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"ESTATE PLANNING BASICS"

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"ESTATE PLANNING BASICS"

Self-Study Examination 50 Questions

Instructions: This examination consists of 50 questions in multiple choice format. Four possible answers have been presented for each question. On your answer sheet indicate the best answer to each question. There is no penalty for guessing incorrectly.

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QUESTIONS 1-3 REFER TO MATERIAL IN CHAPTER I:

- 1) All of the following are impediments to sound financial planning, Except
 - A) Updating a will on a regular basis.
 - B) A client's fear of dying.
 - C) Ignoring the value of money over time.
 - D) Intestacy

- 2) Which activity below requires the aid of an attorney?
 - A) Advising a client of the need to engage in the estate planning process.
 - B) Dispensing investment advice.
 - C) Helping a client write a last will and testament.
 - D) Directing a client as to which form of insurance is best suited to meet their needs.

- 3) The first step a planner should take in the estate planning process would be to
 - A) Review the existing estate plan.
 - B) Gather data about the client.
 - C) Help the client understand the current plan.
 - D) Make certain the client is capable of paying the planner's fee.

- 4) The main difference between real and personal property is
 - A) real property is tangible .
 - B) personal property is tangible.
 - C) real property is or must be attached to land.
 - D) personal property usually has greater value.

- 5) Which of the following is the most comprehensive form of ownership title in real property?
 - A) Life Estate
 - B) Term of Years
 - C) Remainder Interest
 - D) Fee Simple

QUESTIONS 6 - 8 REFER TO MATERIAL IN CHAPTER III:

- 6) All of the following property transfers or activities are part of the probate process, Except
 - A) A will is filed with the appropriate court.
 - B) Assembling the property of the estate.
 - C) Property passes directly to a named beneficiary.
 - D) An accounting is filed by an executor.

- 7) When an estate matter is too complex for the executor to deal with, the executor must
 - A) automatically refer any such matter to his own personal attorney
 - B) become self-educated in the complex area and settle the matter personally.
 - C) obtain help from personnel qualified to deal with the complex issue at hand.
 - D) ask a banker for help .

- 8) A final listing of all assembled estate property as well as to whom that property will be distributed is called
 - A) an accounting
 - B) a distribution
 - C) a disclaimer
 - D) an administration

QUESTIONS 4 & 5 REFER TO MATERIAL IN CHAPTER II:

QUESTIONS 9 & 10 REFER TO MATERIAL IN CHAPTER IV:

- 9) All of the are considered separate property in the State of Nevada, Except
- A) Property received as an inheritance while an individual was unmarried.
 - B) Property received as an inheritance while an individual was married.
 - C) Property owned by a spouse prior to marriage.
 - D) Property purchased by a spouse with community funds.
- 10) Which of the following statements about the joint tenancy form of ownership as viewed by a community property state is most accurate?
- A) Joint tenancy is viewed much the same in a community property state as it is in a common law state.
 - B) Community property states generally do not look upon joint tenancy favorably.
 - C) The State of Texas recognizes joint tenancy as long as it is listed on a property title.
 - D) Tenancy in common is not viewed as favorable
 - E) as joint tenancy in a community property state.

QUESTIONS 11-15 REFER TO MATERIAL IN CHAPTER V :

- 11) All of the following are important considerations when deciding between selecting a corporation and an individual as a trustee, Except
- A) the Ivy League university from which the bank trust manager was graduated
 - B) an individual appointment can lead to conflicts of interest
 - C) the temporary nature of an individual appointment
 - D) unfavorable tax consequences which might accompany selecting a beneficiary as trustee
- 12) All of the following are elements of a trust, Except
- A) A grantor
 - B) Incorporation of appropriate Internal Revenue Code
 - C) Written terms of the trust
 - D) The trustee

- 13) All of the following are advantages to creating a revocable inter vivos trust, Except
- A) probate cost is avoided
 - B) tax benefits
 - C) professional management
 - D) grantor evaluation of trust operation
- 14) A person holding and managing property for the benefit of another party is called a
- A) Property Manager
 - B) Fiduciary
 - C) Trustee
 - D) Executor
- 15) When a fiduciary takes the same action that any individual of average intelligence would take in similar circumstances, that fiduciary is said to have complied with which common law rule?
- A) Legal-List
 - B) Normalcy
 - C) Prudent-Man
 - D) Prescri bed Duty

QUESTIONS 16-29 REFER TO MATERIAL IN CHAPTER VI :

