Certified Plan Sponsor Professional (CPSP) Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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. Don’t worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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

1. **A vesting schedule in which participants may be 0% vested after two years is known as what type of schedule?**
   - A. Graded vesting schedule
   - B. Immediate vesting schedule
   - C. Cliff vesting schedule
   - D. Partial vesting schedule

2. **What is the maximum timeframe within which a summary plan description (SPD) must be provided to a participant after they become covered by the plan?**
   - A. No later than 1 year
   - B. No later than 6 months
   - C. Immediately upon enrollment
   - D. No later than 2 years

3. **Members of a plan committee, when selecting a plan recordkeeper, have which type of liability?**
   - A. Limited liability for financial decisions.
   - B. Personal liability for committee decisions.
   - C. No liability if acting under guidance.
   - D. Collective liability shared with other fiduciaries.

4. **Which definition of compensation is considered nondiscriminatory for employer non-elective contribution allocation?**
   - A. Net wages after deductions
   - B. Gross wages for federal income taxes
   - C. Hourly wage multiplied by hours worked
   - D. Commission-based pay

5. **What is a characteristic of retirement plan participants who work with investment advisors compared to others?**
   - A. They have lower risk tolerance.
   - B. They generally have higher savings goals and save more.
   - C. They are less likely to participate in the plan.
   - D. They prefer traditional investment options.

6. **What are the tax benefits of a Health Savings Account (HSA) when used for qualified medical expenses?**
   - A. Earnings grow tax-free, withdrawals are subject to federal income taxes
   - B. Contributions are subject to state income taxes
   - C. Earnings grow tax-free, contributions are exempt from federal income taxes, and withdrawals are tax-free
   - D. Only contributions are tax-exempt

7. **What types of plans are specifically designed to receive company stock?**
   - A. Cash balance plans, money purchase plans, and pension plans
   - B. Stock purchase plans, employee stock ownership plans, and stock bonus plans
   - C. Defined benefit plans, defined contribution plans, and hybrid plans
   - D. 401(k) plans, IRA accounts, and Roth plans

8. **Which of the following is true regarding Roth contributions?**
   - A. The contributions are made pre-tax
   - B. The contributions grow tax-deferred
   - C. Withdrawals are tax-free in retirement
   - D. They are subject to income limits

9. **How can plan sponsors limit their fiduciary responsibility regarding participant investment decisions?**
   - A. By providing a limited range of investment options.
   - B. By ensuring compliance with 404(c) requirements.
   - C. By advising participants on financial matters.
   - D. By outsourcing all investment decisions to a third party.

10. What is the key difference between active and passive mutual funds?

A. Active funds are less expensive than passive funds.

B. Active funds seek to outperform an index benchmark while passive funds seek to match index benchmark returns.

C. Passive funds provide more personalized investment strategies.

D. Passive funds require frequent trading compared to active funds.

Answers

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

Explanations

1. A vesting schedule in which participants may be 0% vested after two years is known as what type of schedule?

A. Graded vesting schedule

B. Immediate vesting schedule

C. Cliff vesting schedule

D. Partial vesting schedule

A vesting schedule where participants are 0% vested after a specific period, such as two years, is known as a cliff vesting schedule. In this type of vesting arrangement, employees do not accrue any ownership of the employer's contributions until they reach a defined milestone, commonly a certain number of years of service. Once participants reach this milestone, they become fully vested all at once, which is the "cliff." This contrasts with graded vesting schedules, where employees gradually earn rights to the employer's contributions over time instead of receiving them all at once after a specific threshold is met. Immediate vesting allows employees to have full rights to contributions immediately, and partial vesting typically refers to gradual vesting that does not fit neatly into a cliff or immediate category. Thus, the cliff vesting schedule distinctly describes the situation where participants are entirely unvested until a definitive duration, after which they become fully vested.

2. What is the maximum timeframe within which a summary plan description (SPD) must be provided to a participant after they become covered by the plan?

A. No later than 1 year

B. No later than 6 months

C. Immediately upon enrollment

D. No later than 2 years

The maximum timeframe for providing a summary plan description (SPD) to a participant after they become covered by the plan is one year. This requirement is grounded in the Employee Retirement Income Security Act (ERISA), which mandates that plan administrators supply SPDs to participants within a specified period to ensure transparency about plan benefits, rights, and obligations. By allowing a full year for delivery, the regulation ensures that participants have adequate time to review the plan's provisions thoroughly and understand their entitlements, which is essential for informed decision-making regarding their benefits. This period also takes into consideration the potential complexity of the plan documents and the time required for participants to access and comprehend the information provided. In contrast, other timeframes do not comply with ERISA regulations. Providing an SPD immediately upon enrollment may be beneficial, but it is not a mandatory requirement. The other options suggesting timeframes of six months or two years do not align with the legal stipulations, as they either fall short of ensuring timely access to plan information or exceed the designated allowance for delivery as per the law.

