CERTIFIED PLAN SPONSOR PROFESSIONAL (CPSP) PRACTICE EXAM (SAMPLE)

STUDY GUIDE

Prepare with structure. Pass with confidence

Table of Contents

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

1. What does the acronym PBGC stand for?

A. Pension Benefit Guarantee Council

B. Pension Benefit Governance Corporation

C. Pension Benefit Guarantee Corporation

D. Pension Board Guarantee Corporation

2. What is the primary objective of using a diversified portfolio according to modern portfolio theory?

A. To achieve maximal returns regardless of risk factors.

B. To minimize overall investment costs.

C. To reduce risk for any expected level of return by combining negatively correlated assets.

D. To create a portfolio with the highest possible returns.

3. What form must be issued to a participant after a required minimum distribution is made?

A. Form 5500

B. Form 1099-R

C. Form 945

D. Form W-2

4. What is considered a civil penalty under ERISA regarding early distributions?

A. Late contributions

B. Mandatory penalties of $100

C. Taxable income

D. Unreported rollovers

5. True or False: Fiduciary liability insurance is a practical way for plan sponsors to mitigate risks of fiduciary breaches.

A. True

B. False

C. Only in certain cases

D. Not advisable

6. Which of the following transactions is likely a prohibited transaction?

A. An investment committee selects a low-cost well performing fund for the plan investment menu and the investment manager agrees to match the low fees for their personal investments.

B. An investment committee exclusively chooses high-cost funds to benefit themselves.

C. A fiduciary accepts gifts from service providers in exchange for plan contracts.

D. A plan participant directs their own investments without restrictions.

7. Is it permissible under ERISA to select a bank as a service provider in return for a reduced rate on the corporate line of credit?

A. Yes, it is permissible

B. No, it is not permissible

C. Depends on the agreement terms

D. Only if the bank is the best option

8. What investment option could help someone concerned about outliving their savings?

A. 401(k) plan only

B. Qualified longevity annuity contract (QLAC)

C. Stocks and bonds portfolio

D. Money market fund

9. Which asset class generally provides the least amount of investment risk but also the lowest return?

A. Stocks

B. Bonds

C. Money market funds

D. Real estate investment trusts (REITs)

10. Which of the following statements about Fiduciary Liability Insurance is correct?

A. Fiduciaries can purchase Fiduciary Liability Insurance for themselves if the plan sponsor does not otherwise have a Fiduciary Liability Insurance policy.

B. Fiduciary Liability Insurance is mandatory for all plan sponsors.

C. Only corporate entities can buy Fiduciary Liability Insurance; individuals cannot.

D. Fiduciary Liability Insurance can only cover past obligations.

Answers

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

Explanations

1. What does the acronym PBGC stand for?

A. Pension Benefit Guarantee Council

B. Pension Benefit Governance Corporation

C. Pension Benefit Guarantee Corporation

D. Pension Board Guarantee Corporation

The acronym PBGC stands for Pension Benefit Guarantee Corporation. This organization was created to protect the retirement incomes of American workers by insuring defined benefit pension plans. If a defined benefit plan fails due to insufficient funds, the PBGC pays benefits to the participants up to a certain limit. This safeguard helps maintain the stability of pension plans and provides a safety net for retirees who may have otherwise lost their promised benefits. The other answers do not correctly represent the name or function of the organization. The words "Guarantee Council," "Governance Corporation," and "Board Guarantee Corporation" do not accurately reflect the established title or the mission of the PBGC. Understanding the correct name is crucial for recognizing the role the PBGC plays in retirement security and pension benefits.

2. What is the primary objective of using a diversified portfolio according to modern portfolio theory?

A. To achieve maximal returns regardless of risk factors.

B. To minimize overall investment costs.

C. To reduce risk for any expected level of return by combining negatively correlated assets.

D. To create a portfolio with the highest possible returns.

The primary objective of using a diversified portfolio, as outlined in modern portfolio theory, is centered around the idea of reducing risk for a given level of expected return by combining assets that are negatively correlated. This means that when one asset performs poorly, another may perform well, which helps to buffer the overall volatility of the portfolio. By strategically selecting a mix of various asset types—such as stocks, bonds, and real estate—that do not move in sync with each other, an investor can construct a portfolio that protects against downturns in the market. This approach acknowledges that while no investment is free of risk, diversification allows an investor to optimize their returns for a given level of risk tolerance. Thus, the correct understanding aligns with modern portfolio theory's emphasis on balancing risk and return through the combination of different assets.

