

Chapter 14 Retirement and Estate Planning

True / False Questions

1. The best time to begin planning for retirement is at age 27.

True False

2. Annabelle works at Acme Cleaning Company. When she retires, her employer's health insurance plan and Medicare should cover all of her medical expenses.

True False

3. Bruce and Christopher are both retiring from Best Conditioning Company. They both should have the same amount of money in their retirement funds regardless of the lifestyle they should expect during retirement.

True False

4. Cindy's net worth should increase each year as she moves closer to her retirement.

True False

5. Housing and life insurance are so important to one's retirement income that other investments can be ignored as you review your assets.

True False

6. When Don retires, his transportation expenses will likely increase.

True False

7. Because of the potential effect of inflation, individuals should underestimate the amount of money needed for retirement.

True False

8. The four primary sources of retirement income are employer pension plans, personal retirement plans, annuities, and public pension plans.

True False

9. A benefit of an employer pension plan is that taxes are eliminated.

True False

10. An example of a defined-contribution plan is a stock bonus plan.

True False

11. A salary-reduction plan for a nonprofit organization is called a 401(k) plan.

True False

12. Lora is a full-time employee at Harley-Davidson, Inc. She should be eligible to participate in the company's 401(k) plan to save for retirement.

True False

13. A defined-benefit plan specifies the benefits that you will receive at retirement age.

True False

14. When Social Security was established, it was intended to provide less than 100 percent of one's retirement income.

True False

15. Social Security covers 97 percent of all workers in America.

True False

16. About one out of every three Americans currently collects some form of Social Security benefit.

True False

17. Only people who are retired can receive a benefit from Social Security.

True False

18. If you were born in 1960 or later, you will first become eligible to receive Social Security benefits at age 67.

True False

19. Eight years ago, Thomas began investing in his Roth IRA. He is now purchasing his first home. He may withdraw some money from his Roth IRA tax-free and penalty-free for this purchase.

True False

20. The SEP IRA is the simplest type of retirement plan if a person is self-employed.

True False

21. When Paul leaves his job at Acme Bending Company, he may choose to move his 401(k) balance to a plan called a Rollover IRA.

True False

22. The longer money accumulates tax-deferred, the bigger the benefit.

True False

23. Retirement means that you will never work again.

True False

24. People should never dip into their savings in retirement.

True False

25. Your estate consists of everything you own.

True False

26. Estate planning is important for financial planning, but not for retirement planning.

True False

27. If you are single, then you should not have beneficiaries.

True False

28. Every adult should have a written will.

True False

29. If you die intestate, your beneficiaries will receive your estate.

True False

30. A traditional marital share will leaves everything to your spouse.

True False

31. A traditional marital share will has some assets going into a trust to provide your spouse lifelong income that will not be taxed.

True False

32. A Stated Amount Will identifies the amount that will not go to your spouse.

True False

33. If a will is found to be invalid, the result is called in-probate.

True False

34. Probate is a short, quick process.

True False

35. A holographic will has a holographic seal to prove its authenticity.

True False

36. A holographic will is legal in all states.

True False

37. A statutory will is one that is prepared with the help of an attorney.

True False

38. If you are married, your estate will automatically pass to your spouse.

True False

39. Only one will may legally be written during a person's lifetime.

True False

40. Changes to a will should be written in ink on the will and initialed.

True False

41. A power of attorney should handle the estate of a deceased person.

True False

42. A copy of your living will should be distributed to your family doctor.

True False

43. Another name for a will is a letter of last instruction.

True False

44. A revocable trust cannot be changed or ended.

True False

45. A disclaimer trust is appropriate for couples who do not yet have enough assets to need a credit-shelter trust.

True False

46. An inter vivos trust takes effect while you're alive.

True False

47. A testamentary trust takes effect while you're alive.

True False

48. An individual can give away up to \$13,000 per year (as of 2009) before paying an inheritance tax to the IRS.

True False

Multiple Choice Questions

49. When thinking about retirement, which of the following is correct?
- A. You'll spend less money when you retire.
 - B. Saving just a little bit won't help.
 - C. You can depend on Social Security and a company pension plan to pay your basic living expenses.
 - D. The earlier you start saving, the better.
 - E. Your pension benefits will increase to keep pace with inflation.
50. When planning for retirement, you should review
- A. Housing
 - B. Life insurance
 - C. Investments
 - D. Assets
 - E. All of the above
51. When planning for retirement,
- A. A mortgage should not affect your financial planning.
 - B. Investments should be evaluated to determine whether or not their income can help cover living expenses.
 - C. Keeping your current, large house will be cheaper to maintain than a move to a smaller house.
 - D. Life insurance should be avoided.
 - E. All of the above.
52. According to the text, which of the following will probably be your most valuable asset at retirement?
- A. Automobile
 - B. House
 - C. Investments
 - D. Life insurance
 - E. All of the above

53. What steps should be taken in retirement planning?

- A. Conduct a financial analysis
- B. Estimate retirement living expenses
- C. Exceed budget amounts for spending
- D. A and B are correct
- E. All of the above are correct

54. An "average" older household spends most of its money on

- A. Entertainment
- B. Food
- C. Housing
- D. Medical care
- E. Transportation

55. An "average" older household spends more money on

- A. Clothing than on housing
- B. Contributions than on medical care
- C. Entertainment than on transportation
- D. Housing than on contributions, entertainment, and clothing combined
- E. Personal insurance than on food

56. When you retire, you will probably spend less money on

- A. Clothing
- B. Health insurance
- C. Medical care
- D. Recreation
- E. All of the above

57. When you retire, you will probably spend more money on

- A. Clothing
- B. Transportation
- C. Taxes
- D. Health insurance
- E. All of the above

58. When planning for retirement, inflation

- A. Decreases through retirement.
- B. Should be ignored since it will have no effect on retirement funding.
- C. Should be considered since income received earlier in retirement will buy more than the same amount received later in retirement.
- D. Is unimportant since pension income does not change in retirement.
- E. Should be recognized since it will increase the value of income received in retirement.

59. Which of the following is NOT a source of retirement income?

- A. Annuity
- B. Employer pension plan
- C. Personal retirement plan
- D. Public pension plan
- E. All of the above are sources of retirement income.

