Deferred Annuities

1. Single Premium Immediate Annuities pay income within ____ months of purchase.
    a. 2 months
    b. 3 months
    c. 6 months
    d. 12 months

2. Some insurance companies refer to deferred annuities as:
    a. “Retirement annuities”
    b. “Frozen annuities”
    c. “Baseline annuities”
    d. “Generation X annuities”

3. James is a purchaser who opens a Flexible Premium Deferred Annuity (FPDA). Which of the following is true?
    a. He must have opened the FPDA with a single contribution, and he may make additional contributions to the policy
    b. He may have opened the FPDA with multiple contributions, and he may make additional contributions to the policy
    c. He must have opened the FPDA with a single contribution, and he may not make additional contributions to the policy
    d. He may have opened the FPDA with multiple contributions, and he may not make additional contributions to the policy

4. Variable annuities are considered:
    a. An insurance product, only
    b. A securities product, only
    c. Both an insurance product and a securities product
    d. Neither an insurance product nor a securities product

5. The annuitant is generally the measuring life on the annuity contract. *Measuring life* means that in _______ deferred annuity contracts, the annuitant’s death ends the contract; at the annuitant’s death, a death benefit is paid to the beneficiary
    a. All
    b. Many
    c. About half of all
    d. Few

6. ___________may be named to share in the death proceeds at the primary beneficiary level.
    a. Only one beneficiary
    b. No more than two beneficiaries
    c. No more than three beneficiaries
    d. More than one beneficiary

7. Most insurance companies assume ________ distribution when more than one beneficiary is named in the same beneficiary class.
    a. “Per capita”
    b. “Per stirpes”
    c. “Percentage”
    d. “Factorable”

8. Deferred annuities are tax-deferred instruments as long as they meet requirements set forth in:
    a. IRC Section 3
    b. IRC Section 72
    c. IRC Section 205
    d. IRC Section 200

9. The maximum deferral age, also referred to as the annuitization date or maturity date, is the date when annuitization or liquidation of the contract must commence. By what age do states require that annuities mature?
    a. Age 85
    b. Age 92
    c. Age 100
    d. Some states require that annuities mature by a certain age (such as age 85) while other states allow deferral through age 100

10. The initial rate of a fixed annuity is declared as a bonus rate. The rate is:
    a. A principal bonus
    b. A premium bonus
    c. A rate bonus
    d. Either a premium or rate bonus

11. Moneys received in 2011 for the purchase of an insurance company's Flexible Premium Deferred Annuity and used to purchase bonds yielding 4% is mixed with moneys received in 2012 and used to purchase bonds yielding 7.5%. The resulting calculated investment return to the insurance company is a blend of these investment returns and this rate of return is used to determine new money and renewal interest rates. This kind of investing and interest rate crediting is commonly known as the:
    a. Portfolio method
    b. Mismatched combination method
    c. Commonality method
    d. Insurer method

12. Insurance companies guarantee renewal rates for:
    a. No more than a month
    b. No more than a quarter
    c. No more than a calendar year
    d. Any time length the insurance company determines

13. Since the value of an immediate annuity is steadily decreasing, the rate paid on the immediate annuity principal is expressed as an *internal rate of return*. What is true of the disclosure of this rate by insurance carriers?
    a. Insurance carriers are required to disclose the internal rate of return
    b. Insurance carriers are not required to disclose the internal rate of return, but they all do
    c. Insurance carriers are not required to disclose the internal rate of return, and many insurance carriers do not
    d. Insurance carriers are not required to disclose the internal rate of return, and practically none do

14. Annuity payments from a Single Premium Immediate Annuity contract are taxed as being comprised of:
    a. Interest before principal
    b. Interest after principal
    c. Principal
    d. Part interest and part principal

15. Payments under a certain kind of annuity are guaranteed for the annuitant's lifetime and will cease at the annuitant's death. This kind of annuity is sometimes referred to as a:
    a. Straight life option
    b. Annuitant's option
    c. Death-only option
    d. Annulment option

16. All of the following statements relating to living trusts are true, except:
    a. A revocable living trust qualifies for tax deferred treatment of earnings
    b. The property within a living trust is generally taxed just as though it were titled under the name of the property owner
    c. Most living trusts use the social security number of the property owner or owners of the trust for all tax reporting purposes
    d. A living trust is synonymous for an annuity

17. Multiple contract taxation regulations affecting the treatment of interest and withdrawals came into effect on:
    a. August 13, 1982
    b. October 21, 1988
    c. January 16, 1993
    d. March 14, 2001

18. When one annuity contract is exchanged for another, the surrendering company often has _______________such as notifying the original writing agent of the surrender, writing letters to the policy owner, etc., in an attempt to keep the business.
    a. conservation procedures
    b. exit strategy procedures
    c. legal procedures
    d. damage procedures

19. Because of the delay commonly associated with exchanging one annuity contract for another, many companies offer a *rate lock* on these kind of procedures, so that the client is guaranteed a rate for:
    a. 6 to 12 days
    b. 14 to 21 days
    c. 30 to 60 days
    d. 45 to 90 days

20. Ellen owns a deferred annuity. She opened the contract in 2002 with $25,000 and the annuity is now valued at $40,000. She wants to reduce the value of her estate, so she gifts the annuity to her son Michael by removing herself as owner and naming Michael as the owner. The amount of the completed gift will be:
    a. $13,000
    b. $15,000
    c. $25,000
    d. $40,000

