

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

## Study Guide



**Everything you need from our exam experts!**

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

**Remember:** successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## Questions

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- 1. What defines a profit-sharing plan?**
  - A. Employees make voluntary contributions**
  - B. Company contributions are based on employee tenure**
  - C. Company contributions are based on business profits**
  - D. Employer contributions are fixed amounts**
  
- 2. What is the purpose of statutory stock compensation plans?**
  - A. To meet general tax code provisions**
  - B. To qualify for specific advantages under the tax code**
  - C. To provide rewards to non-employee directors**
  - D. To avoid any tax implications for employees**
  
- 3. Which of the following best describes an Employee Stock Ownership Plan (ESOP)?**
  - A. A plan that must hold 50% of its assets in employer securities**
  - B. A plan where employees can manage company shares directly**
  - C. A plan that can hold more than 10% of its assets in employer securities**
  - D. A plan designed solely for long-term savings**
  
- 4. At what point are contributions made to a 401(k) plan typically taxed?**
  - A. At the time of contribution**
  - B. During in-service withdrawals**
  - C. At retirement upon distribution**
  - D. Only Roth contributions are taxed at contribution**
  
- 5. What occurs if an employer does not set a fixed contribution rate in a profit-sharing plan?**
  - A. The employer cannot contribute**
  - B. The employer may contribute anywhere from 0% to 25%**
  - C. The plan is not compliant**
  - D. The contribution rate is automatically set to 10%**

- 6. What aspect is crucial for ensuring compliance in 401(k) plans?**
- A. Adhering to the employer's guidelines only**
  - B. Following federal regulations and ERISA guidelines**
  - C. Maximizing employer contributions**
  - D. Determining the fund's past performance**
- 7. What limitation applies to elective contributions in CODA plans?**
- A. They can be withdrawn at any time**
  - B. They are subject to withdrawal limitations**
  - C. They allow for loans to employees**
  - D. They do not have any limitations**
- 8. Under what circumstances can hardship distributions be made from a 401(k) plan?**
- A. For any personal reason as determined by the employee**
  - B. For immediate and heavy financial needs defined by the IRS**
  - C. When the employee reaches retirement age**
  - D. For educational expenses only**
- 9. What is the goal of modern portfolio theory?**
- A. Maximizing returns without considering market risk**
  - B. Maximizing expected return based on market risk levels**
  - C. Creating a diversified portfolio with no risk**
  - D. Minimizing costs associated with investments**
- 10. What is a requirement for the term of an ISO?**
- A. Unlimited duration**
  - B. Limited to 5 years**
  - C. Limited to 10 years**
  - D. Must be exercised within 2 years**

## Answers

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

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## **Explanations**

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## 1. What defines a profit-sharing plan?

- A. Employees make voluntary contributions
- B. Company contributions are based on employee tenure
- C. Company contributions are based on business profits**
- D. Employer contributions are fixed amounts

A profit-sharing plan is defined by the contributions made by the employer, which are based on the company's profits. This means that the amount contributed to the retirement plan can vary each year depending on the profitability of the business. It is designed to incentivize employees by allowing them to share in the company's success, aligning their interests with those of the business. The distinguishing feature of profit-sharing plans is the potential for variable contributions, which may change from year to year in line with the company's financial performance. Because the employer has the discretion to determine the contribution amount based on profits, employees benefit directly from the financial success of the organization. This creates a dynamic and motivating environment for employees to work towards enhancing company performance. In contrast, other options do not appropriately capture the essence of a profit-sharing plan. Employee voluntary contributions do not define this type of plan, as profit-sharing primarily involves discretionary employer contributions. Contributions solely based on employee tenure do not reflect the profit-driven aspect that characterizes profit-sharing. Lastly, a profit-sharing plan does not involve fixed contributions; this characteristic applies more to defined contribution plans like 401(k)s where contributions might be predetermined.

## 2. What is the purpose of statutory stock compensation plans?

- A. To meet general tax code provisions
- B. To qualify for specific advantages under the tax code**
- C. To provide rewards to non-employee directors
- D. To avoid any tax implications for employees

The purpose of statutory stock compensation plans primarily revolves around qualifying for specific tax advantages under the Internal Revenue Code. These plans, such as Incentive Stock Options (ISOs) and Qualified Employee Stock Purchase Plans (ESPPs), are designed to offer favorable tax treatment that aligns with their regulations. When certain conditions are met, employees can benefit from the ability to defer taxation until they sell the stocks obtained through these plans, and they may also qualify for long-term capital gains tax rates rather than ordinary income tax rates upon sale. This structure incentivizes employees by aligning their interests with those of the company, as they can profit from stock appreciation while enjoying a lower tax burden, which is a clear advantage under the tax code. While the other options relate to various duties or provisions associated with stock compensation plans, they do not encompass the primary focus of statutory plans, which is to leverage specific tax qualifications to benefit both the employer and employee.