3. What form must be issued to a participant after a required minimum distribution is made?

A. Form 5500

B. Form 1099-R

C. Form 945

D. Form W-2

The correct form that must be issued to a participant after a required minimum distribution (RMD) is made is Form 1099-R. This form is essential for reporting distributions from retirement accounts including pensions, annuities, IRAs, and other qualified plans. When a participant takes a required minimum distribution, the plan or financial institution must report the amount of the distribution to both the IRS and the participant. Form 1099-R serves this purpose, as it provides details such as the total amount distributed, the taxable portion, and any federal income tax withheld. In contrast, Form 5500 is an annual report related to employee benefit plans, Form 945 is used for reporting withheld federal income tax from nonpayroll payments, and Form W-2 is used for reporting wages, tips, and other compensation paid to employees. None of these forms specifically address the requirements associated with reporting distributions from retirement accounts.

4. What is considered a civil penalty under ERISA regarding early distributions?

A. Late contributions

B. Mandatory penalties of $100

C. Taxable income

D. Unreported rollovers

Under the Employee Retirement Income Security Act (ERISA), penalties for early distributions from retirement plans are designed to discourage participants from accessing their retirement savings before reaching the required age or meeting certain conditions. The correct choice regarding civil penalties specifically references mandatory penalties, which are characterized under the Internal Revenue Code as imposed fines or fees for noncompliance with conditions set for tax advantages on retirement plans. In this context, mandatory penalties of $100 directly align with the civil penalties outlined in ERISA. These penalties often apply to certain violations related to retirement plans and maintain the integrity of the regulations intended to protect retirement savings. Specifically, early distributions that do not satisfy the legal requirements may incur these civil penalties, which serve as a financial deterrent. The other choices relate to different aspects of retirement plans but do not specifically define civil penalties under ERISA for early distributions. Late contributions pertain to the timely deposit of participant contributions rather than penalties for early access. Taxable income refers to the tax implications of distributions rather than penalties. Unreported rollovers involve failure to report a rollover transaction and do not constitute a civil penalty defined in the same way as mandatory monetary penalties for early distributions. Thus, the association of mandatory penalties of $100 with ERISA's framework for handling early

5. True or False: Fiduciary liability insurance is a practical way for plan sponsors to mitigate risks of fiduciary breaches.

A. True

B. False

C. Only in certain cases

D. Not advisable

Fiduciary liability insurance is designed to protect plan sponsors from financial losses arising from claims of breaches of fiduciary duty. This type of insurance mitigates risks associated with fiduciary breaches, which can arise from various actions taken in relation to managing employee benefit plans. Since fiduciaries have specific legal responsibilities under the Employee Retirement Income Security Act (ERISA), the insurance provides a safeguard against potential lawsuits or claims related to those duties. By securing fiduciary liability insurance, plan sponsors can alleviate some of the financial burden that may result from litigation or settlements related to alleged breaches. This allows organizations to focus on their primary responsibilities without the constant anxiety of financial repercussions tied to potential fiduciary failures. While the other choices propose different views, they do not capture the essential role that fiduciary liability insurance plays in risk mitigation for plan sponsors. In essence, employing this type of insurance is a prudent strategy for managing potential fiduciary risks.

6. Which of the following transactions is likely a prohibited transaction?

- A. An investment committee selects a low-cost well performing fund for the plan investment menu and the investment manager agrees to match the low fees for their personal investments.
- B. An investment committee exclusively chooses high-cost funds to benefit themselves.
- C. A fiduciary accepts gifts from service providers in exchange for plan contracts.
- D. A plan participant directs their own investments without restrictions.

The most appropriate answer is the option that identifies a scenario where a fiduciary's actions could present a conflict of interest, which often leads to prohibited transactions. In this case, the situation described involves an investment committee that selects a low-cost, well-performing fund for the plan, but the investment manager offers to match those low fees for their personal investments. This arrangement raises potential red flags concerning the fiduciary duty because it introduces the possibility of self-dealing or preferential treatment. Fiduciaries are required to act in the best interests of the plan participants and beneficiaries. However, if personal gains for the investment manager influence the investment committee's selection process, it compromises impartial decision-making and creates an inherent conflict of interest, which is a hallmark of a prohibited transaction under fiduciary standards. In contrast, while the other choices may involve questionable or unethical behaviors, they don't reflect the specific dynamics of a transaction being prohibited under the regulatory framework as clearly as the selected choice. For example, while exclusively choosing high-cost funds to benefit oneself may not directly constitute a transaction with a plan's assets, it certainly violates fiduciary duty principles. Similarly, accepting gifts from service providers could also indicate a failure of fiduciary responsibilities but wouldn't necessarily constitute a transaction involving the plan

7. Is it permissible under ERISA to select a bank as a service provider in return for a reduced rate on the corporate line of credit?

