

Certified Trust and Fiduciary Advisor (CTFA) 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 is a power of attorney?**
 - A. A legal document allowing one person to act on another's behalf**
 - B. A contract between two companies**
 - C. A will that distributes an estate**
 - D. A financial plan for retirement**

- 2. Who is responsible for ensuring the trust is managed according to its terms?**
 - A. The trustor**
 - B. The beneficiaries**
 - C. The trustee**
 - D. The regulatory body**

- 3. How does a revocable trust differ from an irrevocable trust?**
 - A. A revocable trust is created for charitable purposes**
 - B. An irrevocable trust allows for changes by the trustor, whereas a revocable trust does not**
 - C. A revocable trust may be changed by the trustor, while an irrevocable trust cannot**
 - D. An irrevocable trust provides immediate tax benefits, while a revocable trust does not**

- 4. What is typically a key feature of a revocable living trust?**
 - A. Assets are frozen upon the grantor's death**
 - B. The grantor cannot make changes once established**
 - C. The grantor retains control over the assets during their lifetime**
 - D. It provides automatic creditor protection**

- 5. What should be included in the trust document for a bank serving as co-trustee with an individual?**
 - A. Language that allows the bank to manage all investments**
 - B. Broad language on exoneration from individual trustee decisions**
 - C. Requirements for the bank to approve all transactions**
 - D. A statement allowing individual discretion only**

- 6. What happens to Herman's annuity payments if he dies before his wife Kathleen?**
- A. The payments cease immediately**
 - B. The payments will continue until Kathleen's death**
 - C. The payments will be redirected to his estate**
 - D. The payments will be halved and given to their children**
- 7. How is the beneficial interest of a surviving spouse in a QTIP trust characterized?**
- A. Voluntary income interest**
 - B. Non-mandatory income interest**
 - C. Mandatory income interest**
 - D. Contingent interest**
- 8. What key role does a custodian have in the context of trust management?**
- A. Holds and safeguards the trust's assets**
 - B. Distributes trust assets to beneficiaries**
 - C. Invests the trust's assets in the stock market**
 - D. Creates the trust agreement**
- 9. If a retired worker aged 67 earns \$22,500 in employment earnings, how will their Social Security benefits be affected?**
- A. It will be reduced by 50%.**
 - B. It will be reduced by 15%.**
 - C. It will be reduced by 0%.**
 - D. It will be eliminated completely.**
- 10. What is a common fiduciary duty regarding disclosure?**
- A. Minimal disclosure of necessary information**
 - B. Confidentiality regarding all finances**
 - C. Full and fair disclosure of all relevant information to beneficiaries**
 - D. Disclosing only to regulatory authorities**

Answers

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

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Explanations

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1. What is a power of attorney?

- A. A legal document allowing one person to act on another's behalf**
- B. A contract between two companies**
- C. A will that distributes an estate**
- D. A financial plan for retirement**

A power of attorney is a legal document that grants one person the authority to act on behalf of another individual, typically referred to as the principal. This instrument is significant because it allows the appointed person, known as the agent or attorney-in-fact, to make decisions regarding financial, legal, or medical matters when the principal is unable to do so, whether due to incapacitation, absence, or other reasons. The power of attorney can be durable, meaning it remains in effect even if the principal becomes incapacitated, or it can be limited to certain actions or a specific timeframe. This flexibility makes it a valuable tool in estate planning and management, ensuring that the principal's desires and financial obligations continue to be managed appropriately. Understanding the role and function of a power of attorney is crucial for fiduciary advisors, as it often intersects with their responsibilities in managing clients' affairs, ensuring that the agent acts in the best interests of the principal, and maintaining compliance with relevant laws and regulations.

2. Who is responsible for ensuring the trust is managed according to its terms?

- A. The trustor**
- B. The beneficiaries**
- C. The trustee**
- D. The regulatory body**

The trustee holds the primary responsibility for ensuring that the trust is managed in accordance with its terms. This role involves a fiduciary duty to act in the best interests of the beneficiaries and to adhere strictly to the provisions outlined in the trust document. The trustee must manage the trust's assets, carry out the directives specified in the trust, and make decisions that align with the intent of the trustor. In fulfilling this responsibility, the trustee must exercise prudence and care, keeping accurate records and providing regular updates to beneficiaries as required. Additionally, they must navigate the legal requirements and fiduciary responsibilities associated with the trust. While the trustor creates the trust and establishes its terms, and the beneficiaries have an interest in the trust's assets, it is ultimately the trustee who is tasked with the stewardship of the trust. The role of the regulatory body, while important in overseeing compliance with applicable laws, does not extend to direct management of the trust. Therefore, the trustee's role is pivotal in ensuring that the trust is managed properly according to its terms.

