

# TNL LLQP Segregated Funds and Annuities Practice Exam (Sample)

## Study Guide



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## **Questions**

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- 1. What is the role of beneficiaries in segregated funds?**
  - A. To maintain the fund's liquidity**
  - B. To receive the death benefit upon the policyholder's death**
  - C. To assess the performance of the fund**
  - D. To provide investment advice on the fund**
- 2. What is the maximum that Lewis can contribute to his RRSP given his earned contribution room and unused contribution room?**
  - A. \$84,930**
  - B. \$60,000**
  - C. \$24,930**
  - D. \$100,000**
- 3. What is the purpose of a death benefit in segregated funds?**
  - A. To provide immediate liquidity for investors**
  - B. To guarantee initial investment return upon death of the policyholder**
  - C. To give tax deductions to the policyholder**
  - D. To fund the policyholder's retirement plan**
- 4. What is the main implication of naming a beneficiary other than the estate?**
  - A. It allows for direct transfer of assets outside probate**
  - B. It increases the taxable value of the estate**
  - C. It simplifies the beneficiary claims process**
  - D. It permits estate planning strategies**
- 5. What happens to the maturity date of a segregated fund when the guarantee is reset?**
  - A. It may remain the same.**
  - B. It is extended but retains previous redemption options.**
  - C. It will always be reset to 10 years from the reset date.**
  - D. It can be shortened based on fund performance.**

- 6. What is typically a key benefit of purchasing a non-qualified annuity?**
- A. There are no penalties for early withdrawal**
  - B. Offers tax deferral on investment growth**
  - C. Provides guaranteed lifetime income**
  - D. Available only to high-net-worth individuals**
- 7. Which of the following is NOT a feature of segregated funds?**
- A. Death benefits**
  - B. Market volatility benefits**
  - C. Guaranteed maturity values**
  - D. Income tax advantages**
- 8. Why is considering inflation protection essential for annuity holders?**
- A. To ensure growth in principal investment**
  - B. To maintain the purchasing power of payments**
  - C. To increase the withdrawal limits**
  - D. To secure lower premiums**
- 9. What is a guaranteed minimum withdrawal benefit (GMWB)?**
- A. A guarantee to maintain principal investment**
  - B. A rider that guarantees a percentage withdrawal annually**
  - C. A benefit that escalates payments based on market performance**
  - D. A provision for tax-free withdrawals**
- 10. For an investor like Alysha, what investment vehicle would be the most cost-efficient for equity market exposure?**
- A. ETF**
  - B. Segregated fund**
  - C. GIC**
  - D. No-load mutual fund**

## **Answers**

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

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## **Explanations**

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**1. What is the role of beneficiaries in segregated funds?**

- A. To maintain the fund's liquidity**
- B. To receive the death benefit upon the policyholder's death**
- C. To assess the performance of the fund**
- D. To provide investment advice on the fund**

Beneficiaries in segregated funds play a crucial role primarily related to the death benefit component of these financial products. When a policyholder passes away, the designated beneficiaries receive a specified amount, typically the death benefit, which is determined based on the policy's terms. This benefit often includes the value of the segregated fund accounts at the time of the policyholder's death, potentially providing financial support to the beneficiaries and helping them manage their financial obligations during a challenging time. Other roles proposed in the options, such as maintaining fund liquidity, assessing fund performance, or providing investment advice, do not accurately capture the primary function of beneficiaries. Beneficiaries are not responsible for these investment management tasks; rather, their primary purpose is to receive the financial benefits outlined in the policy terms upon the event of the policyholder's death. This aspect underscores the importance of naming beneficiaries correctly, as it directly impacts the distribution of the death benefit and ensures that the policyholder's intentions are honored.

**2. What is the maximum that Lewis can contribute to his RRSP given his earned contribution room and unused contribution room?**

- A. \$84,930**
- B. \$60,000**
- C. \$24,930**
- D. \$100,000**

To determine the maximum that Lewis can contribute to his RRSP, it is essential to understand how RRSP contribution limits work. The contribution room typically includes both the amount earned for the current year and any unused contribution room from previous years. If Lewis has an earned contribution room of \$84,930, along with any additional unused contribution room he may have, it indicates that this is his total allowable contribution amount. The RRSP contribution limits are designed to allow individuals to save for retirement effectively, with the ability to catch up on contributions from previous years. Given that the selected answer reflects the total contribution room available to Lewis, it indicates he has reached the maximum limit allowed for his RRSP contribution. Therefore, if the total contribution room sums up to \$84,930, choosing this value indicates a correct understanding of how individual contributions to RRSPs are calculated based on available room. When assessing the other options, it is evident that they do not reflect either the complete earned amount or fail to account for the unused contributions, which would not provide an accurate picture of Lewis's maximum allowable contribution. Hence, choosing the maximum listed option highlights that Lewis is maximizing his tax-advantaged retirement savings potential based on the room he has available.

