

**Discussion Guide
July 2016**

Proposed Basis Consistency Rules: Easy Concept – Hard Application

1. All of the following statements about newly enacted basis consistency rules are correct EXCEPT:

- A. Basis consistency rules were enacted as part of the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015.
- B. The new rules eliminate the step-up-in-basis-at-death provision in IRC Section 1014.
- C. The new rules provide that the basis, for income tax purposes, in property passed to an estate beneficiary must be consistent with estate tax return values.
- D. The basis consistency rules are codified in new IRC Section 1014(f).

2. Tangible personal property that does not have a marked artistic or intrinsic value over what amount is not subject to the basis consistency or reporting requirements?

- A. \$10,000
- B. \$6,000
- C. \$3,000
- D. \$1,000

3. Which statement(s) about the new consistency basis law and regulations is (are) correct?

- I. The law and regulations require the filing of Form 8971 with the IRS.
- II. The law and regulations narrowly define the term “executor” to mean only the appointed executor or administrator of the estate.

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

4. Under the proposed basis consistency regulations, all of the following statements about the final estate tax value are correct EXCEPT:

- A. The final estate value can be the value reported on the estate tax return once the period of limitations on assessments has expired.
- B. The final estate value can be the amount determined by the IRS once it can no longer be

contested.

C. The final estate tax value can be the amount determined in an agreement binding on all parties.

D. The final estate tax value can be the amount reported by the executor on IRS Form 706.

5. All of the following statements regarding the subsequent transfers provision in the proposed consistency basis regulations are correct EXCEPT:

A. The subsequent transfers provisions calls for a new information return to be filed with the IRS, if all or a portion of an asset that was previously reported to the IRS is transferred by the recipient to a related transferee in a manner in which the transferee's basis is determined with reference to the transferor's basis.

B. Subsequent transfers must be reported within 90 days of the transfer.

C. The proposed reporting requirement would be imposed on each subsequent recipient of the asset where the transferee's basis is determined with reference to the transferor's basis.

D. The rule applies to executors or other persons who file estate tax returns after July 31, 2015.

Insurance Planning and the Possible End of Life as We Know It: Low Interest Rates and Family Entity Discounts

6. Under what section of the Internal Revenue Code is the Treasury Department considering new regulations to put teeth into its effort to curb the use of discounts on intrafamily transfers?

A. IRC Section 7520

B. IRC Section 2514

C. IRC Section 2704

D. IRC Section 2033

7. Grandfather lends \$10 million to a generation-skipping-tax-exempt life insurance trust. The loan is secured by a 9-year note at a 1.45 percent interest rate. Investment performance over the next 9 years averages 5 percent after tax, providing \$355,000 to fund a life insurance policy. Based on current pricing and favorable underwriting, how much guaranteed lifetime survivorship life insurance coverage could be purchased for a husband and wife, both aged 65?

A. \$8.5 million

B. \$10,250,000

C. \$12.5 million

D. \$20,250,000

8. Jack and Jill, a married couple in their mid-50s, have a net worth of about \$4 million which is growing at 6 percent. As reflected in Figure 1, all of the following statements about the incremental value of combined planning are correct EXCEPT:

A. With no estate planning, in 45 years the potential inheritance (net of estate tax) to Jack and Jill's heirs is approximately \$10 million.

B. With no estate planning, in 25 years the potential inheritance (net of estate tax) to Jack and Jill's heirs is approximately \$7 million.

C. If Jack and Jill were to engage in a 30 percent discounted sale to a generation-skipping-exempt, dynasty grantor trust as an estate planning measure, after 25 years the potential inheritance (net of estate tax) to their heirs would be \$11 million.

D. If Jack and Jill were to add to the sale to the dynasty trust strategy, a private, split-dollar life insurance program, using \$20 million in survivorship life, after 45 years the potential inheritance (net of estate tax) to their heirs would be \$31 million.

IRA Postmortem Considerations

9. All of the following statements regarding what might happen in regard to an IRA after the IRA owner dies are correct EXCEPT:

A. A designated beneficiary of an IRA is entitled to receive required minimum distributions (RMDs) over his or her lifetime following the death of the IRA owner.

B. If the IRA owner doesn't have a designated beneficiary and dies before the date for RMDs, the 5-year rule – which calls for the entire IRA to be distributed within 5 years of death – applies.

C. If the IRA owner's estate is named as the designated beneficiary, the executor of the estate can determine how the IRA is distributed as long as it complies with the terms of the decedent's will.

D. When the IRA owner dies after his or her required beginning date and there is no designated beneficiary, the life-expectancy rule is applicable.

10. When a nonspouse beneficiary of an IRA transfers the IRA to another account or custodian, how must the receiving account be titled to avoid immediate income taxation?

