Examples of exam questions – Segregated funds and annuities

Competency: Recommend segregated funds, individual annuities and group pension plans adapted to the client's needs and situation (01-313).

Question 1
Grace's personal net worth shows the following assets:

- RRIF: $420,000, all invested in GICs
- Home: $560,000
- Cottage: $320,000
- Savings account: $70,000

She also has the following liability:

- Mortgage on the cottage: $40,000

Based on the information provided, which of the following conclusions corresponds to the Grace's situation?

a) She has more than enough assets to last through her retirement.
b) She has low risk tolerance.
c) She has no need for life insurance.
d) She is at least age 71.

Correct answer: b)

Explanations

Answers a and c: **False**. We can't confirm that she has enough assets to last throughout her retirement or that she doesn't need life insurance, because we don't have any information concerning her current age, income, goals, Summary of Financial Position, retirement age, liquidity situation, life insurance and family situation, etc. An agent must obtain all this information to properly determine the client's situation, goals and investor profile.

Answer b: **Correct answer**. Grace has low risk tolerance since all her money is invested in GICs and a savings account. Moreover, she only has a small loan on her properties, demonstrating that Grace does not like to take risks and prefers to pay off her debts rather than invest her money.

Answer d: **False**. The client can only transfer funds from her RRSPs to RRIFs up to and not from the age of 71.

References
Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 4.8

Evaluated competency sub-component in Curriculum: 1.1 Determine the client's situation, investment objectives, and investor profile.

Question 2

Marc-André, age 35, contributes to a pension plan offered through his employer. He is a widower and has two children aged 3 and 5. His primary need for security of capital in the event of death drove him to invest part of his group pension plan contributions in segregated funds. That way, he will be able to grow his money and reduce his expenses.

Is this the right choice for Marc-André's needs?

a) Yes, because group segregated funds offer a guaranteed death benefit.
b) Yes, because group segregated funds don't have any sales charges.
c) No, because group segregated funds don't offer a guaranteed death benefit.
d) No, because individual and group segregated funds have the same sales charges.

Correct answer: c)

Explanations

Answer a: **False**. Group segregated funds don't offer a guaranteed death benefit.

Answer b: **False**. Group segregated funds don't have any sales charges, which is one of Marc-André's needs, but not his priority.

Answer c: **Correct answer**. Group segregated funds don't offer a guaranteed death benefit and Marc-André's priority need is the safety of his capital when he dies. To guarantee his capital, Marc-André could invest in individual segregated funds or guaranteed investments. He could also purchase life insurance.

Answer d: **False**. Individual segregated funds have sales charges.

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 8.3.1

Evaluated competency sub-component in Curriculum: 1.2 Assess the appropriateness of the client's existing coverage in regard to his or her situation.

Question 3
Jack is planning to retire in 7 years. His annual expenses are currently $72,000 per year. Jack expects that he would be able to reduce his expenses by 40% in retirement.

If inflation is projected at 3% between now and his retirement, what will Jack's annual expenses be in his first year of retirement?

a) $35,421
b) $43,200
c) $53,131
d) $88,551

Correct answer: c)

Explanations

Answer a: **False**. $35,421 represents the decrease in expenses at retirement: $88,551 X 40% = $35,421.

Answer b: **False**. $43,200 represents current expenses decreased by 40%: $72,000 - 40% = $43,200.

Answer c: **Correct answer**.
Based on the future value formula:

$$FV = CV \times (1 + \text{interest rate})^{n}$$

CV is the known current value and *n* the number of periods in the calculation.
Based on an inflation rate of 3%, Jack's annual expenses of $72,000 (CV) will be equivalent to $88,551 (FV) in 7 years (*n*), or $72,000 x $(1 + 3\%)^{7}$ = $88,551.
Then, we factor in a decrease in expenses of 40% upon retirement, or $88,551 x 40% = $35,421. The result is $88,551 - $35,421 = $53,131, which corresponds to Jack's annual expenses in the first year of retirement.

