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CFP

Certified Financial Planner 2024

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Question 875:
During a financial planning session, a client expresses interest in creating a financial legacy. If they want to leave $1 million to their heirs and are currently 50 years old, which of the following strategies would best ensure this goal is met over the next 30 years?

A) Investing solely in high-yield savings accounts
B) Establishing an irrevocable life insurance trust
C) Avoiding all equity investments
D) Keeping all assets in cash equivalents

Answer: B

Explanation: Establishing an irrevocable life insurance trust allows the client to remove assets from their taxable estate, providing a tax-efficient way to ensure a financial legacy and potentially leveraging life insurance for a greater payout.

Question 876:
A client is reviewing their financial statements and notices that their cash flow from operations is consistently negative. If they have a net income of $20,000 but substantial non-cash expenses, what should the planner advise as the first step to improve cash flow?

A) Increase revenue through sales growth
B) Reduce discretionary spending immediately
C) Convert non-cash expenses to cash
D) Seek additional financing to cover the shortfall

Answer: A

Explanation: Improving revenue through sales growth is essential, as it directly affects cash flow. While cutting expenses is important, increasing operational efficiency and revenue generation should be prioritized to create a sustainable

cash flow.

Question 877:
A financial planner is helping a client assess their retirement savings. If the client currently has $300,000 saved and wants to retire in 15 years with an annual income of $75,000, what rate of return must they achieve to meet their goal, assuming they will not make additional contributions?

A) 6%
B) 5%
C) 4%
D) 7%

Answer: A

Explanation: To calculate the required rate of return, we can use the future value formula and retirement withdrawal needs. The future value needed can be determined by the annuity formula, leading to an estimated return around 6% to reach the desired income.

Question 878:
During a financial planning review, a client is considering the impact of outside economic factors on their investments. If a recession is predicted, which of the following investment strategies would typically be most advisable?

A) Increase investments in high-risk stocks
B) Shift portfolio to more defensive sectors
C) Liquidate all investments immediately
D) Invest heavily in commodities

Answer: B

Explanation: Shifting the portfolio to more defensive sectors, such as utilities and consumer staples, is advisable during a recession as these sectors tend to be less volatile and provide stability during economic downturns.

Question 879:

A financial planner is evaluating a client's investment portfolio. If the client is 40 years old and has a 70% allocation in equities with a focus on growth stocks, what adjustment should be considered as the client approaches retirement in 20 years?

A) Increase equity allocation to 80%
B) Gradually shift to a more balanced allocation
C) Move entirely into bonds
D) Maintain the current allocation

Answer: B

Explanation: As the client approaches retirement, it is prudent to gradually shift the portfolio to a more balanced allocation that includes fixed income to reduce risk and ensure capital preservation as they near the withdrawal phase.

Question 880:

A client wants to maximize their contributions to retirement accounts. If they are 45 years old and eligible for a 401(k) with a contribution limit of $22,500, what is the total potential contribution amount if the client also utilizes catch-up contributions for those over 50?

A) $22,500
B) $30,000
C) $27,000
D) $40,500

Answer: B

Explanation: For individuals aged 50 and above, the IRS allows additional catch-up contributions. For 2023, this allows for an additional $7,500 on top of the standard limit, making the total potential contribution for someone aged 50 or older $30,000.

Question 881:
A couple is planning for their child's college education, which they anticipate will cost $100,000 in 10 years. They want to determine how much they need to save annually if they expect to earn an annual return of 6%. What formula should they use to calculate the annual savings required?

A) $\frac{FV}{(1+r)^n}$

B) $\frac{FV \cdot r}{(1+r)^n - 1}$

C) $FV \cdot (1+r)^n$

D) $\frac{FV}{n}$

Answer: B

Explanation: To determine the annual savings required to reach a future value (FV) of $100,000 in 10 years with an annual return of 6%, the couple should use the future value of an annuity formula: $PMT = \frac{FV \cdot r}{(1+r)^n - 1}$.

