before employment termination, disability, death, or until the participant has attained the age of 59½.***

Points: 10

2 only

***Incorrect. The employer MAY elect to make distributions if the participant has incurred a “financial hardship.”***

Points: 0

1 and 2 only

***Incorrect. The employer MAY elect to make distributions if the participant has incurred a “financial hardship.”***

Points: 0

1 and 3 only

***Incorrect. No distributions can be made from a 401(k) Plan account before employment termination, disability, death, or until the participant has attained the age of 59½.***

Points: 0

1, 2 and 3

***Incorrect. The employer MAY elect to make distributions if the participant has incurred a “financial hardship.” No distributions can be made from a 401(k) Plan account before employment termination, disability, death, or until the participant has attained the age of 59½.***

Points: 0

***Question 16:*** *Question Title:* ***In-service withdrawals from Defined Benefit***

**In-service withdrawals from Defined Benefit, Cash Balance, Target Benefit, and Money Purchase plans are permitted before age 62.**

True

***Incorrect. Pension Plans represent a commitment by the employer to provide a retirement benefit. In-service plan withdrawals are not permitted before age 62. Particularly in Defined Benefit Plans, any kind of withdrawal would involve actuarial (expensive) calculations merely to determine the amount of funds available to fund promised benefits.***

Points: 0

**False**

***Correct! Pension Plans represent a commitment by the employer to provide a retirement benefit. In-service plan withdrawals are not permitted before age 62. Particularly in Defined Benefit Plans, any kind of withdrawal would involve actuarial (expensive) calculations merely to determine the amount of funds available to fund promised benefits.***

Points: 10

***Question 17:*** *Question Title: Since it is a Nonqualified Plan*

**Since it is a Nonqualified Plan, contributions to a 457(b) Plan have no impact upon contribution limits in Qualified Plans.**

**True**

***Correct!***

Points: 10

False

***Incorrect.***

Points: 0

***Question 18:*** *Question Title: An advantage of Roth 401(k) plans*

**An advantage of Roth 401(k) plans over Roth IRAs is that a Roth 401(k) has no modified AGI limits that phase out eligibility for participation.**

**True**

***Correct!***

Points: 10

False

***Incorrect.***

Points: 0

***Question 19:*** *Question Title: What is the total "taxable compensation"*

**What is the total "taxable compensation" of Leslie for purposes of determining how much she can contribute to her IRA? Leslie's income is as follows:**

1. **Salary: $15,000**
2. **Alimony: $12,000**
3. **Dividends: $ 6,000**
4. **Annuity: $ 5,000**

$ 15,000

***Incorrect.***

Points: 0

**$ 27,000**

***Correct!***

Points: 10

$ 33,000

***Incorrect.***

Points: 0

$ 38,000

***Incorrect.***

Points: 0

***Question 20:*** *Question Title: Contributions cannot be made to a traditional IRA*

**Contributions cannot be made to a Traditional IRA for the year in which the taxpayer reaches what age?**

Age 65

***Incorrect.***

Points: 0

Age 67

***Incorrect.***

Points: 0

No age limit

***Incorrect.***

Points: 0

**Age 70½**

***Correct!***

Points: 10

Age 75

***Incorrect.***

Points: 0

***Question 21:*** *Question Title: Contributions cannot be made to a Roth IRA*

**Contributions cannot be made to a Roth IRA for the year in which the taxpayer reaches what age?**

Age 65

***Incorrect.***

Points: 0

Age 67

***Incorrect.***

Points: 0

**No age limit**

***Correct! Roth IRA contributions can be made as long as the taxpayer has earned income or "taxable compensation" regardless of the taxpayer’s age.***

Points: 10

Age 70½

***Incorrect.***

Points: 0

Age 75

***Incorrect.***

Points: 0

***Question 22:*** *Question Title:* **J*ane Dough, age 45, is your client.***

**Jane Dough, age 45, is your client. Jane needs $50,000 this year to pay qualified educational expenses for her son’s first year of college and has only two assets: a $300,000 qualified plan balance and a $300,000 Traditional IRA. Her qualified plan has no designated Roth account balance. She chooses not to borrow any money and will take the funds from one of her two assets. What is your advice and why?**

Take the college money from the IRA because there will be no income tax or penalty.

***Incorrect. This is a taxable distribution.***

Points: 0

Take the college money from the IRA because although the distribution is taxable, there will be no penalty.

