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(PRINT)

**"THE RETIREMENT PLANNING PROCESS**

- |             |             |
|-------------|-------------|
| 1) A B C D  | 26) A B C D |
| 2) A B C D  | 27) A B C D |
| 3) A B C D  | 28) A B C D |
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| 23) A B C D | 48) A B C D |
| 24) A B C D | 49) A B C D |
| 25) A B C D | 50) A B C D |

# The Retirement Planning Process

## Self Study Examination

**Instructions:** This examination consists of 50 questions in multiple choice format. Four possible answers have been presented for each question. On your answer sheet indicate the best answer to each question. There is no penalty for guessing incorrectly.

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### Questions 1 - 3 refer to Section I : "Overview To Retirement Planning"

- 1) Which of the following is a way in which an American can accumulate funds for retirement?
  - I) Pension Plan through employment
  - II) Individual effort
  - III) Social Insurance
  - A) I and II only
  - B) I and III only
  - C) II and III only
  - D) I, II and III
  
- 2) All of the following statements concerning the future of social security are accurate EXCEPT:
  - A) Recent increased payroll taxes designed to provide a surplus have been spent to fund the day to day operation of the Federal government.
  - B) The U.S. Treasury has placed billions of dollars in "IOU's" in the Social Security trust fund for the money it has borrowed.
  - C) Payroll taxes may have to be increased to higher levels.
  - D) Current benefit projections are likely to be met or exceeded for future retirees.
  
- 3) All of the following statements about the role of individual initiative in the retirement planning process are correct EXCEPT:
  - A) Today, the individual is increasingly responsible for supplying funds to own retirement.
  - B) Individual Retirement Arrangements (IRA's) are currently a more popular alternative among Americans than doing little or nothing.
  - C) The financial planner can help instill a sense of urgency in the individual
  - D) Individual Americans save a relatively small percentage of their disposable income (about 5% or less).

### Questions 4 - 13 refer to Section II "Assessing Retirement Planning Needs"

- 4) Which of the following statements reflects an accepted method of forecasting inflation for planning purposes?
  - I) Using a long term average of compound increases of prices experienced in the past.
  - II) Using only the individual planner's own opinions and future expectations.
  - III) Using the client's expectations about future Inflation.
  - A) I only
  - B) I and II only
  - C) I and III only
  - D) I, II and III
  
- 5) The most serious threat to the financial security of all retired people living on fixed income is
  - A) inflation
  - B) health care
  - C) medicaid
  - D) gasoline prices
  
- 6) The concept for estimating the future amount of money a person should plan to have at retirement which seeks to provide a standard of living comparable to the same standard enjoyed during the last several years of career living standard is called
  - A) Replacement Ratio
  - B) Income Ratio
  - C) Career Standard Rule of Thumb
  - D) The 80 Percent Rule

To answer statements 7-9 which follow, select from among the four choices below to determine which most accurately applies to the statement descriptions provided. Each option, A, B, C or D may be used once, more than once or not at all. However, use only one choice to answer each statement.

- A) Retirement
- B) Early Career
- C) Middle Career
- D) Late Career

- 7) The point at which most individuals enjoy the greatest income and highest living standard of their lifetime.
- 8) People do not think much, if at all, about actual future retirement needs.
- 9) People are most concerned with earning larger incomes and enjoying a higher lifestyle.
- 10) The earliest age at which full retirement benefits will be paid to an insured worker under Social Security is age:
- A) 60
  - B) 62
  - C) 65
  - D) 70
- 11) All of the following statements are correct concerning payments made under Part A of Medicare EXCEPT:
- A) Hospital expenses for stays up to 90 days.
  - B) Hospice care for the terminally ill expected to live 6 months or less.
  - C) Drugs which cannot be self-administered.
  - D) Skilled nursing facilities if physician certifies such care is necessary and was treated in a hospital within the last 90 days.
- 12) Part B of Medicare provides supplemental coverage for all of the following EXCEPT:
- A) Drugs which can be self-administered
  - B) Radiation therapy
  - C) Ambulance service
  - D) Physician and surgeon fees resulting from house calls, hospital and office visits.

- 13) Which of the following provisions of a long term care policy should be weighed seriously before selecting a policy?

- I) Pre-existing conditions
- II) Deductibles
- III) Benefit Amount

- A) I and II only
- B) I and III only
- C) II and III only
- D) I, II and III

### Questions 14-16 refer to Section III "Risk to Return Evaluation"

- 14) Whole Life policies offering guaranteed Cash Value offer which of the following tax benefits

- I) Policy owner may borrow against cash value without being required to pay tax on income.
- II) Life insurance proceeds are paid to a named beneficiary free of income taxes.
- III) By retaining policy ownership, the insured can escape federal estate taxes.

- A) I and II only
- B) I and III only
- C) II and III only
- D) I, II and III

- 15) Which of the following statements concerning Mutual Funds is correct?

