SELF-TEST QUESTIONS

PLANNING FOR RETIREMENT NEEDS, 10th edition

Self-test questions are based on the learning objectives in a specific chapter. Thus, a [1-3] at the end of a question means that the question is based on learning objective 1-3.

Chapter 1

T - F 1. A SEP is a qualified retirement plan. [1-1]

T - F 2. In a tax-advantaged retirement plan, the employer is only eligible for a deduction when the employee has taxable income. [1-1]

T - F 3. In order to avoid current taxation of earnings, tax-advantaged retirement plan funds must be invested in tax-sheltered investments, such as life insurance or municipal bonds. [1-1]

T - F 4. Participants in a tax-advantaged plan can generally delay paying taxes at termination of employment by rolling the benefit into another tax-advantaged plan or IRA. [1-1]

T - F 5. A strength of tax-advantaged retirement plans is that the plan can include highly compensated employees and exclude the rank and file. [1-1]

T - F 6. Many workers have the opportunity to make contributions to an employer sponsored retirement plan and/or contribute to a Roth IRA. [1-1]

T - F 7. The higher the employee’s tax bracket, the greater the tax savings by using a tax-advantaged retirement plan. [1-2]

T - F 8. A tax-advantaged retirement plan is generally a more efficient way to save for retirement than saving on an after-tax basis. [1-2]

T - F 9. Retirement plans play a key role in making a company competitive in the marketplace because they help the employer to attract and retain employees. [1-3]

T - F 10. If it is well designed and correctly implemented, a retirement plan can be an enticement or an employee to remain with the company. [1-3]

T - F 11. Pensions are negotiated in labor contracts because they constitute wages and are a condition of employment that is subject to the collective-bargaining process. [1-3]

T - F 12. Retirement plans can provide for a graceful transition in the work force by allowing for early retirement and providing "golden handshakes" to older nonproductive employees. [1-3]

T - F 13. Qualified and other tax-advantaged retirement plans represent one of the best tax shelters available for business owners. [1-4]
T - F  14. Funds in a qualified plan may be protected from creditors in bankruptcy proceedings. [1-4]

T - F  15. Contributions to a qualified plan can reduce a small business’s exposure to the accumulated earnings tax. [1-4]

Chapter 2

T - F  1. One of the major objectives of ERISA was to improve benefit security by requiring plans to disclose more information to participants about their benefits and their rights under ERISA. [2-1]

T - F  2. Plan disqualification can have negative tax implications for both the plan sponsor and the plan participants. [2-1]

T - F  3. Title IV of ERISA requires employers to report plan information to the federal government and disclose information to participants. [2-1]

T - F  4. In recent years Congress has recognized that higher maximum contributions could increase the number of small employers establishing retirement plans. [2-1]

T - F  5. Since ERISA, the law has been changed to provide for special rules for small top-heavy plans. [2-1]

T - F  6. A recent legislative trend is to somewhat simplify the pension law. [2-1]

T - F  7. Employers must secure a favorable advance-determination letter in order to take a deduction for contributions made to a qualified plan. [2-2]

T - F  8. The IRS audits plans in order to ensure that the qualified plan rules are followed on an ongoing basis. [2-2]

T - F  9. Proposed regulations have no legal effect unless they specifically state that they can be relied on by the taxpayer. [2-2]

T - F  10. Regulations are the IRS’s precedent-setting interpretations of the provisions of the Internal Revenue Code as they apply to factual situations facing clients. [2-2]

T - F  11. The DOL ensures compliance with the reporting and disclosure rules. [2-2]

T - F  12. Every plan has at least one named fiduciary who is responsible and accountable for operating the plan. [2-2]

T - F  13. The DOL can sue fiduciaries and require a restitution to the plan for any losses. [2-2]

T - F  14. The DOL issues advisory opinions that are similar to the private letter rulings offered by the IRS. [2-2]
T - F   15. The defined-benefit plan of a professional-service employer with 15 employees must be covered by PBGC insurance. [2-2]

T - F   16. An employer must notify the PBGC before terminating a defined-benefit plan that is covered by the PBGC insurance program. [2-2]

T - F   17. Individually designed plans are easier to install than master and prototype plans. [2-2]

T - F   18. The most reliable and important sources of information are primary sources, such as the texts of laws and the Internal Revenue Code. [2-3]

T - F   19. Almost 80 percent of employees working for companies of 90 or more employees currently participate in an employer sponsored retirement plan. [2-3]

T - F   20. Software packages are available for client illustrations, pension administration, portfolio management, and form and document preparation. [2-3]

Chapter 3

T - F   1. Financial services professionals who have technical expertise about qualified plans have a competitive advantage when it comes time to determine who will manage plan assets or who will sell investment products to the plan. [3-1]

T - F   2. The fact-finding process serves as a due diligence checklist that will ensure the selection of the most appropriate plan. [3-1]

T - F   3. When it comes to providing a retirement plan, closely held businesses are particularly concerned with providing maximum benefits for rank-and-file employees. [3-1]

T - F   4. Helping a client set a price range for his or her qualified plan involves compromise—balancing the benefits that the owner wants to provide with his or her ability to afford the price tag. [3-1]

T - F   5. A thorough understanding of the ages and salary levels of employees who will be covered by the plan is essential to making the correct plan choice. [3-1]

T - F   6. SEPs and SIMPLEs will generally cost less to maintain than a qualified plan, but in exchange the employer will have fewer design options. [3-1]

T - F   7. A 403(b) plan is a retirement plan available to all types of corporate entities. [3-1]

T - F   8. Under a defined-benefit plan, the contributions required by the employer vary depending upon what is needed to pay the promised benefit, and the amount of annual funding is determined each year by the plan’s actuary. [3-2]

T - F   9. The maximum contribution to a defined-benefit plan is limited by the annual addition rules of Code Sec. 415(c). [3-2]
T - F  10. In defined-contribution plans, employees are clear how much "deferred compensation" they are receiving, although they are not sure what the ultimate benefit will be from the plan. [3-3]

T - F  11. A defined-benefit plan can provide benefits based on service earned prior to the establishment of the plan while a defined-contribution plan cannot. [3-3]

T - F  12. Defined-contribution plans can tie benefit payments to salary levels used just prior to retirement. [3-3]

T - F  13. Plans from the defined-contribution category have easily determinable costs, which appeals to employers whose financial position dictates caution. [3-3]

T - F  14. Under a defined-contribution plan, the employer bears the risk of preretirement inflation. [3-3]

T - F  15. Under plans from the defined-benefit category, the employer bears the risk of investment performance. [3-3]

T - F  16. Today, a combination defined-benefit and defined-contribution plan is typically used in a larger company to provide a comprehensive benefits package. [3-3]

T - F  17. Under a profit-sharing plan, an organization is committed to making annual payments to the plan. [3-4]

T - F  18. Plans from the pension category can invest up to 25 percent of their assets in employer stock. [3-4]

T - F  19. A Keogh plan is a qualified plan that is sponsored by a partnership or self-employed individual. [3-5]

T - F  20. The rules that apply to tax-advantaged retirement plans sponsored by self-employed individuals are significantly different than the rules that apply to corporations that sponsor retirement plans. [3-5]

T - F  21. Keogh plans have a special rule for calculating the maximum contribution for the self-employed owner. [3-5]

Chapter 4

T - F  1. Employers typically provide an income-replacement ratio equal to 100 percent of an employee’s final-average salary. [4-1]

T - F  2. If the employer desires a more rapid turnover of older employees, the plan’s benefit formula should contain a years-of-service cap. [4-1]

T - F  3. Under a flat-percentage-of-earnings formula, the benefit relates solely to service. [4-1]
T - F 4. To satisfy nondiscrimination rules, a plan with a flat-percentage-of-earnings formula generally has to reduce benefits for participants with less than 25 years of service. [4-1]

T - F 5. A plan that defines compensation as base compensation will generally satisfy the nondiscrimination requirements even if rank-and-file employees receive overtime pay that is not included in the definition. [4-2]

T - F 6. An important reason to account for past service is to maximize the tax-shelter potential of the plan for long-service owner-employees and key employees. [4-2]

T - F 7. A participant who receives a life annuity benefit of $2,000 a month beginning at age 65 has received a more valuable benefit than the participant who receives a life annuity of $2,000 a month beginning at age 62. [4-2]

T - F 8. Candidates for a defined-benefit plan typically have the objective of instituting a plan that has predictable costs. [4-2]

T - F 9. Candidates for a defined-benefit plan indicate that the desire to provide an adequate standard of living in retirement outweighs the need to have an easily communicated and administratively convenient plan. [4-2]

T - F 10. A cash-balance plan is a form of defined-contribution plan. [4-3]

T - F 11. The first generation of cash-balance plans started as traditional defined-benefit plans that were converted into cash-balance plans. [4-3]

T - F 12. In a cash-balance plan, participants are credited with a promised rate of return, not the plan’s actual investment experience. [4-3]

T - F 13. Assuming that a cash-balance plan and a money-purchase plan each have a contribution credit of 5 percent of compensation, participants are likely to accumulate a larger benefit in a cash-balance plan over a long period of time than in the money-purchase pension plan. [4-3]

T - F 14. The Pension Protection Act of 2006 prohibited employers from adopting new cash-balance plans. [4-3]

T - F 15. In a money-purchase plan, annual contributions are required and are based on the plan’s stated contribution formula. [4-4]

T - F 16. One major drawback to a money-purchase plan is that participants are not protected if inflation spirals just before retirement age. [4-4]

T - F 17. Money-purchase plan candidates typically focus on the objectives of instituting a plan that has predictable costs and that is easily communicated to employees. [4-4]

T - F 18. A target-benefit plan is a form of defined-contribution plan. [4-5]
T - F  19. Under a target-benefit plan, the employer bears the investment risk and receives the benefit of the investment return. [4-5]

T - F  20. Under a target-benefit plan, the employer guarantees that the employee’s benefit will be the target amount or greater. [4-5]

T - F  21. Target-benefit plans were first designed to best serve young, highly paid professionals who were trying to maximize benefits. [4-5]

T - F  22. Interest in target-benefit plans has waned because today’s employers can meet the same objectives with an age-weighted or cross-tested profit-sharing plan that has the advantage of allowing discretionary contributions. [4-5]

Chapter 5

T - F  1. A profit-sharing plan can be set up to provide for discretionary employer contributions. [5-1]

T - F  2. Employers can set a cap on the amount of profits that will be contributed to a profit-sharing plan. [5-1]

T - F  3. Profit-sharing plans can be designed to allow employees to withdraw funds from participant accounts as early as 2 years after they were contributed by the employer. [5-1]

T - F  4. If a profit-sharing plan is used, the organization’s deduction for contributions to the plan is limited to 25 percent of aggregate participant payroll. [5-1]

T - F  5. In most profit-sharing plans, the board of directors is given the discretion whether or not to make contributions each year. [5-1]

T - F  6. The employer must have current or accumulated profits in order to make contributions to a profit-sharing plan. [5-1]

T - F  7. Integration with Social Security, age-weighting, and cross-testing are all allocation approaches that can be used to skew the employer’s contribution to the older, more highly compensated employees. [5-1]

T - F  8. A 401(k) plan with an employer matching contribution creates a retirement planning partnership between the employer and employee. [5-2]

T - F  9. Under a 401(k) plan, an employee may make salary reduction contributions of up to $49,000. [5-2]

T - F  10. An IRA is a better tax-advantaged savings option than a 401(k) plan for most employees. [5-2]

T - F  11. In addition to salary deferrals, an employer can make both matching contributions and profit-sharing contributions to a 401(k) plan or neither contribution to the plan. [5-2]
T - F  12. Employer-matching contributions can be fixed or can be made on a discretionary basis. [5-2]

T - F  13. Employee salary deferral contributions to a 401(k) plan are always 100 percent vested. [5-2]

T - F  14. Withdrawals can be made from a 401(k) salary deferral account after participants have been in the plan for 2 years. [5-2]

T - F  15. Under the safe harbor rules, a financial hardship is said to occur if the employee has to pay college tuition. [5-2]

T - F  16. In 2008 and 2009, Sally owns 6 percent of the employer’s stock and earns $65,000. Sally will be considered a highly compensated employee for purposes of the actual deferral percentage test for 2009. [5-2]

T - F  17. A popular use of the 401(k) plan is to include it as one of the benefits available under a cafeteria plan. [5-2]

T - F  18. Salary reductions made under a 401(k) plan will reduce the amount of Social Security taxes that are owed. [5-2]

T - F  19. If a 401(k) plan has a Roth feature, participants may request that company matching contributions be made on an after-tax basis. [5-2]