***Correct. The distribution is taxable but not penalized.***

Points: 10

Take the college money from the qualified plan because there will be no income tax or penalty.

***Incorrect. Both income tax and penalty will result.***

Points: 0

Take the college money from the qualified plan because although the distribution is taxable, there will be no penalty.

***Incorrect. There is no educational exception to the premature distribution penalty in qualified plans.***

Points: 0

***Question 23:*** *Question Title: Which of the following are NOT*

**Which of the following are NOT specific situations where a penalty-free withdrawal may be made from a Traditional IRA prior to age 59½ ?**

Death of the IRA owner

***Incorrect. This would cause withdrawals to be penalty-free to the IRA beneficiary(ies).***

Points: 0

Disability of the IRA owner

***Incorrect. This would allow withdrawals to be penalty-free.***

Points: 0

**A collateralized loan**

***Correct! Loans are prohibited in IRAs and would probably result in taxation and a 10% penalty on the entire account balance.***

Points: 10

To pay health insurance premiums after the owner has received unemployment compensation for more than 12 weeks

***Incorrect. This would allow withdrawals to be penalty-free.***

Points: 0

To pay for unreimbursed medical expenses that exceed 10% of AGI

***Incorrect. This would allow withdrawals to be penalty-free.***

Points: 0

***Question 24:*** *Question Title:* ***For retired participants, mandatory distributions***

**For retired participants, mandatory distributions from qualified plans are generally required beginning no later than April 1 following the year in which the participant reaches which of the following ages? Assume that there is no Qualified Longevity Annuity Contract involved.**

55

***Incorrect.***

Points: 0

59½

***Incorrect.***

Points: 0

65

***Incorrect.***

Points: 0

**70½**

***Correct!***

Points: 10

75

***Incorrect.***

Points: 0

***Question 25:*** *Question Title: Sam, age 49, has come to you with a question.*

**Sam, age 49, has come to you with a question. He works for the state university as an administrator. The state university system has set up a Governmental 457(b) Plan for all its employees, and Sam is eager to participate. His only problem is that he also contributes to a 403(b) Plan, and plans to contribute the maximum amount to it in 2016 ($18,000). He would like to make contributions to the Governmental 457(b) this year as well, but he does not want to incur penalties on his 403(b). What can he do?**

To avoid going over the maximum contribution limit, Sam needs to either reduce his contributions to his 403(b) or not participate in the Governmental 457(b) this year.

***Incorrect.***

Points: 0

Sam can participate in the Governmental 457(b) Plan as long as he pays taxes on his contributions.

***Incorrect.***

Points: 0

**Sam can contribute the maximum to both without penalty.**

***Correct!***

Points: 10

Sam is not allowed to participate in a Governmental 457(b) Plan if he already makes contributions to a 403(b) Plan.

***Incorrect.***

Points: 0

***Question 26:*** *Question Title: An individual made her initial contribution*

**An individual made her initial contribution to a Roth IRA on her 50th birthday. She funded it with $2,000 in Year 1 and made a second contribution of $2,000 in Year 2. At the end of Year 2, the Roth IRA account balance was $5,000 and she had attained age 52. For which of the following withdrawals would she be subject to a 10% penalty on either part or all of the withdrawal? Assume the withdrawals were made on the last day of Year 2. Further assume that no other withdrawals were made in Year 1 or Year 2.**

$2,000 distribution for living expenses

***Incorrect. Living expenses do not constitute a penalty exception; however, contributions are removed first, and then earnings. Regular contributions can be removed at any time, for any reason, without penalty.***

Points: 0

$1,000 distribution to pay for a vacation

***Incorrect. Vacation expenses do not constitute a penalty exception; however, contributions are removed first, and then earnings. Regular contributions can be removed at any time, for any reason, without penalty.***

Points: 0

A $4,100 distribution to pay unreimbursed medical expenses that exceed 10% of AGI.

***Incorrect. Contributions are removed first, then earnings. Regular contributions can be removed at any time, for any reason, without penalty. She withdrew $100 more than she contributed and the $100 is taxable as a nonqualifying distribution. However, she would pay no penalty because of the “medical expenses over 10% of AGI” penalty exception.***

Points: 0

A $4,500 distribution to buy a first-time home for a daughter when no previous withdrawal has ever been made for such purpose.