60. All of the following are examples of defined contribution plans *except*

- A. Defined benefit plan
- B. Money-purchase plan
- C. Profit-sharing plan
- D. Salary-reduction plan
- E. Stock bonus plan

61. When an employer promises to set aside a certain amount of money for each employee each year, it has set up a

- A. Defined benefit plan
- B. Money-purchase plan
- C. Profit-sharing plan
- D. Salary-reduction plan
- E. Stock bonus plan

62. A salary-reduction plan is also known as a

- A. 401(k) plan
- B. Money-purchase plan
- C. Profit-sharing plan
- D. Salary-reduction plan
- E. Stock bonus plan

63. When an employer's contribution is used to buy stock in the company for its employees, it has a

- A. 401(k) plan
- B. Money-purchase plan
- C. Profit-sharing plan
- D. Salary-reduction plan
- E. Stock bonus plan

64. An employer's contribution will vary according to the company's earnings in a

- A. 401(k) plan
- B. Money-purchase plan
- C. Stock bonus plan
- D. Profit-sharing plan
- E. Salary-reduction plan

65. An employer may choose to match money employees invest in a

- A. 401(k) plan or a salary reduction plan
- B. Money-purchase plan
- C. Stock bonus plan
- D. Profit-sharing plan
- E. Individual retirement account

66. When the economy recently worsened, some employers suspended their matching contributions to their employees'

- A. 401(k) plan
- B. Money-purchase plan
- C. Stock bonus plan
- D. Profit-sharing plan
- E. Defined benefit plan

67. Vesting is the right to receive the

- A. Employer's contributions to a pension plan.
- B. 401(k) contributions made by the employee.
- C. Employee's contributions each pay period.
- D. Portable employee benefits from a defined benefit plan.
- E. Employee of the month award at a company that makes life jackets.

68. Which retirement plan specifies the benefits you'll receive at retirement age based on your total earning and years on the job?

- A. Defined-benefit plan
- B. Money-purchase plan
- C. Defined-contribution plan
- D. Profit-sharing plan
- E. 401(k) plan

69. In 1974, ERISA was passed. What does ERISA stand for?

- A. Employee Retirement Income Security Act
- B. Employer Retirement Income Security Act
- C. Employee Retirement Investment Security Act
- D. Employer Retiring Investment Stock Act
- E. Entity Retirement Investment Security Act

70. Social Security

- A. Covers about 97 percent of all American workers
- B. Offers full retirement benefits beginning at age 62
- C. Provides benefits only for retirees
- D. Provides 100 percent of retirement income for recipients
- E. Was established in 1947

71. What percent of American workers are covered by Social Security?

- A. 15 percent
- B. 50 percent
- C. 78 percent
- D. 97 percent
- E. 100 percent

72. How is eligibility determined for receiving Social Security retirement benefits?

- A. Marital status
- B. Credits
- C. Family size
- D. Salary
- E. All of the above

73. Employees who were born in 1960 or later can receive full Social Security benefits beginning at age

- A. 59 ½
- B. 62
- C. 65
- D. 67
- E. 70

74. Julian's annual contributions to his retirement are not tax-deductible, but his earnings accumulate tax-free. He is investing in a

- A. 401(k) plan
- B. Regular IRA
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

75. Lawrence is self-employed and wants to have an investment funded by his company. He should set up a

- A. 401(k) plan
- B. Regular IRA
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

76. Jill is 45 years old and thinks that her future tax rate will be lower than what she currently pays, so she wants to defer her taxes on her contributions of up to \$5000 in 2009. Which plan would allow her to meet her goals?

- A. 401(k) plan
- B. Regular IRA
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

77. Robert's wife Fiona does not work and they file a joint tax return. Robert can contribute on behalf of Fiona into a

- A. 401(k) plan
- B. Regular IRA
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

78. Another name for a Coverdell is a(n)

- A. Education IRA
- B. Regular IRA
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

79. Another name for an H.R. 10 plan or a self-employed retirement plan is a

- A. 401(k) plan
- B. Keogh plan
- C. Regular IRA
- D. SEP plan
- E. Spousal IRA

80. If you have fully funded your 401(k) and profit-sharing plans, you may choose to enhance your retirement savings by using this plan that allows you to withdraw money from the account tax-free and penalty-free after five years.

- A. Annuity
- B. Keogh plan
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

81. When planning for retirement, you should consider all *except*

- A. Checking that you are receiving all income to which you are entitled
- B. Evaluating all assets or valuables that you might be able to convert to cash or sources of income
- C. Receiving special discounts because of your retiree status or age
- D. Working during retirement
- E. Withdrawing all retirement savings within 5 years of retirement

82. Estate planning is an essential part of

- A. Retirement planning
- B. Financial planning
- C. Vacation planning
- D. A and B
- E. B and C

83. An estate consists of

- A. Home, vehicle, and retirement accounts only
- B. Furniture, home, and collections only
- C. Everything you own
- D. Everything you own except your home if you hold a mortgage on it
- E. None of the above

84. The best definition of estate planning is

- A. Assets less liabilities
- B. A definite plan for managing property during one's lifetime and at one's death
- C. Naming a beneficiary
- D. Savings
- E. A will

85. Sean's estate planning should

- A. Be built by acquiring assets using debt
- B. Be distributed first to his cousin then whatever is left should go to his wife
- C. Ignore his beneficiaries
- D. Consist primarily of a will
- E. Take the needs of his wife and children into account

86. Which of the following is NOT a document associated with estate planning?

- A. Birth certificate
- B. Legal name change
- C. Insurance policy
- D. Will
- E. All of the above are documents associated with estate planning

87. Intestate is

- A. The process of validating a will
- B. A written will
- C. A type of trust
- D. Dying without a valid will
- E. The selection of a trust

88. Jacob is updating his estate planning and wants to set up the legal document to leave everything to his wife. He is writing a(n)

- A. Exemption trust will
- B. Guardian will
- C. Simple will
- D. Stated amount will
- E. Traditional marital share will

89. William is updating his estate planning and wants to set up the legal document to leave all of his assets except a specific amount to his wife. He is writing a(n)

- A. Exemption trust will
- B. Guardian will
- C. Simple will
- D. Stated amount will
- E. Traditional marital share will

90. Cookie is updating her estate planning and wants to write a legal document that will allow all of her assets to go to her spouse except for a certain amount that will be set up in a trust. The trust (plus interest) can provide her spouse lifelong income that will not be taxed. She is writing a(n)