- 16) All of the following concepts are elements of the code definition of gift, Except
- A) a voluntary transfer of property is involved
 - B) a blood relationship must exist between the donor and donee, unless a charitable purpose is involved .
 - C) the sufficiency of consideration test may be used
 - D) property ownership is transferred without any legal consideration.
- 17) When the only reason property is transferred without consideration is to realize a tax savings, the tax code will
- A) treat the transfer as a sham gift
 - B) tax the transfer even more heavily
 - C) allow it if a blood relative is the recipient
 - D) not apply tax

- 18) Which of the property transfers listed below are exempt from gift tax?
- I. School tuition, regardless of the relationship between the donor to the donee.
 - II. Paying the medical expenses of another as long as a blood or marriage relationship exists between the donor and donee.
 - III. A political gift to a political organization.
- A) III only
 - B) I and III only
 - C) II and III only
 - D) Neither I, II nor III
- 19) In a “gift causa mortis” situation, when the donor recovers, the property gifted belongs to
- A) the state
 - B) the donee
 - C) the estate of the donor
 - D) the donor
- 20) In his will, John made a specific bequest of a diamond ring to Mary. However, before his death John gave the diamond ring to Emma and never changed his original will. The estate of John will then provide Mary with
- A) nothing
 - B) the diamond ring which will be collected from Emma
 - C) substituted property approximating the value of the diamond ring.
 - D) the monetary value of the ring as of the date of death.
- 23) The goal of contesting a will is to destroy the validity of the will.
- 24) If a will names a different beneficiary to life insurance proceeds than does the actual insurance contract, then the beneficiary listed in the will receives the policy proceeds.
- 25) The marital deduction for qualified transfers is unlimited.
- 26) Under the Uniform Transfers to Minors Act, only personal property can be transferred.
- 27) A donor's cost basis in property is transferred to the donee along with the gift property.
- 28) If a donor wishes to reduce the future size of his estate by making a gift, assets likely to appreciate in value would be a poor choice.
- 29) Generation skipping is useful strategy in helping an estate owner reduce death taxes.

QUESTIONS 21-29 ARE A SERIES OF STATEMENTS, EACH STATEMENT BEING EITHER TRUE OR FALSE. YOU ARE TO DETERMINE WHETHER OR NOT EACH STATEMENT IS TRUE OR FALSE AND ENTER THE APPROPRIATE RESPONSE ON YOUR ANSWER SHEET AS FOLLOWS:

A equals a TRUE statement
B equals a FALSE statement

- 21) A living will can verify that the individual making one does not wish to be kept alive by extraordinary medical means when the chances of recovery are virtually nonexistent.
- 22) The best method for revoking a will is to do so by adding a codicil to an existing will.
- QUESTIONS 30-32 REFER TO MATERIAL IN CHAPTER VII:**
- 30) The complicated rules for estate tax returns as well as for a decedent's final income tax return makes it essential that an executor take which action?
- A) Enroll at H&R Block's tax school to learn how to file the decedent's taxes properly.
 - B) Let the IRS figure out what is best
 - C) Consult a qualified tax expert
 - D) None of the above
- 31) Which of the following is a qualified charitable organization?
- I. The United States Government
 - II. Anti-Cruelty Society
 - III. Disabled American Veterans
- A) I and II only
 - B) I and III only
 - C) II and III only
 - D) I, II and III

- 32) Before property qualifies for marital deduction treatment, which of the following limitations must be satisfied?
- A) The surviving spouse must be a U.S. citizen
 - B) The surviving spouse must be alive after the decedent if they were divorced when both individuals were still alive.
 - C) The surviving spouse does not have to actually receive the transferred property.
 - D) The terminable interest rule never applies

THE POTENTIAL ANSWERS FOR STATEMENTS 33 & 34 APPEAR BELOW AS EITHER

A, B, C OR D.

YOU ARE TO READ EACH STATEMENT AND DECIDE WHICH LETTER, A, B, C, OR D APPLIES TO EACH STATEMENT AS THE BEST ANSWER.

EACH LETTER CAN BE USED ONCE, MORE THAN ONCE OR NOT AT ALL.

- A) **Formula Bequest**
 - B) **The spouse can spend the assets as he or she sees fit**
 - C) **Pecuniary Amount Bequest**
 - D) **Fractional Share Bequest**
- 33) This can be an advantage of a marital bequest.
- 34) It is inserted into a will for the purpose of utilizing the estate owner's unified credit and coordinating it properly with the unlimited marital deduction.

QUESTIONS 35-46 REFER TO MATERIAL IN CHAPTER VIII:

- 35) Which of the following statements best embodies the spirit of estate taxation?
- A) It is voluntary socialization in that wealthy people enjoy contributing based on financial success to the government upon death.
 - B) It taxes financial success and failure at death
 - C) It is a government tax on the individual's right to transfer ownership of property at death.
 - D) It is a tax on charitable donations.