***Incorrect. Contributions are removed first, then earnings. Regular contributions can be removed at any time, for any reason, without penalty. Since this is a nonqualified distribution, earnings will be taxable, but no penalty will be assessed on earnings because it is for one of the permissible penalty-free situations.***

Points: 0

**None of the above**

***Correct! None of the withdrawals are subject to a 10% penalty.***

Points: 10

***Question 27:*** *Question Title: For 2016, the maximum combined*

**For 2016, the maximum combined employer/employee contribution per employee into a Qualified Defined Contribution Plan is:**

The lesser of $25,000 or 25% of compensation.

***Incorrect. For 2016, the maximum combined employer/employee contribution per employee into a Qualified Defined Contribution Plan is the lesser of $53,000 or 100% of compensation.***

Points: 0

The lesser of $45,000 or 50% of compensation.

***Incorrect. For 2016, the maximum combined employer/employee contribution per employee into a Qualified Defined Contribution Plan is the lesser of $53,000 or 100% of compensation.***

Points: 0

The lesser of $50,000 or 100% of compensation.

***Incorrect. For 2016, the maximum combined employer/employee contribution per employee into a Qualified Defined Contribution Plan is the lesser of $53,000 or 100% of compensation.***

Points: 0

**The lesser of $53,000 or 100% of compensation.**

***Correct! For 2016, the maximum combined employer/employee contribution per employee into a Qualified Defined Contribution Plan is the lesser of $53,000 or 100% of compensation.***

Points: 10

***Question 28:*** *Question Title: In 2016, the compensation limit*

**In 2016, the compensation limit to calculate contributions for a Qualified Defined Contribution Plan is:**

$52,000

***Incorrect. The compensation limit to calculate 2016 contributions for a Qualified Defined Contribution Plan is $265,000.***

Points: 0

$205,000

***Incorrect. The compensation limit to calculate 2016 contributions for a Qualified Defined Contribution Plan is $265,000.***

Points: 0

$250,000

***Incorrect. The compensation limit to calculate 2016 contributions for a Qualified Defined Contribution Plan is $265,000.***

Points: 0

**$265,000**

***Correct! The compensation limit to calculate 2016 contributions for a Qualified Defined Contribution Plan is $265,000.***

Points: 10

$275,000

***Incorrect. The compensation limit to calculate 2016 contributions for a Qualified Defined Contribution Plan is $265,000.***

Points: 0

***Question 29:*** *Question Title: Mr. Jones participates in a qualified retirement plan at work.*

**Mr. Jones participates in a qualified retirement plan at work. The terms of the plan state that upon reaching age 65, the plan will pay to Mr. Jones an annual amount based on his average compensation for the last three years preceding age 65. The formula for calculating that amount is: (number of years of service) x (.015) x (average compensation). This is an example of a:**

Profit Sharing Plan

***Incorrect. A plan with a defined benefit payable upon reaching retirement age, as in this example, is a Defined Benefit Plan.***

Points: 0

Money Purchase Plan

***Incorrect. A plan with a defined benefit payable upon reaching retirement age, as in this example, is a Defined Benefit Plan.***

Points: 0

403(b) Plan

***Incorrect. A plan with a defined benefit payable upon reaching retirement age, as in this example, is a Defined Benefit Plan.***

Points: 0

**Defined Benefit Plan**

***Correct! A plan with a defined benefit payable upon reaching retirement age, as in this example, is a Defined Benefit Plan.***

Points: 10

457 Plan

***Incorrect. A plan with a defined benefit payable upon reaching retirement age, as in this example, is a Defined Benefit Plan.***

Points: 0

***Question 30:*** *Question Title: An advantage of a Designated Roth Account (DRA)*

**An advantage of a Designated Roth Account (DRA) in a 401(k) Plan over a Roth IRA is that the DRA has no modified AGI limits that phase out eligibility for participation.**

**True**

***Correct!***

Points: 10

False

***Incorrect.***

Points: 0

***Question 31:*** *Question Title: Which of the following is NOT a characteristic of qualified plans?*

**Which of the following is NOT a characteristic of qualified plans?**

They must generally allow participation to all employees aged 21 and over who have completed one year (1000 hours) of service.

***Incorrect. This is a characteristic of qualified plans.***

Points: 0

**They can be biased toward highly compensated employees.**

***Correct. Qualified plans cannot be biased towards the highly compensated.***

Points: 10

Employees must be fully vested within specific guidelines.