- A. Exemption trust will
- B. Guardian will
- C. Simple will
- D. Stated amount will
- E. Traditional marital share will

91. Darlene is updating her estate planning and wants to set up the legal document to leave \$3.5 million to her husband. She is writing a(n)

- A. Exemption trust will
- B. Guardian will
- C. Simple will
- D. Stated amount will
- E. Traditional marital share will

92. Jason is updating his estate planning and wants to set up the legal document to leave one half of the adjusted gross estate to his wife. He is writing a(n)

- A. Exemption trust will
- B. Guardian will
- C. Simple will
- D. Stated amount will
- E. Traditional marital share will

93. A handwritten will is known as a(n)

- A. Formal will
- B. "I love you" will
- C. Holographic will
- D. Ordinary will
- E. Statutory will

94. A will that is usually prepared with the help of an attorney is known as a(n)

- A. Formal will
- B. "I love you" will
- C. Holographic will
- D. Ordinary will
- E. Statutory will

95. A will prepared on a preprinted form is called a(n)

- A. Formal will
- B. "I love you" will
- C. Holographic will
- D. Ordinary will
- E. Statutory will

96. Your will must be signed by

- A. The lawyer who prepares it
- B. You
- C. Three unbiased witnesses
- D. One beneficiary
- E. All of the above

97. If you have children and are writing your will, you need to do all of the following *except*

- A. Select a guardian
- B. Write the will with the help of an attorney
- C. Select an executor
- D. Sign the will in front of two witnesses
- E. Select beneficiaries

98. A codicil is

- A. A document that explains, adds, or deletes provisions in an existing will
- B. A handwritten will
- C. Another name for the first will an individual writes
- D. A will written in legal code
- E. None of the above

99. Multiple copies of a _____ should be distributed to those closest to you as well as your family doctor.

- A. Formal will
- B. Guardian
- C. Living will
- D. Power of attorney
- E. Trust

100. The letter of last instruction is

- A. Another name for a will
- B. Legally binding
- C. Another name for a trust
- D. A document that identifies whether you want to be kept alive by artificial means if you become terminally ill and unable to make such a decision
- E. A non-legally binding document that provides information regarding your death

101. A legal arrangement that helps manage the assets of your estate for your benefit or that of your beneficiaries is called a

- A. Formal will
- B. Trust
- C. Holographic will
- D. Guardian
- E. Statutory will

102. A _____ administers a trust.

- A. Beneficiary
- B. Executor
- C. Grantor
- D. Guardian
- E. Trustee

103. A _____ is the creator of a trust.

- A. Beneficiary
- B. Executor
- C. Grantor
- D. Guardian
- E. Trustee

104. A(n) _____ allows you to end the trust or change its terms during your lifetime.

- A. Irrevocable trust
- B. Living will
- C. Power of attorney
- D. Revocable trust
- E. Will

105. A(n) _____ cannot be changed or ended.

- A. Irrevocable trust
- B. Living will
- C. Power of attorney
- D. Revocable trust
- E. Will

106. Gladys wants to set up a trust that is also known as a bypass trust, family trust, "Residuary" trust, A/B trust and exemption equivalent trust. She should set up a(n)

- A. Credit-shelter trust
- B. Revocable trust
- C. Irrevocable trust
- D. Living trust
- E. Testamentary trust

107. This trust is designed to allow married couples to take full advantage of the federal estate tax exemption.

- A. Credit-shelter trust
- B. Revocable trust
- C. Irrevocable trust
- D. Living trust
- E. Testamentary trust

108. This is also known as an inter vivos trust.

- A. Credit-shelter trust
- B. Disclaimer trust
- C. Irrevocable trust
- D. Living trust
- E. Testamentary trust

109. This allows the trustor to receive benefits during his or her lifetime.

- A. Credit-shelter trust
- B. Disclaimer trust
- C. Irrevocable trust
- D. Inter vivos trust
- E. Testamentary trust

110. This trust becomes effective upon your death.

- A. Credit-shelter trust
- B. Disclaimer trust
- C. Irrevocable trust
- D. Living trust
- E. Testamentary trust

111. This is the best option if you or your beneficiaries are inexperienced in financial matters and if your estate taxes will be high.

- A. Revocable trust
- B. Disclaimer trust
- C. Irrevocable trust
- D. Living trust
- E. Testamentary trust

112. The maximum gift that could be given to another person in 2009 was

- A. \$0
- B. \$1,000
- C. \$10,000
- D. \$13,000
- E. \$16,500

113. When you die, this tax will be based on the fair market value of your investments, property, and bank accounts less an exemption (of \$3.5 million in 2009).

- A. Estate tax
- B. Gift tax
- C. Inheritance tax
- D. Trust federal income tax
- E. Will tax

114. Trusts and estates must pay quarterly estimated taxes based on taxable income for their

- A. Estate tax
- B. Gift tax
- C. Inheritance tax
- D. Trust federal income tax
- E. Will tax

115. This tax is only imposed by state governments.

- A. Estate tax
- B. Gift tax
- C. Inheritance tax
- D. Trust federal income tax
- E. Will tax

Essay Questions

116. What are three important things to consider when planning for retirement?

117. What is the relationship between saving for retirement at a young age versus beginning later?

118. What are two major assets that should be considered in retirement planning?

119. What are two major steps of retirement planning?

120. David went to his Uncle Edward for advice about spending money in retirement. What advice would you expect Uncle Edward to share about specific types of expenses that probably will increase or will decrease?

121. Why is it important to consider inflation in retirement planning?

122. What are four major sources of retirement income?

123. Employers may choose to fund retirement plans for employees. These plans fall into two categories. Identify these categories.

124. Describe a defined-contribution plan.

125. What is vesting?

126. What is the maximum that an employee can contribute annually to a 401(k) plan?

127. To whom does Social Security provide retirement benefits?

128. What is the age an employee born in 1960 or later must reach in order to receive full Social Security retirement benefits?