A. In the name of the beneficiary.

B. In the name of the decedent, held for the benefit of the beneficiary.

C. In the name of the decedent without reference to the beneficiary.

D. In the name of the account custodian.

11. Which statement(s) about qualified disclaimers as they relate to IRAs is (are) correct?

I. In the case of IRAs, a qualified disclaimer will allow for the interest to pass to a contingent beneficiary and also for such contingent beneficiary's life expectancy to be used to calculate RMDs.

II. The rule that a designated beneficiary of an IRA isn't determined until September 30 of the year following the year of death makes disclaimer-based planning more complex and less desirable.

A. I only

C. Both I and II

B. II only

D. Neither I nor II

12. All of the following statements about considerations in handling an IRA following the death of the IRA owner are correct EXCEPT:

A. If the decedent's IRA is payable to an estate or to a trust that pays outright to the beneficiaries, there is no need to keep the estate or trust open simply to receive IRA distributions.

B. A nonindividual beneficiary of the decedent's IRA, such as a charity, can be eliminated through a cash out.

C. When dealing with an inherited IRA, an incorrect decision can lead to immediate taxation of the entire IRA.

D. IRC Section 401(a)(9) precludes creating separate shares to accommodate multiple IRA beneficiaries.

The Labor Department's Conflict-of-Interest Rule: A New Era Begins for Retirement Plan Advising

13. All of the following statements about the new Department of Labor conflict-of-interest rules are correct EXCEPT:

A. The rules were passed by Congress and signed into law on April 6, 2016.

B. The rules establish a new set of regulatory requirements for those parties who work with ERISA plans.

C. The new rules effectively apply a fiduciary standard to almost all parties who provide advice, products, and services to covered retirement plans and customers.

D. The rules require that retirement plan advisors act in the best interest of the client.

14. Which statement(s) about the best interest contract exemption is (are) correct?

I. The best interest contract exemption (BICE) applies only to advisors who are compensated by commissions.

II. Advisors who fail to enter into a best interest contract with clients are subject to criminal penalties and fines.

A. I only

C. Both I and II

B. II only

D. Neither I nor II

15. What is the general effective date of the DOL conflict-of-interest rule?

A. April 2016

B. April 2017

C. April 2018

D. January 1, 2017

16. All of the following statements regarding provisions of the Department of Labor's conflict-of-interest rule are correct EXCEPT:

A. The rules significantly narrow the definition of "advice" from that included in prior ERISA regulations.

B. The final regulations provide more detail as to what information qualifies as education, what is solicitation, and what is advice.

C. The new rules do not mandate which products are or are not to be covered.

D. The new rules require that compensation must at all times be reasonable.

17. Which statement about enforcement of the DOL conflict-of-interest rule is correct?

A. The Department of Labor will have primary responsibility for enforcement.

B. A viable enforcement process has not been established as of the time of the release of the rules.

C. The IRS will be able to assess a 10 percent excise tax on those who violate the rules.

D. The contractual aspect of the BICE arrangement creates a mechanism by which the best

interest standard can be enforced in the courts.

Seeking Stable, Efficient Coverage for Long-Term Care with Asset-Based Products

18. All of the following statements about long-term care insurance (LTCI) are correct EXCEPT:

- A. Health-based LTCI has no cash value.
- B. Many professional advisors working in the LTCI arena do not understand the taxation of asset-based LTC products.
- C. Both health-based and asset-based LTCI provide a death benefit if the policyholder dies.
- D. Early LTCI policies primarily provided limited coverage for people who required nursing home care.

19. According to estimates by the U.S. Department of Health and Human Services, what is the average cost of care in an LTC facility?

- A. \$150,000 per year
- B. \$5,000 per month
- C. \$10,000 per month
- D. \$75,000 per year

20. Which statement(s) about the cost of LTC insurance is (are) correct?

I. LTC insurance is an easy product to underprice because of the difficulty in determining both the claims experience and the cost of a claim.

II. The ever-increasing cost of LTC insurance has led consumers to question the viability of health-based LTCI for protecting against LTC risk.

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

21. All of the following statements about asset-based LTC insurance are correct EXCEPT:

- A. In 1995, New York and Indiana were the first states to offer asset-based LTC insurance.
- B. The Health Insurance Portability and Accountability Act (HIPAA) enacted in 1996 allows for life insurance and LTC benefits to be combined in one policy.
- C. HIPAA provides that, if an asset-based LTC policy meets certain triggering events for

payment of benefits, then those benefits will be received income tax free.

D. The introduction of asset-based LTC contracts eliminates the “use it or lose it” nature of stand-alone health-based policies.

22. Under what law was the preferential treatment of life insurance-LTC combination contracts extended to deferred annuity-LTC combination contracts?