3. How does a revocable trust differ from an irrevocable trust?

- A. A revocable trust is created for charitable purposes
- B. An irrevocable trust allows for changes by the trustor, whereas a revocable trust does not
- C. A revocable trust may be changed by the trustor, while an irrevocable trust cannot**
- D. An irrevocable trust provides immediate tax benefits, while a revocable trust does not

A revocable trust may be changed by the trustor, while an irrevocable trust cannot, which highlights the key distinction between these two types of trusts. The trustor, who is the individual establishing the trust, retains the ability to modify or revoke the terms of a revocable trust at any time during their lifetime. This flexibility allows the trustor to adapt the trust to changing circumstances or preferences, ensuring that the trust continues to meet their objectives. In contrast, once an irrevocable trust is established, the trustor relinquishes the right to make modifications or revoke the trust. This structure is often used for estate planning purposes or asset protection, as it removes the assets from the trustor's estate, which may have tax advantages or benefits in terms of eligibility for certain benefits. The other options provided do not accurately capture the fundamental differences between revocable and irrevocable trusts, which is pivotal when advising clients on estate planning strategies.

4. What is typically a key feature of a revocable living trust?

- A. Assets are frozen upon the grantor's death
- B. The grantor cannot make changes once established
- C. The grantor retains control over the assets during their lifetime**
- D. It provides automatic creditor protection

A key feature of a revocable living trust is that the grantor retains control over the assets during their lifetime. This means that the grantor can manage, alter, or revoke the trust at any point as long as they are alive and competent. This flexibility allows the grantor to make decisions regarding the trust assets, such as adding or removing assets or making changes to the beneficiaries or terms of the trust. This characteristic makes revocable living trusts popular estate planning tools, as they provide a way to manage assets while also facilitating changes as personal circumstances or intentions evolve. Other aspects of a revocable living trust include that it does not freeze assets upon the grantor's death; rather, it allows for a smooth transition of management to successor trustees. Unlike irrevocable trusts, a revocable trust allows the grantor to make changes at any time. Also, it does not inherently offer creditor protection since the assets are still considered part of the grantor's estate and can be accessed by creditors. Thus, option C encompasses the essential and defining feature of revocable living trusts, highlighting the level of control maintained by the grantor.

5. What should be included in the trust document for a bank serving as co-trustee with an individual?

- A. Language that allows the bank to manage all investments**
- B. Broad language on exoneration from individual trustee decisions**
- C. Requirements for the bank to approve all transactions**
- D. A statement allowing individual discretion only**

Including broad language on exoneration from individual trustee decisions in a trust document is important when a bank serves as a co-trustee with an individual. This provision clarifies that the bank will not be held liable for decisions made solely by the individual trustee. Given the nature of the responsibilities shouldered by co-trustees, this language provides a necessary level of protection for the bank, recognizing that, depending on the terms of the trust, the individual trustee may have certain discretionary powers or control over specific decisions. This safeguard ensures that the bank's liability is limited, as it emphasizes that it is not responsible for actions taken independently by the individual co-trustee, thus allowing the bank to operate without the constant oversight of the individual's decisions. The presence of such language aids in delineating the roles and responsibilities of each trustee, which is crucial in maintaining clear governance of the trust's assets and minimizing potential conflicts or misunderstandings between the co-trustees.

6. What happens to Herman's annuity payments if he dies before his wife Kathleen?

- A. The payments cease immediately**
- B. The payments will continue until Kathleen's death**
- C. The payments will be redirected to his estate**
- D. The payments will be halved and given to their children**

If Herman has an annuity with a joint life option or a spousal continuation feature, the correct outcome is that the payments will continue until Kathleen's death. Many annuities are designed to provide ongoing income not just for the annuitant, but also for a designated beneficiary, which in this scenario is the spouse, Kathleen. This arrangement ensures that the surviving spouse receives continued financial support, reflecting the purpose of annuities as a source of income in retirement and the security it provides to families. For many couples, the desire to ensure that one partner is financially protected in the event of the other's death is a common consideration during estate and financial planning. Thus, this design acknowledges the financial needs of the surviving spouse and is a crucial aspect of how joint annuities operate. Plans may vary, so the specific terms of the annuity contract would ultimately dictate the ongoing payment status, but in many cases, payments continue to the survivor.