129. What is the difference between a regular IRA and a Roth IRA?

130. What is the simplest type of retirement plan if a person is self-employed?

131. Under what circumstances would a rollover IRA be appropriate?

132. Should a retiree spend money from savings in retirement? Why or why not?

133. What is an estate?

134. What is estate planning?

135. Who receives your estate after you die?

136. Identify four legal documents associated with estate planning.

137. What is a will?

138. What is the difference between a holographic will and a formal will?

139. Explain the importance of an executor and a guardian.

140. When should a codicil be used?

141. When should you review and possibly rewrite your will?

142. What is a power of attorney?

143. What information might you want to include in a letter of last instruction?

144. What is the difference between a revocable trust and an irrevocable trust?

145. What is the maximum amount that one individual can give another each year without paying a gift tax?

Chapter 14 Retirement and Estate Planning **Answer Key**

True / False Questions

1. (p. 466) The best time to begin planning for retirement is at age 27.

FALSE

It is never too early to start planning for retirement.

*Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 1
Topic: Planning for retirement*

2. (p. 468) Annabelle works at Acme Cleaning Company. When she retires, her employer's health insurance plan and Medicare should cover all of her medical expenses.

FALSE

All of her medical expenses will likely not be covered by Medicare and her employer's health insurance plan.

*Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 1
Topic: Planning for retirement*

3. (p. 468) Bruce and Christopher are both retiring from Best Conditioning Company. They both should have the same amount of money in their retirement funds regardless of the lifestyle they should expect during retirement.

FALSE

Each retiree needs enough money to suit his or her lifestyle. That amount will be different for each individual.

*Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement*

4. (p. 468) Cindy's net worth should increase each year as she moves closer to her retirement.

TRUE

*Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 1
Topic: Planning for retirement*

5. (p. 468) Housing and life insurance are so important to one's retirement income that other investments can be ignored as you review your assets.

FALSE

Other investments should also be included in the review of assets.

*Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement*

6. (p. 470) When Don retires, his transportation expenses will likely increase.

FALSE

Transportation and clothing expenses may decrease; nevertheless, recreation, health insurance and medical care costs may increase.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

7. (p. 471) Because of the potential effect of inflation, individuals should underestimate the amount of money needed for retirement.

FALSE

One should estimate high because of inflation.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

8. (p. 472) The four primary sources of retirement income are employer pension plans, personal retirement plans, annuities, and public pension plans.

TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

9. (p. 472) A benefit of an employer pension plan is that taxes are eliminated.

FALSE

Taxes on an employer pension plan are tax-deferred.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

10. (p. 472) An example of a defined-contribution plan is a stock bonus plan.

TRUE

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

11. (p. 473) A salary-reduction plan for a nonprofit organization is called a 401(k) plan.

FALSE

A plan for a nonprofit organization is called a Section 403(b) plan.

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

12. (p. 473) Lora is a full-time employee at Harley-Davidson, Inc. She should be eligible to participate in the company's 401(k) plan to save for retirement.

TRUE

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

13. (p. 475) A defined-benefit plan specifies the benefits that you will receive at retirement age.

TRUE

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

14. (p. 475) When Social Security was established, it was intended to provide less than 100 percent of one's retirement income.

TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

15. (p. 475) Social Security covers 97 percent of all workers in America.

TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

16. (p. 475) About one out of every three Americans currently collects some form of Social Security benefit.

FALSE

About one out of six receives a benefit.

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

17. (p. 475) Only people who are retired can receive a benefit from Social Security.

FALSE

Others can receive a benefit including widows or widowers and certain dependents of workers.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

18. (p. 476) If you were born in 1960 or later, you will first become eligible to receive Social Security benefits at age 67.

FALSE

You may receive a reduced benefit at age 62, the full benefit at age 67, or an increased benefit at age 70.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Retirement income

19. (p. 477) Eight years ago, Thomas began investing in his Roth IRA. He is now purchasing his first home. He may withdraw some money from his Roth IRA tax-free and penalty-free for this purchase.

TRUE

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

20. (p. 477) The SEP IRA is the simplest type of retirement plan if a person is self-employed.

TRUE

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

21. (p. 477) When Paul leaves his job at Acme Bending Company, he may choose to move his 401(k) balance to a plan called a Rollover IRA.

TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

22. (p. 478) The longer money accumulates tax-deferred, the bigger the benefit.

TRUE

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

23. (p. 479) Retirement means that you will never work again.

FALSE

Some people decide to work part-time or full-time after they retire from their job.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

24. (p. 480) People should never dip into their savings in retirement.

FALSE

They must do so with caution.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

25. (p. 481) Your estate consists of everything you own.

TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 3
Topic: Estate planning

26. (p. 482) Estate planning is important for financial planning, but not for retirement planning.

FALSE

Estate planning is important for both.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

27. (p. 482) If you are single, then you should not have beneficiaries.

FALSE

A beneficiary is a person you have named to receive a portion of your estate after your death. If you are married, your beneficiaries might be your spouse and children. If you are single, you still have beneficiaries.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

28. (p. 482) Every adult should have a written will.

TRUE

A will is a legal document that can facilitate the transfer of assets from one's estate. It is not required, but is quite helpful. However, it is only one of a list of documents that are part of estate planning.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

29. (p. 483) If you die intestate, your beneficiaries will receive your estate.

FALSE

If you have a will, your beneficiaries will receive your estate. If you die intestate, the state will control the distribution of your estate without regard for any wishes you may have had.

*Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects*

30. (p. 484) A traditional marital share will leaves everything to your spouse.

FALSE

The definition is for the simple will.

*Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects*

31. (p. 484) A traditional marital share will has some assets going into a trust to provide your spouse lifelong income that will not be taxed.

TRUE

*Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects*

32. (p. 484) A Stated Amount Will identifies the amount that will not go to your spouse.

FALSE

This will identifies the amount that WILL go to your spouse.

*Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects*

33. (p. 484) If a will is found to be invalid, the result is called in-probate.

FALSE

Probate is the process that proves a will valid or invalid.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 4
Topic: Legal aspects

34. (p. 484) Probate is a short, quick process.

FALSE

Probate is expensive, lengthy, and public.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

35. (p. 484) A holographic will has a holographic seal to prove its authenticity.

FALSE

A holographic will is a handwritten will that you prepare yourself.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

36. (p. 484) A holographic will is legal in all states.

FALSE

A holographic will is not recognized in some states as legal.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

37. (p. 484) A statutory will is one that is prepared with the help of an attorney.