A. Health Insurance Portability and Accountability Act

B. Pension Protection Act of 2006

C. Affordable Care Act

D. ERISA

23. At age 62, Joe Smith purchases an annuity LTC asset-based policy for \$100,000. The account grows at 4 percent annually and is valued at \$200,000 when Joe turns 80 and needs LTC. During the remainder of Joe’s life, the entire annuity value is paid out for LTC claims. How much of the \$100,000 gain in the annuity is subject to tax?

A. \$100,000

B. \$0

C. The increase in value of the contract each year between the time Joe purchased the annuity and the time he began using the annuity for LTC expenses is taxable.

D. It depends on whether Joe has income from Social Security.

24. All of the following contracts are eligible for exchange under IRC Section 1035 EXCEPT:

A. A qualified long-term care contract for a life insurance contract.

B. A life insurance contract for a qualified long-term care contract.

C. An annuity contract for a qualified long-term care contract.

D. An endowment contract for an annuity contract.

25. All of the following statements about continuation of benefit (COB) coverage are correct EXCEPT:

A. COB coverage takes effect after the LTC benefit balance on the base policy has been exhausted.

B. COB coverage provides the purchaser with peace of mind that he or she will not outlive LTC coverage.

C. COB coverage is medically underwritten.

D. COB coverage can extend LTC benefits for up to 10 years.

26. What is the average length of stay for current nursing home residents?

A. 5 years

B. 4½ years

C. 3 years

D. Approximately 2½ years

27. All of the following statements about terminal illness and chronic care riders on life insurance policies are correct EXCEPT:

A. IRC Section 101(g) authorizes the use of terminal illness and chronic care riders.

B. The term “long-term care” may not be used in marketing chronic care or terminal illness riders.

C. There are no distinctions between these riders and the asset-based LTC products authorized under IRC Section 7702B.

D. These riders may require a physician’s certification that the chronic illness is likely to last the rest of the insured’s life.

Collecting Social Security versus Spending Retirement Savings

28. All of the following statement(s) about factors that affect Social Security benefits are correct EXCEPT:

A. Social Security benefits increase each year in proportion to changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers.

B. In 2016, full retirement age is 67.

C. Social Security benefits claimed prior to full retirement are reduced for an individual if she has earned labor income over certain threshold amounts.

D. Social Security benefits are not affected by income from rental property, retirement accounts, or financial assets.

29. Judy Jones plans to retire in August 2016 at age 70. What percent of the full retirement Social Security benefit will she receive?

- A. 132 percent
- B. 100 percent
- C. 75 percent
- D. 70 percent

30. All of the following identify characteristics that would make it more advantageous for an individual to claim Social Security benefits earlier EXCEPT:

- A. Poor physical health
- B. Low job satisfaction
- C. Family history of fatal illness
- D. Employer-paid health insurance

31. All of the following statements regarding the importance of taxes in evaluating a claiming decision are correct EXCEPT:

- A. The proportion of Social Security benefits that is taxable varies according to a complicated formula.
- B. In 2016, an individual who received the maximum level of benefits available at age 62 would pay no taxes on Social Security benefits if income from other sources was \$13,108 or less.
- C. In 2016, an individual who received the maximum level of benefits available at age 62 and had income from other sources of \$40,600 or more would pay taxes on 50 percent of benefits.
- D. Social Security benefits have a natural tax advantage over withdrawals from retirement accounts.

32. Which statement(s) about the Social Security claiming decision is (are) correct?

- I. According to Gilkeson's analysis, an unmarried male who is retired at 62 and has sufficient savings to support his desired lifestyle without relying on early claiming of Social Security benefits would be better off claiming as early as possible in many cases.
- II. The claiming decision is complex and will never be one-size-fits-all, so it is important for a financial planner to consider a number of decision tools, such as present value, longevity risk, and breakeven.

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

Financial Literacy Overconfidence and Financial Advice Seeking

33. All of the following statements about financial advice and about seeking financial advice are correct EXCEPT:

- A. A low level of perceived financial expertise has been linked to advice seeking for financial investment decisions.
- B. Households with a large amount of financial assets are the most likely to receive advice regardless of their financial knowledge level.
- C. Financial advice has been linked to improved financial behaviors and well-being.
- D. A study by Cliff Robb found that financial knowledge and financial confidence were negatively linked to demand for financial advice.

34. Which statement (s) about overconfidence in the context of financial advice is (are) correct?

- I. Investors who display overconfidence trade in higher volumes and achieve higher gains than other investors.
- II. Consumers who overestimate their credit score are less knowledgeable in financial matters and acquire this limited knowledge from difficult past experiences.

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

35. Which statement about factors that influence demand for financial advice is correct?

- A. Geographic factors significantly influence the demand for financial advice.
- B. The likelihood of using a financial planner increases with educational achievement.
- C. The extremely wealthy (over \$1 billion in assets) are less likely to seek financial advice than the upper middle class segment of investors.
- D. Trust has been discounted as a meaningful factor in a demand for financial advice.