

# PERSONAL FINANCIAL PLANNING PRACTICE TEST (SAMPLE)

## STUDY GUIDE



## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

<https://personalfinplanning.examzify.com>



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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. Which type of account typically earns the highest interest rate for savings?**
  - A. Checking account
  - B. High-yield savings account
  - C. Certificates of deposit
  - D. Money market account
- 2. What should you do when you see the phrase "all interest is calculated using a discount interest rate of 8%" in a loan contract?**
  - A. Consider taking out the loan
  - B. Scream "no, no, I'll never take out a discount interest loan!"
  - C. Ask for clarification from the lender
  - D. Negotiate for a lower interest rate
- 3. Krystle was involved in a car accident where she was at fault. What part of her insurance covers the damages to the other driver's car?**
  - A. Part B. Liability
  - B. Part A. Liability
  - C. Part C. Collision
  - D. Part D. Comprehensive
- 4. How much money does D'Wayne need to deposit today to have \$60,000 in 15 years if his account earns 4% compounded annually?**
  - A. \$60,000
  - B. \$33,316
  - C. \$40,000
  - D. \$50,000
- 5. What is an example of a feature that distinguishes a traditional IRA from a Roth IRA?**
  - A. Tax-free withdrawals in retirement.
  - B. Contributions are made with pre-tax income.
  - C. Unlimited contributions each year.
  - D. Mandatory distributions at retirement age.

- 6. In Fred's split liability auto policy of \$25/\$250/\$10, what does the \$25 represent?**
- A. The maximum property damage coverage
  - B. The maximum bodily injury coverage per person
  - C. The maximum bodily injury coverage per accident
  - D. The maximum coverage for medical bills
- 7. What primary benefit does keeping a credit card through college provide according to financial advice?**
- A. Instant rewards for purchases
  - B. Builds a strong relationship with a bank
  - C. Improves credit score over time
  - D. Provides cash back on expenses
- 8. What type of expenses can Sandy claim during her displacement from her home after a hurricane?**
- A. All home repairs
  - B. Her drug prescriptions
  - C. Living expenses while in a motel up to her policy limit
  - D. Expenses for non-related bills
- 9. Why is consolidating student loans before the grace period expires beneficial?**
- A. It increases the monthly payment amount
  - B. It simplifies payments to one check per month
  - C. It eliminates the need to pay interest
  - D. It restricts repayment terms to less than 10 years
- 10. What is the impact of compound interest on savings over time?**
- A. It significantly increases the amount saved.
  - B. It has no impact on savings.
  - C. It decreases the total savings.
  - D. It only benefits high-value accounts.



## **Answers**

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

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## **Explanations**

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## 1. Which type of account typically earns the highest interest rate for savings?

- A. Checking account
- B. High-yield savings account**
- C. Certificates of deposit
- D. Money market account

A high-yield savings account typically earns the highest interest rate compared to other types of savings accounts. These accounts are designed specifically to offer a better return on your savings while maintaining relatively easy access to your funds. They often have higher interest rates than traditional savings accounts due to their online banking structure and lower overhead costs. The other options, while they may offer some interest, generally do not compete with the rates provided by high-yield savings accounts. Checking accounts commonly offer minimal interest, primarily serving transactional purposes rather than saving. Certificates of deposit (CDs) can offer competitive rates, but they require that you lock in your money for a fixed term, which may not provide the immediate access that some individuals desire. Money market accounts typically offer slightly higher rates than regular savings accounts but still tend to be lower than high-yield savings accounts. Thus, for individuals looking to maximize their savings interest without sacrificing liquidity, a high-yield savings account is often the most favorable choice.

## 2. What should you do when you see the phrase "all interest is calculated using a discount interest rate of 8%" in a loan contract?

- A. Consider taking out the loan
- B. Scream "no, no, I'll never take out a discount interest loan!"**
- C. Ask for clarification from the lender
- D. Negotiate for a lower interest rate

The phrase "all interest is calculated using a discount interest rate of 8%" indicates that the interest on the loan is being calculated in a way that may differ from conventional methods, and it usually implies that the true cost of borrowing might be higher than what it seems at first glance. Understanding this terminology is vital for making an informed decision regarding the loan. When encountering a discount interest rate, it's important to clarify how it will impact the total amount you will eventually repay since this method can sometimes lead to confusion about the actual interest costs. Seeking clarification from the lender provides an opportunity to fully understand the loan terms and to ask detailed questions about how the discount rate works. This can ultimately lead to better decision-making. While expressing concerns is important, simply dismissing the loan without understanding its implications doesn't provide a constructive path forward. Similarly, while negotiating for a lower rate could be beneficial, doing so without first comprehending all aspects of the discount rate could lead to missed opportunities or misunderstandings. Therefore, asking for clarification stands out as a wise first step in navigating the complexities of loan interest calculations.