FALSE

A statutory will is prepared on a preprinted form, available from lawyers or stationery stores.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

38. (p. 484) If you are married, your estate will automatically pass to your spouse.

FALSE

The only way to ensure that all of your property will end up where you want it is to write a will.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

39. (p. 485) Only one will may legally be written during a person's lifetime.

FALSE

Life or law changes may necessitate a change to provisions of a will.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 4
Topic: Legal aspects

40. (p. 485) Changes to a will should be written in ink on the will and initialed.

FALSE

Changes may invalidate the will. Instead, a codicil should be used to explain, add, or delete provisions in an existing will.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

41. (p. 485) A power of attorney should handle the estate of a deceased person.

FALSE

An executor handles the estate. A power of attorney is a legal document that authorizes someone to act on your behalf.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

42. (p. 485) A copy of your living will should be distributed to your family doctor.

TRUE

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

43. (p. 486) Another name for a will is a letter of last instruction.

FALSE

A letter of last instruction contains important information; however, it is not a legal document and is not a will.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

44. (p. 487) A revocable trust cannot be changed or ended.

FALSE

This definition is for an irrevocable trust.

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 4
Topic: Legal aspects

45. (p. 487) A disclaimer trust is appropriate for couples who do not yet have enough assets to need a credit-shelter trust.

TRUE

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects

46. (p. 487) An inter vivos trust takes effect while you're alive.

TRUE

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 4
Topic: Legal aspects

47. (p. 488) A testamentary trust takes effect while you're alive.

FALSE

A testamentary trust takes effect upon your death.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 4
Topic: Legal aspects

48. (p. 488) An individual can give away up to \$13,000 per year (as of 2009) before paying an inheritance tax to the IRS.

FALSE

An individual can give up to \$13,000 before the federal and state governments impose a *gift tax*.

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 4

Topic: Legal aspects

Multiple Choice Questions

49. (p. 466) When thinking about retirement, which of the following is correct?

- A. You'll spend less money when you retire.
- B. Saving just a little bit won't help.
- C. You can depend on Social Security and a company pension plan to pay your basic living expenses.
- D.** The earlier you start saving, the better.
- E. Your pension benefits will increase to keep pace with inflation.

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 1

Topic: Planning for retirement

50. (p. 468) When planning for retirement, you should review

- A. Housing
- B. Life insurance
- C. Investments
- D. Assets
- E.** All of the above

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 1

Topic: Planning for retirement

51. (p. 470) When planning for retirement,

- A. A mortgage should not affect your financial planning.
- B.** Investments should be evaluated to determine whether or not their income can help cover living expenses.
- C. Keeping your current, large house will be cheaper to maintain than a move to a smaller house.
- D. Life insurance should be avoided.
- E. All of the above.

Bloom's: Analysis
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

52. (p. 468) According to the text, which of the following will probably be your most valuable asset at retirement?

- A. Automobile
- B.** House
- C. Investments
- D. Life insurance
- E. All of the above

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

53. (p. 468) What steps should be taken in retirement planning?

- A. Conduct a financial analysis
- B. Estimate retirement living expenses
- C. Exceed budget amounts for spending
- D.** A and B are correct
- E. All of the above are correct

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

54. (p. 470) An "average" older household spends most of its money on
- A. Entertainment
 - B. Food
 - C. Housing**
 - D. Medical care
 - E. Transportation

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

55. (p. 470) An "average" older household spends more money on
- A. Clothing than on housing
 - B. Contributions than on medical care
 - C. Entertainment than on transportation
 - D. Housing than on contributions, entertainment, and clothing combined**
 - E. Personal insurance than on food

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 1
Topic: Planning for retirement

56. (p. 470) When you retire, you will probably spend less money on
- A. Clothing**
 - B. Health insurance
 - C. Medical care
 - D. Recreation
 - E. All of the above

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

57. (p. 470) When you retire, you will probably spend more money on

- A. Clothing
- B. Transportation
- C. Taxes
- D.** Health insurance
- E. All of the above

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

58. (p. 471) When planning for retirement, inflation

- A. Decreases through retirement.
- B. Should be ignored since it will have no effect on retirement funding.
- C.** Should be considered since income received earlier in retirement will buy more than the same amount received later in retirement.
- D. Is unimportant since pension income does not change in retirement.
- E. Should be recognized since it will increase the value of income received in retirement.

Bloom's: Analysis
Difficulty: Hard
Learning Objective: 1
Topic: Planning for retirement

59. (p. 472) Which of the following is NOT a source of retirement income?

- A. Annuity
- B. Employer pension plan
- C. Personal retirement plan
- D. Public pension plan
- E.** All of the above are sources of retirement income.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

60. (p. 473) All of the following are examples of defined contribution plans *except*

- A.** Defined benefit plan
- B. Money-purchase plan
- C. Profit-sharing plan
- D. Salary-reduction plan
- E. Stock bonus plan

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

61. (p. 473) When an employer promises to set aside a certain amount of money for each employee each year, it has set up a

- A. Defined benefit plan
- B.** Money-purchase plan
- C. Profit-sharing plan
- D. Salary-reduction plan
- E. Stock bonus plan

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

62. (p. 473) A salary-reduction plan is also known as a

- A.** 401(k) plan
- B. Money-purchase plan
- C. Profit-sharing plan
- D. Salary-reduction plan
- E. Stock bonus plan

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

63. (p. 473) When an employer's contribution is used to buy stock in the company for its employees, it has a
- A. 401(k) plan
 - B. Money-purchase plan
 - C. Profit-sharing plan
 - D. Salary-reduction plan
 - E.** Stock bonus plan

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

64. (p. 473) An employer's contribution will vary according to the company's earnings in a
- A. 401(k) plan
 - B. Money-purchase plan
 - C. Stock bonus plan
 - D.** Profit-sharing plan
 - E. Salary-reduction plan

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

65. (p. 473) An employer may choose to match money employees invest in a
- A.** 401(k) plan or a salary reduction plan
 - B. Money-purchase plan
 - C. Stock bonus plan
 - D. Profit-sharing plan
 - E. Individual retirement account

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

66. (p. 473) When the economy recently worsened, some employers suspended their matching contributions to their employees'

- A. 401(k) plan
- B. Money-purchase plan
- C. Stock bonus plan
- D. Profit-sharing plan
- E. Defined benefit plan

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

67. (p. 475) Vesting is the right to receive the

- A. Employer's contributions to a pension plan.
- B. 401(k) contributions made by the employee.
- C. Employee's contributions each pay period.
- D. Portable employee benefits from a defined benefit plan.
- E. Employee of the month award at a company that makes life jackets.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

68. (p. 475) Which retirement plan specifies the benefits you'll receive at retirement age based on your total earning and years on the job?