- 3. Which of the following best describes an Employee Stock Ownership Plan (ESOP)?**
- A. A plan that must hold 50% of its assets in employer securities**
  - B. A plan where employees can manage company shares directly**
  - C. A plan that can hold more than 10% of its assets in employer securities**
  - D. A plan designed solely for long-term savings**

An Employee Stock Ownership Plan (ESOP) is designed to provide a company's workforce with an ownership interest in the company, primarily through the accumulation of shares. One key feature of ESOPs is that they can hold a significant portion of their assets in employer securities. In fact, regulations allow ESOPs to invest a substantial amount, often exceeding 10% of their assets, in the company's own stock; this creates a direct link between the employees' financial interests and the performance of the company. Choosing this option captures the essence of the ESOP structure and its purpose, which is to engage employees as stakeholders, giving them a financial incentive to contribute to the company's success. The ability to hold a significant amount of employer securities ensures alignment between the employees' financial outcomes and the company's performance, fostering a culture of ownership and participation. The other options do not accurately reflect the fundamental characteristics or intentions behind ESOPs. For example, the requirement to hold 50% of its assets in employer securities is not a standard regulation for all ESOPs; it varies based on specific plan provisions and regulatory guidance. Employees managing their own shares directly misrepresents the operational reality of ESOPs, where shares are typically held in a trust managed by fiduciaries.

- 4. At what point are contributions made to a 401(k) plan typically taxed?**
- A. At the time of contribution**
  - B. During in-service withdrawals**
  - C. At retirement upon distribution**
  - D. Only Roth contributions are taxed at contribution**

Contributions made to a traditional 401(k) plan are taxed at the point of distribution, which typically occurs at retirement. This means that employees can contribute to their 401(k) plan on a pre-tax basis, allowing them to defer taxation on those contributions until they withdraw the funds in retirement. At that point, the distributions are treated as ordinary income and subject to income tax. The advantage of this deferred taxation is that individuals may find themselves in a lower tax bracket upon retirement compared to when they were working, potentially reducing their overall tax liability. This also allows individuals to invest and grow their contributions tax-free until withdrawal, maximizing their retirement savings. Roth 401(k) contributions, however, are an exception because they are made with after-tax dollars, meaning they are taxed at the time of contribution. Subsequent withdrawals of the contributions and earnings can then be tax-free, provided certain conditions are met. This distinction highlights why some contributions are taxed differently, but when referring to traditional 401(k) plans, taxation occurs when funds are distributed, not at the time of contribution or during in-service withdrawals.

**5. What occurs if an employer does not set a fixed contribution rate in a profit-sharing plan?**

- A. The employer cannot contribute**
- B. The employer may contribute anywhere from 0% to 25%**
- C. The plan is not compliant**
- D. The contribution rate is automatically set to 10%**

In a profit-sharing plan, unless a fixed contribution rate is explicitly established, the employer retains significant flexibility regarding contribution levels. This means the employer is not bound to a specific percentage but can choose to contribute any amount within a range defined by the plan document, typically anywhere from 0% to a specified maximum limit, which is often around 25% of eligible compensation. This flexibility allows employers to adjust their contributions based on the company's profitability for that fiscal year. Therefore, as the business's financial performance varies, employers have the option to not contribute at all in less profitable years or to contribute closer to the maximum allowed in more profitable years. This design is inherent to profit-sharing plans, as they aim to incentivize both employee performance and align employee interests with the overall success of the company. In contrast, options suggesting that no contributions can be made or that contributions are automatically defined do not align with the fundamental nature of profit-sharing arrangements. Thus, the flexibility in setting contribution rates is what makes this arrangement beneficial for employers.

**6. What aspect is crucial for ensuring compliance in 401(k) plans?**

- A. Adhering to the employer's guidelines only**
- B. Following federal regulations and ERISA guidelines**
- C. Maximizing employer contributions**
- D. Determining the fund's past performance**

Ensuring compliance in 401(k) plans is fundamentally tied to following federal regulations and guidelines set forth by the Employee Retirement Income Security Act (ERISA). Compliance with these regulations is crucial because they are designed to protect plan participants and beneficiaries. ERISA establishes standards for the management of health and pension plans, ensuring that plan fiduciaries act in the best interest of the participants and that appropriate standards are met regarding disclosure, reporting, and investment practices. While the employer's guidelines, maximizing contributions, and evaluating fund performance may play roles in the overall management and success of a 401(k) plan, they do not directly address the legal requirements that define compliance. Neglecting federal regulations and ERISA guidelines can lead to penalties, losses in plan benefits, and legal issues for both the plan and the employer. Thus, adherence to these key federal regulations is essential in maintaining a compliant and effective 401(k) retirement plan.