- A) The investor does not receive immediate diversification of carefully selected and managed securities.
- B) The main purpose of an income fund is capital appreciation.
- C) Municipal Bond funds do not provide tax-free income
- D) Aggressive growth funds carry high risk with high reward potential.

- 16) Which of the following statements is correct concerning the "investment pyramid"?

- I) High risk offers the potential for high return.
- II) It should have a liquid and secure foundation.
- III) Low risk carries with it low reward.

- A) I and II only
- B) I and III only
- C) II and III only
- D) I, II and III

**QUESTIONS 17-25 REFER TO SECTION IV "The Annuity"**

- 17) A pure annuity is one which
- A) Stops at the death of the annuitant even if only one monthly payment has been made.
  - B) Liquidates an entire fund to either an annuitant or beneficiaries.
  - C) Guarantees that a fixed benefit will be paid for a specified number of years even if the annuitant dies prior to the specified time period.
  - D) Bases benefit payment on the longer of two lives
- 18) All of the following statements are true of a fixed annuity EXCEPT:
- A) Money is invested by an insurance company in that company's general account.
  - B) Given inflationary pressures in an economy, the purchasing power of future benefits will be reduced.
  - C) The annuity owner makes all investment decisions regarding cash values.
  - D) The benefit payment can be tied to one or more lives.
- 19) Which of the following are options available to an annuity owner upon reaching retirement age?
- A) Taking a lump sum distribution
  - B) Annuitization
  - C) A combination of annuitization and lump sum distribution
  - D) All of the above
- 20) In order to market Variable annuities, an insurance company representative must have which of the following licenses?
- I) State Life insurance
  - II) NASD Series 6
  - III) SEC Series 99
- A) I only
  - B) I and II only
  - C) I and III only
  - D) I, II and III
- 21) If an annuitant wishes a benefit guaranteed to pay the greatest possible regular fixed benefit for life, that person should select which of the following annuity types?
- A) Life with period certain
  - B) Joint and survivor
  - C) Pure
  - D) Cash refund

- 22) Assume an individual has made an after tax contribution to an annuity of \$60,000 and has a lifespan expectancy of 10 years. The expected annual benefit is \$1,000 per month, therefore the exclusion ratio is
- A) 40%
  - B) 50%
  - C) 60%
  - D) Cannot be determined from the information given

**Questions 23-25 refer to Section V: "Special Retirement Distribution and Taxation Issues"**

- 23) Working after retirement can affect social security retirement benefits. All of the following sources of income do not count as earnings in reducing social security benefits EXCEPT:
- A) Income from a bank savings account
  - B) \$1,000,000 bequest received as an inheritance
  - C) Rental income received from owned real estate
  - D) income received working as a crossing guard at the local public school.
- 24) By rolling one qualified plan into another, current income taxation can continue to be deferred. Any distribution from one qualified plan must be placed into another within how many days?
- A) 30 days
  - B) 45 days
  - C) 60 days
  - D) 90 days
- 25) Four different taxpayers each open an IRA, but on different dates. Which of the following IRA starting dates (all IRA's are begun in the same year) will result in the least amount of accumulated value in later years, all other factors being equal?
- A) January 15
  - B) April 15
  - C) July 15
  - D) December 31

**Questions 26-39 refer to Section VI:  
"Employer and Business Retirement  
Distributions and Insurance Relationships"**

- 26) All of the following statements regarding nonqualified deferred compensation plans are correct EXCEPT:
- A) Employer may discriminate in selecting which employees will benefit.
  - B) In an unfunded plan, the employee's rights must be forfeitable.
  - C) Employees are taxed when payments are made to them or the constructively receive payment.
  - D) A benefit to the employer is retaining key employees.
- 27) Which of the following is a method of defining the benefit in a defined benefit pension plan?
- I) Establishing a flat benefit amount
  - II) Establishing the benefit as a specified percentage of compensation.
  - III) Offsetting the benefit with social security benefits.
- A) I and II only
  - B) I and III only
  - C) II and III only
  - D) I, II and III
- 28) Which of the following is a disadvantage to an employer sponsoring a defined benefit plan?
- A) The employer directs investment and employer contributions are tax deductible.
  - B) The employer must make contributions even in a low profit year.
  - C) Terminating employees who forfeit benefits will reduce future costs.
  - D) Employees can be provided permanent life insurance benefits.
- 29) All of the following statements about Money Purchase Pension Plans are Correct EXCEPT:
- A) Employer contributions are not deductible
  - B) Employees under age 21 may be excluded from the plan.
  - C) They tend to favor younger employees
  - D) The maximum annual contribution is 25% of salary up to a maximum of \$30,000.
- 30) The following statements are true of a Simplified Employee Pension (SEP), except
- A) life insurance funding is not available
  - B) contributions are generally made by the employer, not the employee
  - C) it is a qualified plan.
  - D) must be validated by a State department of insurance.
- 31) All of the following are advantages to an employer of providing a SEP to employees EXCEPT:
- A) Employees may withdraw the funds as they as paid in by the employer.
  - B) Cost and contributions are quite flexible
  - C) Employees find the plan easy to understand.
  - D) Governmental reporting requirements are minimal
- 32) All Simplified Employee Pension Plans and Profit Sharing Plans have the following items in common, except
- A) Vesting requirements
  - B) Life insurance may be used
  - C) Annual contributions are not mandatory
  - D) Deadline for making contributions
- 33) Which of the following is a major disadvantage to an employee covered under an ESOP?
- A) Distributions at retirement are tax favored
  - B) Investment risk rests with the plan participant
  - C) Employees participate in the growth of the company
  - D) As annual contributions are made, they are not taxed to the employee.
- 34) All of the following are disadvantages to an employee covered under a Stock Bonus Plan EXCEPT:
- A) Employees participate in the growth of the company
  - B) Future benefits are not guaranteed
  - C) Determining the value of closely held stock when an employee reaches retirement.
  - D) The employee bears investment risks
- 35) A 401(k) Plan
- A) is nonqualified
  - B) can utilize insurance products
  - C) does not involve deferring income
  - D) favors older workers because it is a defined benefit plan.