3. Members of a plan committee, when selecting a plan recordkeeper, have which type of liability?

- A. Limited liability for financial decisions.
- B. Personal liability for committee decisions.
- C. No liability if acting under guidance.
- D. Collective liability shared with other fiduciaries.

When members of a plan committee select a plan recordkeeper, they assume personal liability for the decisions made in the course of their fiduciary duties. This means that if the committee members fail to act prudently or do not meet the necessary standards of care and loyalty required by ERISA (the Employee Retirement Income Security Act), they can be held personally liable for any resulting losses to the plan. Fiduciaries, including committee members, are expected to perform their roles with a high degree of diligence and care, considering all relevant information and acting in the best interest of the plan participants. If they neglect their duties or make decisions that are not in the best interest of the participants, they can be personally accountable, which can lead to legal consequences including financial repercussions. This emphasizes the serious nature of their role and the importance of thorough evaluation and decision-making when selecting service providers like recordkeepers. The context surrounds fiduciary responsibility, where collective liability and acting under guidance relate to broader fiduciary duties but do not reduce the personal liability that committee members face for their specific decisions. Hence, the understanding of personal liability is pivotal for members of plan committees.

4. Which definition of compensation is considered nondiscriminatory for employer non-elective contribution allocation?

- A. Net wages after deductions
- B. Gross wages for federal income taxes
- C. Hourly wage multiplied by hours worked
- D. Commission-based pay

The definition of compensation that is considered nondiscriminatory for employer non-elective contribution allocation is gross wages for federal income taxes. This measure includes all types of compensation a participant receives before any deductions, providing a comprehensive basis for determining contributions. Using gross wages ensures that all employees, regardless of their pay structure, are treated equitably when it comes to the allocation of non-elective contributions. This is essential in maintaining compliance with regulations intended to prevent discrimination in retirement plan contributions, which could favor higher-paid employees over lower-paid employees. When discussing other options, net wages after deductions may not be nondiscriminatory because it varies based on individual circumstances, including personal deductions and tax situations, leading to potential inequities. Hourly wages multiplied by hours worked could disregard important elements of total compensation, such as commissions or bonuses, thus failing to reflect a comprehensive compensation approach. Commission-based pay alone can skew contributions because it may not be consistent across all employees, leading to disparities in how contributions are calculated. Overall, gross wages for federal income taxes create a standardized approach that aligns with nondiscriminatory practices, ensuring fair treatment of all employees in employer non-elective contribution allocations.

5. What is a characteristic of retirement plan participants who work with investment advisors compared to others?

A. They have lower risk tolerance.

B. They generally have higher savings goals and save more.

C. They are less likely to participate in the plan.

D. They prefer traditional investment options.

Retirement plan participants who work with investment advisors typically demonstrate higher savings goals and save more. This can be attributed to several factors, including the personalized guidance and tailored strategies that investment advisors provide. These advisors assist participants in understanding their financial needs, helping them set realistic and ambitious savings objectives aligned with their long-term retirement goals. Additionally, the support and expertise gained from working with an investment advisor often empower participants to make more informed decisions regarding their contributions and investment choices. This heightened awareness and professional assistance likely lead participants to prioritize their retirement savings and engage more actively in their plans compared to those who do not utilize advisory services. Therefore, the characteristic of having higher savings goals and saving more is reflective of the proactive financial behavior fostered through the relationship with investment advisors.

6. What are the tax benefits of a Health Savings Account (HSA) when used for qualified medical expenses?

A. Earnings grow tax-free, withdrawals are subject to federal income taxes

B. Contributions are subject to state income taxes

C. Earnings grow tax-free, contributions are exempt from federal income taxes, and withdrawals are tax-free

D. Only contributions are tax-exempt

A Health Savings Account (HSA) offers multiple tax advantages when used for qualified medical expenses, making it an attractive option for individuals looking to manage their healthcare costs. The correct understanding of these benefits includes that contributions made to an HSA are tax-exempt, meaning they can be deducted from your taxable income, thereby reducing your overall tax liability for the year in which you make the contributions. Moreover, the earnings on the funds within an HSA grow tax-free. This means that any interest or investment gains added to the account are not subject to federal income taxes as long as the funds remain in the HSA. When these funds are finally used for qualified medical expenses, which include a wide range of healthcare services and products, withdrawals are also tax-free. This triple tax benefit is a unique feature of HSAs, as few tax-advantaged accounts offer similar terms. In contrast, other choices do not encapsulate the comprehensive tax advantages associated with HSAs. For example, one option incorrectly states that withdrawals are subject to federal income taxes, while another implies that contributions are subject to state income taxes, which is not universally applicable as many states follow federal guidelines. Another choice incorrectly limits the tax benefits to only contributions being tax-exempt, failing to account