T - F  20. Stock bonus plans and ESOPs are defined-contribution-type plans. [5-3]

T - F  21. One of the advantages of receiving a distribution in stock from a stock bonus plan or an ESOP is that the unrealized appreciation is not taxed until the stock is sold. [5-3]

T - F  22. Under the technique known as leveraging, the employer borrows funds from the participants’ ESOP account to pay future contributions to the plan. [5-3]

T - F  23. It is prudent for a corporation with an ESOP to buy life insurance on the lives of its key employees so the ESOP can buy back stock from the key employees’ estates. [5-3]

T - F  24. A candidate for an ESOP is similar to a candidate for a profit-sharing plan except that a candidate for an ESOP would like to create a market for employer stock and/or leverage the purchase of employer stock. [5-3]

Chapter 6

T - F  1. A simplified employee pension (SEP) plan is a retirement plan that uses an individual retirement account or an individual retirement annuity as the receptacle for contributions. [6-1]

T - F  2. Employers are allowed to discriminate in a SEP with regard to contributions that can be made to highly compensated employees. [6-1]
T - F  3. A SEP is a popular plan design choice for large corporations. [6-1]

T - F  4. All amounts contributed to a SEP are immediately 100 percent vested in the participant. [6-1]

T - F  5. Today, employers can establish a salary reduction SEP. [6-1]

T - F  6. A SEP cannot contain a loan provision. [6-1]

T - F  7. A candidate that has a large number of part-time employees should choose a SEP because it can be designed to exclude part-time employees. [6-1]

T - F  8. A SIMPLE can allow participants to borrow from the plan. [6-2]

T - F  9. An employer can sponsor both a SIMPLE and a money-purchase pension plan. [6-2]

T - F  10. The employer can make both the 3 percent matching contribution and the 2 percent non-elective contribution to the SIMPLE. [6-2]

T - F  11. The employer who has few rank-and-file employees interested in participating in the plan and a modest contribution budget should consider the SIMPLE over the 401(k) plan. [6-2]

T - F  12. All those who receive payment for services from a qualified tax-exempt organization or public school are considered eligible employees for purposes of making contributions to the organization’s 403(b) plan. [6-3]

T - F  13. A 403(b) plan can only be funded with an annuity contract or a mutual fund. [6-3]

T - F  14. Salary deferral contributions to a 403(b) plan must be fully vested at all times. [6-3]

T - F  15. Full-time employees willing to defer $200 or more generally have to be eligible to make salary deferrals under a 403(b). [6-3]

T - F  16. A 403(b) plan that contains employer contributions must satisfy ERISA requirements and meet coverage and nondiscrimination requirements that apply to qualified plans. [6-3]

T - F  17. A 403(b) plan cannot be designed to permit participant loans. [6-3]

T - F  18. The same salary deferral dollar limit that applies to 401(k) plans applies to 403(b) plans as well. [6-3]

T - F  19. If an employee participates in a 401(k) plan or a SEP, the salary reduction contributions under those plans are aggregated with 403(b) deferrals when applying the salary deferral limit to the 403(b) plan. [6-3]

T - F  20. Similar to 401(k) plan, a 403(b) plan can allow for a Roth election and provide for automatic enrollment. [6-3]
T - F 21. Regardless of whether a 403(b) plan is subject to ERISA, it must be maintained pursuant to a written document. [6-3]

Chapter 7

T - F 1. In order to pick the best provisions for a client’s plan, the planner must balance what the Internal Revenue Code permits with the client’s objectives and pocketbook. [7-1]

T - F 2. An adoption agreement is a standardized plan approved and qualified by the Internal Revenue Service. [7-1]

T - F 3. It is important to ensure that each design decision supports the employer’s objectives. [7-1]

T - F 4. Regardless of salary, all employees who were 5-percent owners in the current or prior year are highly compensated employees. [7-2]

T - F 5. In order to pass the 410(b) nondiscrimination requirement, an employer must pass the percentage test, the ratio test, and the average-benefits-percentage test. [7-2]

T - F 6. The ratio test requires a plan to benefit a percentage of non highly compensated employees that is at least 56 percent of the percentage of highly compensated employees benefited under the plan. [7-2]

T - F 7. The average-benefits coverage test is designed to allow large employers that cover employees under a number of different plans to more easily satisfy the coverage requirements. [7-2]

T - F 8. If an employer has separate lines of business, the 410(b) tests may be applied separately in each line of business, providing the businesses are operated for bona fide business reasons and have at least 50 employees. [7-2]

T - F 9. The 401(a) (26) rule applies only to defined-benefit plans. [7-2]

T - F 10. One reason small businesses should cover all rank-and-file employees under their plans is to encourage loyalty and team spirit within their organizations. [7-3]

T - F 11. When considering the minimum-coverage requirements, the employer has to be just as careful when excluding highly compensated employees as when excluding nonhighly compensated employees. [7-3]

T - F 12. An employer can cut plan costs by delaying an employee’s participation in the plan for as long as legally possible. [7-3]

T - F 13. The maximum age to which plan participation can be delayed is age 25. [7-4]

T - F 14. An employee cannot be made to wait more than one year before being eligible to participate in the plan. [7-4]
T - F  15. The employer can choose an entry date that, in effect, can force an employee to wait an additional 6 months after the age and service requirements are met. [7-4]

T - F  16. An employee will be considered to have a year of service after working 1,000 hours for the employer. [7-4]

T - F  17. Under the standard-hours counting method, the employer must count each hour an employee works and each hour for which an employee is entitled to be paid in order to determine how many hours of service the employee has. [7-4]

T - F  18. Employees with fewer than 1,000 hours of service can be excluded from a qualified plan. [7-4]

T - F  19. If two companies are part of an affiliated service group, both companies are treated as one for purposes of the various qualified plan rules. [7-5]

T - F  20. A parent-subsidiary controlled group exists if the parent company owns 80 percent or more of the subsidiary. [7-5]

T - F  21. One way employers can avoid the 410(b) coverage test is by segregating their management employees from rank-and-file employees in a separate related or subsidiary corporation. [7-5]

T - F  22. An individual who satisfies the definition of a leased employee must be covered under the recipient company’s qualified plan. [7-5]

T - F  23. If employer A and employer B are part of a controlled group, a SEP can generally be established for the employees of employer A and exclude employer B. [7-5]

T - F  24. A SIMPLE must cover any employee who earned $5,000 in any 2 previous calendar years and is expected to earn $5,000 in the current year. [7-5]

Chapter 8

T - F  1. Code Sec. 401(a) (4) requires that the plan cannot discriminate in favor of highly compensated employees with regard to benefits or contributions provided under the plan. [8-1]

T - F  2. Under current law, the plan sponsor has little assurance whether the plan’s contribution or benefit formula satisfies the 401(a)(4) nondiscrimination requirement. [8-1]

T - F  3. In a defined-benefit plan, an individual’s accrued benefit at any time is the promised benefit at that time based on compensation and service as of that date. [8-1]

T - F  4. A plan’s definition of compensation can generally include or exclude overtime, bonuses, and other nonrecurring compensation. [8-1]
T - F   5. If employee Able earns $300,000 and is a participant in a money-purchase plan that pays an annual benefit of 10 percent of salary, Able’s annual addition to his participant account is $30,000. [8-2]

T - F   6. Once the plan’s benefit formula is in place, it cannot be amended unless the plan is terminated. [8-2]

T - F   7. A profit-sharing allocation formula that allocates contributions as a level percentage of compensation must satisfy a mathematical nondiscrimination test each year. [8-2]

T - F   8. A defined-contribution plan that provides for a contribution for each employee in the amount of 4 percent of compensation plus 5.7 percent of compensation in excess of the taxable wage satisfies the Social Security safe harbor provisions. [8-2]

T - F   9. In order to take advantage of the maximum disparity of 5.7 percent, a defined-contribution plan must either set the integration level at the current year’s taxable wage base or a set number that is less than 20 percent of the taxable wage base. [8-2]

T - F   10. Choosing an integrated formula in a defined-contribution plan allows the owner to receive the lion’s share of the contribution. [8-2]

T - F   11. With a cross-tested allocation formula, non highly compensated employees generally must receive a minimum allocation of 5 percent of compensation. [8-2]

T - F   12. With an age-weighted allocation formula, contributions and forfeitures are allocated in such a way that when converted to a monthly benefit at retirement, each participant receives the same rate of benefit accrual. [8-2]

T - F   13. If most of the non highly compensated employees are older than the owners, a cross-tested allocation formula is a good way to direct a large percentage of the contribution to the owners. [8-2]

T - F   14. A SEP can have a cross-tested allocation formula. [8-2]

T - F   15. The most common integration level in a defined-benefit plan is covered compensation, which refers to the average of the participant’s taxable wage bases for the 35-year period ending with the year the individual attains the Social Security retirement age. [8-3]

T - F   16. Employer matching contributions and employee after-tax contributions are subject to a nondiscrimination test similar to the actual deferral percentage test used for 401(k) plans. [8-4]

Chapter 9

T - F   1. If a plan loan is defaulted, the participant is subject to income tax and the 10 percent early distribution tax if the distribution occurs prior to age 59½. [9-1]

T - F   2. Business owners of a C corporation are ineligible to take plan loans. [9-1]
T - F   3. A 401(k) plan cannot have a loan provision. [9-1]

T - F   4. No loans are permitted from simplified employee pension (SEP) plans. [9-1]

T - F   5. Plan administrators can allow owner-employees to have sweetheart rates on their loans. [9-1]

T - F   6. The law permits a participant with a $24,000 account balance to take a loan of $12,000 from the plan. [9-1]

T - F   7. A participant’s loan must be repayable by its terms within 5 years unless the loan is used to acquire a participant’s principal residence. [9-1]

T - F   8. The vesting schedule is a plan design feature that specifies how much service is required before benefits become non-forfeitable. [9-2]

T - F   9. Today, defined-contribution plans can have vesting schedules that require longer periods of service than defined-benefit plans. [9-2]

T - F   10. Under a 5-year cliff vesting schedule, an employee is not entitled to retirement benefits until 5 years after he or she has left the employer’s service. [9-2]

T - F   11. Under a 7-year graded vesting schedule, the employee must be at least 60 percent vested after 5 years of service. [9-2]

T - F   12. Regardless of the chosen vesting schedule, a participant must be 100 percent vested at the plan’s normal retirement age. [9-2]

T - F   13. Salary deferrals under a 401(k) plan can be subject to a vesting schedule. [9-2]

T - F   14. Forfeitures used to reduce future employer costs are known as reallocated forfeitures. [9-2]

T - F   15. Forfeitures that are reallocated to participant accounts are not considered when determining whether allocations exceed the 100 percent of salary or $49,000 (as indexed for 2009) maximum defined-contribution limit. [9-2]

T - F   16. Years of service earned prior to age 18 can be excluded for vesting purposes. [9-2]

T - F   17. A one-year break in service will occur if an employee has fewer than 1,000 hours of service in a year. [9-2]

T - F   18. In a defined-contribution plan, if a participant has five consecutive breaks in service, the non-vested portion of the benefit earned prior to the break can be permanently forfeited. [9-2]

T - F   19. The choice of a retirement age should not be made solely for tax or cost reasons, but should be motivated primarily by personnel and other business priorities. [9-3]
T - F  20. The normal retirement age is the age specified in the plan at which the employee can retire without the employer’s consent and receive full benefits under the plan. [9-3]

T - F  21. A plan’s normal retirement age can never be greater than age 65.[9-3]

T - F  22. An employer who chooses to include a service requirement for early retirement cannot require more than 10 years of service by the employee. [9-3]

T - F  23. If an early retirement benefit is subsidized, the actuarial reductions that are used do not reflect the true cost of providing the benefit, and the difference represents an increased employer cost. [9-3]

T - F  24. The employer must generally allow benefits to continue accruing in a defined-benefit plan or must continue to make contributions in a defined-contribution plan if a deferred retirement is chosen. [9-3]

Chapter 10

T - F  1. A qualified plan must generally contain a qualified preretirement survivor annuity for all of its participants. [10-1]

T - F  2. If universal life insurance is used to fund the plan, the aggregate premiums paid for the policy cannot exceed 50 percent of the aggregate employer contributions. [10-2]

T - F  3. In a defined-benefit plan, if the expected monthly benefit is $1,500, then the total death benefit could be $150,000 or the reserve at the date of death, if greater. [10-2]

T - F  4. The incidental-death-benefit limitations do not apply to life insurance bought with contributions made in a profit-sharing plan made more than 2 years earlier. [10-2]

T - F  5. When life insurance is purchased for an individual, the current cost for pure life insurance protection must be included in taxable gross income for that year. [10-3]