21. Henry owns a deferred annuity. He opened the contract in 2000 with $30,000 and the annuity is now valued at $42,000. He wants to reduce the value of his estate, so he gifts the annuity to his daughter Lisa by removing himself as owner and naming Lisa as the owner. Henry will be responsible:
    a. To file an annual gift tax return, only
    b. For the income tax due on the gain in the contract at the time of the gift, only
    c. Both to file an annual gift tax return and for the income tax due on the gain in the contract at the time of the gift
    d. To neither file an annual gift tax return nor for the income tax due on the gain in the contract at the time of the gift

22. The owner of an annuity contract issued in 2004 dies prior to the date that annuitization starts. The contract must be distributed within ___ years of the owner's death.
    a. 2
    b. 3
    c. 5
    d. 8

23. The IRS has explained that for contracts issued after _______, the death distribution rules treat the annuitant as though the annuitant were the owner if a non-natural person is named as owner.
    a. April 22, 1987
    b. October 21, 1988
    c. January 16, 1993
    d. March 14, 2001

24. The contract structure of an annuity pays a death benefit at the owner's death and takes no action at the annuitant's death. Which of the following statements relating to the popularity of this kind of structure is true?
    a. This structure is static in popularity
    b. More and more new product contracts are constructed in this manner
    c. Fewer and fewer new products contracts are constructed in this manner
    d. This type of structure is practically nonexistent

25. The contract structure of an annuity pays a death benefit at either the owner's or the annuitant's death. Under this type of contract, if either the annuitant or owner dies, ______annuity value is paid to the beneficiary.
    a. the full
    b. 50% of the
    c. an indeterminate
    d. no

26. Which of the following statements relating to the estate taxation of a deferred contract is false?
    a. The contract value of a deferred annuity at the death of the owner is included in the owner's estate
    b. If a contract is jointly owned, and the annuity proceeds are payable to a spouse upon the owner's death, generally, the unlimited marital estate tax deduction applies
    c. If a contract is jointly owned, generally only 50% of the value is included in the deceased owner's estate
    d. The estate tax regulations are the same for deferred contracts as they are for annuitized contracts

27. The distribution of annuities required under a qualified domestic relations order:
    a. Is subject to a 7% premature distribution tax
    b. Is subject to a 10% premature distribution tax
    c. Is subject to a 15% premature distribution tax
    d. Is not subject to a premature distribution tax

28. Each state has sets of regulations meant to protect its citizens from an insurance company defaulting on policyholder obligations. Each state mandates *reserve requirements*. *Reserves* are:
    a. An insurance company's surplus
    b. The difference between an insurance company's future claims and future premium
    c. A certain amount by which an insurance company's assets exceed the value of its liabilities and capital
    d. An insurance company's gross annual yield

29. A typical guaranty association will have a maximum limit of _______ per policyholder benefit
    a. $10,000
    b. $50,000
    c. $300,000
    d. $750,000

30. The systematic withdrawal feature of annuities is:
    a. Becoming less and less common
    b. Becoming more and more common
    c. As common as it ever was
    d. Practically nonexistent

31. Joint owners on an annuity contract:
    a. are always considered one another's beneficiary
    b. may transact independently of each other on the annuity
    c. may not transact independently of each other on the annuity
    d. are not allowed

32. Penalty free withdrawals:
   a. avoid the 10% premature distribution tax if taken prior to 59 1/2
   b. avoid income taxation
   c. avoid normally applicable surrender charges
   d. are not allowed prior to age 59 1/2

33. A deferred annuity contract must always include all of the following parties:
   a. payee, tertiary beneficiary, annuitant
   b. owner, annuitant, beneficiary
   c. owner, joint owner
   d. owner, joint owner, beneficiary

34. Multiple contract taxation rules apply:
   a. to deferred annuity contracts purchased within the same twelve months from different insurance companies
   b. to immediate annuity contracts purchased within the same twelve months from different insurance companies
   c. to deferred annuity contracts purchased within the same twelve months from the same insurance companies
   d. to immediate annuity contracts purchased within the same twelve months from different insurance companies

35. Which of the following is not a right of the annuity owner? The right:
   a. to name the beneficiary
   b. to name the annuitant
   c. to make withdrawals
   d. all of the above are rights of the annuity owner

36. . If a non-natural person is the owner of an annuity contract:
   a. under no circumstances will the annuity be tax-deferred.
   b. the annuity may retain tax deferral if the non-natural person is a trust excluded from the IRS provisions barring tax-deferral of annuities owned by non-natural persons.
   c. withdrawals are taxed as though principle is received prior to earnings.
   d. annuitization options are limited to period certain options.

37. The floor rate is:
   a. the lowest rate to which the annuity may fall before the bail-out provision will apply.
   b. the same as the minimum guaranteed rate.
   c. the minimum rate suggested by the National Association of Insurance Commissioners to be paid on fixed annuity contracts.
   d. none of the above

38. Joint owners on an annuity contract
    a. automatically create a gifting situation.
    b. may designate which owner's social security number will be reported to the IRS by the insurance company.
    c. are never allowed regardless of the annuity contract purchased unless the joint owners are spouses.
    d. are generally considered by the IRS to own the contract on a 50/50 basis.

39. All of the following statements regarding nursing home waiver provisions are accurate except:
    a. Nursing home waiver provisions may exclude persons already in a nursing home at the time the annuity is purchased.
    b. Withdrawals made through nursing home waivers are not subject to income tax.
    c. Withdrawals made through nursing home waivers are surrender penalty free.
    d. Nursing home waiver provisions vary from contract to contract, and may be governed by state regulation.

40. Premium tax:
    a. is always an up-front tax.
    b. is always back-end tax.
    c. is always passed onto the customer by the insurance company.
    d. may be an up-front tax or a back-end tax and may be passed onto the customer by the insurance company