

Variable Annuity Final Exam

1. Under which of the following situations do no current tax ramifications occur?
 - a. When moneys are moved from one variable annuity sub-account to another
 - b. When any transfers are made from mutual fund to mutual fund
 - c. When transfers are made from mutual fund to mutual fund within the same fund family
 - d. When transfers are made from mutual fund to mutual fund outside of the same fund family
2. Most variable annuities are considered "*deferred*" because annuity income payments do not begin until sometime after the first twelve months from:
 - a. The policy opening date
 - b. The owner's 59th birthday
 - c. The owner's 65th birthday
 - d. The policy maturity date
3. Which of the following is not another term for the annuitization start date of a variable annuity?
 - a. The contract maturity date
 - b. The annuity start date
 - c. The maximum deferral date
 - d. The agreement suspension date
4. The _____ is generally the "measuring life" on an annuity contract.
 - a. Annuitant
 - b. Beneficiary
 - c. Owner
 - d. Non-natural owner
5. The amount of the annual fee that covers account maintenance, transaction processing, clerical services, etc., related to a variable annuity contract is usually:
 - a. \$10 - \$15
 - b. \$30 - \$35
 - c. \$50 - \$70
 - d. \$65 - \$90
6. For variable annuities, separate account expenses are charged to:
 - a. All contract holders, regardless of the sub-accounts held
 - b. Only those contract holders with 3 or more sub-accounts
 - c. Only those contract holders whose sub-accounts belong to 3 or more fund families
 - d. No contract holders

7. The focus of the evaluation of rating agencies is:
 - a. The relative ability of the issuer to meet the specific obligations of the bond
 - b. The projected financial outcomes of specific bond types and families
 - c. The short-term growth of an issuer
 - d. The economic principal of the fundamental fixation of worth

8. The objectives of most variable annuity sub-accounts reflect a financial horizon of a minimum of:
 - a. 6 months
 - b. 1 year
 - c. 2 and a half years
 - d. 5 years

9. Typically, US Government sub-accounts which seek current income only will allow investment in options and futures _____ those US Government sub-accounts with the objective of capital preservation.
 - a. To a greater degree than
 - b. On an equal level with
 - c. To a slightly smaller degree than
 - d. To a much smaller degree than

10. Mortgage securities can provide a higher rate of return than many other government issued securities, but carry the risk that the mortgagees may pay off their mortgages early. Paying off a mortgage early means:
 - a. Paying off the mortgage before the terms of the terms of the mortgage agreement
 - b. Paying off the mortgage before the expected pay off date
 - c. Paying off the mortgage either before the terms of the mortgage agreement require or before the expected pay off date
 - d. Paying off the mortgage before the terms of the mortgage agreement require, before the expected pay off date or before the federally-mandated payment date

11. Which of the following statements regarding high yield corporate bond sub-account funds is false?
 - a. They are often the least aggressive of the corporate bond sub-accounts
 - b. They are generally invested in corporate bonds issued by financially troubled companies.
 - c. They often allow, by prospectus, a percentage of the fund assets to be in common or preferred stock.
 - d. The overall portfolio composition affects the overall risk of these sub-accounts.

12. Aggressive growth portfolios normally hold large amounts of:
- Small companies
 - Midsized companies
 - Small and midsized companies
 - Large companies
13. Which of the following statements regarding sector sub-account funds is false?
- Sector sub-account funds are funds which invest in stocks within certain sectors.
 - Sector sub-account funds are generally used as hedging instruments against purchasing power risk, against interest rate risk, or against general market risks.
 - Sector sub-account funds are generally not considered volatile.
 - Sector funds are best used as a part of a diversified investment portfolio, for the long term investor.
14. Which of the following statements regarding nursing home waivers as a form of penalty free withdrawal feature found in annuities is false?
- Some nursing home waivers allow multiple withdrawals, others one only.
 - Typically, to be eligible for this waiver, the stay in the qualified facility must be from thirty to one-hundred and eighty days.
 - Typically, to be eligible for this waiver, the withdrawals or surrender request based on the waiver must be made within thirty to sixty days from the time eligibility is established, or from the date of discharge from the facility.
 - All states allow nursing home waivers.
15. Variable annuities _____ allow the transfer of units to different sub-accounts during the annuitization period.
- Always
 - Often
 - Usually do not
 - Never
16. Contributions and earnings attributable to contributions made after August 13, 1982 made to a variable annuity contract opened prior to August 14, 1982, are withdrawn based on what kind of distribution rules?
- LIFO distribution rules
 - FIFO distribution rules
 - Either LIFO or FIFO distribution rules, according to the preference of the annuity owner
 - Either LIFO or FIFO distributions rules, according to the preference of the beneficiary

17. The amount of the _____ portion of a fixed annuity income payments is calculated using an *exclusion ratio*.
- Taxable
 - Non-taxable
 - Payable
 - Deferrable
18. If annuitization starts within one year of the date of an annuity contract owner's death, the contract must be distributed as an annuity not to exceed:
- The life expectancy of the beneficiary
 - The original life expectancy of the owner
 - 10 years
 - 25 years
19. Under the Economic Growth and Tax Relief Reconciliation Act of _____, the maximum contribution that may be made to traditional IRAs is increased from the pre-Act level of \$2000.
- 1997
 - 2001
 - 2003
 - 2007