T - F  6. A self-employed individual cannot deduct the part of his or her employer contribution that is allocable to the cost of pure insurance protection for him or herself. [10-3]

T - F  7. From an owner-employer’s perspective, there is really no reason to include a death benefit in a qualified plan. [10-3]

T - F  8. One way qualified retirement plans can provide benefits for a disabled participant is to stipulate that service for benefit purposes continues to accrue if disability occurs. [10-4]

T - F  9. To simplify administration, the sponsor should choose a definition of disability that assigns the task of determination and verification to an outside organization. [10-4]

T - F  10. A defined-benefit plan cannot be top-heavy because there are no participant accounts. [10-5]
T-F 11. An individual is considered a key employee if he or she meets the requirements for a highly compensated employee as used in the nondiscrimination test area. [10-5]

T-F 12. If a defined-benefit plan is top-heavy, the employees in the plan must become immediately 100 percent vested. [10-5]

T-F 13. If a plan is top-heavy, the plan must provide minimum benefits or contributions for non-key employees within specified limits. [10-5]

T-F 14. SEPs are not subject to the top-heavy requirements. [10-5]

Chapter 11

T-F 1. Employers frequently use the terminal funding approach to fund their qualified plans. [11-1]

T-F 2. A defined-benefit plan will specify in the plan the amount required to be contributed each year. [11-1]

T-F 3. The higher the investment assumption the actuary makes, the higher the annual contributions. [11-1]

T-F 4. The current funding rules under the Pension Protection Act of 2006 look at the year-by-year solvency of the plan; for example, whether the plan assets are sufficient in the current year to satisfy the accrued benefits for all participants. [11–1]

T-F 5. Under the minimum funding requirements the target normal cost is the present value of benefits expected to accrue under the plan during the plan year. [11-1]

T-F 6. Fully insured plans are generally exempt from ERISA’s minimum funding standards. [11-1]

T-F 7. The funding rules generally allow employers maintaining defined-benefit plans to choose a contribution amount between the minimum required contribution to the maximum deductible contribution. [11-1]

T-F 8. The maximum deductible contribution to a SEP for a plan that only covers the owner of a corporation who earns $50,000 is $12,500. [11-1]

T-F 9. A business owner maintaining a 401(k) plan can make salary deferral contributions in addition to the maximum deductible contribution that is allowed in a profit-sharing plan. [11-1]

T-F 10. Under ERISA, the employer is required to use a trust, custodial account, or group insurance contract as the funding instrument. [11-2]

T-F 11. A trust for a qualified plan must be irrevocable. [11-2]
T - F   12. Trustees generally invest plan assets, pay benefits to participants, and provide periodic accounting of investments, receipts, disbursements, and other transactions involving plan assets. [11-2]

T - F   13. Common trust funds can eliminate diversification problems inherent in small plans. [11-2]

T - F   14. Split-funding is a method by which an employer pays part of the retirement obligation while the participant is employed and part of the retirement obligation after the participant has retired. [11-2]

T - F   15. The financial advisor who exercises discretionary control over the purchase of plan investments is not a fiduciary to the plan. [11-3]

T - F   16. A trustee who invests plan assets in a company that is a good client of the plan’s sponsor has always violated the prudence requirement. [11-3]

T - F   17. If a court was evaluating the performance of a business owner acting as trustee, the trustee would be compared to other business owners in the same role. [11-3]

T - F   18. One of the fiduciary’s obligations is to operate the plan in accordance with the trust and other instruments governing the plan. [11-3]

T - F   19. One of the requirements for obtaining relief under the ERISA 404(c) individual account plan exception is that participants must be given the option to choose from among five different investment options. [11-4]

T - F   20. Participants must be notified that plan fiduciaries are seeking the fiduciary relief provided in ERISA 404(c). [11-4]

T - F   21. A fiduciary is not eligible for ERISA 404(c) protection in the case of a participant who has been enrolled automatically and fails to provide specific investment direction. [11-4]

T - F   22. ERISA 404(c) does not relieve plan fiduciaries of the responsibility of selecting prudent investment options from which participants may choose. [11-4]

T - F   23. A plan that has lent money to the sponsoring company has most likely engaged in a prohibited transaction. [11-5]

T - F   24. A fiduciary who uses plan assets for his or her own interest has engaged in a prohibited transaction. [11-5]

T - F   25. An individual investment advice program satisfies the prohibited transaction exemption only if the advice is based on a computer-generated model. [11-5]

T - F   26. Prohibited transactions are uncommon in the small-business market. [11-5]

T - F   27. A fiduciary is personally liable for any losses due to a breach in duty and can be liable for a breach by a co-fiduciary as well. [11-5]
Chapter 12

T - F  1. Investment guidelines offer direction for the responsible parties, but they are not of much use to the fiduciary whose actions have been questioned. [12-1]

T - F  2. Investment guidelines should tie the investment policy into the plan’s objectives, clarify who is responsible for various decisions, specify investment goals, and establish procedures for reviewing investment performance. [12-1]

T - F  3. Qualified plans should take advantage of tax-free investments such as municipal bonds. [12-2]

T - F  4. If a plan has unrelated business income tax, the trust must file a tax return and the UBIT is reported on the annual Form 5500. [12-2]

T - F  5. The purpose of the unrelated business income tax rules is to keep nontaxable entities on a level playing field with taxable entities. [12-2]

T - F  6. A portion of debt-financed property can be subject to the unrelated business income tax. [12-2]

T - F  7. Today, less than 25 percent of plan assets are held in equity securities. [12-2]

T - F  8. A defined-contribution plan holding publicly traded stock of the sponsoring employer must give eligible participants the right to elect from at least three other alternative investment options. [12-2]

T - F  9. The immediate-participation-guarantee contract contains a guarantee of both principal and interest. [12-3]

T - F  10. Separate-investment-accounts contracts can invest in equities, bonds, or a combination of both. [12-3]

T - F  11. Separate-investment-accounts contracts are always pooled. [12-3]

T - F  12. The guaranteed-investment contract guarantees both principal and interest. [12-3]

T - F  13. GICs can effectively minimize downside risk for a pension fund. [12-3]

T - F  14. Window GICs specify a precise dollar contribution. [12-3]

T - F  15. The major selling point of a GIC is that it provides a competitive guaranteed rate of return. [12-3]

T - F  16. In a partially insured plan, the individual life insurance policies are held by a trustee. [12-4]

T - F  17. Using life insurance in a qualified plan satisfies the need for life insurance protection for the owner and gives a tax deduction to the business. [12-4]
Chapter 13

T - F  1. To receive a deduction for the tax year, a corporate board of directors must adopt a qualified plan before the end of the tax year. [13-1]

T - F  2. At the same time the corporate board of directors approves the plan, it should also approve the trust instrument or the specimen group pension contract that is provided. [13-1]

T - F  3. The entire first-year plan contribution must be made in time for filing the employer’s tax return (plus extensions) for the year in which the plan is adopted in order for the employer to take a deduction. [13-1]

T - F  4. The 401(k) and 403(b) plans are typically set up at the end of the first year for which a deduction is going to be taken. [13-1]

T - F  5. The employer must file an application for an advance-determination letter with the IRS in order for the plan to be considered qualified. [13-1]

T - F  6. If the filing for an advance-determination letter is not made on a timely basis, the IRS could prohibit the sponsor from making corrective retroactive amendments. [13-1]

T - F  7. A summary plan description (SPD) can be used as a marketing tool that emphasizes only the attractive features of the plan in order to persuade employees to join the plan. [13-1]

T - F  8. The SPD must spell out any terms that could result in a participant losing benefits. [13-1]

T - F  9. An SPD must contain a description and explanation of the plan’s vesting schedule. [13-1]

T - F  10. The SPD must contain a statement of ERISA rights. [13-1]

T - F  11. The plan administrator is prohibited by ERISA from delegating any of his or her plan administration duties. [13-2]

T - F  12. One of the principal duties of the plan administrator is to comply with the reporting and disclosure requirements of ERISA. [13-2]

T - F  13. The plan administrator of a small corporation (50 employees) must file a detailed annual report (Form 5500) each year. [13-2]

T - F  14. The plan administrator of a profit-sharing plan covering only a self-employed person (with no employees) with $60,000 of assets at the end of the year generally must file Form 5500-EZ each year. [13-2]

T - F  15. Participants in a defined-contribution plan must receive a summary annual report each year. [13-2]
16. A summary of material modification must be supplied if the plan changes its vesting schedule. [13-2]

17. The administrator of a defined-benefit plan is required to issue a personal benefit statement only when a person retires. [13-2]

18. A 1099-R form is used to notify participants of the amount of their plan’s lump-sum or periodic distribution for tax purposes. [13-2]

19. A self-employed person with a calendar tax year must establish a qualified plan by December 31 in order for a deduction to be taken for the year. [13-2]

20. For a domestic relations order to be qualified, it must name the parties and plans involved, the amount of benefit to be paid, and the number of payments involved. [13-3]

21. Unfortunately, the Department of Labor has not provided any standardized language to be used when drafting a domestic relations order. [13-3]

22. The IRS’s voluntary compliance system always requires correction of the problem and an IRS filing. [13-3]

23. One of the principles guiding the IRS’s voluntary compliance program is that plan sponsors and administrators should make voluntary and timely correction of any plan failures. [13-3]

Chapter 14

1. Ceasing accruals in a defined-benefit plan does not always result in a complete cessation of contributions. [14-1]

2. A defined-benefit plan can be amended into a profit-sharing plan. [14-1]

3. A qualified plan may not be terminated within 10 years of the date it is adopted. [14-1]

4. The first step in terminating a defined-contribution plan is liquidating assets in preparation of making distributions. [14-2]

5. The plan termination date in a defined-contribution plan must occur 60 days after the participants are notified of the termination. [14-2]

6. A plan that terminates without filing for an IRS determination letter may be at greater risk of an IRS audit. [14-2]

7. The Pension Benefit Guaranty Corporation (PBGC) collects compulsory premiums from defined-benefit and defined-contribution plans. [14-3]
T - F  8. Employers with a defined-benefit plan covered by the PBGC who do not meet the requirements for either a standard or distress termination cannot terminate their plans. [14-3]

T - F  9. A distress termination is available if the employer can demonstrate to the PBGC that it is facing liquidation in bankruptcy. [14-3]

T - F  10. A penalty tax applies to assets that revert to the employer because of a defined-benefit plan termination. [14-4]

T - F  11. For an employer to qualify for the lower 20 percent penalty tax, the employer must allocate at least 50 percent of the excess assets to the participants. [14-4]

T - F  12. When single-premium annuity contracts are issued, the insurance company takes over the employer’s responsibility to make benefit payments. [14-5]

T - F  13. Single-premium annuity contracts are risk-free contracts from the insurer’s point of view. [14-5]

T - F  14. If 5 percent of the workforce is laid off, a partial termination has occurred and affected participants must become fully vested in their benefits. [14-6]

T - F  15. The PBGC has the power to involuntarily terminate a plan in specific circumstances. [14-6]

Chapter 15

T - F  1. Nonqualified plans are generally more effective in attracting, retaining, and motivating highly paid employees than are qualified plans. [15-1]

T - F  2. A nonqualified plan simultaneously gives an employer the benefit of immediate tax deduction and an employee a deferral of tax. [15-1]

T - F  3. Nonqualified plans have lower administrative costs than qualified plans. [15-1]

T - F  4. It generally costs more than a dollar to provide a dollar’s worth of nonqualified plan benefit. [15-1]

T - F  5. In a nonqualified plan, taxes can generally be deferred as long as the deferred compensation is subject to a substantial risk of forfeiture. [15-2]

T - F  6. If a compensation arrangement provides a current, non-forfeitable economic benefit to an executive, that person must report the value of the benefit even if he or she has no current right to receive the benefit. [15-2]

T - F  7. Code Sec. 409A does not apply to deferrals that are distributed within 2½ months after the end of the year in which the employee obtains a vested interest in the amount to be distributed. [15-2]
T - F  8. Deferred compensation is treated as wages for employment tax purposes at the time the amount is subject to income taxes. [15-2]

T - F  9. Nonqualified plans can bring an executive’s retirement benefits up to desired levels when they are used as a second tier of benefits on top of a qualified plan. [15-3]

T - F  10. Nonqualified plans are subject to nondiscrimination requirements similar to those used in qualified plans. [15-3]

T - F  11. Fewer formalities are required to establish a nonqualified plan than to establish a qualified plan. [15-3]

T - F  12. Nonqualified plans are appropriate when a start-up company does not have the cash to pay owner-employees their full salaries. [15-3]