- A. Yes, it is permissible
- B. No, it is not permissible
- C. Depends on the agreement terms
- D. Only if the bank is the best option

Under the Employee Retirement Income Security Act (ERISA), certain fiduciary responsibilities are imposed on plan sponsors regarding how they select service providers and manage plan assets. The primary concern is whether the selection of a service provider, such as a bank, is made in the best interests of the plan participants and beneficiaries, and whether it adheres to the exclusive purpose rule, which mandates that retirement plan assets should be used solely to benefit the participants and their beneficiaries. In this scenario, selecting a bank as a service provider solely based on a reduced rate on a corporate line of credit raises significant concerns about fiduciary duty. If the decision to select the bank is not based on a thorough evaluation of the service the bank can provide for the retirement plan and is instead motivated by the financial benefit to the corporation, this could be seen as a conflict of interest and not in the best interests of the plan participants. Therefore, without a clear demonstration that the selection is made based on a comprehensive analysis of the service, fees, and other potential providers, this arrangement is not permissible under ERISA. Such a situation could easily lead to questions regarding the loyalty and prudential obligations that plan fiduciaries owe to the plan participants, which is why the answer points to a prohibition in

8. What investment option could help someone concerned about outliving their savings?

A. 401(k) plan only

B. Qualified longevity annuity contract (QLAC)

C. Stocks and bonds portfolio

D. Money market fund

A Qualified Longevity Annuity Contract (QLAC) is designed specifically to address the concern of outliving one's savings. It allows individuals to invest a portion of their retirement savings into an annuity, which begins providing regular income payments at a future date, typically after the individual reaches a certain age, such as 85. This strategy can be particularly beneficial for ensuring that retirees have a source of guaranteed income later in life when they may have depleted other savings. The other options do not provide the same level of protection against longevity risk. A 401(k) plan is a valuable retirement savings tool but does not guarantee lifetime income, leaving individuals at risk of running out of funds. A stocks and bonds portfolio offers potential growth, but it is subject to market fluctuations and may not provide a steady income stream in retirement. Meanwhile, a money market fund is typically low risk and provides liquidity but does not generate substantial returns or a structured income for the long term, which could also lead to the erosion of purchasing power over time.

9. Which asset class generally provides the least amount of investment risk but also the lowest return?

A. Stocks

B. Bonds

C. Money market funds

D. Real estate investment trusts (REITs)

Money market funds are designed to provide a safe and stable investment option, which is why they generally exhibit the least amount of investment risk among the asset classes listed. These funds primarily invest in short-term, high-quality debt instruments, such as Treasury bills, commercial paper, and certificates of deposit, which are considered very low risk due to their short maturities and the high credit quality of the underlying securities.   Investors typically choose money market funds when they prioritize capital preservation and liquidity over higher returns. Consequently, while they offer the safety of principal, the returns from money market funds are usually the lowest compared to stocks, bonds, and real estate investment trusts (REITs), which have higher potential returns but also come with greater risk. In contrast, stocks often provide higher potential returns due to their exposure to the performance of companies and the overall market, but they also carry higher volatility and risk. Bonds, while generally safer than stocks, can still experience fluctuations in value and interest rate risk. REITs tend to yield higher returns as they invest in real estate and may provide both capital appreciation and income through dividends, yet they also involve market and sector-specific risks. Therefore, the inherent characteristics of money market funds make them uniquely positioned to provide the lowest

10. Which of the following statements about Fiduciary Liability Insurance is correct?

A. Fiduciaries can purchase Fiduciary Liability Insurance for themselves if the plan sponsor does not otherwise have a Fiduciary Liability Insurance policy.

B. Fiduciary Liability Insurance is mandatory for all plan sponsors.

C. Only corporate entities can buy Fiduciary Liability Insurance; individuals cannot.

D. Fiduciary Liability Insurance can only cover past obligations.

Fiduciary Liability Insurance is a crucial tool for protecting individuals who serve as fiduciaries to an employee benefit plan. It provides coverage for claims arising from alleged breaches of fiduciary duty or mismanagement of plan assets. The statement that fiduciaries can purchase Fiduciary Liability Insurance for themselves if the plan sponsor does not provide such a policy is correct because it recognizes that individual fiduciaries have the ability to seek personal insurance coverage independent of the organization's insurance policy. This is particularly important since the fiduciaries are personally liable for their decisions regarding the plan, and having their own insurance can protect their personal assets in the event of a claim. Understanding the context of this specific aspect of fiduciary responsibility underscores the importance for individuals in these roles to ensure they are adequately protected, especially in situations where the sponsor may not have an overarching policy in place.

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!