7. What types of plans are specifically designed to receive company stock?

A. Cash balance plans, money purchase plans, and pension plans

B. Stock purchase plans, employee stock ownership plans, and stock bonus plans

C. Defined benefit plans, defined contribution plans, and hybrid plans

D. 401(k) plans, IRA accounts, and Roth plans

The answer highlights that stock purchase plans, employee stock ownership plans, and stock bonus plans are specifically structured to hold and manage company stock. Each of these types of plans has a unique focus on facilitating employee ownership of the company's stock, which can provide employees with additional retirement benefits tied directly to the performance and growth of their employer. Stock purchase plans allow employees to buy shares of the company's stock at a reduced price, often through payroll deductions. Employee stock ownership plans (ESOPs) are trust-based arrangements that encourage employees to become shareholders, generally forming part of their retirement funds. Stock bonus plans award employees with shares of the company's stock as a form of compensation, often tied to performance or tenure. The other options listed do not specifically focus on receiving or holding company stock in the same manner. Cash balance plans and traditional pension plans primarily deal with defined benefits rather than stock investment. Defined contribution plans, while they can allow for investments in stock-based mutual funds, are not specifically designed for holding company stock. Additionally, 401(k) plans and IRAs can include a range of investment options, but they are not solely focused on company stock like the options in the correct answer.

8. Which of the following is true regarding Roth contributions?

A. The contributions are made pre-tax

B. The contributions grow tax-deferred

C. Withdrawals are tax-free in retirement

D. They are subject to income limits

Roth contributions are unique in that they offer tax-free withdrawals in retirement, provided certain conditions are met. This potential for tax-free income is particularly advantageous for individuals who anticipate being in a higher tax bracket during retirement. With Roth contributions, taxes are paid upfront, meaning that individuals contribute after-tax dollars. As a result, the money can grow tax-deferred, and when it's time to withdraw funds in retirement, those withdrawals are not subject to taxation, allowing for potentially significant tax savings. While other statements about Roth contributions focus on aspects like being made pre-tax or having income limits, these do not accurately represent how Roth IRAs operate. The ability to withdraw contributions without tax implications after meeting the required conditions, such as holding the account for at least five years and being at least 59½ years old, underscores why the statement regarding tax-free withdrawals in retirement is correct. This feature makes Roth contributions especially appealing for retirement planning strategies.

9. How can plan sponsors limit their fiduciary responsibility regarding participant investment decisions?

A. By providing a limited range of investment options.

B. By ensuring compliance with 404(c) requirements.

C. By advising participants on financial matters.

D. By outsourcing all investment decisions to a third party.

The correct choice is rooted in the guidelines set forth in Section 404(c) of the Employee Retirement Income Security Act (ERISA). When plan sponsors ensure compliance with these requirements, it allows them to limit their fiduciary liability regarding the investment decisions made by plan participants. Section 404(c) provides a safe harbor for plan sponsors, indicating that if certain conditions are met, they are not liable for any losses that may occur due to participants' investment decisions. This means that as long as the plan provides participants with a sufficient number of investment options, the ability to make their own investment choices, and meets the required disclosure and education guidelines, plan sponsors can shift much of the responsibility for investment outcomes to the participants themselves. This method of compliance alleviates some burden from the plan sponsors while still fulfilling their obligations to offer a prudent investment framework for participants. Therefore, focusing on 404(c) compliance is a strategic and legally recognized way for plan sponsors to limit their fiduciary responsibility related to participant investment decisions.

10. What is the key difference between active and passive mutual funds?

A. Active funds are less expensive than passive funds.

B. Active funds seek to outperform an index benchmark while passive funds seek to match index benchmark returns.

C. Passive funds provide more personalized investment strategies.

D. Passive funds require frequent trading compared to active funds.

The distinction between active and passive mutual funds primarily revolves around their investment strategies and objectives. Active funds are managed by portfolio managers who make deliberate decisions about buying and selling securities in an effort to outperform a specific benchmark index. This active management approach aims to generate higher returns than the market average by capitalizing on market inefficiencies. On the other hand, passive funds are designed to replicate the performance of a specific index, such as the S&P 500. They achieve this by investing in the same securities that constitute the index in the same proportions, thereby seeking to match the index's returns rather than exceeding them. This fundamental difference in objectives is what sets the two types of funds apart; active funds strive for superior performance, while passive funds aim for performance that mirrors a benchmark. Considering the other options, active funds are generally more expensive due to higher management fees associated with the active strategies, which is contrary to what one would find with passive funds. Regarding personalized investment strategies, passive funds do not typically offer these, as their goal is to adhere strictly to the index. Lastly, passive funds are associated with lower trading frequency, as their strategy involves minimal adjustments to maintain index alignment, which opposes the higher trading activity typically seen in active funds.

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.

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

https://certifiedplansponsorprofessional-cpsp.examzify.com

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