Question 882:
A financial planner is analyzing the education funding strategy for a client with a 5-year-old child. The client currently has $20,000 set aside in a 529 plan. If they expect to contribute an additional $10,000 annually and the plan is projected to grow at an annual rate of 5%, what will the total amount in the account be when the child turns 18?

A) $195,896
B) $180,000
C) $160,000
D) $210,000

Answer: A

Explanation: The future value of the investment can be calculated using the future value of a series formula: $FV = P \cdot (1 + r)^n + PMT \cdot \frac{(1+r)^n - 1}{r}$. Here, $P = 20000$, $PMT = 10000$, $r = 0.05$, and $n = 13$. The final amount will be approximately $195,896.

Question 882:
A client is considering gifting $15,000 to their child. They want to understand the gift tax implications. If the annual exclusion limit is $17,000 for the year, which of the following statements is true regarding the gift tax liability?

A) The entire amount is taxable.
B) No gift tax is owed since it is below the annual exclusion limit.
C) Only $2,000 is subject to gift tax.
D) The client must file a gift tax return regardless of the exclusion.

Answer: B

Explanation: Since the gift of $15,000 is below the annual exclusion limit of $17,000, no gift tax is owed, and the client does not need to file a gift tax return.

Question 883:
During a financial planning meeting, a client expresses concern about the rising costs of education. They want to understand the impact of inflation on their education savings plan. If the expected annual inflation rate for education costs is projected to be 4% over the next 10 years, how much will a college education

that costs $50,000 today be in 10 years?

A) $74,000
B) $80,000
C) $100,000
D) $120,000

Answer: A

Explanation: To calculate the future cost of education, use the formula $FV = PV \cdot (1 + r)^n$. Here, $PV = 50000$, $r = 0.04$, and $n = 10$. This results in approximately $74,000.

Question 884:
A young professional is evaluating the best education savings vehicle for their newborn child. They are considering a 529 plan and a Coverdell Education Savings Account (ESA). Which of the following statements correctly differentiates these two options?

A) The 529 plan has a lower contribution limit compared to the ESA.
B) The ESA allows for tax-free withdrawals for K-12 expenses, while the 529 plan does not.
C) The 529 plan offers more investment options than the ESA.
D) Contributions to the ESA are tax-deductible at the federal level, while 529 contributions are not.

Answer: B

Explanation: The Coverdell ESA allows tax-free withdrawals for qualified K-12 expenses, whereas the 529 plan is primarily focused on higher education and does not provide this feature.

Question 885:

A financial planner is reviewing a client's cash flow and notes that their student loan debt is significantly impacting their ability to save for their child's education. If the client has $30,000 in student loans at an interest rate of 7% with a 10-year repayment term, what is the monthly payment they would need to make?

A) $350.98
B) $440.00
C) $500.00
D) $600.00

Answer: A

Explanation: The monthly payment can be calculated using the formula for an installment loan: $PMT = \frac{P \cdot r(1+r)^n}{(1+r)^n - 1}$. Here, $P = 30000$, $r = 0.07/12$, and $n = 120$. The monthly payment is approximately $350.98.

Question 886:

A couple is analyzing their education funding options and is considering a Roth IRA as a potential vehicle. They want to know what benefits a Roth IRA can provide for education expenses. Which of the following statements is TRUE regarding the use of a Roth IRA for education funding?

A) Contributions can be withdrawn tax-free at any time, but earnings are taxed if used for education.
B) Both contributions and earnings can be withdrawn tax-free if used for qualified education expenses.
C) There is a penalty for early withdrawal of earnings regardless of the use for education.
D) Contributions to a Roth IRA are tax-deductible.

Answer: A

Explanation: Contributions to a Roth IRA can be withdrawn tax-free at any time, but earnings may be subject to taxes and penalties unless used for qualified expenses such as education.

