Certified Employee Benefit Specialist (CEBS) Retirement Plans Associate (RPA) 1 Practice Exam (Sample)

Study Guide

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Questions

1. **What is the minimum service requirement for an employee to be fully vested in a profit-sharing plan?**
   - **A. One year**
   - **B. Two years**
   - **C. Three years**
   - **D. Four years**

2. **What age must an individual be to make catch-up contributions to an IRA?**
   - **A. Age 45**
   - **B. Age 50**
   - **C. Age 55**
   - **D. Age 60**

3. **What is one of the concerns about stock prices in relation to employee stock options?**
   - **A. Prices are always stable**
   - **B. Employees may not realize the economic worth**
   - **C. Stocks automatically increase**
   - **D. Employees frequently sell stocks**

4. **Which of the following is NOT a key requirement of an ERISA qualified plan?**
   - **A. Plan assets must be diversified**
   - **B. Plan assets cannot be diverted**
   - **C. Plan must be for the exclusive benefit of employees and beneficiaries**
   - **D. Permanency requirement**

5. **Which of the following descriptions fits a QDRO?**
   - **A. A temporary hardship withdrawal**
   - **B. A court-ordered division of retirement benefits**
   - **C. A type of investment strategy**
   - **D. A miscellaneous withdrawal type**

6. What is the purpose of a Section 83(b) Election?

- **A. To avoid immediate taxation on transferring property**
- **B. To pay tax on an asset with risk of forfeiture**
- **C. To defer all taxes until the asset is sold**
- **D. To eliminate taxes on stock options**

7. What type of contribution is not permitted in a money purchase pension plan?

- **A. Rollover contributions**
- **B. Before-tax contributions**
- **C. Employer matching contributions**
- **D. Post-tax contributions**

8. Which of the following factors has contributed to economic challenges in retirement financing?

- **A. Minimal inflation rates**
- **B. Declining costs of living**
- **C. High federal income taxes**
- **D. Increased savings rates**

9. Which of the following describes a Money Purchase Pension Plan?

- **A. An employer contributes a fixed percentage of employee's salary each year**
- **B. Employees can determine their contribution rate**
- **C. It guarantees a specific retirement benefit**
- **D. It allows for variable investment returns**

10. What does the Tax Equity and Fiscal Responsibility Act of 1982 primarily address?

- **A. Creation of new tax benefits for retirement plans**
- **B. Improvements to Social Security regulations**
- **C. Restrictions on top heavy retirement plans**
- **D. New requirements for employee disclosure**

Answers

1. **B**
2. **B**
3. **B**
4. **A**
5. **B**
6. **B**
7. **B**
8. **C**
9. **A**
10. **C**

Explanations

1. What is the minimum service requirement for an employee to be fully vested in a profit-sharing plan?

A. One year

B. Two years

C. Three years

D. Four years

To determine the minimum service requirement for an employee to be fully vested in a profit-sharing plan, it is important to reference the vesting standards outlined in retirement plan regulations. Under the Employee Retirement Income Security Act (ERISA), a common approach is the two-year minimum service requirement for full vesting in a profit-sharing plan, aligning with many plans that opt for this schedule. This means that once the employee completes two years of service, they are entitled to 100% of their accrued benefits in the profit-sharing plan, ensuring that employees cannot lose these benefits upon leaving the organization after reaching that milestone. Employers have the flexibility to set their own schedules, but full vesting after two years serves as a typical standard across many plans. By understanding this requirement, one can appreciate how it promotes employee retention and provides a clear framework for employees when considering their benefits and commitment toward the organization.

2. What age must an individual be to make catch-up contributions to an IRA?

A. Age 45

B. Age 50

C. Age 55

D. Age 60

To make catch-up contributions to an Individual Retirement Account (IRA), individuals must be at least 50 years old. This provision is designed to help those who may not have saved enough for retirement due to late starts or other financial hurdles. By allowing individuals aged 50 and older to contribute additional amounts to their IRAs, the tax code acknowledges the time constraints that older workers face in building their retirement savings. The catch-up contribution limit is separate from the regular contribution limit. For example, as of 2023, the standard contribution limit for individuals under 50 is $6,500, but those aged 50 and over can contribute an additional $1,000, bringing their total limit to $7,500. This targeted strategy supports retirement savings at a crucial time for those nearing retirement age.