36) Under the "financial hardship" provision of a 401(k), heavy financial need is not specifically defined but it is likely to include all these circumstances EXCEPT:

- A) taking a much needed vacation
- B) buying a house
- C) college tuition
- D) medical expenses

37) The main advantage to an employee under a Cafeteria Plan is

- A) benefits are paid with before-tax dollars
- B) withholding taxes are increased
- C) there is less money to help meet retirement needs
- D) meals at work are purchased at substantial discounts.

38) The employer benefits from instituting a Cafeteria Plan in every way EXCEPT:

- A) lower payroll taxes
- B) boosts employee morale
- C) retention of key employees
- D) not allowed to share costs with employee even if there is a desire to do so.

39) An advantage to an employer of a profit sharing plan is:

- I) Life insurance benefits may be used
- II) Employees easily understand the plan
- III) The employer can direct the investments

- A) I and II only
- B) I and III only
- C) II and III only
- D) I, II and III

### Questions 40 - 47 refer to Section VII "Other Retirement Planning Factors"

40) Benefits available through Social Security include

- A) old age, survivorship and disability
- B) health insurance, old age and tuition assistance
- C) survivorship, health insurance and alimony
- D) tuition assistance, old age and survivorship

41) The spouse of a covered worker will receive a social security benefit under the survivorship rules if

- A) the marriage lasted at least 10 years
- B) the surviving spouse is 60 years of age
- C) at least one minor child of the covered worker lives at home and needs to be cared for.
- D) there is financial hardship

42) Under the pension maximization concept, the central dilemma is

- A) receiving the highest benefit possible while tying monthly income to two lives.
- B) receiving the highest benefit possible while tying monthly benefit to just one life.
- C) trying to determine the best cash accumulation strategy.
- D) avoiding state and federal income taxes

43) If 14% of nest egg capital is withdrawn on an annual basis and the return on investment is 8%, then the nest egg will last how many years?

- A) 9
- B) 10
- C) 11
- D) 12

44) If 15% of nest egg capital is withdrawn on an annual basis and the return on investment is 15%, then the nest egg will last how many years?

- A) Forever
- B) 19
- C) 23
- D) 27

45) Current population trends show that for every 100 Americans who reach age 65, how many will live to at least age 95?

- A) 5
- B) 10
- C) 20
- D) 50

46) The impact health insurance costs will likely have on the American economy will affect

- A) the price of automobiles
- B) homeowner real estate taxes
- C) the inflation rate
- D) all of the above

- 47) A strong concern or fear within the Life insurance industry is the possibility that
- A) new agents are harder to find than ever before
  - B) Congress may pass new legislation curtailing current tax advantages of life insurance contracts.
  - C) consumers may become better educated and actually begin to understand the insurance products which they are purchasing.
  - D) they will run out of insurance product ideas

**Questions 48-50 refer to  
Section VIII "Epilogue..."**

*To answer statements 48-50 which follow, select from among the four choices below to determine which most accurately applies to the statement descriptions provided. Each option, A,B,C or D may be used once, more than once or not at all. However, use only one choice to answer each statement.*

- A) Sacrifice*
- B) The Client*
- C) The Insurance Sales Professional*
- D) "Baby Boomers"*

- 48) An individual who has the role of motivating people to take retirement planning action.
- 49) The idea that either an individual chooses a lower standard of living today or they will suffer tomorrow.
- 50) Makes financial product recommendation which will properly integrate with the needs expressed by the consuming public.