T - F  13. A golden handshake is a substantial payment made to corporate executives who are terminated upon change of ownership or corporate control. [15-3]

T - F  14. A salary reduction plan is similar to a 401(k) plan because it restricts salary deferrals to a stated dollar amount. [15-3]

T - F  15. A SERP is used to meet the objective of bringing executive pension benefits up to an acceptable level. [15-3]

T - F  16. If an offset SERP is used, benefits provided by the SERP are reduced by the benefits payable under the employer’s qualified plan. [15-3]

T - F  17. When a business is dependent on the special contributions of a few key executives, and the retirement of these executives may prove devastating to the organization’s profit-making ability, a consulting services provision should be part of the nonqualified plan design. [15-4]

T - F  18. If the client is concerned about persuading an executive to stay with the corporation until retirement, a so-called golden-handcuffs provision should be incorporated into the plan. [15-4]

T - F  19. If executive recruiting is a strong concern, the golden-handcuffs provision should contain liberal vesting requirements. [15-4]

T - F  20. A covenant-not-to-compete provision can bar a former employee from working in the same geographic region for the rest of his or her life. [15-4]

T - F  21. Nonqualified plans can be designed to allow withdrawals prior to termination in the event of a financial hardship. [15-4]

T - F  22. A nonqualified plan is restricted by ERISA from containing a death or disability benefit. [15-4]
T - F   23. A plan is considered funded if a reserve is setup to pay a non-qualified benefit, but
the assets of the reserve are retained as assets of the corporation and are subject to the claims
of the corporation’s creditors. [15-5]

T - F   24. The tax-free inside buildup that occurs in a life insurance policy is important to a
nonqualified plan because earnings on unfunded nonqualified plan assets are not tax
deferred. [15-5]

T - F   25. Life insurance proceeds received by a company upon the death of an executive are
received tax free. [15-5]

T - F   26. If a nonqualified plan provides a life-income payment option, the employer can
purchase an annuity in order to transfer to the insurance company the risk of an employee
living beyond his or her normal life expectancy. [15-5]

T - F   27. Key executives always prefer that their nonqualified plan be an unfunded,
unsecured promise made by the employer. [15-5]

T - F   28. Funds placed in a rabbi trust are not subject to the claims of an employer’s
creditors. [15-6]

T - F   29. A rabbi trust can contain an insolvency trigger that requires accelerated payments
to executives if the company’s net worth falls below a certain point. [15-6]

T - F   30. Rabbi trusts provide no benefit security for executives if an employer goes
bankrupt. [15-6]

T - F   31. Like a rabbi trust, a secular trust can be used to defer the taxation of an employee
on a contribution made in his or her behalf. [15-6]

T - F   32. The employer should buy an executive’s surety bond in order to avoid unwanted
tax consequences. [15-6]

T - F   33. An ERISA top-hat plan must be maintained primarily for the purpose of providing
defered compensation for a select group of management or highly compensated employees.
[15-7]

T - F   34. If an ERISA top-hat plan is used, a one-page ERISA notice should be completed
and sent to the Department of Labor in order to exempt the plan from ERISA’s reporting and
disclosure requirements. [15-7]

T - F   35. Under the rules governing an eligible Sec. 457 plan, the maximum amount that may
be deferred under the plan in any year cannot exceed the lesser of $16,500 (as indexed for
2009) or 100 percent of the participant’s compensation. [15-8]

T - F   36. The company is the owner of a life insurance policy purchased under a Sec. 162 life
insurance plan. [15-9]

Chapter 16
T - F 1. In public companies, stock compensation aligns the interests of the executives and the shareholders. [16-1]

T - F 2. In "start-up" companies, stock compensation is rarely used because of its tax consequences. [16-1]

T - F 3. One problem with equity based compensation is that employees must treat all gains as ordinary income. [16-1]

T - F 4. It is important to use the same stock valuation formula for all purposes under an equity based compensation program. [16-2]

T - F 5. An executive purchases stock at $50 a share. While the executive still owns the stock, the price goes up to $60. In this case, the employee is put at risk in the amount of $10. [16-2]

T - F 6. Securities laws may require that an equity based program register as a public offering if the plan covers rank-and-file employees. [16-2]

T - F 7. Federal law may require shareholder approval of some equity based compensation programs. [16-2]

T - F 8. If Sandy has a nonqualified stock option with an exercise price of $25 and she buys the stock when it has a value of $100 she will have $25 of ordinary income and the employer will get a deduction for $100. [16-3]

T - F 9. Incentive stock options are more flexible than nonqualified stock options. [16-4]

T - F 10. With an ISO the employer is entitled to a deduction only when the participant sells the stock. [16-4]

T - F 11. A Sec. 423 employee stock purchase plan can be designed to cover only executives. [16-5]

T - F 12. Sec. 423 employee stock purchase plans are typically sponsored only by large public companies. [16-5]

T - F 13. The participant who purchases employer stock at a 15 percent discount has a 17.6 percent return at the time of purchase. [16-5]

T - F 14. Phantom stock units have a fixed maturity date when the employer pays the executive cash or shares of stock based on the appreciation of the stock over the program’s time period. [16-6]

T - F 15. Phantom stock requires a cash outlay by the participant to purchase the stock. [16-6]

T - F 16. The most significant risk to the executive in a restricted stock plan is the possibility of forfeiture. [16-6]
Chapter 17

T - F 1. A taxpayer can make nondeductible contributions to an IRA even if he or she only has passive income (such as investment earnings). [17-2]

T - F 2. Alimony is considered earnings from employment or IRA contribution purposes. [17-2]

T - F 3. Assuming the taxpayers are eligible, the maximum contribution to an IRA and spousal IRA for a married couple who are both over age 50 in 2009 is $12,000 ($6,000 for each spouse). [17-2]

T - F 4. An IRA contribution for the 2008 calendar tax year can be made up until August 15, 2009. [17-2]

T - F 5. An excess contribution to an IRA is subject to a 50 percent excise tax. [17-2]

T - F 6. Assuming certain timing deadlines are satisfied, it may be possible to transfer a contribution made to a Roth IRA to a traditional IRA. [17-2]

T - F 7. A single individual, aged 40, with an AGI of $200,000 in 2009 who is not an active participant can make a $5,000 deductible IRA contribution for 2009. [17-3]

T - F 8. An employee who is covered by a nonqualified plan will be considered an active participant in an employer-sponsored retirement plan. [17-3]

T - F 9. Because the contribution amount is too small, a participant in a SEP that receives a $200 contribution for the year will not be considered an active participant in an employer-sponsored retirement plan for the year. [17-3]

T - F 10. A discretionary profit-sharing plan has a calendar plan year. Jano joins the plan in 2008. Even if the company makes a contribution on June 1, 2009, for the 2008 plan year, Jano will not be considered an active participant for the year. [17-3]

T - F 11. The maximum deductible contribution to a traditional IRA in 2009 for a 38-year-old single taxpayer who is an active participant in an employer-sponsored retirement plan and has an adjusted AGI of $58,467 is $3,520. [17-3]

T - F 12. George is aged 53. He is employed and is an active participant in his company’s money-purchase pension plan. His wife, Barbara, aged 47, is not employed. They file a joint tax return and have adjusted AGI of $135,000 in 2009. The couple is allowed to make a $5,000 deductible contribution to both George and Barbara’s traditional IRA accounts for 2009. [17-3]

T - F 13. A withdrawal from one IRA can be rolled into another IRA as long as that transaction occurs within 90 days. [17-3]
T - F  14. A participant in a qualified plan who wants to roll the benefit into an IRA should elect a direct rollover; otherwise 20 percent of the distribution will be withheld for taxes. [17-3]

T - F  15. Distributions from a traditional IRA to pay for qualifying education expenses will not be subject to the 10 percent Sec. 72(t) early withdrawal excise tax. [17-3]

T - F  16. Contributions to a Roth IRA are sometimes eligible for a tax deduction. [17-4]

T - F  17. In 2009 a single person, aged 47, who is an active participant and has adjusted AGI of $80,000 is not eligible to make a Roth IRA contribution. [17-4]

T - F  18. In 2009, an IRA can be converted to a Roth IRA only if the taxpayer has adjusted AGI of less than $100,000 and is single or married and files a joint return. [17-5]

T - F  19. A conversion from an IRA to a Roth IRA can be accomplished tax free. [17-5]

T - F  20. George maintains one Roth IRA. In 2007, he made his first contribution for 2006. In 2009, at age 60, George withdraws the entire account, which includes contributions and earnings. Since George has attained age 59½, the entire account can be withdrawn without tax consequences. [17-5]

Chapter 18

T - F  1. No one receives IRS permission to be the trustee of his or her own IRA. [18-1]

T - F  2. The IRA custodial account must be established for the exclusive benefit of the participant and his or her beneficiaries. [18-1]

T - F  3. An IRA annuity must be nontransferable. [18-1]

T - F  4. IRAs are typically invested in life insurance. [18-2]

T - F  5. IRAs cannot be invested in any type of collectible. [18-2]

T - F  6. A participant borrowing from an IRA is a prohibited transaction and the account stops being an IRA as of the first day of the year. [18-2]

T - F  7. Taxpayers should generally choose Roth IRA contributions over nondeductible IRA contributions. [18-3]

T - F  8. A traditional IRA contribution is generally a better choice than a Roth IRA contribution for the taxpayer who expects to be in a much lower tax bracket upon retirement. [18-3]

T - F  9. A taxpayer in the 15 percent tax bracket who expects to be in a higher bracket in retirement should consider the Roth IRA over the deductible IRA contribution. [18-3]
T - F  10. An individual who has all of his or her retirement savings in tax-deferred vehicles should consider a Roth IRA in order to develop a source of nontaxable income in retirement. [18-3]

T - F  11. Individuals who have estate planning problems with large pension accumulations should never consider converting some or all of their IRA funds into a Roth IRA. [18-3]

T - F  12. A deemed IRA account gives the participant the opportunity to make IRA or Roth IRA contributions by payroll deduction directly to a qualified plan or 403(b) plan. [18-3]

Chapter 19

T - F  1. Some civilian employees of the federal government are not covered by Social Security. [19-1]

T - F  2. The total Social Security tax rate on self-employment income is higher than that paid on the covered income of persons employed by others. [19-3]

T - F  3. The Medicare tax for an employee is 1.45 percent on all income. [19-3]

T - F  4. After full retirement age, once a person begins receiving Social Security benefits, he or she no longer has to pay FICA tax on any earned income. [19-3]

T - F  5. Workers need at least 40 quarters of coverage to be fully insured and to qualify for retirement benefits. [19-4]

T - F  6. Retirement benefits can begin as early as age 62. [19-4]

T - F  7. A divorced spouse will not be entitled to spousal retirement benefits based on the former spouse’s earnings history if they were not married for at least 10 years or, generally, if the divorced spouse is remarried. [19-4]

T - F  8. If a married person is currently insured when he or she dies, survivor benefits are payable to the spouse at 100 percent of the deceased person’s PIA if the surviving spouse begins receiving benefits at the full retirement age. [19-4]

T - F  9. Disability for Social Security purposes means that a person is so severely disabled that he or she cannot perform any substantially gainful work, and the disability must be expected to last at least 12 months or be expected to result in death. [19-4]

T - F  10. The number of years of salary history used to determine AIME is 10 less than the number of quarters of coverage needed to be fully insured. [19-6]

T - F  11. The total retirement benefit paid to a family based on one worker’s wages may be limited whenever there are two or more individuals receiving a benefit. [19-7]

T - F  12. The spouse of a retired worker who is receiving retirement benefits may begin receiving spousal benefits before full retirement age, but the benefit that would otherwise be
received at full retirement age is reduced by \( \frac{5}{9} \) of one percent for each month before full retirement age benefits begin. [19-7]

T - F  13. If a person continues working indefinitely beyond normal retirement age and elects to delay the start of Social Security benefits, those benefits will be increased by a percentage factor for the time he or she continued working and delayed the start of benefit payments. [19-7]

T - F  14. The benefits of a person who continues to work after beginning retirement benefits at age 62 will be reduced by $1 for every $2 of earnings in excess of the earnings limitation. [19-7]

T - F  15. Pensions and retirement pay are not generally counted as earnings in applying the earnings limitation. [19-7]

T - F  16. The earnings limitation no longer applies once an individual attains full retirement age. [19-7]

T - F  17. The Social Security estimates given to clients in a Social Security statement are given in future dollars. [19-8]

T - F  18. Up to 85 percent of a person’s Social Security benefits may be subject to federal income tax. [19-9]