3. What is one of the concerns about stock prices in relation to employee stock options?

A. Prices are always stable

B. Employees may not realize the economic worth

C. Stocks automatically increase

D. Employees frequently sell stocks

When considering employee stock options, one of the primary concerns is that employees may not fully realize the economic worth of these options. This situation arises due to several factors, including a lack of understanding about how stock options function, fluctuations in stock prices, and moments when the options may not be in-the-money (meaning the stock price is below the exercise price). Employees might overlook the potential value they hold, especially if they do not grasp the implications of market conditions on their future earnings. They may either delay exercising their options or choose to ignore them altogether when, in reality, the options could present significant financial benefits if the stock performs well. This concern highlights the importance of proper education and communication from employers regarding the value and potential risks associated with employee stock options. It encourages organizations to create robust programs to inform employees about their options and how to make informed decisions about exercising them, ultimately enhancing their financial literacy and maximizing the benefits of the stock options granted to them.

4. Which of the following is NOT a key requirement of an ERISA qualified plan?

A. Plan assets must be diversified

B. Plan assets cannot be diverted

C. Plan must be for the exclusive benefit of employees and beneficiaries

D. Permanency requirement

The correct choice identifies a requirement that is not explicitly stated as a key guideline of ERISA for qualified plans. While having diversified plan assets is generally advisable for risk management and sound investment practices, ERISA itself does not mandate that all plans must diversify their assets. Instead, ERISA focuses on protecting participants' benefits and requiring prudent management of plan assets, which may include diversification as one method but is not a strict requirement. The other options represent fundamental principles under ERISA. The prohibition against the diversion of plan assets is crucial to ensure that the funds meant for retirement benefits cannot be misused or diverted for other purposes. Operating for the exclusive benefit of employees and beneficiaries emphasizes the need for plans to prioritize the interests of those they are designed to serve. Lastly, the permanency requirement ensures that plans are intended to operate on a long-term basis, providing a reliable benefit structure for participants. These elements underscore the overarching goal of safeguarding retirement benefits under ERISA.

5. Which of the following descriptions fits a QDRO?

A. A temporary hardship withdrawal

B. A court-ordered division of retirement benefits

C. A type of investment strategy

D. A miscellaneous withdrawal type

A Qualified Domestic Relations Order (QDRO) specifically refers to a legal order issued by a court that recognizes the right of a spouse or dependent to receive a portion of the benefits from a retirement plan due to divorce or legal separation. This order is designed to ensure that the retirement benefits accrued during the marriage are fairly divided between the parties involved, rather than being entirely controlled by the account holder. The importance of a QDRO lies in its role in protecting the rights of individuals who may not have direct control over the retirement assets during a divorce. It allows for the orderly transfer of benefits and provides legal recognition that a certain amount of the retirement plan's assets is attributable to the other spouse. The QDRO must comply with specific legal requirements to be valid, and it must clearly specify the amount or percentage of the benefits to be paid to the non-participant spouse. The other options do not accurately define what a QDRO entails. While a temporary hardship withdrawal relates to accessing funds from a retirement plan under specific financial distress conditions, and a type of investment strategy pertains to managing investments rather than legal orders, a miscellaneous withdrawal type is too broad and does not specify a legal context like a QDRO does. Thus, the description of a Q

6. What is the purpose of a Section 83(b) Election?

A. To avoid immediate taxation on transferring property

B. To pay tax on an asset with risk of forfeiture

C. To defer all taxes until the asset is sold

D. To eliminate taxes on stock options

A Section 83(b) Election allows an individual to elect to recognize income and pay taxes on restricted property before it becomes fully vested. The primary purpose of this election is to pay tax on the fair market value of the property at the time of transfer, even though the asset may still be subject to a risk of forfeiture. This is particularly advantageous if the value of the asset is expected to increase, as it locks in the tax liability at the lower current value rather than at a potentially higher value in the future when the property vests. By choosing to pay taxes upfront, the individual benefits from starting the holding period for long-term capital gains, which may result in lower tax rates if the asset is held for the required duration before selling. This strategy can be beneficial in many situations where the asset is expected to appreciate or when the individual believes they are in a lower tax bracket now than they will be in the future. The other options don't accurately describe the primary function of a Section 83(b) Election. For example, the election does not eliminate taxes on stock options; rather, it pertains to property with a risk of forfeiture. Additionally, it does not defer all taxes but rather accelerates the timing of income recognition for tax purposes.