- 36) Which of the following statements are true?
- I. Dower is a property right for a widow
 - II. A property interest in the gross estate is lowered by any existing dower or courtesy right.
 - III. Courtesy is a property right for a widower.
- A) I only
 - B) II only
 - C) I and III only
 - D) I, II and III
- 37) Henry owns a real property interest and transfers ownership to his son with but Henry will receive all income from the property for five years. A week before the end of the five year period, Henry dies. The value of the real property will
- A) belong to Henry's estate
 - B) belong to the son's estate
 - C) skip a generation
 - D) belong to Henry's son but income derived and as yet unpaid to Henry will be included in Henry's estate.
- 38) A reversionary interest is one in which there is the ability to have transferred property returned to
- A) a per capita heir
 - B) the surviving spouse
 - C) the decedent
 - D) a per stirpes heir
- 39) Annuity is included in the gross estate when payable to the decedent in any of the following manners, Except
- A) when the decedent did not have an enforceable right to receive payments from the plan during his lifetime.
 - B) a life payment then going to a beneficiary.
 - C) when payable for a period which can be determined only with reference to the date of death.
 - D) when payable for a period that did not end before death.
- 40) A general power of appointment is a power over property which
- A) is very broad and approaches actual ownership
 - B) is limited to consenting agreement with several other individuals holding comparable power of the same property.
 - C) cannot control the property
 - D) is severely limited in nature

- 41) Which of the following statements concerning disclaimer are accurate?
- I. A qualified disclaimer means a nontaxable gift
 - II. A disclaimed power of appointment means the disclaimed property is not included in the disclaimant's estate.
 - III. A person who disclaims must not direct to whom the power of appointment passes.
- A) I and II only
 - B) I and III only
 - C) II and III only
 - D) I, II and III only
- 42) Proceeds of life insurance are included in the estate for estate tax purposes under all of the following circumstances, Except
- A) proceeds are paid to the estate
 - B) ownership of the contract is held by the named beneficiary to do with the proceeds whatever the beneficiary would like.
 - C) the decedent held incidents of ownership in the policy.
 - D) proceeds are received by another for the benefit of the estate.
- 43) Incidents of ownership includes all of the following rights, Except
- A) absence of insurable interest
 - B) can change the beneficiary
 - C) can pledge the policy for a loan
 - D) able to assign the policy to another party
- 44) The price at which a willing buyer would pay a willing seller, when neither party is under a compulsion to act, is the definition of
- A) fair market value
 - B) valuation
 - C) estate assets
 - D) beneficial interest

THE POTENTIAL ANSWERS FOR STATEMENTS 45 and 46 APPEAR BELOW AS EITHER A, B, C OR D.

YOU ARE TO READ EACH STATEMENT AND DECIDE WHICH LETTER, A, B, C, OR D APPLIES TO EACH STATEMENT AS THE BEST ANSWER.

EACH LETTER CAN BE USED ONCE, MORE THAN ONCE OR NOT AT ALL.

- A) **Mutual Funds**
 - B) **Real Estate**
 - C) **Listed Stocks and Bonds**
 - D) **Life Insurance on the Decedent's Life**
- 45) This asset is valued at the bid price on the valuation date.
- 46) This asset is valued by taking the mean between the highest and lowest selling price on the valuation date.

QUESTIONS 47 & 48 REFER TO MATERIAL IN CHAPTER IX:

- 47) All of the following are death taxes which can be imposed by a state, Except
- A) Credit Estate Tax
 - B) State Inheritance Tax
 - C) Federal Estate Tax
 - D) State Estate Tax
- 48) Which of the following are categories of property which may possibly be taxed by a state?
- I. Real property located within state borders
 - II. Intangible personal property existing in a different state
 - III. Tangible personal property located within the state
- A) I only
 - B) I and II only
 - C) I and III only
 - D) I, II and III

**QUESTIONS 49 & SO REFER TO MATERIAL IN
CHAPTER X:**

- 49) Which of the following statements concerning simple and complex trusts is true?
- I. Principal may not be distributed in a simple trust.
 - II. A complex trust may not make charitable gifts.
 - III. A simple trust distributes all dividend income it earns to the trust beneficiary.
- A) I only
B) I and II only
C) I and III only
D) II and III only
- 50) The main power given to a trustee through a sprinkle clause is the power to
- A) provide tax free income from the trust to the beneficiaries but only on an equal basis.
 - B) rewrite the trust agreement as the trustee sees fit.
 - C) distribute any or all income or principal to beneficiaries in equal or unequal shares .
 - D) spray benefits in equal proportion between trust beneficiaries and charitable recipients .