- A. Defined-benefit plan
- B. Money-purchase plan
- C. Defined-contribution plan
- D. Profit-sharing plan
- E. 401(k) plan

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

69. (p. 475) In 1974, ERISA was passed. What does ERISA stand for?

- A.** Employee Retirement Income Security Act
- B. Employer Retirement Income Security Act
- C. Employee Retirement Investment Security Act
- D. Employer Retiring Investment Stock Act
- E. Entity Retirement Investment Security Act

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Retirement income

70. (p. 475) Social Security

- A.** Covers about 97 percent of all American workers
- B. Offers full retirement benefits beginning at age 62
- C. Provides benefits only for retirees
- D. Provides 100 percent of retirement income for recipients
- E. Was established in 1947

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

71. (p. 475) What percent of American workers are covered by Social Security?

- A. 15 percent
- B. 50 percent
- C. 78 percent
- D.** 97 percent
- E. 100 percent

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

72. (p. 476) How is eligibility determined for receiving Social Security retirement benefits?

- A. Marital status
- B. Credits**
- C. Family size
- D. Salary
- E. All of the above

Eligibility is determined by earning a certain number of credits.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

73. (p. 476) Employees who were born in 1960 or later can receive full Social Security benefits beginning at age

- A. 59 ½
- B. 62
- C. 65
- D. 67**
- E. 70

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

74. (p. 477) Julian's annual contributions to his retirement are not tax-deductible, but his earnings accumulate tax-free. He is investing in a

- A. 401(k) plan
- B. Regular IRA
- C. Roth IRA**
- D. SEP plan
- E. Spousal IRA

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

75. (p. 477) Lawrence is self-employed and wants to have an investment funded by his company.

He should set up a

- A. 401(k) plan
- B. Regular IRA
- C. Roth IRA
- D. SEP plan**
- E. Spousal IRA

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 2

Topic: Retirement income

76. (p. 477) Jill is 45 years old and thinks that her future tax rate will be lower than what she currently pays, so she wants to defer her taxes on her contributions of up to \$5000 in 2009. Which plan would allow her to meet her goals?

- A. 401(k) plan
- B. Regular IRA**
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 2

Topic: Retirement income

77. (p. 477) Robert's wife Fiona does not work and they file a joint tax return. Robert can contribute on behalf of Fiona into a

- A. 401(k) plan
- B. Regular IRA
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA**

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 2

Topic: Retirement income

78. (p. 478) Another name for a Coverdell is a(n)

- A.** Education IRA
- B. Regular IRA
- C. Roth IRA
- D. SEP plan
- E. Spousal IRA

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

79. (p. 478) Another name for an H.R. 10 plan or a self-employed retirement plan is a

- A. 401(k) plan
- B.** Keogh plan
- C. Regular IRA
- D. SEP plan
- E. Spousal IRA

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

80. (p. 479) If you have fully funded your 401(k) and profit-sharing plans, you may choose to enhance your retirement savings by using this plan that allows you to withdraw money from the account tax-free and penalty-free after five years.

- A. Annuity
- B. Keogh plan
- C.** Roth IRA
- D. SEP plan
- E. Spousal IRA

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

81. (p. 479) When planning for retirement, you should consider all *except*
- A. Checking that you are receiving all income to which you are entitled
 - B. Evaluating all assets or valuables that you might be able to convert to cash or sources of income
 - C. Receiving special discounts because of your retiree status or age
 - D. Working during retirement
 - E.** Withdrawing all retirement savings within 5 years of retirement

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

82. (p. 481) Estate planning is an essential part of
- A. Retirement planning
 - B. Financial planning
 - C. Vacation planning
 - D.** A and B
 - E. B and C

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

83. (p. 481) An estate consists of
- A. Home, vehicle, and retirement accounts only
 - B. Furniture, home, and collections only
 - C.** Everything you own
 - D. Everything you own except your home if you hold a mortgage on it
 - E. None of the above

Bloom's: Analysis
Difficulty: Hard
Learning Objective: 3
Topic: Estate planning

84. (p. 482) The best definition of estate planning is

- A. Assets less liabilities
- B. A definite plan for managing property during one's lifetime and at one's death**
- C. Naming a beneficiary
- D. Savings
- E. A will

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

85. (p. 482) Sean's estate planning should

- A. Be built by acquiring assets using debt
- B. Be distributed first to his cousin then whatever is left should go to his wife
- C. Ignore his beneficiaries
- D. Consist primarily of a will
- E. Take the needs of his wife and children into account**

Bloom's: Analysis
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

86. (p. 482) Which of the following is NOT a document associated with estate planning?

- A. Birth certificate
- B. Legal name change
- C. Insurance policy
- D. Will
- E. All of the above are documents associated with estate planning**

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 3
Topic: Estate planning

87. (p. 483) Intestate is
- A. The process of validating a will
 - B. A written will
 - C. A type of trust
 - D. Dying without a valid will**
 - E. The selection of a trust

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

88. (p. 484) Jacob is updating his estate planning and wants to set up the legal document to leave everything to his wife. He is writing a(n)
- A. Exemption trust will
 - B. Guardian will
 - C. Simple will**
 - D. Stated amount will
 - E. Traditional marital share will

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

89. (p. 484) William is updating his estate planning and wants to set up the legal document to leave all of his assets except a specific amount to his wife. He is writing a(n)
- A. Exemption trust will**
 - B. Guardian will
 - C. Simple will
 - D. Stated amount will
 - E. Traditional marital share will

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 4
Topic: Legal aspects of estate planning

90. (p. 484) Cookie is updating her estate planning and wants to write a legal document that will allow all of her assets to go to her spouse except for a certain amount that will be set up in a trust. The trust (plus interest) can provide her spouse lifelong income that will not be taxed. She is writing a(n)

- A.** Exemption trust will
- B. Guardian will
- C. Simple will
- D. Stated amount will
- E. Traditional marital share will