T - F  19. An individual aged 62 who is temporarily unemployed should seriously consider beginning Social Security benefits. [19-9]

T - F  20. One way to look at deferring the receipt of Social Security benefits is that the individual is “purchasing” an additional inflation-adjusted life annuity. [19-9]

Chapter 20

T - F  1. A comprehensive retirement system existed in the early 1900s. [20-2]

T - F  2. Retirement planning is useless if it doesn’t start for clients at a relatively young age. [20-2]

T - F  3. Retirement planners should consider conducting employee seminars. [20-2]

T - F  4. The first step in the retirement planning process is to establish client-planner relationships. [20-2]

T - F  5. As the size of the organization increases, the chance of having a pension program increases. [20-3]

T - F  6. Women are more likely to be caregivers than men, and thus they often forgo income to care for a loved one. [20-3]
T - F  7. Surveys show that many baby boomers plan to work after they retire because they enjoy working and want to stay involved. [20-3]

T - F  8. One roadblock to retirement planning is the tendency of many working people to use their full after-tax income to support their current standard of living. [20-3]

T - F  9. From renter’s insurance to long-term care, seniors often lack the insurance protection they need. [20-3]

T - F  10. Fiscal welfare is a type of social benefit that contains eligibility criteria designed in part to encourage the able-bodied poor to work by providing minimal benefits. [20-4]

T - F  11. Supplemental Security Income (SSI) is a benefit program administered by the Social Security Administration that pays monthly income to low income individuals who are 65 or older, blind, or disabled. [20-4]

T - F  12. Twenty-three percent of the 65-69 cohort-over 2 million people-remain in the labor force. [20-4]

Chapter 21

T - F  1. The average age of retirement is slightly over age 62. [21-1]

T - F  2. Golden handshakes and corporate downsizing are two of the reasons for early retirement. [21-1]

T - F  3. A client who has a Social Security normal retirement age of 67 will have a 50 percent reduction if benefits start at age 62. [21-1]

T - F  4. Mandatory retirement at age 65 is widely used by employers who have defined-benefit plans. [21-1]

T - F  5. Life expectancy at age 65 is a better predictor for retirement than life expectancy at birth. [21-1]

T - F  6. The standard of living enjoyed during the years just prior to retirement largely influences the client’s expectations for his or her postretirement standard of living. [21-2]

T - F  7. A replacement ratio of 50 percent of final-average salary should be used when planning an individual’s retirement. [21-2]

T - F  8. Some states grant income tax relief for seniors by providing sliding scale rebates of property taxes. [21-2]

T - F  9. A retired worker’s income can fall by the amount being saved for retirement with no concurrent reduction in standard of living. [21-2]

T - F  10. Some expenses that tend to increase for retirees include medical bills, recreation expenditures, and house repair costs. [21-2]
T - F 11. A 4 percent inflation assumption can be used for retirement planning purposes, but this rate must be monitored to recognize disparity with the actual inflation rate. [21-4]

T - F 12. Whatever the client’s risk tolerances, he or she should be encouraged to be aggressive in the early years of building the retirement portfolio. [21-5]

T - F 13. Retirement investing is best served by market timing investments. [21-5]

T - F 14. Investment in company stock should be limited. [21-5]

T - F 15. Fixed income investments should be held in private savings accounts and equity investments should be held in tax-deferred accounts in order to maximize tax efficiency. [21-5]

Chapter 22

T - F 1. The process of calculating the amount of the client’s retirement need is complicated by time-value-of-money and inflation considerations. [22-1]

T - F 2. To find the amount of income needed to achieve the desired retirement lifestyle under the replacement-ratio method, the planner, in all cases, needs only to apply the desired replacement ratio to the client’s salary and adjust for inflation. [22-1]

T - F 3. In order to estimate the client’s retirement-income status (RIS), the planner must subtract the amount of the annual target for retirement income from the estimated annual retirement income. [22-1]

T - F 4. The retirement income status (RIS) will always be a positive number. [22-1]

T - F 5. Social Security is generally considered to be protected from a decline in purchasing power due to increases in inflation. [22-1]

T - F 6. Pension income is generally considered to be protected from a decline in purchasing power due to increases in inflation. [22-1]

T - F 7. Dividend income from a stock portfolio is generally considered to be protected from a decline in purchasing power due to increases in inflation. [22-1]

T - F 8. The longer the liquidation period assumed for depleting assets, the greater the amount of funds needed for the retirement target. [22-1]

T - F 9. One way to protect a client from outliving retirement savings is to have the client purchase a life annuity with his or her accumulated savings. [22-1]

T - F 10. The decline in purchasing power only affects a person’s pension income. [22-1]

T - F 11. Under a level annual funding method, the amount saved each year increases to coordinate salary increases with savings increases. [22-2]
Chapter 23

T - F  1. The psychological attachment to the home, in many cases, far outweighs the financial and tax wisdom in thinking of the home as an asset. [23-1]

T - F  2. A married couple, filing jointly, who have owned and lived in their home for 2 or more years do not have to recognize up to $500,000 of gain on the sale of their home. [23-1]

T - F  3. For married taxpayers, both spouses have to meet the 2-year use requirement—otherwise the available exclusion is $250,000 rather than $500,000. [23-1]

T - F  4. A couple in which each person owns a home, and who are about to marry, should wait until they are married before selling both homes. [23-1]

T - F  5. If a retiree chooses an age-restricted housing community with an age-62 restriction, up to 20 percent of the residents can still be younger than age 62. [23-2]

T - F  6. In some life-care contracts, the residents pay the same monthly fee if they are in a nursing unit or in an independent living arrangement. [23-2]

T - F  7. It is extremely important to look into the financial health of prospective life-care communities before one is selected. [23-2]

T - F  8. The client considering relocation to a new state should carefully evaluate the income, transfer, and death taxes in each of the states. [23-3]

T - F  9. In a sale-leaseback arrangement, the retiree sells the home and then enters into a leasing arrangement with the new owner. [23-4]

T - F  10. A reverse mortgage is typically a nonrecourse loan made by the retiree that is secured by the value of the retiree’s home. [23-4]

T - F  11. A younger borrower will typically be able to borrow more than an older owner with a reverse mortgage. [23-4]

T - F  12. Clients are taxed on the income they receive under a reverse mortgage. [23-4]

T - F  13. Under a reverse mortgage, when the home is sold, the lender always receives the entire sale price of the home. [23-4]

T - F  14. People aged 65 or older who do not meet the eligibility requirements can enroll in Part A of Medicare by paying a premium. [23-5]

T - F  15. Those who retire early and elect to start Social Security at age 62 are eligible for Medicare. [23-5]

T - F  16. A spouse who is younger than age 65 and is married to a retiree over age 65 is eligible for Medicare. [23-5]
T - F   17. Operating room costs, including anesthesia services, are covered by Part A of Medicare. [23-5]

T - F   18. There is no limit on the number of benefit periods a person can have during his or her lifetime. [23-5]

T - F   19. Custodial care is not provided under any part of the Medicare program unless skilled-nursing or rehabilitative services are also needed. [23-5]

T - F   20. Eyeglasses and hearing aids are covered by Part B of Medicare. [23-5]

T - F   21. Part D of Medicare will be provided at no additional cost to Medicare beneficiaries. [23-5]

T - F   22. Under Part D of Medicare, an individual with annual drug expenses of $2,295 will pay a $295 deductible and a $500 co-pay. [23-5]

T - F   23. Medigap policies sold today are required to fall within one of a number of standardized policies. [23-5]

T - F   24. People in poor health are ineligible for Medigap insurance. [23-5]

T - F   25. A Medicare SELECT policy does not have to cover the same basic services that traditional Medigap policies must cover. [23-5]

T - F   26. Medicare managed care plans subcontract with the Department of Health and Human Services to provide benefits at least equal to and sometimes better than those available under original Medicare. [23-5]

T - F   27. Congress expanded open access to Medigap coverage by mandating that insurance companies provide coverage at standard rates without medical evaluation to those transferring from either Medicare SELECT or from a Medicare health plan. [23-5]

T - F   28. An individual can generally switch back from a managed care plan to traditional Medicare, but obtaining a supplemental policy may be problematic. [23-5]

T - F   29. A client’s employer-provided retiree health benefits cannot be dropped or modified. [23-6]

T - F   30. COBRA continuation coverage allows an employee to continue health benefits under the employer’s plan for 60 months after retirement. [23-6]

T - F   31. Under a long-term care policy that provides custodial care, a client can expect help with walking, bathing, dressing, eating, and taking medicine. [23-7]

T - F   32. Inflation protection in long-term care policies can generally be purchased for an additional premium. [23-7]
T - F   33. Long-term care policies currently being sold are guaranteed renewable, which means that an individual’s coverage cannot be canceled except for nonpayment of premiums. [23-7]

T - F   34. Factors that affect the choice of a long-term care policy daily benefit include marital status, geographic location of retirement, the ability to self insure, and the desire to remain at home as long as possible. [23-7]

T - F   35. The federal Patient Self-Determination Act gives patients the right to make their own health-care decisions. [23-7]

T - F   36. A living will gives an individual the opportunity to name an agent to make health-care decisions. [23-8]

T - F   37. A do-not-resuscitate order authorizes health-care providers to withhold measures to restart the heart or breathing. [23-8]

T - F   38. Before signing an advance health-care directive, it is a good idea to discuss the contents with the family physician. [23-8]

T - F   39. An individual can change or cancel an advance health-care directive at any time. [23-8]

Chapter 24

T - F   1. Reducing the taxation on a client’s retirement distribution is the only consideration when making a distribution decision. [24-1]

T - F   2. Most distributions from IRAs, qualified plans, and 403(b) annuities are taxed as ordinary income. [24-1]

T - F   3. Distributions to death beneficiaries are subject to income tax, which may be offset somewhat by a deduction for estate taxes paid on account of the death benefit. [24-1]

T - F   4. The Sec. 72(t) penalty applies to both the taxable and nontaxable portions of a distribution. [24-2]

T - F   5. An in-service distribution from a qualified plan made to a 50-year-old employee in the form of a life annuity is not subject to the 10 percent Sec. 72(t) penalty. [24-2]

T - F   6. A hardship withdrawal from a 401(k) plan to a 40-year-old participant is not subject to the 10 percent Sec. 72(t) penalty. [24-2]

T - F   7. A withdrawal from a qualified plan in the amount of qualified educational expenses for the participant’s child is not subject to the 10 percent Sec. 72(t) penalty. [24-2]

T - F   8. A withdrawal of $50,000 from an IRA by a participant to purchase his first home is not subject to the 10 percent Sec. 72(t) penalty tax. [24-2]
T - F   9. In order for distributions prior to age 59½ to satisfy the substantially equal periodic payment exception, distributions must continue for the participant’s entire life. [24-2]

T - F   10. Sole proprietors that receive a distribution of a life insurance policy from a qualified plan may recover cost basis due to accumulated PS 58 (Table 2001) costs. [24-3]

T - F   11. A participant with $8,000 of nondeductible IRA contributions can generally withdraw $8,000 without income tax consequences. [24-3]

T - F   12. A profit-sharing participant who receives his or her entire benefit of $320,000 can roll the entire amount into an IRA, even if $25,000 represents after-tax contributions (cost basis). [24-3]

T - F   13. A profit-sharing participant who contributed $25,000 of voluntary after-tax contributions prior to 1987 can generally withdraw this amount in-service without income tax consequences. [24-3]

T - F   14. A participant receiving a non-qualifying distribution from a Roth IRA can withdraw up to the amount of accumulated contributions without income tax consequences. [24-4]

T - F   15. When an individual owns multiple Roth IRAs, the 5-year measuring period for all of those IRAs begins the first time a contribution is made to any of the Roth IRAs. [24-4]

T - F   16. A distribution from a qualified plan can generally be rolled over into a 403(b) tax-sheltered annuity. [24-5]

T - F   17. A distribution that is one of a stream of life annuity payments from a qualified plan is an eligible rollover distribution. [24-5]

T - F   18. A distribution must be rolled over by the 60th day after the day it is received (unless the IRS waives the 60 day requirement), or the entire distribution is subject to income tax and, if applicable, the 10 percent Sec. 72(t) penalty tax. [24-5]

T - F   19. If a participant elects a direct rollover from a qualified plan to an IRA, no income tax is required to be withheld. [24-5]

T - F   20. An automatic waiver of the 60-day rollover rule is available if a participant fills out all required paperwork to roll a benefit into an IRA, the funds are delivered to the financial institution within the 60-day period, and the financial institution fails to complete the transaction in a timely manner. [24-5]

T - F   21. A death beneficiary inheriting employer securities that have net unrealized appreciation can avoid income taxes under the step up in basis rules. [24-6]