3. Krystle was involved in a car accident where she was at fault. What part of her insurance covers the damages to the other driver's car?

A. Part B. Liability

**B. Part A. Liability**

C. Part C. Collision

D. Part D. Comprehensive

The correct choice relates to liability coverage, specifically Part A of an auto insurance policy. Liability insurance is designed to cover damages that the insured driver is responsible for causing to another party in the event of an accident. This means that if Krystle was at fault in the car accident, her liability insurance would pay for the damages to the other driver's vehicle as well as any potential medical expenses incurred by the other party due to the accident. In this scenario, the other options do not pertain to covering the damages to the other driver's car in the context of being at fault. Collision coverage, for example, would primarily cover the damages to Krystle's own vehicle regardless of fault, but it wouldn't cover the damages to the other driver's car. Comprehensive coverage is intended for events other than collisions, such as natural disasters, theft, or vandalism, and therefore is not applicable in this case. Liability coverage is essential for protecting against the financial responsibility that arises when an insured driver causes damages to another person.

4. How much money does D'Wayne need to deposit today to have \$60,000 in 15 years if his account earns 4% compounded annually?

A. \$60,000

**B. \$33,316**

C. \$40,000

D. \$50,000

To determine how much D'Wayne needs to deposit today in order to achieve a future goal of \$60,000 in 15 years with an account earning 4% interest compounded annually, we can use the formula for present value:  $PV = \frac{FV}{(1 + r)^n}$  Where: -  $PV$  is the present value (the amount to be deposited today). -  $FV$  is the future value (\$60,000). -  $r$  is the annual interest rate (4%, or 0.04). -  $n$  is the number of years (15 years). By substituting the values into the formula, we have:  $PV = \frac{60,000}{(1 + 0.04)^{15}}$  Calculating the denominator:  $(1 + 0.04)^{15} = (1.04)^{15} \approx 1.8009$  Now, substituting this value back into the present value calculation gives us:  $PV = \frac{60,000}{1.8009} \approx 33,316.46$  Therefore,

**5. What is an example of a feature that distinguishes a traditional IRA from a Roth IRA?**

- A. Tax-free withdrawals in retirement.
- B. Contributions are made with pre-tax income.**
- C. Unlimited contributions each year.
- D. Mandatory distributions at retirement age.

*The distinguishing feature that sets a traditional IRA apart from a Roth IRA is that contributions to a traditional IRA are made with pre-tax income. This means that when you contribute to a traditional IRA, you may be able to deduct the amount of your contribution from your taxable income in the year you make the contribution, potentially lowering your overall tax bill. The money in a traditional IRA grows tax-deferred, and you pay taxes on withdrawals during retirement when you typically may be in a lower tax bracket. In contrast, Roth IRA contributions are made with after-tax income, which means you do not receive an upfront tax deduction for contributions, but qualified withdrawals made during retirement are tax-free. This fundamental difference in taxation at the time of contribution is a key feature that helps distinguish between the two types of IRAs. The other choices do not accurately capture this aspect. While tax-free withdrawals in retirement are a feature of a Roth IRA, they are not characteristic of a traditional IRA. Similarly, there are annual contribution limits imposed on both types of accounts, so the assertion of unlimited contributions is incorrect. Lastly, while both traditional and Roth IRAs have rules regarding mandatory distributions, it is important to note that traditional IRAs require minimum distributions starting at age 72, while Roth*

**6. In Fred's split liability auto policy of \$25/\$250/\$10, what does the \$25 represent?**

- A. The maximum property damage coverage
- B. The maximum bodily injury coverage per person**
- C. The maximum bodily injury coverage per accident
- D. The maximum coverage for medical bills

*In a split liability auto policy, the figures represent different types of coverage limits for bodily injuries and property damages. The first number in the sequence, which is \$25 in this case, indicates the maximum bodily injury coverage available for each individual involved in an accident. This means that if Fred is found liable for injuries to another person, his insurance will pay up to \$25,000 for that person's medical expenses related to the injury, but only for each individual, not cumulatively for all people injured in the same accident. The other components of the split liability policy, which aren't specified in this case but may include additional figures, would typically cover the maximum amount payable for bodily injury per accident and the maximum amount for property damage. Understanding these limits is crucial for assessing risk and making informed decisions about coverage needs.*