7. How is the beneficial interest of a surviving spouse in a QTIP trust characterized?

- A. Voluntary income interest**
- B. Non-mandatory income interest**
- C. Mandatory income interest**
- D. Contingent interest**

The beneficial interest of a surviving spouse in a QTIP (Qualified Terminable Interest Property) trust is characterized as a mandatory income interest. In the context of a QTIP trust, the surviving spouse is entitled to receive all income generated by the trust during their lifetime. This requirement to distribute all income to the surviving spouse makes it a mandatory income interest. QTIP trusts are specifically designed to provide for a surviving spouse while also allowing the decedent's estate to qualify for the estate tax marital deduction. This means that the trust must pay out all income to the surviving spouse, ensuring they have the financial support they need, while the principal of the trust can eventually be passed on to other beneficiaries, such as children from a previous marriage. This characterization as a mandatory income interest is crucial because it not only impacts the financial planning measures for the surviving spouse but also has implications for estate taxes and the distribution of assets upon the passing of the surviving spouse. It delineates the rights and expectations for both the surviving spouse and the trust's remainder beneficiaries.

8. What key role does a custodian have in the context of trust management?

- A. Holds and safeguards the trust's assets**
- B. Distributes trust assets to beneficiaries**
- C. Invests the trust's assets in the stock market**
- D. Creates the trust agreement**

In trust management, a custodian plays a crucial role primarily by holding and safeguarding the trust's assets. This responsibility involves ensuring that the trust's assets are properly managed and protected from loss, theft, or mismanagement. The custodian is tasked with maintaining the integrity of these assets, which can include cash, securities, real estate, and other property held in the trust. The safeguarding of assets is essential because it helps to ensure that the trust can fulfill its obligations to the beneficiaries, protecting their interests and providing a layer of security and reliability in the management of the trust. This role encompasses not only physical security but also proper record-keeping and reporting, which are vital for transparency and accountability in trust management. While other roles mentioned, such as distributing trust assets to beneficiaries or investing assets, are important functions within trust administration, they are typically managed by trustees or investment managers rather than custodians. The creation of the trust agreement is a legal process also outside the custodian's scope, typically undertaken by attorneys or estate planners. Thus, the primary function of the custodian remains the protection of the trust's assets, emphasizing their role in upholding the trust's overall integrity and purpose.

9. If a retired worker aged 67 earns \$22,500 in employment earnings, how will their Social Security benefits be affected?
- A. It will be reduced by 50%.
 - B. It will be reduced by 15%.
 - C. It will be reduced by 0%.**
 - D. It will be eliminated completely.

The situation described indicates that the retired worker is already at full retirement age, which, for someone aged 67, typically means they have reached the age at which they can receive full Social Security benefits without any reduction for earnings. For individuals who are at full retirement age or older, additional earnings do not cause a reduction in Social Security benefits regardless of how much they earn. When retirement benefits are calculated, there are specific earnings limits that apply before full retirement age. If an individual earns over this limit before reaching full retirement age, their benefits may be reduced. However, once they reach full retirement age, they can earn any amount without their Social Security benefits being affected. This provides clarity about why there is no reduction in benefits in this scenario, allowing the worker to keep the entire Social Security benefit while still earning wage income.

10. What is a common fiduciary duty regarding disclosure?
- A. Minimal disclosure of necessary information
 - B. Confidentiality regarding all finances
 - C. Full and fair disclosure of all relevant information to beneficiaries**
 - D. Disclosing only to regulatory authorities

The obligation of full and fair disclosure of all relevant information to beneficiaries is a cornerstone of fiduciary duty. A fiduciary, such as a trustee or an advisor, is expected to act in the best interest of the beneficiaries, which includes providing comprehensive, transparent information regarding the trust's assets, management decisions, and financial activities. This enables beneficiaries to make informed decisions and trust that their interests are being prioritized. By adhering to this standard of full disclosure, fiduciaries help maintain accountability and trust, which are essential in these relationships. This duty also protects beneficiaries by ensuring they are fully informed about the factors affecting their financial rights and interests. Therefore, a fiduciary who fails to provide complete information could be violating their obligations and putting their position at risk. In contrast, minimal disclosure undermines the very essence of the fiduciary relationship, as it can leave beneficiaries without necessary context or knowledge to evaluate the actions of the fiduciary. Confidentiality, while important, does not supersede the requirement for transparency when it comes to relevant financial issues affecting beneficiaries. Disclosures limited to regulatory authorities fail to serve the beneficiaries' needs and interests effectively, which is another critical aspect of fiduciary responsibility.

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://ctfa.examzify.com>

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

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