**7. What limitation applies to elective contributions in CODA plans?**

- A. They can be withdrawn at any time**
- B. They are subject to withdrawal limitations**
- C. They allow for loans to employees**
- D. They do not have any limitations**

Elective contributions in cash or deferred arrangement (CODA) plans, which include 401(k) plans, are indeed subject to certain withdrawal limitations. Unlike regular savings accounts where funds can be accessed at any time, the Internal Revenue Code imposes restrictions on when and how participants can withdraw their contributions from these plans. Typically, participants can only access their funds under specific circumstances, such as reaching retirement age, experiencing a financial hardship, or upon termination of employment. These rules are in place to encourage long-term saving for retirement and to ensure that the contributions are used as intended. In contrast, other choices present scenarios that do not accurately reflect the regulations around these plans. For instance, the idea that contributions can be withdrawn at any time contradicts the very purpose of these retirement savings vehicles. While loans may be allowed in some plans, they are not a standard feature of all CODA plans and are subject to different rules. Lastly, stating that there are no limitations fails to recognize the regulatory framework designed to safeguard retirement savings. Thus, the correct understanding is that there are indeed specific limitations on how and when funds can be withdrawn from CODA plans, which supports the assertion that they are subject to withdrawal limitations.

**8. Under what circumstances can hardship distributions be made from a 401(k) plan?**

- A. For any personal reason as determined by the employee**
- B. For immediate and heavy financial needs defined by the IRS**
- C. When the employee reaches retirement age**
- D. For educational expenses only**

Hardship distributions from a 401(k) plan are governed by specific criteria set forth by the IRS. These distributions can only be made to address immediate and heavy financial needs that meet certain requirements. The IRS specifies what constitutes such needs, which include expenses like medical bills, purchasing a primary residence, tuition and educational fees, and preventing eviction or foreclosure on a primary residence. This framework ensures that hardship distributions are reserved for pressing situations that truly necessitate accessing retirement savings early. While employees may have personal financial challenges, only those that fall within the IRS definition of an immediate and heavy financial need qualify for hardship distributions. The other options do not align with IRS regulations on hardship distributions. They suggest broader or different criteria that do not fit within the legal framework, thus emphasizing why option B is the correct choice in terms of understanding the parameters around hardship withdrawals from a 401(k) plan.

## 9. What is the goal of modern portfolio theory?

- A. Maximizing returns without considering market risk
- B. Maximizing expected return based on market risk levels**
- C. Creating a diversified portfolio with no risk
- D. Minimizing costs associated with investments

The goal of modern portfolio theory is to maximize expected return based on market risk levels. This approach seeks to optimize the return on an investment portfolio while considering the inherent risks associated with different assets. By analyzing the relationship between risk and return, investors can identify the most efficient frontier of portfolios, which offers the highest expected return for a given level of risk. Modern portfolio theory emphasizes the benefits of diversification, which allows investors to reduce the overall risk of their portfolio without necessarily sacrificing potential returns. It recognizes that different asset classes do not move in tandem, and by mixing various asset types, investors can better manage volatility and potential losses in their overall investment strategy. Therefore, the theory provides a structured way to allocate assets to achieve the desired risk-return profile effectively. In contrast, the other potential answers do not capture the essence of modern portfolio theory. Focusing solely on maximizing returns without considering market risk does not align with prudent investment strategies, as it could lead to excessive risk-taking. Creating a diversified portfolio with no risk is unrealistic; all investments carry some level of risk, and diversification can only help in reducing that risk but not eliminate it entirely. Lastly, minimizing costs is an important aspect of investment management but does not relate specifically to the risk-return trade-off central to

## 10. What is a requirement for the term of an ISO?

- A. Unlimited duration
- B. Limited to 5 years
- C. Limited to 10 years**
- D. Must be exercised within 2 years

The correct answer indicates that an Incentive Stock Option (ISO) must have a term that is limited to 10 years. This aligns with regulations set by the Internal Revenue Code, which governs the lifespan of ISOs. Specifically, the rules state that the options must be exercised within 10 years from the grant date for the employee to receive favorable tax treatment associated with ISOs. Options that suggest an unlimited duration or a limitation to 5 years are inconsistent with the regulatory framework governing ISOs. Additionally, the option regarding the exercise within 2 years pertains to a different aspect of ISOs, specifically in relation to the holding period required to benefit from preferential tax treatment upon sale of the stock acquired through the exercise of the ISO, rather than the term of the option itself. Thus, the 10-year limit is critical for maintaining the tax-advantaged status of these stock options.

## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://cebsrpa1.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**

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