**7. What primary benefit does keeping a credit card through college provide according to financial advice?**

- A. Instant rewards for purchases
- B. Builds a strong relationship with a bank
- C. Improves credit score over time**
- D. Provides cash back on expenses

*Keeping a credit card through college primarily helps in improving a credit score over time. This is particularly important for young adults starting their financial journeys, as a good credit score is crucial for many future financial activities, such as applying for loans, renting an apartment, or purchasing a car. Maintaining a credit card account allows students to establish a credit history, which is an essential factor in credit scoring models. Timely payments on the credit card also contribute positively to the credit score, fostering responsible credit behavior that can aid students in building a solid financial foundation. Over time, consistent usage and payment of credit card balances can demonstrate creditworthiness to lenders, making it easier for individuals to secure favorable interest rates and better financing options in the future. This long-term benefit underscores why credit cards are often recommended for college students as a tool for developing healthy financial habits and a strong credit profile.*

**8. What type of expenses can Sandy claim during her displacement from her home after a hurricane?**

- A. All home repairs
- B. Her drug prescriptions
- C. Living expenses while in a motel up to her policy limit**
- D. Expenses for non-related bills

*When a person is displaced from their home due to a disaster such as a hurricane, certain types of expenses can be claimed under their homeowners or renters insurance policy. One of the key aspects of these policies often includes coverage for additional living expenses incurred while the individual is unable to reside in their home. This coverage typically extends to necessary costs such as lodging in a motel, food, and other essential living expenses. In Sandy's case, the option regarding living expenses while in a motel aligns with the provisions often found in insurance policies covering temporary housing needs due to displacement. These expenses are crucial as they directly relate to maintaining a standard of living when the primary residence becomes uninhabitable. While home repairs and medical prescriptions are important, they do not fall under the same category of "additional living expenses" typically covered during displacement. Home repairs may not be covered until damage has been assessed and claims processed, and medical prescriptions usually require separate health insurance coverage. Non-related bills would not be covered since insurance policies typically focus on expenses incurred strictly due to the displacement from the home. Therefore, claiming living expenses incurred while staying in a motel is a recognized and valid type of expense related to Sandy's situation, making this option the correct answer.*

**9. Why is consolidating student loans before the grace period expires beneficial?**

- A. It increases the monthly payment amount
- B. It simplifies payments to one check per month**
- C. It eliminates the need to pay interest
- D. It restricts repayment terms to less than 10 years

*Consolidating student loans before the grace period expires is beneficial primarily because it simplifies payments to one check per month. When a borrower consolidates, multiple loans are combined into a single loan, which streamlines the repayment process. This means instead of managing several different payments, due dates, and amounts, the borrower only has to keep track of one single monthly payment. This can lead to better organization and reduced stress when it comes to managing personal finances. While other options might sound appealing, they do not accurately reflect the benefits of consolidation before the grace period ends. Specifically, consolidating does not eliminate the need to pay interest; interest will still accumulate and affect the total amount owed over time. Similarly, consolidation doesn't inherently increase the monthly payment amount; rather, it may change the structure of payments depending on the terms. Lastly, consolidating loans doesn't restrict repayment terms to less than 10 years; it can actually extend the repayment timeline depending on the chosen repayment plan, allowing borrowers more flexibility in managing their finances. Thus, the best answer focuses on the simplification of the loan payment process.*

**10. What is the impact of compound interest on savings over time?**

- A. It significantly increases the amount saved.**
- B. It has no impact on savings.
- C. It decreases the total savings.
- D. It only benefits high-value accounts.

*The impact of compound interest on savings over time is profound, primarily because it allows interest to be calculated on both the initial principal and the accumulated interest from previous periods. This means that as time progresses, the interest earned on an account also earns interest, leading to exponential growth of the savings. This compounding effect means that even small amounts can grow significantly over longer periods, making it a powerful tool for building savings. The longer the money is invested or saved, the more pronounced the impact of compound interest becomes. The rate at which this growth occurs is often described by the "Rule of 72," which estimates how long it will take for an investment to double based on its annual interest rate. In contrast to the other options, asserting that compound interest has no impact on savings, decreases savings, or only benefits high-value accounts misrepresents the fundamental nature of compounding. It's a universal benefit, applicable to any savings amount, regardless of its size, reinforcing the importance of starting to save early to take full advantage of this powerful financial principle.*



## 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://personalfinplanning.examzify.com>

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

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