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 4

Topic: Legal aspects of estate planning

91. (p. 484) Darlene is updating her estate planning and wants to set up the legal document to leave \$3.5 million to her husband. She is writing a(n)

- A. Exemption trust will
- B. Guardian will
- C. Simple will
- D.** Stated amount will
- E. Traditional marital share will

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

92. (p. 484) Jason is updating his estate planning and wants to set up the legal document to leave one half of the adjusted gross estate to his wife. He is writing a(n)

- A. Exemption trust will
- B. Guardian will
- C. Simple will
- D. Stated amount will
- E.** Traditional marital share will

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 4

Topic: Legal aspects of estate planning

93. (p. 484) A handwritten will is known as a(n)

- A. Formal will
- B. "I love you" will
- C. Holographic will**
- D. Ordinary will
- E. Statutory will

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

94. (p. 484) A will that is usually prepared with the help of an attorney is known as a(n)

- A. Formal will**
- B. "I love you" will
- C. Holographic will
- D. Ordinary will
- E. Statutory will

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

95. (p. 484) A will prepared on a preprinted form is called a(n)

- A. Formal will
- B. "I love you" will
- C. Holographic will
- D. Ordinary will
- E. Statutory will**

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

96. (p. 484) Your will must be signed by
- A. The lawyer who prepares it
 - B. You**
 - C. Three unbiased witnesses
 - D. One beneficiary
 - E. All of the above

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

97. (p. 484) If you have children and are writing your will, you need to do all of the following *except*
- A. Select a guardian
 - B. Write the will with the help of an attorney**
 - C. Select an executor
 - D. Sign the will in front of two witnesses
 - E. Select beneficiaries

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

98. (p. 485) A codicil is
- A. A document that explains, adds, or deletes provisions in an existing will**
 - B. A handwritten will
 - C. Another name for the first will an individual writes
 - D. A will written in legal code
 - E. None of the above

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

99. (p. 485) Multiple copies of a _____ should be distributed to those closest to you as well as your family doctor.

- A. Formal will
- B. Guardian
- C. Living will**
- D. Power of attorney
- E. Trust

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

100. (p. 486) The letter of last instruction is

- A. Another name for a will
- B. Legally binding
- C. Another name for a trust
- D. A document that identifies whether you want to be kept alive by artificial means if you become terminally ill and unable to make such a decision
- E. A non-legally binding document that provides information regarding your death**

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

101. (p. 486) A legal arrangement that helps manage the assets of your estate for your benefit or that of your beneficiaries is called a

- A. Formal will
- B. Trust**
- C. Holographic will
- D. Guardian
- E. Statutory will

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

Chapter 14 - Retirement and Estate Planning

102. (p. 486) A _____ administers a trust.

- A. Beneficiary
- B. Executor
- C. Grantor
- D. Guardian
- E.** Trustee

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

103. (p. 486) A _____ is the creator of a trust.

- A. Beneficiary
- B. Executor
- C.** Grantor
- D. Guardian
- E. Trustee

Bloom's: Knowledge

Difficulty: Hard

Learning Objective: 4

Topic: Legal aspects of estate planning

104. (p. 487) A(n) _____ allows you to end the trust or change its terms during your lifetime.

- A. Irrevocable trust
- B. Living will
- C. Power of attorney
- D.** Revocable trust
- E. Will

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

105. (p. 487) A(n) _____ cannot be changed or ended.

- A.** Irrevocable trust
- B. Living will
- C. Power of attorney
- D. Revocable trust
- E. Will

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

106. (p. 487) Gladys wants to set up a trust that is also known as a bypass trust, family trust, "Residuary" trust, A/B trust and exemption equivalent trust. She should set up a(n)

- A.** Credit-shelter trust
- B. Revocable trust
- C. Irrevocable trust
- D. Living trust
- E. Testamentary trust

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

107. (p. 487) This trust is designed to allow married couples to take full advantage of the federal estate tax exemption.

- A.** Credit-shelter trust
- B. Revocable trust
- C. Irrevocable trust
- D. Living trust
- E. Testamentary trust

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 4
Topic: Legal aspects of estate planning

108. (p. 487) This is also known as an inter vivos trust.

- A. Credit-shelter trust
- B. Disclaimer trust
- C. Irrevocable trust
- D.** Living trust
- E. Testamentary trust

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

109. (p. 487) This allows the trustor to receive benefits during his or her lifetime.

- A. Credit-shelter trust
- B. Disclaimer trust
- C. Irrevocable trust
- D.** Inter vivos trust
- E. Testamentary trust

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 4

Topic: Legal aspects of estate planning

110. (p. 488) This trust becomes effective upon your death.

- A. Credit-shelter trust
- B. Disclaimer trust
- C. Irrevocable trust
- D. Living trust
- E.** Testamentary trust

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

111. (p. 488) This is the best option if you or your beneficiaries are inexperienced in financial matters and if your estate taxes will be high.

- A. Revocable trust
- B. Disclaimer trust
- C. Irrevocable trust
- D. Living trust
- E.** Testamentary trust

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 4

Topic: Legal aspects of estate planning

112. (p. 488) The maximum gift that could be given to another person in 2009 was

- A. \$0
- B. \$1,000
- C. \$10,000
- D.** \$13,000
- E. \$16,500

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

113. (p. 488) When you die, this tax will be based on the fair market value of your investments, property, and bank accounts less an exemption (of \$3.5 million in 2009).

- A.** Estate tax
- B. Gift tax
- C. Inheritance tax
- D. Trust federal income tax
- E. Will tax

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 4

Topic: Legal aspects of estate planning

114. (p. 488) Trusts and estates must pay quarterly estimated taxes based on taxable income for their

- A. Estate tax
- B. Gift tax
- C. Inheritance tax
- D. Trust federal income tax**
- E. Will tax

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

115. (p. 488) This tax is only imposed by state governments.

- A. Estate tax
- B. Gift tax
- C. Inheritance tax**
- D. Trust federal income tax
- E. Will tax

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 4

Topic: Legal aspects of estate planning

Essay Questions

116. (p. 467-468) What are three important things to consider when planning for retirement?