**3. What is the purpose of a death benefit in segregated funds?**

- A. To provide immediate liquidity for investors**
- B. To guarantee initial investment return upon death of the policyholder**
- C. To give tax deductions to the policyholder**
- D. To fund the policyholder's retirement plan**

The purpose of a death benefit in segregated funds is to provide a guarantee to beneficiaries that they will receive a certain amount of money upon the death of the policyholder. Specifically, this benefit typically ensures that the beneficiaries receive at least the amount of the initial investment, regardless of market fluctuations that may occur at the time of the policyholder's death. This feature is particularly important in a volatile market, as it offers a level of financial security and peace of mind to both the policyholder and their beneficiaries. The death benefit in segregated funds is fundamentally designed to protect the policyholder's invested capital, ensuring that their loved ones face less financial uncertainty in the event of their passing. This guarantee is a distinctive characteristic of segregated funds compared to many traditional investment products, which do not always offer a similar level of protection.

**4. What is the main implication of naming a beneficiary other than the estate?**

- A. It allows for direct transfer of assets outside probate**
- B. It increases the taxable value of the estate**
- C. It simplifies the beneficiary claims process**
- D. It permits estate planning strategies**

Naming a beneficiary other than the estate primarily allows for the direct transfer of assets outside of probate. When a designated beneficiary is specified, such as a family member or trust, the assets can pass directly to that individual or entity upon the account holder's death. This bypasses the often lengthy and potentially costly probate process associated with transferring assets that are directed to the estate. The primary advantage of this arrangement is that it can expedite the availability of funds to the beneficiary. It also reduces the administrative burden on the estate and preserves the privacy of the decedent's financial affairs, as probate is a public process. Moreover, by avoiding probate, the assets can remain out of reach of potential creditors of the estate, providing a layer of financial protection for the beneficiary. In contrast, the other options do not align as closely with the primary benefit of naming a beneficiary. While simplifying the claims process and enhancing estate planning strategies are important, they are secondary implications of the main advantage associated with avoiding probate through direct asset transfer. Additionally, naming a beneficiary does not necessarily increase the taxable value of the estate; rather, it can help in managing tax implications more effectively.

**5. What happens to the maturity date of a segregated fund when the guarantee is reset?**

- A. It may remain the same.**
- B. It is extended but retains previous redemption options.**
- C. It will always be reset to 10 years from the reset date.**
- D. It can be shortened based on fund performance.**

When a guarantee on a segregated fund is reset, it typically means that the maturity date is adjusted to reflect the new guarantee period. In this case, the correct answer indicates that the maturity date is reset to 10 years from the date of the reset. This is a common feature of segregated funds which offer a guarantee of the principal invested at maturity, providing assurance and stability to investors. Resetting the guarantee effectively allows the investor to lock in a new level of protection based on the current value of the investment, with the maturity date being automatically adjusted to 10 years from the reset date. This helps investors maintain their investment strategy without having to wait for the original maturity period to elapse. In contrast, other options may suggest varying outcomes that do not align with typical practices associated with guarantee resets in segregated funds. For instance, maintaining the same maturity date while resetting the guarantee would not provide the same level of protection based on current market conditions. Similarly, extending the maturity but retaining previous redemption options would complicate the fund's structure and investor expectations. Shortening the maturity based on fund performance does not accurately reflect how guarantees in segregated funds are generally structured, as they typically prioritize investor security.

**6. What is typically a key benefit of purchasing a non-qualified annuity?**

- A. There are no penalties for early withdrawal**
- B. Offers tax deferral on investment growth**
- C. Provides guaranteed lifetime income**
- D. Available only to high-net-worth individuals**

The key benefit of purchasing a non-qualified annuity is the tax deferral on investment growth. This means that any earnings or growth within the annuity are not taxed until they are withdrawn. This feature allows the investment to potentially grow more quickly because the individual does not have to pay taxes on the gains annually, providing an efficient way to accumulate wealth over time. Other benefits, such as guaranteed lifetime income and options for early withdrawal, may be available with certain other financial products or under specific conditions, but they do not define the primary advantage of non-qualified annuities. Similarly, while non-qualified annuities can be appealing to high-net-worth individuals due to their tax advantages, they are not limited to this demographic, making them accessible to a broader range of investors.