T - F   22. An individual who receives a lump-sum distribution that consists of $70,000 of cash and $40,000 of qualified employer securities (with cost basis of $10,000) can roll the cash into an IRA and continue to hold the securities. This will require the participant to include $10,000 as taxable income at the time of the distribution. [24-6]
23. To qualify for special tax treatment, a lump-sum distribution must come from a pension, profit-sharing plan, 401(k), stock-bonus plan, employee stock ownership plan, or SEP. [24-6]

24. A non-spousal beneficiary can roll over a participant’s death benefit into an existing IRA. [24-5]

25. The required minimum-distribution rules apply to qualified plans, 403(b) plans, traditional IRAs, SIMPLEs, and SEPs. [24-6]

26. Under the required minimum-distribution rules, benefits always must be distributed within 5 years after the death of the participant. [24-7]

27. The minimum-distribution rules impose a 10 percent excise tax on the amount by which a distribution in a given year falls short of the minimum required distribution. [24-7]

28. The required beginning date for distributions from a qualified plan is always the April 1 of the year following the calendar year in which the covered individual attains age 70½. [24-7]

29. Under the account plan rules, while the participant is alive, the required minimum distribution is determined by dividing the participant’s benefit at the end of the previous year by the applicable distribution period. [24-7]

30. If the beneficiary in the year following death is a person who is not the spouse, the remaining distribution period is fixed, based on the beneficiary’s age at the end of that year. [24-7]

31. A 50 percent joint and survivor annuity purchased before the required beginning date will generally fail to satisfy the required minimum-distribution rules. [24-7]

32. Under the required minimum-distribution rules, if a trust is the beneficiary, then the beneficiaries of the trust are considered the beneficiaries of the death benefit as long as the trust conforms with specific requirements. [24-7]

33. Under the required minimum-distribution rules, if the plan has multiple beneficiaries, it is still possible to use the life expectancy of each individual beneficiary in the calculation as long as a separate account has been established for each participant by the end of the year following the year of the participant’s death. [24-7]

34. The executor of the estate is allowed to add a new beneficiary to the beneficiary designation form in an IRA after the participant’s death. [24-8]

35. If The American College is one of several beneficiaries, paying The College out before the September 30 deadline can mean a longer required distribution period for the other beneficiaries. [24-8]

36. If an IRA owner dies with three children as beneficiaries, and separate accounts are established for each child during the year that the participant dies, then the life expectancy of
the oldest child is used to calculate the required minimum distribution from each separate account. [24-8]

Chapter 25

T - F   1. A qualified plan must clearly specify the normal and optional forms of distribution and when benefits are payable. [25-1]

T - F   2. If a terminating participant is entitled to a lump-sum benefit of $800 and the plan provides for involuntary cash-outs, the plan can force out the payment in a lump sum and forgo giving participants the right to optional forms of distribution. [25-1]

T - F   3. A life annuity is an appropriate benefit option for the individual who wants the guarantee of lifetime payments but who has no need to provide retirement income to a spouse or other dependent. [25-1]

T - F   4. In a joint and survivor benefit, a monthly benefit continues to be paid to a surviving beneficiary after the death of the participant. [25-1]

T - F   5. Installment payments and an annuity certain are two names for the same option. [25-1]

T - F   6. In a defined-benefit plan, an annuity is purchased with the participant’s account balance. [25-1]

T - F   7. A subsidized early retirement benefit generally means that a benefit payable at normal retirement age can begin earlier without an actuarial reduction. [25-1]

T - F   8. If the actual interest rate of a variable annuity is higher than the AIR, the annuity payments will decrease. [25-1]

T - F   9. For the client whose primary objective is funding retirement needs, the most important pension distribution issues are when to begin receiving benefits and what form the distributions should take. [25-2]

T - F   10. For the client concerned about outliving his or her assets, a rollover into an IRA (not invested in an annuity contract) is always the best distribution option. [25-2]

T - F   11. A client concerned about maximizing his or her estate may want to consider distributing assets as slowly as allowed under the required minimum-distribution rules. [25-3]

T - F   12. A client should never consider converting a traditional IRA to a Roth IRA either at or after normal retirement age. [25-3]


Answers to T – F Questions

Chapter 1

1. False. A SEP is not a qualified plan, even though it is eligible for many of the same tax advantages. The distinction is important when learning about the retirement field because qualified plans are subject to one set of rules while other plans—such as SEPs, SIMPLEs, and 403(b) plans—are each subject to a unique set of rules.

2. False. This describes the tax treatment that is applicable to nonqualified plans.

3. False. Plan funds invested in either tax-advantaged or non-tax-advantaged investments are accumulated on a tax-deferred basis in a qualified plan or other tax-advantaged retirement plans. This gives qualified plans the advantage (over nonqualified plans) of being able to invest in higher-yield taxable investments.

4. True.

5. False. One trait that all tax-advantaged retirement plans share is that, in order for the owners and managers to participate in the tax benefits, the plan must cover a significant number of rank-and-file employees.

6. True.

7. True.

8. True.


10. True.

11. True.

12. True.

13. True.

14. True.

15. True.

Chapter 2

1. True.

2. True.

3. False. Title IV of ERISA established the Pension Benefit Guaranty Corporation (PBGC) and deals with insuring plan benefits.

4. True.

5. True.

6. True.

7. False. Employers are not required to secure an advance-determination letter. They can take deductions and wait for an IRS audit to determine
whether the plan is qualified, but because of the risk of disqualification, this is seldom attempted.
8. True.
10. False. The item described in the question is a revenue ruling, not a regulation. Regulations (whether they are final, temporary, or proposed) explain and interpret the various sections of the Internal Revenue Code and deal with the finer points of the law. Regulations apply to all taxpayers.
11. True.
12. True.
13. True.
14. True.
15. False. Most defined-benefit plans must be covered by PBGC insurance. There is, however, an exception for professional-service employers with 25 or fewer active participants.
16. True.
17. False. Master and prototype plans are easier to install than individually designed plans.
18. True.
19. True.
20. True.

Chapter 3

1. True.
2. True.
3. False. Small organizations, such as closely held businesses, are particularly concerned with providing maximum benefits for owners and other key employees and want to minimize benefits for rank-and-file employees as a cost-saving measure.
4. True.
5. True.
6. True.
7. False. A 403(b) plan is unique because only 501(c)(3) tax-exempt organizations and public school systems can maintain this type of plan.
8. True.
9. False. Contributions are not limited for each participant in a defined-benefit plan. Instead, limits are placed on benefits as they are paid out under Code. Sec. 415(b).
10. True.
11. True.
12. False. It is defined-benefit plans that can tie retirement benefits to final salaries. Defined-contribution plans are limited to making contributions each year based on that year’s salary.
13. True.
14. False. Since contributions are tied to each year’s salary, in a defined-contribution plan benefits will not suddenly rise if inflation increases salaries in the years just prior to retirement. In a defined-benefit plan that uses final average compensation this statement would be true.
15. True.
16. True.
17. False. Under a profit-sharing plan, the organization can choose the amount of contribution each year, and can even skip contributions entirely for some years.
18. False. Plans from the pension category can only invest up to 10 percent of their assets in employer stock.
19. True.
20. False. Today the rules are essentially the same for both Keogh and corporate plans. Only the deduction calculation for the owner is different than with a corporate plan.
21. True.

Chapter 4

1. False. Employers generally do not believe there is any need to replace 100 percent of final-average salary because Social Security benefits, private savings, and lower postretirement costs indicate that the same standard of living can be maintained on less income.
2. True.
3. False. A flat-percentage-of-earnings formula relates the benefit solely to salary and does not reflect an employee’s service. A formula that relates the benefit solely to service is a flat-amount-per-year-of-service formula.
4. True.
5. False. This is exactly the type of situation where this definition of compensation would be discriminatory. In this company, benefits for highly compensated employees are based on total compensation, while some earnings are excluded for the other employees.
6. True.
7. False. The situation is exactly the opposite. Receiving a $2,000 life annuity beginning at age 62 is more valuable than having the $2,000
benefit begin at age 65 because the benefit payments will be made for a longer period.

8. False. Defined-benefit plan candidates typically do not have predictable costs because funding is subject to an annual actuarial determination.


10. False. Cash-balance plans are a form of defined-benefit plan. This concept is important because even though the plan looks like a defined-contribution plan, it is subject to the rules that affect defined-benefit plans, including coverage under the PBGC insurance program.

11. True.

12. True.

13. False. The accumulation in a money-purchase plan over a long-period of time is likely to be greater since the participants share in the plan’s actual investment experience. Cash-balance plans typically promise a conservative bond oriented type return, while money purchase assets are more likely to be invested in a long-term stock-oriented portfolio. The accumulation in the cash-balance plan is, however, more predictable.

14. False. The Pension Protection Act eliminated much of the uncertainty that surrounded cash-balance plans.

15. True.

16. True.

17. True.

18. True.

19. False. Under a target-benefit plan, the employee bears the investment risk and gets the benefit of the investment return, just like any other defined-contribution plan.

20. False. An employer hopes to provide the targeted benefit at retirement, but there are no guarantees that the targeted benefit will be paid.

21. False. Target-benefit plans were designed for older owner-employees looking to direct a large percentage of the total contribution toward the business owner(s).

22. True.

Chapter 5

1. True.

2. True.

3. True.

4. True.

5. True.
6. False. The employer does not need to have profits in order to make contributions to a profit-sharing plan.
7. True.
8. True.
9. False. The maximum salary reduction that can be taken under a 401(k) plan is $16,500 (as indexed for 2009). The limit described in the question applies in total to all types of contributions to the 401(k) plan, including salary deferrals, employer-matching contributions, profit-sharing-type contributions, and after-tax contributions.
10. False. The maximum amount that can be saved on a pretax basis in a 401(k) plan is $16,500 (for 2009 while the maximum deductible contribution to an IRA is only $5,000). As we will see in chapter 17, many individuals are not allowed to make deductible IRA contributions at all. Because of this, the 401(k) plan is almost always a better pretax savings vehicle.
11. True.
12. True.
13. True.
14. False. Withdrawals from a 401(k) plan are restricted to retirement, death, disability, separation from service, attainment of age 59½, or financial hardship. The general 2-year distribution rule for plans that fall into the profit-sharing category does not apply to 401(k) plans.
15. True.
16. True.
17. True.
18. False. Social Security FICA taxes are based on the employee’s unreduced salary regardless of whether a salary reduction is taken.
19. False. A participant may not make a Roth (after-tax) election on employer matching (or profit-sharing) contributions.
20. True.
21. True.
22. False. Under the technique known as leveraging, the plan trustee acquires a loan from the bank and uses the borrowed funds to purchase employer stock. Shares of this purchased stock are allocated to participant accounts when contributions are made to the plan. The employer is entitled to a deduction when contributions are made, as is the case for contributions to any qualified plan. Concurrently, the money that would normally be used to make contributions is used to pay off the bank loan. The result is that the employer receives the full proceeds of the bank loan immediately and pays the loan off through tax-deductible contributions to the ESOP.
23. True.
24. True.

Chapter 6

1. True.
2. False. Even though a simplified employee pension plan is not a qualified plan, some of the rules that apply to qualified plans apply to SEPs, including the rule regarding nondiscriminatory contributions.
3. False. Large corporations usually do not choose SEPs because of the rigid coverage requirements.
4. True.
5. False. New salary reduction SEPs cannot be established after December 31, 1996. However, old plans can continue under the old rules.
6. True.
7. False. A part-time employee with $550 (as indexed in 2009) or more in earnings with 3 years of service must be covered under a simplified employee pension plan.
8. False. SIMPLEs are funded with IRAs. Like SEPs, such plans cannot provide for participant loans. Other IRA rules apply as well, such as immediate vesting and no investments in life insurance or collectibles.
9. False. What makes the SIMPLE different from all other types of retirement plans is that a sponsor cannot maintain any other type of tax-advantaged plan at the same time that it sponsors the SIMPLE.
10. False. The contribution requirements for the SIMPLE are quite rigid. The employer can make either the 3 percent matching contribution or the 2 percent nonelective contribution, but not both.
11. True.
12. False. Full-time and part-time employees of a qualified employer will be eligible employees if they are so-called common-law employees. However, if they are independent contractors instead of common-law employees, they cannot be covered by the organization’s 403(b) plan.
13. True.
14. True.
15. True.
16. True.
17. False. A 403(b) plan can be designed to permit participant loans.
18. True.
19. True.
20. True.
21. True.
Chapter 7

1. True.
2. False. An adoption agreement is only a portion of the required documentation. It is the vehicle used for choosing among the various optional provisions found in the master or prototype plan. The adoption agreement lists the sections of plans and the design choices that are available under each section and asks the employer to select from the menu of options provided. The sponsor also must adopt the standardized plan document that contains most of the legal required language. 
3. True.
4. True.
5. False. In order to satisfy the 410(b) nondiscrimination requirement, an employer is required to pass only one of the three named tests.
6. False. The percentage is 70 percent, not 56 percent.
7. True.
8. True.
10. True.
11. False. Under the 410(b) coverage requirements, a highly compensated employee can be excluded from the plan without affecting the coverage test. The only exception is that, under the 401(a)(26) requirement that applies to defined-benefit plans, highly compensated employees are counted for determining whether the 40-percent or 50-employee rule has been satisfied.
12. True.
13. False. The maximum age to which plan participation can be delayed is 21.
14. False. The maximum service requirement is typically one year. However, a 2-year maximum service requirement may be implemented if the participant is fully vested when he or she enters the plan.
15. True.
16. False. A year of service is a 12-consecutive-month period for which an employee works 1,000 hours. An employee does not receive a year of service after he or she has worked 1,000 hours, but rather on completion of a 12-month period in which the employee has worked 1,000 hours.
17. True.
18. True.
19. True.
20. True.
21. False. Segregating management into a separate entity will probably result in a management services affiliated service group. If this is the case, the
employees under both sets of corporations will be aggregated for purposes of the 410(b) test.