***Incorrect. This is a characteristic of qualified plans.***

Points: 0

None of the above is a characteristic of a qualified plan.

***Incorrect.***

Points: 0

All of the above are characteristics of qualified plans.

***Incorrect.***

Points: 0

***Question 32:*** *Question Title: All of the following are characteristics of NQDC except*

**All of the following are characteristics of Nonqualified Deferred Compensation Plans EXCEPT?**

They are typically implemented by employers to provide tax-advantaged deferred benefits to supplement retirement benefits for a select group of employees/executives.

***Incorrect. This is a characteristic of nonqualified deferred compensation plans.***

Points: 0

**They are restricted by ERISA requirements applicable to qualified retirement plans.**

***Correct. They are NOT restricted by ERISA requirements applicable to qualified retirement plans.***

Points: 10

They can offer more flexibility to employers in terms of plan design.

***Incorrect. This is a characteristic of nonqualified deferred compensation plans.***

Points: 0

They provide less guaranteed security to employee participants.

***Incorrect. This is a characteristic of nonqualified deferred compensation plans.***

Points: 0

The employer can deduct the amount of compensation deferred only when it is ultimately paid to the employee.

***Incorrect. This is a characteristic of nonqualified deferred compensation plans.***

Points: 0

***Question 33:*** *Question Title:* ***A Conduit IRA will NOT accomplish which of the following purposes?***

**A Conduit IRA will NOT accomplish which of the following purposes?**

Provide a temporary “parking place” for qualified plan rollovers

Incorrect. A Conduit IRA accomplishes this purpose.

Points: 0

Preserve the qualified nature of rollover funds

Incorrect. A Conduit IRA accomplishes this purpose.

Points: 0

Avoids premature distribution penalty if qualified plan funds are rolled over into the Conduit IRA within 60 days.

Incorrect. A Conduit IRA accomplishes this purpose.

Points: 0

**Provide income tax-free withdrawal of earnings if taken after age 59½.**

Correct. A Conduit IRA merely preserves the qualified plan nature of the funds and does not change taxable withdrawals into tax-free withdrawals.

Points: 10

***Question 34:*** *Question Title:* ***Your client Kayla is employed by Omega, Inc.***

**Your client Kayla is employed by Omega, Inc., a publicly traded corporation. She is a participant in the Omega, Inc. Profit Sharing Qualified Plan - she plans to take a lump sum distribution at retirement. Which of the following strategies could result in her receiving preferential long-term capital gains tax rates on at least a portion of the lump sum distribution?**

**Kayla’s selection of Omega, Inc. shares as an investment in her Profit Sharing Plan account.**

Correct. The net unrealized appreciation rules will permit Kayla to recognize a portion of the lump sum distribution as long-term capital gains taxed at preferential long-term capital gain income tax rates.

Points: 10

Kayla’s selection of any publicly traded security as an investment in her Profit Sharing Plan account.

Incorrect. Long-term capital gains rates are not available for “any publicly-traded security.”

Points: 0

Kayla’s election to have all gains taxed as long-term capital gains.

Incorrect. No such election exists.

Points: 0

Kayla’s holding any non-Omega, Inc. publicly traded security in the Profit Sharing Plan for more than one year.

Incorrect. Distributions of earnings from non-employer securities are always taxed at ordinary income tax rates regardless of holding period.

Points: 0

***Question 35:*** *Question Title:* ***Rick is your client. He is coming to your office this afternoon to discuss***

**Rick is your client. He is coming to your office this afternoon to discuss Health Savings Accounts (HSAs). Which of the following statements are appropriate to make to Rick?**

He must be covered exclusively by a high deductible health plan to make an HSA contribution.

***Incorrect. This is an appropriate statement but not the only appropriate statement listed.***

Points: 0

Contributions are deductible for adjusted gross income.

Incorrect. This is an appropriate statement but not the only appropriate statement listed.

Points: 0

Earnings are income tax-free if used to pay for qualifying health care expenses.

Incorrect. This is an appropriate statement but not the only appropriate statement listed.

Points: 0

**All of the above**

Correct.