**7. Which of the following is NOT a feature of segregated funds?**

- A. Death benefits**
- B. Market volatility benefits**
- C. Guaranteed maturity values**
- D. Income tax advantages**

Segregated funds are investment products offered by insurance companies that blend features of mutual funds with certain insurance characteristics. One of the key aspects of segregated funds is the provision of death benefits, which ensure that upon the policyholder's death, the beneficiary receives either the value of the fund or a guaranteed minimum amount, depending on the specific terms of the contract. Additionally, segregated funds typically include guaranteed maturity values, ensuring that at the end of a specified term, the investor will receive at least a predetermined return, even if the market value of the fund has declined. Furthermore, there are income tax advantages associated with segregated funds. For instance, they often allow for tax-deferred growth of investment earnings until withdrawals are made, similar to other registered investment options. Market volatility benefits, however, do not inherently characterize segregated funds. While segregated funds can provide some degree of protection against market downturns through guarantees, they do not specifically offer 'market volatility benefits' as a standard feature. Instead, the guarantees associated with segregated funds are more focused on capital preservation and ensuring a minimum return, rather than addressing volatility itself in the context of investment performance. Thus, the concept that segregated funds provide specific benefits aimed solely at countering market

**8. Why is considering inflation protection essential for annuity holders?**

- A. To ensure growth in principal investment**
- B. To maintain the purchasing power of payments**
- C. To increase the withdrawal limits**
- D. To secure lower premiums**

Considering inflation protection is essential for annuity holders primarily to maintain the purchasing power of their payments. When individuals invest in an annuity, they typically do so with the expectation that the periodic payments they receive will provide financial security during retirement. Over time, inflation can erode the value of money, meaning that the same amount of money will buy fewer goods and services in the future than it does today. If the payments from an annuity do not increase in line with inflation, the holder may find that their regular income is insufficient to cover expenses as they rise. Thus, ensuring that the payments keep pace with or exceed the rate of inflation is vital to sustaining the financial well-being of annuitants throughout their retirement years. This focus on maintaining purchasing power is why inflation protection is a crucial aspect of annuity planning.

**9. What is a guaranteed minimum withdrawal benefit (GMWB)?**

- A. A guarantee to maintain principal investment**
- B. A rider that guarantees a percentage withdrawal annually**
- C. A benefit that escalates payments based on market performance**
- D. A provision for tax-free withdrawals**

A guaranteed minimum withdrawal benefit (GMWB) is a rider attached to certain financial products, particularly variable annuities or segregated funds, that guarantees the policyholder can withdraw a specified percentage of their investment annually, regardless of market performance. This means that the individual is assured of being able to take out funds even if the underlying investments have decreased in value. The GMWB ensures that the lifelong income can be maintained up to a certain limit, providing a safety net for investors concerned about market volatility affecting their retirement income. This benefit is particularly appealing to those seeking a predictable income stream without the risk of depleting their principal investment too swiftly during downturns in the market. It allows for a blend of investment growth potential with the security of guaranteed withdrawals, catering to individuals who desire both growth opportunities and financial protection throughout their retirement years.

**10. For an investor like Alysha, what investment vehicle would be the most cost-efficient for equity market exposure?**

- A. ETF**
- B. Segregated fund**
- C. GIC**
- D. No-load mutual fund**

An exchange-traded fund (ETF) represents a highly cost-efficient investment vehicle for gaining exposure to the equity market, making it a suitable choice for Alysha. ETFs typically have lower management fees than other investment options, such as mutual funds and segregated funds, primarily because they are passively managed and track a specific index rather than rely on active management to pick stocks. Additionally, the structure of ETFs allows them to be traded on stock exchanges, which provides flexibility and the ability to buy and sell shares throughout the trading day. This characteristic can contribute to lower transaction costs compared to other investment vehicles that might have restrictions on trading. Segregated funds, while offering guarantees and potential estate planning benefits, generally come with higher fees due to their insurance-related features. Guaranteed investment certificates (GICs) provide fixed income rather than equity exposure, making them unsuitable for this particular objective. No-load mutual funds, while also cost-effective in terms of management fees, can still be more expensive than ETFs when considering overall costs, including trading expenses and investment diversity. In summary, for Alysha seeking cost-efficient equity market exposure, an ETF would be the optimal choice.