22. False. Leased employees must be counted when determining if the recipient’s plan satisfies the coverage tests. If the plan can pass the tests without the leased employees, they do not have to be included as plan participants.

23. False. Because the controlled-group rules apply when determining whether a SEP satisfies the coverage rules, a SEP cannot be used in this case. SEPs must cover all eligible employees of the entire controlled group.

24. True.

Chapter 8

1. True.

2. False. Today’s regulations provide clear objective tests for determining whether the plan satisfies the rules. The plan can satisfy a design safe harbor, or actual contributions or benefits can be tested each year for nondiscrimination.

3. True.

4. True.

5. False. Because Able’s compensation exceeds the compensation cap, contributions will be limited to 10 percent of the current year’s compensation cap. In 2009 the cap is $245,000 so Able’s allocation is $24,500.

6. False. A plan’s benefit formula can be amended by the employer as long as it does not cut back on existing benefit accruals. In fact, a common plan-design strategy, known as updating, is to gradually increase the amount of benefits provided under the plan.

7. False. This allocation formula satisfies one of the design safe harbors—which means that the design is deemed to satisfy the nondiscrimination rules without further nondiscrimination testing.

8. False. This formula fails because the integrated portion cannot exceed the contribution based on total compensation. In this case, the maximum excess contribution is 4 percent. Note also that satisfying the integration rules means that the plan satisfies the design safe harbor. It is actually possible to choose a different integration method, as long as the plan satisfies the general nondiscrimination test on an annual basis.


10. False. With the compensation cap, the integrated plan formula does not result in a significant amount of skewing to the owner. The small-business
owner who wants to receive the lion’s share of the contribution should look to the cross-tested, and not the integrated, formula.

11. True.
12. True.
13. False. For cross testing to meet this objective, the owners need to be, on average, somewhat older than the average age of the nonhighly compensated employees.
14. False. The allocation formula in a SEP either must allocate contributions as a level percentage of compensation or be integrated with Social Security.
15. True.
16. True.

Chapter 9

1. True.
2. False. Today there are no prohibitions against any business owner-employees taking plan loans.
3. False. A 401(k) plan can have a loan provision. In fact, by putting a loan provision in a 401(k) plan, the employer will enhance its chance of passing the actual deferral percentage test because this gives employees access to retirement funds, thereby attracting the required plan participation.
4. True.
5. False. A fair market rate of interest must be charged on plan loans. No sweetheart rates can be given to any participant.
6. True.
7. True.
8. True.
9. False. Defined-contribution plans are required to have more accelerated vesting schedules than defined-benefit plans.
10. False. Under a 5-year cliff vesting schedule, an employee is not vested until 5 years of service have been completed.
11. True.
12. True.
13. False. 401(k) salary-deferred contributions are not subject to the plan’s vesting schedule. Instead, they are considered to be 100 percent vested immediately. In fact, an employee must be 100 percent vested in his or her own contribution to the plan at all times, regardless of whether the contribution is made on a voluntary or salary reduction basis.
14. False. Reallocated forfeitures are used as an additional contribution to employees who remain in the plan. When reallocated forfeitures are used, employer costs are not reduced.
15. False. Forfeitures that are reallocated to employees are treated as annual additions and are added to other employer and employee contributions when determining whether aggregate contributions comply with the defined contribution limit.

16. True.

17. False. A one-year break in service will occur if an employee has fewer than 501 hours of service in a year.

18. True.

19. True.

20. True.

21. False. A plan’s normal retirement age can be the later of age 65 or the completion of 5 years of participation.

22. False. An employer can use any service requirement when determining early retirement. A typical early retirement requirement is age 55 and 10 years of service. There is no rule, however, limiting the employer to 10 years of service.

23. True.

24. True.

**Chapter 10**

1. False. Qualified plans need only contain a qualified preretirement survivor annuity for married participants.

2. False. If universal life insurance is used to fund the plan, the aggregate premiums paid for the policy cannot exceed 25 percent of the participant’s total benefit.

3. True.

4. True.

5. True.

6. True.

7. False. Small-business owners may want life insurance in a plan for a number of reasons, including administrative convenience, the ability to use tax-deferred amounts to purchase insurance, and the need for insurance for estate planning purposes.

8. True.


10. False. A defined-benefit plan is top-heavy if more than 60 percent of the present value of the entire amount of the plan’s accrued benefits is set aside for key employees.

11. False. The definitions of key employee and highly compensated employee are somewhat different.
12. False. If a plan is top-heavy, a special top-heavy vesting schedule is applied. The top-heavy version of the 5-year cliff schedule is a 3-year, 100-percent cliff schedule. The top-heavy version of the 3-through-7-year graded schedule is a 6-year graded schedule. However, employees need not be 100 percent immediately vested in a top-heavy plan.

13. True.

14. False. SEPs are subject to the top-heavy rules. This could cause a problem if the SEP has an allocation formula that is integrated with Social Security.

Chapter 11

1. False. The terminal funding approach may not be used to fund a qualified plan. Instead, retirement benefits must be prefunded according to the minimum funding standards prescribed in ERISA.

2. False. The plan specifies the benefits provided by the plan. The actuarial cost method is the method used to determine how much needs to be contributed each year in order to have sufficient assets to pay promised benefits.

3. False. The higher the return of the plan’s assets means lower required contributions.

4. True.

5. True.

6. True.

7. True.

8. True.


10. True.

11. True.

12. True.

13. True.

14. False. With split-funding some of the plan’s assets are in life insurance contracts and some are invested in a side fund.

15. False. A financial services professional who has discretionary control over plan investment purchases is a fiduciary to the plan. Similarly, the advisor will also be a fiduciary if he or she regularly gives investment advice for a fee and that advice is the primary basis for investment decisions.

16. False. There are no facts presented that indicate the investment is imprudent. However, this could be a violation of the exclusive-benefit rule. Here, the motivation for the investment appears to be to gain the client’s goodwill, not concern for the benefit of plan participants. Investments like this need to be analyzed carefully and pursued cautiously.
17. False. The prudent investment requirement states that a trustee will be measured against "a person acting in a like capacity and familiar with such aims." This implies that the person’s actions will be measured against those of professional trustees.

18. True.

19. False. Participants have to be able to select from only three investment options for the fiduciaries to be eligible for relief under the ERISA 404(c) rules.

20. True.

21. False. The fiduciary may be eligible for ERISA 404(c) protection, as long as the plan satisfies specific requirements.

22. True.

23. True.

24. True.

25. False. The advice can also be from an advisor as long as fees do not vary depending on the investment option selected.

26. False. Small-business owners sometimes forget that plan assets cannot be used for the benefit of the company and/or as personal assets. The entrepreneurial owner wants to put the pension assets to work. It is important, therefore, for knowledgeable advisors to look for prohibited-transaction problems.

27. True.

Chapter 12

1. False. Investment guidelines are most important when the fiduciary’s actions have been questioned. The fiduciary cannot defend a course of action unless the investment objectives are clear. Guidelines also provide a structure that the fiduciary can follow.

2. True.

3. False. As a premium for the tax-exempt status, these investments pay a lower rate of return than investments subject to tax. Because qualified trusts are not subject to tax, it is generally not a good idea to invest in tax-free investments.

4. True.

5. True.

6. True.

7. False. The percentage is over 50 percent for both defined-benefit and defined-contribution plans.

8. True.
9. False. The immediate-participation-guarantee contract contains no guarantees, but instead allows the plan sponsor to have an immediate reflection of the actual investment experience under the plan.

10. True.

11. False. Separate-investment-accounts contracts are generally pooled but are sometimes segregated for larger plans.

12. True.

13. True.

14. False. A precise dollar contribution is not stipulated under a GIC. It is more likely that the amount contributed will be linked to a percentage of contributions.

15. True.

16. True.

17. True.

Chapter 13

1. True.
2. True.
3. True.

4. False. Plans that only contain employer contributions are typically setup at the end of the tax year when the employer knows that it can afford a contribution to a plan. Plans with employee contributions (401(k) and 403(b)) are usually established prior to the beginning of the first plan year so that election forms can be completed.

5. False. There is no requirement that the employer receive an advance-determination letter-although it is generally a good idea.

6. True.

7. False. A summary plan description (SPD) must be fair and evenhanded; it cannot be used to persuade employees to join the plan, but instead must explain the plan.

8. True.


10. True.

11. False. The plan administrator is not prohibited from delegating responsibility. In fact, the trustee, a third-party administrator, or an insurance company may take over a significant number of the plan administrator’s duties.

12. True.

13. True.
14. False. This plan is probably exempt from any reporting requirements as long as it has always had less than $250,000 of assets and the sponsor does not also sponsor another plan (and assets in total exceed $250,000).

15. True.

16. True.

17. False. The plan administrator must issue a personal benefits statement at least once every 3 years or provide participants with an annual notice of their right to receive benefit statements upon request.

18. True.

19. True.

20. True.


22. False. The voluntary compliance program offers self-correction in some circumstances.

23. True.

Chapter 14

1. True.

2. False. A change of this nature results in a termination of the defined-benefit plan.

3. False. A qualified plan can be terminated within 10 years of adoption. If the reasons for the termination are not valid, however, the IRS might retroactively disqualify the plan.

4. False. The first step is a corporate resolution terminating the plan.

5. False. The termination date can be 15 days after the participants are notified.

6. True.

7. False. PBGC coverage is limited to defined-benefit plans only.

8. True.


10. True.

11. False. To qualify for the 20 percent tax rate, the employer must either (1) establish a qualified replacement plan to which it transfers assets equal to the excess of 25 percent of the reversion or (2) provide pro rata increases in benefits for qualified participants in connection with the plan termination equal to at least 20 percent of the reversion.

12. True.

13. False. Single-premium annuity contracts are not risk free from the insurer’s point of view. In fact, SPACs are difficult for an insurer to price.
because of the long-term nature of the guarantees and their one-time expense charge.

14. False. Whether a partial termination has occurred is determined on a facts and circumstances basis. However, with 20 percent being the litmus test, 5 percent probably does not result in a partial termination. The impact of partial termination is full and immediate vesting.

15. True.

Chapter 15

1. True.
2. False. The statement as written describes a qualified plan, not a nonqualified plan. Nonqualified plans are subject to the matching rule—the employer receives a tax deduction when an employee has taxable income.
3. True.
4. True.
5. True.
6. True.
7. True.
8. False. An amount deferred under a nonqualified plan must be considered wages for employment tax purposes as of the later of the date the services are performed, or when there is no substantial risk of forfeiture of the rights to such amount—even if the deferred amount is not subject to income taxes at that time.
10. False. Nonqualified plans are not subject to nondiscrimination requirements.
11. True.
12. True.
13. False. A golden handshake is an additional benefit paid to induce early retirement. A golden parachute, however, is a substantial payment made to corporate executives who are terminated upon change of ownership or corporate control.
14. False. Salary reduction plans are nonqualified salary deferral plans without monetary restrictions.
15. True.
16. True.
17. True.
18. True.
19. True.
20. False. A covenant-not-to-compete provision calls for the forfeiture of nonqualified benefits if the employee enters into competition with the employer. In order to be considered valid, the covenant-not-to-compete provision must be supported by adequate consideration and must be reasonable in terms of the geographical area and the time period over which it applies. Therefore, a covenant that says a former employee cannot compete in a certain region for his or her lifetime would definitely not be considered valid.