Points: 10

***Question 36:*** *Question Title:* ***Your client is nearing retirement age.***

**Your client is nearing retirement age. Conversion of a deductible Traditional IRA to a Roth IRA is most appropriate in which, if any, of the following circumstances? Base your answer solely upon what is best financially for your client during their lifetime, ignoring any advantages to beneficiaries at the death of the client.**

Your client will be in a lower income tax bracket in retirement and expects to live until their actuarial life expectancy.

Incorrect. This is an argument against conversion.

Points: 0

**Your client will be in a higher income tax bracket in retirement and expects to live until their actuarial life expectancy.**

Correct. Paying income tax at a lower rate now avoids income tax at a higher rate in retirement.

Points: 10

Your client is in ill health and is not expected to live out the year.

Incorrect. This is an argument against conversion.

Points: 0

None of the above

Incorrect. There is a correct choice available.

Points: 0

***Question 37:*** *Question Title: Your client changed her mind about a recent Roth IRA conversion*

**Your client changed her mind about a recent Roth IRA conversion. She completed the conversion of a deductible Traditional IRA to a Roth IRA on January 1 of Year 1. Under what circumstance, if any, is she allowed to reverse (recharacterize) the Roth IRA conversion?**

Under no circumstance is a Roth IRA conversion ever reversible.

Incorrect. Roth IRA conversions are reversible within limits.

Points: 0

**She may recharacterize the funds converted to the Roth IRA no later than April 15 of Year 2.**

Correct.

Points: 10

She has sixty days from January 1, Year 1 to recharacterize the Roth IRA conversion.

Incorrect. This is not the correct time limit.

Points: 0

She may recharacterize the Roth IRA conversion in any future year in which adjusted gross income is less than $100,000.

Incorrect. There is no AGI limit. There is a time limit, however.

Points: 0

***Question 38:*** *Question Title:* ***Why would a client choose to contribute***

**Why would a client choose to contribute to a Designated Roth Account (DRA) in a qualified plan instead of a Roth IRA?**

The contribution limit is lower.

Incorrect. This is a false statement.

Points: 0

There is an adjusted gross income phase-out for eligibility.

Incorrect. This is a false statement.

Points: 0

There is no protection from most personal creditors in bankruptcy.

Incorrect. This is a false statement..

Points: 0

**None of the above**

Correct. Reasons to choose a DRA include 1) the ability to contribute without an AGI phase-out, and 2) significant protection from bankruptcy creditors.

Points: 10

***Question 39:*** *Question Title:* ***A Roth IRA or qualified plan Designated Roth Account***

**A Roth IRA or qualified plan Designated Roth Account could offer which of the following potential advantages in retirement? Choose the most complete answer.**

Potential reduction of income taxes on Social Security benefits

Incorrect. This is a potential advantage but not the only potential advantage.

Points: 0

Potential reduction of means-tested Medicare insurance premiums

Incorrect. This is a potential advantage but not the only potential advantage.

Points: 0

Potential increase in itemized deductions that are limited by adjusted gross income thresholds

Incorrect. This is a potential advantage but not the only potential advantage.

Points: 0

**All of the above**

Correct.

Points: 10

***Question 40:*** *Question Title:* **Y*our client recently attended a Social Security seminar***

**Your client recently attended a Social Security seminar entitled “Social Security Mistakes to Avoid During Your Working Years.” Which of the following statements made at the seminar actually represent potential mistakes?**

Failure to work 35 years

Incorrect. This is a correct statement but not the only correct statement.

Points: 0

Failure to replace low earnings years with higher earnings years

Incorrect. This is a correct statement but not the only correct statement.

Points: 0

Failure to check projected Social Security benefits

Incorrect. This is a correct statement but not the only correct statement.

Points: 0

**All of the above**

Correct.

Points: 10

***Question 41:*** *Question Title:* ***Why would a client choose a Spigot Trust***

**Why would a client choose a Spigot Trust (Net Income with Makeup Charitable Remainder Unitrust) as part of a retirement accumulation plan?**

**Defer an unlimited amount of income to retirement**

Correct! The amount of income deferred is limited only by the client’s assets. Unlike qualified plans, there is no contribution limit.

Points: 10

Receive a charitable income tax deduction in the year that the charity receives the remainder amount of the trust.

Incorrect. The charitable deduction is generally available in the year that your client contributes to the trust.

Points: 0

Convert future ordinary income into future long-term capital gains

Incorrect. Distributions from Spigot Trusts are generally taxable as ordinary income.

Points: 0

None of the above

Incorrect. Try again.