Answer d: **False**. $88,551 is the future value of expenses before the decrease.

References
Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 1.1.3.2
Evaluated competency sub-component in Curriculum: 1.3 Articulate the client's needs based on the risks that could affect his or her financial situation.

Question 4

Mike, who is single, recently decided to start investing after experiencing significant market losses a few years ago.

Which of the following features of a segregated fund investment will be most important for him?

a) Resets
b) Maturity guarantee
c) Death benefit guarantee
d) Bypass of probate

Correct answer: b)

Explanations

Answer b: **Correct answer**. The maturity guarantee ensures that the segregated fund contract owner will receive at least 75% of the amount initially invested on a given date (generally speaking after a10-year period). The maturity guarantee is one of the advantages of segregated funds. It will help allay Mike's concerns since he has already experienced significant losses in the past.

Answers a, c and d: **False**. They are not in line with Mike's needs to avoid further significant losses: resets (answer a) increase the value of guarantees based on the market value of the segregated fund on a given date. However, they also extend the maturity date. The death benefit guarantee (answer c) ensures that the beneficiary will receive at least 75% of the initial investment upon the annuitant's death. Probate (answer d) establishes the validity of the will and helps approve the appointment of a liquidator. Probate fees are payable, except in Québec.

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 2.1.1.1

Evaluated competency sub-component in Curriculum: 2.1. Analyze the types of investments that can constitute a segregated fund and that meet the client’s needs.

Question 5
Catherine purchased a segregated fund 12 years ago with a 10-year maturity and death benefit guarantee. She has conducted no transactions since then, and when she looks at her annual statement, she realizes that the market value of her fund is higher than the guarantee. She starts checking her annual statements of previous years and realizes for the first time that the market value in the 10th year was below the guarantee to which she was entitled.

Is Catherine entitled to the guarantee top-up for the 10th year of the contract?

a) Yes, it was automatically deposited in her account
b) Yes, but it will be paid only on expiration of the contract
c) No, because it's too late to claim it.
d) No, there was no disposition to this effect.

Correct answer: a)

Explanations

Answer a: **Correct answer**. Upon contract maturity, since the market value of the contract was less than the guarantee, Catherine received a "top-up" that was attributed to her account.

Answers b, c and d: **False**. Catherine did not have to make any claims or surrender her contract, and does not have to wait for it to terminate.

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 2.1.1.1

Evaluated competency sub-component in Curriculum: 2.2 Analyze the advantages of segregated funds in comparison to other types of investments in regard to the client's needs.

Question 6

Francis is 64 years old and is finalizing the details of the pension he will start receiving next year when he retires. He has always worked for ABC Inc., where he has a defined contribution registered pension plan. He is being asked to choose a pension income vehicle. He tells you it will be his family's only source of income, but he wants to maximize his monthly income while being guaranteed an annuity for at least 20 years for him and his wife. His children are all financially independent and he doesn't want to leave them any inheritance from this annuity.

Which annuity will give him the highest monthly income and respect his goals?

a) Joint and last survivor life annuity - 100%
b) Joint and last survivor life annuity - 50%
c) Joint and last survivor life annuity with a guaranteed period of 20 years - 50%
d) Joint and last survivor life annuity with a guaranteed period of 20 years - 100%

Correct answer: b)

Explanations

Answer a: **False**. If Francis selects a 100% joint and last survivor annuity, his monthly income from the annuity will be lower than if he selects 50%.

Answer b: **Correct answer**. The joint and last survivor life annuity pays the annuitant (Francis) income for his lifetime and the selected percentage to the surviving spouse (50%). The percentage paid to the last survivor decreases the amount received by the annuitant.

Answer c: **False.** Although the 50% joint and last survivor annuity provides Francis with a greater monthly income than the 100% joint and last survivor annuity, the guarantee period (20 years) decreases the annuitant's monthly income. In addition, the 20-year guarantee would be for his children, and Francis does not want to leave any inheritance from this annuity.