21. True.

22. False. Nonqualified plans can contain both death and disability benefits. There is no such ERISA restriction.

23. False. The plan is considered funded when the company, in order to meet its promise of providing benefits under the nonqualified plan, contributes specific assets to an escrow or trustee account in which the employee has a current beneficial interest. The plan, as described, is considered informally funded, which means that it is unfunded for tax and ERISA purposes.

24. True.

25. True.

26. True.

27. False. Unsecured promises pose major problems for executives because benefit payments hinge on the employer’s fiscal health at the time benefits become payable. Many employees remain skeptical about enjoying their current favored status when it comes time to collect. A change in management, business buyout, or decrease in rank due to performance problems or office politics may put an employee in an untenable position when he or she approaches the time to collect benefits.

28. False. Funds placed in a rabbi trust are subject to the claims of an employer’s creditors.

29. False. Under the model trust, a rabbi trust cannot contain an insolvency trigger.

30. True.

31. False. Secular trusts differ from rabbi trusts in that fully vested employer contributions to a secular trust and any trust earnings are currently taxable to the employee. Money held in a secular trust cannot, however, be reached by any of the employer’s creditors and, therefore, provides absolute security for executives against the company’s insolvency.

32. False. In order to prevent the purchase of a surety bond from triggering a constructive receipt, economic benefit, or Sec. 83 problem, the executive must bear the cost of the surety bond, and the employer should not be involved with the bonding company.

33. True.
34. True.
35. True.
36. False. The owner of the policy is the executive in a Sec. 162 life insurance plan.

Chapter 16

1. True.
2. False. Start-up companies often use stock compensation because cash is short and it is the best way to attract and retain qualified executives.
3. False. An advantage is that in many cases some of the gains will be taxed as long-term capital gains.
4. True.
5. False. The amount put at risk is the amount that the participant could lose. Even though the stock is currently $60, if the value were to plummet, the employee still has the potential of losing the $50 purchase price.
6. True.
7. True.
8. False. She reports the difference between the purchase price and the market value ($75) as income and the employer has a corresponding deduction of $75.
9. False. An incentive stock option program has more restrictions than a nonqualified stock option program. The ISO has more favorable tax consequences, at least from the participant’s point of view.
10. False. This is the time that the employee recognizes income, but the employer is never entitled to a deduction with an ISO unless there is a disqualifying disposition.
11. False. A Sec.423 stock purchase plan must cover virtually all full-time employees.
12. True.
13. True.
14. True.
15. False. These are employer provided benefits.
16. True.

Chapter 17
1. False. No contribution—deductible, nondeductible, or RothIRA—can be made by a taxpayer whose only compensation is passive income.
2. True.
3. True.
4. False. The contribution has to be made by April 15, 2009, for the 2008 tax year.
5. False. An excess contribution is subject to a 6 percent excise tax.
6. True.
7. True.
8. False. This is one type of plan that is not counted as an employer-sponsored retirement plan.
9. False. Any contribution to a SEP makes an individual an active participant.
10. True.
11. False. Using the formula in the text, the deductible contribution is $3,267.50, which is rounded up to $3,270.
12. False. Because adjusted AGI exceeds $109,000, George is not eligible for a deductible IRA contribution. Barbara is, however, because she is not an active participant and adjusted AGI is under $166,000.
13. False. A rollover must be made within 60 days of the distribution.
14. True.
15. True.
16. False. Contributions to a Roth IRA are never deductible.
17. False. Because adjusted AGI is less than $105,000 (as indexed for 2009) the individual may make the maximum allowable Roth IRA contribution.
18. True.
19. False. Amounts converted from an IRA to a Roth IRA are taxed as ordinary income. However, the 10 percent premature penalty tax will not apply unless withdrawals are made from the converted Roth IRA within 5 years.
20. False. George has satisfied one of the triggering events but has not satisfied the 5-year requirement and therefore the distribution is a nonqualifying distribution. This means that the earnings will be subject to income tax.

Chapter 18

1. True.
2. True.
3. True.
4. False. IRAs cannot be invested in life insurance.
5. False. IRAs generally cannot be invested in collectibles, but they can be invested in precious metals and certain coins.
6. True.
7. True.
8. True.
10. True.
11. False. Individuals who are concerned about maximizing the estate left to their heirs may find that a Roth IRA conversion can help accomplish this goal.
12. True.

Chapter 19

1. True.
2. False. The tax rate for both employed and self-employed persons is 15.30 percent. However, for employed persons, the tax rate is divided equally between employee and employer.
3. True.
4. False. Earned income is subject to FICA tax even if it is earned after normal retirement age and after commencement of retirement benefits.
5. True.
6. True.
7. True.
8. False. A surviving spouse will receive survivor benefits equal to 100 percent of the deceased spouse’s PIA at the full retirement age only if the deceased spouse was fully insured. A person is fully insured only if he or she has the required number of quarters of coverage (40). A person who does not have the requisite number of quarters of coverage to qualify as fully insured will be currently insured if he or she has at least six quarters of coverage. However, if the deceased partner was only currently insured, a spouse will receive survivor benefits only if he or she is caring for an eligible child who is under age 16 or who was disabled before age 22.
10. False. The number of years of salary history used to calculate the AIME is 5 less than the number of quarters of coverage needed to be fully insured.
11. False. The family maximum is not a concern until there are three or more family members receiving retirement benefits based on one worker’s wages.
12. False. The spouse of a retired worker who is receiving retirement benefits may begin receiving spousal retirement benefits anytime after he or she
reaches age 62. However, the benefit is reduced by 25/36 of one percent for each month before full retirement age.

13. False. A person’s benefits will be increased by a percentage factor if he or she continues working after normal retirement age and delays the start of benefit payments, but only until he or she is 70 years old. If a person continues to delay payments after age 70, he or she will receive no further increase in benefits. An individual working beyond age 70 should begin receiving benefits at that age; since the earnings limitation no longer applies, benefits will not be reduced regardless of the level of income.

14. True.
15. True.
16. True.
17. False. The estimates are in current dollars. Planners should point out the future dollar value at retirement to their client.
18. True.
19. False. This individual should hesitate to begin taking benefits because substantial earnings from reemployment will affect Social Security benefits.
20. True.

Chapter 20

1. False. Only one in 10 workers was covered by a pension program and Social Security did not exist in the early 1900s. The concept of retirement as we know it is an evolving process.
2. False. It should start at a young age, but planning can be done at any age.
3. True.
4. True.
5. True.
6. True.
7. True.
8. True.
10. False. This is the definition of social assistance.
11. True.
12. True.

Chapter 21
1. True.
2. True.
3. False. The reduction is 30 percent.
4. False. Mandatory retirement is illegal in most cases.
5. True.
6. True.
7. False. A replacement ratio of between 60 and 80 percent of final salary can be used.
8. True.
10. True.
11. True.
12. True.
13. False. Buy and hold should be used, not market timing.
14. True.
15. False. Fixed income investments should be in tax-deferred accounts (such as 401(k) plans) and equity investments should be in taxable private savings accounts.

Chapter 22

1. True.
2. False. In addition to applying a replacement ratio to current salary and adjusting for inflation, the planner must also adjust for a growth factor in the client’s lifestyle if it is applicable.
3. True.
4. False. A client’s RIS can either be a positive or a negative amount. A positive RIS indicates a surplus because current sources exceed the target amount. A negative RIS indicates a deficit and suggests the need for additional accumulations.
5. True.
6. False. Pension income is generally not considered to be protected from a decline in purchasing power due to increases in inflation. The effects of preretirement inflation may be avoided if the client is in a final-average salary defined-benefit plan, but the pension benefit is not typically protected from inflation after retirement.
7. True.
8. True.
10. False. A decline in purchasing power applies to any asset that is not inflation protected after retirement. For example, a cash value life
insurance policy that will be converted to level annuity payments at retirement is subject to a decline in purchasing power.

11. False. This is called a stepped-up funding approach.

Chapter 23

1. True.
2. True.
3. True.
4. False. The opposite is true. Both homes should be sold prior to the marriage, or the 2-year use rule could disqualify at least one of the sales from the exclusion amount.
5. False. With the age-62 restriction, all residents must be age 62 or older.
6. True.
7. True.
8. True.
10. True.
11. False. Because the length of the reverse mortgage is longer with a younger homeowner, the maximum that can be borrowed will be less than for an older homeowner.
12. False. Because it is a loan, there are no tax consequences on the payments made to the homeowner.
13. False. Because it is a loan, the lender only receives the outstanding loan amount. Any excess is the property of the homeowner or his or her heirs.
14. True.
15. False. Medicare benefits do not start before age 65 for a retiree.
16. False. Again, benefits only begin at age 65.
17. True.
18. True.
19. True.
20. False. This type of care is excluded.
21. False. To enroll in Medicare, beneficiaries must pay a premium.
22. True.
23. True.
24. False. People turning age 65 cannot be turned down for coverage as long as they act in a timely manner.
25. False. This is a requirement for Medicare SELECT policies.
26. True.
27. True.
28. True.
29. False. In many cases, the employer retains the right to amend or terminate the plan.
30. False. The limit is 18 months.
31. True.
32. True.
33. True.
34. True.
35. True.
36. False. This describes a health care power of attorney.
37. True.
38. True.
39. True.

**Chapter 24**

1. False. Tax planning is only part of the process when making a retirement decision. The ultimate goal is to maximize wealth while meeting the client’s cash flow and other needs, not merely to save taxes.
2. True.
3. True.
4. False. The Sec. 72(t) penalty applies only to the taxable portion of a distribution.
5. False. Even though a life annuity would qualify as "substantially equal periodic payments," the exception does not apply in a qualified plan unless the participant terminates employment.
6. False. This question is answered incorrectly fairly often. There is no specific exception from the 10 percent penalty tax for hardship withdrawals from a 401(k) plan.
7. False. The education exception only applies to IRAs (which includes SEPs and SIMPLEs), not to qualified plans.
8. False. There is an exception from the 10 percent penalty tax for IRA distributions for first-time homebuyer expenses. However, the exception is limited to a lifetime maximum of $10,000.
9. False. Distributions can cease after the later of 5 years or the attainment of age 59½ without penalty.
10. False. Even though PS 58 (Table 2001) costs can be recovered when an insurance policy is distributed to a participant, sole proprietors and partners in a partnership are not allowed to recover these costs.
11. False. With IRAs, a pro rata recovery rule applies to recovering the cost basis of nondeductible contributions.
12. True.
13. True.
14. True.
15. True.
16. True.
17. False. Life annuity payments are not eligible rollover distributions and cannot be rolled over into an IRA.
18. True.
19. True.
20. True.
21. False. Net unrealized appreciation is not eligible for the step up in basis, so that the beneficiary cannot avoid paying income taxes.
22. True.
23. False. Special lump-sum tax treatment is only available from qualified plans. A SEP does not qualify.
24. False. A non spousal beneficiary must roll the benefit into a newly established IRA.
25. True.
26. False. There are several things wrong with this statement. If the participant dies after attaining the required beginning date, the 5-year rule does not apply at all. Even if the participant dies prior to the RBD, in many cases the 5-year rule still does not apply.
27. False. The tax is 50 percent of the shortfall.
28. False. Non-5-percent owners in qualified plans who are still working at age 70½ can wait until they retire to begin required distributions.
29. True.
30. True.
31. False. A 50 percent joint and survivor annuity purchased before the required beginning date will satisfy the required minimum-distribution rules.
32. True.
33. True.
34. False. No new beneficiaries can be added to a beneficiary form after the participant dies.
35. True.
36. False. Since separate accounts were established in a timely manner, the life expectancy of each child can be used when calculating the required distribution from each account.
Chapter 25

1. True.
2. True.
3. True.
4. True.
5. False. An annuity certain pays out a specified benefit for a stated period of time. Installment payments are less certain. Essentially, installment payments continue until the account is depleted.
6. False. This describes what happens when a participant elects an annuity option in a defined-contribution plan. In a defined-benefit plan, there is no account balance just a promised benefit amount. The plan may pay the promised benefit out of plan assets or can purchase an annuity to cover the required payments.
7. True.
8. False. When interest rates are higher than the AIR, the variable annuity payment will increase.
10. False. Not necessarily. The guarantee of lifetime income through an annuity can be of tremendous value to a person concerned about outliving his or her assets.
11. True.
12. False. Because the required minimum-distribution rules do not require Roth IRA distributions during the participant’s lifetime, converting at a later age can still be an appropriate option.