20. What is the amount that belongs in the shaded box in the table below?

IRA Maximum Contribution Levels
(Persons under age 50)

For taxable years beginning in:	The deductible amount is:
2002 through 2004	\$3000
2005 through 2007	\$4000
2008 and thereafter	

- \$0
 - \$4,500
 - \$5,000
 - \$6,000
21. Despite recent tax law changes, up to what percent of working Americans may take a partial or total income tax deduction for regular IRA contributions?
- 7%
 - 12%
 - 36%
 - 87%

22. For the purposes of IRA investments, items such as art, rugs, antiques, gems, stamps and coins are examples of:
- “Collectibles”
 - “Valuables”
 - “Irreplaceables”
 - “Liabilities”
23. Premature distributions which are made by an IRA holder for “qualified acquisition costs” for a principal residence will not be subject to an additional tax if the resident is for any of the following individuals, except:
- The IRA holder’s spouse
 - The IRA holder’s parent
 - The IRA holder’s grandchild
 - The IRA holder’s spouse’s ancestor
24. Mrs. Smith, a widow earning \$35,000 makes a \$2000 deductible traditional IRA contribution in May 2012. The maximum Roth IRA contribution she could have made in that same year was:
- \$0
 - \$1000
 - \$3000
 - \$5000
25. A distribution made from a Roth IRA is taxed in a more favorable manner than are regular IRAs:
- Only if the distribution is a qualified distribution
 - Only if the distribution is not a qualified distribution
 - Regardless of whether or not the distribution is a qualified distribution
 - Under no circumstance
26. Susie Smith has a regular IRA to which she has made \$12,000 in deductible contributions. The IRA includes \$2,000 in earnings. If she distributes the entire amount and rolls it to a Roth IRA, what amount will she have to include in gross income for that tax year?
- \$0
 - \$2,000
 - \$12,000
 - \$14,000
27. _____ of the rules applying to IRAs apply to SEPs.
- All
 - Most
 - Some
 - Relatively few

28. Since SEP contributions can be _____ IRA contributions, the impact of tax deferral on accumulations within the SEP can be _____ in a contributory IRA.
- Much greater than; much more significant than
 - Only slightly greater than; only slightly greater than
 - Equal to; equal to those
 - Much less than; much less than
29. Gina earns \$10,000 in annual compensation. If she is a participant in a SIMPLE plan, her employer must generally must make a matching contribution equal to the amount deferred by Gina, but not exceeding:
- \$300
 - \$1,000
 - \$3,000
 - \$5,000
30. Sylvia is a full time employee. She is 25 years old, and has 3 years of full-time service with her current employer, who has a Keogh plan. When is the earliest that 100% vesting in the plan could be provided to Sylvia by her employer?
- Beginning in Year 1 of her service
 - Beginning in Year 2 of her service
 - Beginning in Year 3 of her service
 - 100% vesting could not be provided because of her age
31. Which of the following statements refers to the UGMA and not the UTMA?
- It was approved in 1983 by the National Conference of Commissioners on Uniform State Laws.
 - At its creation, it generally allowed the gifting of certain types of property, such as securities, money, life insurance and annuity contracts to a minor by means of a custodianship.
 - It currently allows any kind of property to be transferred to the minor.
 - About two-thirds of the states have adopted its provisions.
32. Under UGMA and UTMA, a custodian:
- Has many fiduciary responsibilities
 - Has some fiduciary responsibilities
 - Has very few fiduciary responsibilities
 - Does not have fiduciary responsibilities

33. Generally, if a down payment of 10% is made on a home purchase, the maximum monthly housing expense a mortgage company will approve for a conventional loan equates to _____ of gross income.
- 3%
 - 12%
 - 28%
 - 45%
34. A product selected for college savings must allow additions:
- Under any circumstance
 - If a lump sum product is not used
 - If a lump sum product is used
 - Under no circumstance
35. Distributions from a Coverdell ESA under a divorce decree or separation agreement are:
- Taxable
 - Not taxable
 - Not taxable, if the Coverdell ESA was created prior to 2001
 - Not taxable, if the Coverdell ESA was created after 2001
36. A living trust results in property changing hands:
- At the death of the grantor
 - At the death of the beneficiary
 - After a period specified in the contract
 - After 10 years from the contract's inception
37. Sales loads:
- are not part of variable annuity contracts.
 - are charged only upon withdrawal of units.
 - are charged upon withdrawal of units or purchase of units, depending on the variable annuity contract terms.
 - are charged only upon purchase of units.
38. Common stocks:
- are a sure way to beat inflation.
 - have a history of rising prices when inflation indices rise.
 - should be purchased only by young savers.
 - are always a better investment than bonds because of the opportunity for growth.

39. The owner of a variable annuity:

- a. may not make random withdrawals once annuitization commences.
- b. may change a revocable beneficiary at any time.
- c. may make random withdrawals prior to annuitization.
- d. all of the above.

40. Dollar cost averaging:

- a. ensures a lower average price per unit.
- b. is only for the person with large amounts to invest.
- c. is only for the person with small amounts to invest.
- d. can result in a lower average price per unit than if random contributions are made.