The following are all correct:

1. Saving for retirement should start earlier rather than later
2. Saving even just a little bit will help
3. Spending in retirement might not decrease
4. The time one spends in retirement is long (more than 15 years)
5. Social Security and a company pension plan may not pay all basic living expenses
6. Pension benefits may not increase to keep pace with inflation
7. Employer's health insurance plan and Medicare will not necessarily cover all medical expenses after retirement
8. Lifestyle will affect the amount of money needed in retirement
9. You should not expect others to provide for you in retirement

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

117. (p. 468) What is the relationship between saving for retirement at a young age versus beginning later?

If you begin saving for retirement early, the amount you need to invest will be substantially less than if you begin later.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 1
Topic: Planning for retirement

118. (p. 468) What are two major assets that should be considered in retirement planning?

Housing and life insurance should both be considered.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

119. (p. 468-470) What are two major steps of retirement planning?

Two major steps are conducting a financial analysis and estimating retirement living expenses.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

120. (p. 470) David went to his Uncle Edward for advice about spending money in retirement. What advice would you expect Uncle Edward to share about specific types of expenses that probably will increase or will decrease?

Expenses will probably increase for recreation, health insurance and medical care. Expenses will likely decrease for transportation and clothing.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 1
Topic: Planning for retirement

121. (p. 470) Why is it important to consider inflation in retirement planning?

Inflation will affect the buying power of income. Therefore, it is suggested to estimate high when calculating the prices of goods and services that will rise by the time you retire and during retirement.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Planning for retirement

122. (p. 472) What are four major sources of retirement income?

The primary sources of retirement income are employer pension plans, public pension plans, personal retirement plans, and annuities.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

123. (p. 472) Employers may choose to fund retirement plans for employees. These plans fall into two categories. Identify these categories.

The two categories are defined-contribution plans and defined-benefit plans.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 2
Topic: Retirement income

124. (p. 472) Describe a defined-contribution plan.

A defined-contribution plan, sometimes called an individual account plan, consists of an individual account for each employee to which the employer contributes a specific amount annually.

Types include:

- Money-purchase plan
- Stock bonus plan
- Profit-sharing plan
- 401(k) (also known as a salary-reduction plan)

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

125. (p. 475) What is vesting?

Vesting is the right to receive the employer's pension plan contributions that an employee has gained, even if he or she leaves the company before retiring.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

126. (p. 475) What is the maximum that an employee can contribute annually to a 401(k) plan?

An employee may contribute up to \$16,500 in 2009.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

127. (p. 475) To whom does Social Security provide retirement benefits?

Social Security provides retirement benefits to 97 percent of all American workers based on earning a certain number of credits.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

128. (p. 476) What is the age an employee born in 1960 or later must reach in order to receive full Social Security retirement benefits?

67 years of age

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

129. (p. 477) What is the difference between a regular IRA and a Roth IRA?

A regular IRA uses fully or partially tax-deductible contributions and a Roth IRA uses non tax-deductible contributions.

Withdrawals are taxable for a regular IRA and are not taxable for a Roth IRA.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

130. (p. 477) What is the simplest type of retirement plan if a person is self-employed?

A simplified employee pension (SEP) plan is an individual retirement account funded by an employer and is the simplest for a self-employed person.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Retirement income

131. (p. 477) Under what circumstances would a rollover IRA be appropriate?

A rollover IRA is used when changing jobs or retiring before age 59 ½ to avoid a penalty on early withdrawals of IRA contributions and earnings. The rollover IRA is a traditional IRA that lets you transfer all or a portion of your taxable distribution from a retirement plan or other IRA.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Retirement income

132. (p. 480) Should a retiree spend money from savings in retirement? Why or why not?

The answers will vary depending on financial circumstances, age, and the desire to leave money to heirs.

Bloom's: Evaluation
Difficulty: Medium
Learning Objective: 2
Topic: Retirement income

133. (p. 481) What is an estate?

An estate consists of everything you own.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

134. (p. 481) What is estate planning?

Estate planning is the process of creating a detailed plan for managing your assets so that you can make the most of them while you're alive and ensure that they're distributed wisely after your death.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

135. (p. 482) Who receives your estate after you die?

Your beneficiaries receive your estate. The beneficiaries may be a spouse, children, or others.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

136. (p. 482) Identify four legal documents associated with estate planning.

Legal documents include:

- Wills
- Birth certificates
- Marriage certificates and divorce papers
- Legal name changes
- Military service records
- Social Security documents
- Veteran's documents
- Insurance policies
- Transfer records of joint bank accounts
- Safe-deposit box records
- Automobile registration
- Titles to stock and bond certificates

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 3
Topic: Estate planning

137. (p. 483) What is a will?

A will is a legal document that specifies how you want your property to be distributed after your death.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 4
Topic: Legal aspects of estate planning

138. (p. 484) What is the difference between a holographic will and a formal will?

A holographic will is handwritten while a formal will is word-processed (or it may be on a preprinted form) and is usually prepared with the help of an attorney.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

139. (p. 485) Explain the importance of an executor and a guardian.

An executor is someone who is willing and able to perform the tasks involved in carrying out your will. A guardian is a person who accepts the responsibility of providing children with personal care after their parents' death and managing the parents' estate for the children until they reach a certain age.

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

140. (p. 485) When should a codicil be used?

A codicil is used to explain, add, or delete provisions in your existing will.

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

141. (p. 485) When should you review and possibly rewrite your will?

You should review your will when:

- You have moved to a new state that has different laws
- You have sold property that is mentioned in the will
- The size and composition of your estate has changed
- You were married, divorced, or remarried
- Potential heirs have died, or new ones have been born

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 4

Topic: Legal aspects of estate planning

142. (p. 486) What is a power of attorney?

A power of attorney is a legal document that authorizes someone to act on your behalf.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

143. (p. 486) What information might you want to include in a letter of last instruction?

A letter of last instruction can provide important information to heirs. It should contain your wishes for your funeral arrangements as well as the names of the people who are to be informed of your death.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Legal aspects of estate planning

144. (p. 487) What is the difference between a revocable trust and an irrevocable trust?

A revocable trust can be changed or terminated during your lifetime whereas an irrevocable trust cannot be changed or ended.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 4
Topic: Legal aspects of estate planning

145. (p. 488) What is the maximum amount that one individual can give another each year without paying a gift tax?

In 2009, the maximum was \$13,000.

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 4
Topic: Legal aspects of estate planning