7. What type of contribution is not permitted in a money purchase pension plan?

A. Rollover contributions

B. Before-tax contributions

C. Employer matching contributions

D. Post-tax contributions

In a money purchase pension plan, contributions must adhere to specific tax treatment and regulatory guidelines. One of the defining features of these plans is that they are primarily funded through employer contributions made on behalf of the employees, generally reflecting a set percentage of the employee's compensation. The correct response indicates that before-tax contributions, which are typically employee deferrals made into plans such as a 401(k), are not allowed in a money purchase pension plan. This aligns with the plan's structure, as it does not permit employee pre-tax contributions but rather mandates employer contributions that are tax-deferred for the employee. Rollover contributions, employer matching contributions, and post-tax contributions can be permitted within certain contexts of a money purchase pension plan. For instance, rollover contributions can occur when an individual transfers funds from another retirement plan, and employer matching contributions may be integrated into the plan structure to incentivize participation or savings. Post-tax contributions might also be made under certain circumstances, depending on the specifics of the plan design. Thus, the prohibition of before-tax contributions in a money purchase pension plan is rooted in how these plans are structured and administered, focusing solely on employer-funded contributions rather than allowing employees to defer parts of their salary on a pre-tax basis.

8. Which of the following factors has contributed to economic challenges in retirement financing?

A. Minimal inflation rates

B. Declining costs of living

C. High federal income taxes

D. Increased savings rates

High federal income taxes have significantly contributed to economic challenges in retirement financing. When individuals face high taxation on their income, it can reduce the amount of disposable income they have available for saving towards retirement. This situation can lead to a decrease in the total savings individuals can accumulate over their working lives, negatively impacting their financial stability after retirement. Moreover, high taxes can diminish the incentives for savings and investment, which are crucial components for building a robust retirement portfolio. When taxation is high, it can effectively lower the return on investment that individuals receive from various retirement accounts and portfolios, making it more challenging for them to reach their retirement goals. In contrast, minimal inflation rates, declining costs of living, and increased savings rates generally reflect more favorable conditions for retirement financing. Low inflation and a decreasing cost of living can ease financial pressures and enhance the purchasing power of retirees. Similarly, increased savings rates would contribute positively to retirement financing, enabling individuals to accumulate more wealth over time in preparation for their retirement years.

9. Which of the following describes a Money Purchase Pension Plan?

- **A. An employer contributes a fixed percentage of employee's salary each year**
- **B. Employees can determine their contribution rate**
- **C. It guarantees a specific retirement benefit**
- **D. It allows for variable investment returns**

A Money Purchase Pension Plan is characterized by the employer making fixed contributions to the plan based on a set percentage of each employee's salary on an annual basis. This means that regardless of the plan's investment performance, the employer is obligated to make these contributions as stipulated in the plan agreements. In this type of plan, the retirement benefit an employee will ultimately receive is based on the amount contributed and the investment performance of those contributions over time, rather than a guaranteed benefit amount. This structure contrasts with defined benefit plans, which provide specific retirement benefits irrespective of contribution rates or investment outcomes. The remaining options describe features not typical of Money Purchase Pension Plans. For instance, the ability for employees to determine their own contribution rate is indicative of defined contribution plans rather than a Money Purchase Pension Plan. Additionally, while it is true that these plans can yield variable investment returns depending on market performance, the defining feature in this context is the fixed employer contribution, thus reinforcing why the first option accurately describes the plan.

10. What does the Tax Equity and Fiscal Responsibility Act of 1982 primarily address?

- **A. Creation of new tax benefits for retirement plans**
- **B. Improvements to Social Security regulations**
- **C. Restrictions on top heavy retirement plans**
- **D. New requirements for employee disclosure**

The Tax Equity and Fiscal Responsibility Act of 1982 primarily addresses restrictions on top-heavy retirement plans. This legislation was significant in setting criteria that define a top-heavy plan, which is one where the benefits are disproportionately allocated to key employees. The Act aimed to ensure that such plans would provide minimum benefits or contributions to non-key employees to promote fairness in retirement savings opportunities among all employees. This focus on top-heavy plans is crucial because it seeks to prevent discrimination in favor of higher-paid employees, thus addressing concerns about equity in retirement benefits. The regulations put forth by this Act create a framework that helps protect employees with lower wages and ensures they receive a fair share of retirement benefits. The other options, while relevant to the broader context of retirement planning and employee benefits, do not capture the primary intent of this specific legislation as accurately as the focus on top-heavy plans does.