Question 887:

A financial planner is preparing an education needs analysis for a client with two children, ages 3 and 6. They expect to incur total education costs of $150,000 for the older child and $120,000 for the younger child, with both costs inflated at 5% annually. If the current savings for education is $30,000, how much additional savings is needed today to meet the future costs?

A) $210,000
B) $200,000
C) $180,000
D) $250,000

Answer: C

Explanation: The future value of the education costs can be calculated and then discounted back to present value. After calculating the inflated costs and adjusting for current savings, the total additional savings required is approximately $180,000.

Question 888:

A client is assessing their tax strategies regarding education funding. If they gift $25,000 to their grandchild for college and elect to use the gift-splitting provision with their spouse, how much of this gift is eligible for exclusion from gift tax?

A) $25,000
B) $34,000
C) $50,000
D) $17,000

Answer: A

Explanation: By electing to gift-split, the couple can exclude up to $34,000 ($17,000 each) from gift tax. Since they are gifting a total of $25,000, it is fully excluded, and no gift tax is owed.

Question 889:
A client plans to use a 529 plan to save for their newborn's education. They want to understand the tax implications when funds are withdrawn for qualified education expenses. Which of the following statements is accurate regarding withdrawals from a 529 plan?

A) Withdrawals for qualified expenses are subject to state income tax.
B) Earnings on withdrawals for qualified expenses are tax-free at both federal and state levels.
C) Contributions to a 529 plan qualify for a federal tax deduction.
D) All withdrawals from a 529 plan incur a 10% penalty regardless of use.

Answer: B

Explanation: Withdrawals from a 529 plan for qualified education expenses are tax-free at both federal and state levels, making this a tax-efficient way to save for education.

Question 890:
A financial planner is advising clients on how to utilize tax strategies for education funding. If the clients are looking to fund their children's education through a trust, which of the following statements best characterizes the use of a trust for this purpose?

A) Trust distributions for education are always tax-free.

B) The trust may incur income tax on earnings, but distributions for education can help the beneficiaries lower their tax bracket.
C) All income generated by the trust must be distributed to avoid taxation.
D) Trusts can only be used if the total education costs exceed $100,000.

Answer: B

Explanation: While the trust can incur income tax on earnings, distributions for education can potentially help the beneficiaries lower their tax burden, as they may fall into a lower tax bracket.

Question 891:
A couple is examining their overall financial plan and considering how the time value of money affects their education savings strategy. If they plan to invest $5,000 annually in a savings account that earns 3% interest compounded annually, how much will they have accumulated after 15 years?

A) $92,000
B) $82,000
C) $78,000
D) $73,000

Answer: D

Explanation: The future value of a series can be calculated using the formula $FV = PMT \cdot \frac{(1+r)^n - 1}{r}$. Here, $PMT = 5000$, $r = 0.03$, and $n = 15$, leading to an accumulation of approximately $73,000.

Question 892:
A financial planner is helping a client navigate the complexities of education funding through various vehicles. If the client has a Coverdell ESA with a balance of $10,000 and wants to transfer this amount into a 529 plan, which of the

following statements is accurate regarding this transfer?

A) The transfer is subject to a 10% penalty.
B) The transfer can be done without tax consequences.
C) The transfer limits the future contributions to the 529 plan.
D) The transfer must be completed within 60 days to avoid taxation.

Answer: B

Explanation: Transfers from a Coverdell ESA to a 529 plan can be done without incurring tax consequences, allowing the client to consolidate their education savings without penalties.

Question 893:
A client is considering the impact of inflation on their education savings plan. If the current cost of a four-year college education is $40,000 and they expect an annual inflation rate of 6%, what will be the projected cost of that education in 12 years?

A) $76,000
B) $80,000
C) $90,000
D) $100,000

Answer: B

Explanation: Using the formula $FV = PV \cdot (1 + r)^n$, where $PV = 40000$, $r = 0.06$, and $n = 12$, the projected cost will be approximately $80,000.

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