Points: 0

***Question 42:*** *Question Title:* ***Why would a client avoid a Spigot Trust***

**Why would a client avoid a Spigot Trust (Net Income with Makeup Charitable Remainder Unitrust) as part of retirement plan? Remember that the person creating the trust (your client) is called the donor. Choose the most complete answer.**

1. The trust is irrevocable and cannot be changed by the donor
2. The remainder in the trust will be lost to the family when the trust terminates
3. A low interest rate environment may require specialized investment techniques
4. Income will be taxed twice; once at the trust level and once again when distributed to your client as beneficiary

A, C, and D only

Incorrect. Try again.

Points: 0

A and D only

Incorrect. Try again.

Points: 0

D only

Incorrect. Distributions from Spigot Trusts are generally taxable as ordinary income.

Points: 0

**A, B, and C only**

Correct!

Points: 10

***Question 43:*** *Question Title:* ***What advantages could a Roth IRA***

**What advantages could a Roth IRA offer in retirement? Choose the most complete answer.**

1. Potential reduction of Medicare Part B premiums
2. Potential reduction of Medicare Part D premiums
3. Potential reduction of income tax on Social Security benefits
4. Potential reduction of the Net Investment Income Tax

A, C, and D only

Incorrect. Try again.

Points: 0

A and D only

Incorrect. Try again.

Points: 0

D only

Incorrect. Try again.

Points: 0

**All of the above**

Correct!

Points: 10

***Question 44:*** *Question Title:* ***Why would a client contribute to a Health Savings Account***

**Why would a client contribute to a Health Savings Account? Choose the most complete answer.**

1. Potential deduction for adjusted gross income in the year of contribution
2. Earnings are tax-free if used for qualified medical expenses
3. Complete protection from all creditors under federal law
4. Potential supplemental income stream in retirement

A, C, and D only

Incorrect. Federal bankruptcy statutes generally do not protect balances in HSA accounts.

Points: 0

A and C only

Incorrect. Federal bankruptcy statutes generally do not protect balances in HSA accounts.

Points: 0

C only

Incorrect. Federal bankruptcy statutes generally do not protect balances in HSA accounts.

Points: 0

**A, B, and D only**

Correct!

***Question 45:***

*Question Title:* **Clients most likely to find *my*|RA attractive**

**Which of the follows types of client would be most likely to find *my*|RA attractive? Assume all clients are under age 50.**

High income individual with over $1,000,000 in Roth IRA assets

Incorrect. My|RA requires transfer to a Roth IRA when the account balance reaches $15,000 .

Points: 0

Individual seeking equity diversification in the retirement portfolio

Incorrect. My|RA can only be invested in specialized Treasury bonds.

Points: 0

**Individuals seeking to start saving for retirement but with limited ability to contribute the maximum annual Roth IRA contribution amount**

Correct!

Points: 10

High income individual wishing to save $5,500 (2016, as indexed) into a Roth IRA and another $5,500 (2016, as indexed) into a my|RA

Incorrect. The maximum contribution to all Roth IRAs, including the my|RA, is $5,500 (2016, as indexed)

***Question 46:*** *Question Title:* ***The ideal client match to a Personal Defined Benefit***

**The ideal client match to a Personal Defined Benefit would have which of the following needs and characteristics? Choose the most complete answer.**

1. Desire for accelerated savings for retirement on a tax-efficient basis
2. Business owner who is either the sole employee or the only other employee is spouse
3. Inability to accumulate sufficient retirement capital through other accumulation vehicles such as IRAs or 401(k) Plans
4. Consistent yearly cash flow sufficient to make required annual funding payments

A, C, and D only

Incorrect. Try again.

Points: 0

A and C only

Incorrect. Try again.

Points: 0

C only

Incorrect. Try again.

Points: 0

**All of the above**

Correct!

***Question 47:*** *Question Title:* ***A disadvantage of a Designated Roth Account (DRA)***

**A disadvantage of a Designated Roth Account (DRA) in a 401(k) Plan as compared to a Roth IRA is that the DRA has a required beginning date while the Roth IRA generally does not.**

**True**

***Correct! DRAs are subject to the required beginning date (RBD) and required minimum distribution (RMD) rules. Roth IRAs are not subject to RBD or RMD during the original owner’s lifetime.***

Points: 10

False

***Incorrect.***

Points: 0