Answer d: **False.** The 100% joint and last survivor annuity and the 20-year guarantee period would decrease Francis' monthly income. In addition, the guarantee period would be for his children, and Francis does not want to leave any inheritance from this annuity.

References

Relevant sections of exam preparation manual: Segregated funds and annuities, 2nd edition, 2015, section 3.2.3.2.

Evaluated competency sub-component in Curriculum: 2.3 Analyze the types of annuities that meet the client’s needs

Question 7

Services Com Inc. would like to set up its first employee group pension plan. It has about 100 full-time employees and wants to set up a contributory, capital accumulation plan. In addition, it would like to maintain some flexibility regarding its contributions and obligations to the plan while being a source of motivation for the employees enrolled in the plan.

Which pension plans would you suggest to Services Com Inc. based on its needs and objectives?

a) DCPP, PRPP, GRRSP
b) PRPP, GRRSP, DPSP
c) GRRSP, DCPP, DBPP
d) DPSP, DBPP, PRPP

Correct answer: a)

Explanations

Answer a: **Correct answer**. The DCPP, PRPP and GRRSP are contributory plans, with employers contributing the amount they want. There is no set pension income for members, and the sponsor is not responsible for any shortfalls.

Answers b, c and d: **False**. The deferred profit sharing plan (DPSP) is non-contributory; only the employer contributes. The defined benefit pension plan (DBPP) is not a capital accumulation plan. The member has no say on the investments made.

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 8.2.2

Evaluated competency sub-component in Curriculum: 2.4 Analyze the types of group retirement and investment plans that meet the client's needs.

Question 8
Glenn is 68 and recently retired. He wishes to ensure that he will have income for the rest of his life, but he is also aware that he could, potentially, live another 30 or more years, and that inflation could erode his purchasing power during that time.

Which of the following investments would be most appropriate for him?

a) An insured annuity
b) A life annuity
c) 40% of his funds in an annuity with 60% of his funds in a balanced fund
d) 40% of his funds in an annuity with 60% of his funds in an equity fund

Correct answer: c)

Explanations

Answers a and b: **False**. The insured annuity and life annuity do not allow the annuitant to maintain his purchasing power. Insured annuity is a combination of life annuity and life insurance. Upon the annuitant's death, the life insurance principal is paid out to the beneficiary or to the estate. Life annuity meets the need for income throughout his lifetime and life insurance ensures the liquidity required to settle the estate or maintain the beneficiary's normal standard of living.

Answer c: **Correct answer**. Investing 40% of his funds in an annuity meets the need for income throughout his lifetime, while investing 60% in a balanced fund provides the growth potential of equity and the security of a fixed income. This investment choice reflects Glenn's needs.

Answer d: **False**. While investing 40% of his funds in an annuity meets Glenn's need, investing 60% in an equity fund is too risky for a retiree like him who wants to ensure an income that meets his needs for the rest of his life.

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 1.3.2

Evaluated competency sub-component in Curriculum: 3.1 Propose a recommendation adapted on the client’s needs and situation.

Question 9

Alex, age 25, accepts your recommendation to invest $25,000 for his retirement in a balanced segregated fund and $10,000 in an international segregated fund.

Which of the following statements regarding the application to be completed by Alex are correct?

1. Alex himself must provide the information in the application form.
2. The life insurance agent himself must complete the information in the application form.
3. Alex must provide his social insurance number (SIN).
4. Alex can name his father as the contract owner.
5. Alex can name a beneficiary to the contract.

a) 1, 3, 5
b) 1, 4, 5
c) 2, 3, 4
d) 2, 3, 5

Correct answer: a)

Explanations

Answer a: **Correct answer**. The investor must provide the information to fill out the applicant's part (1). The social insurance number is required in order to issue the slips used for tax returns (3). The contract owner names the beneficiary of the contract (5).

Answers b, c and d: **False**. The application may be filled out in its electronic or paper format (2). As Alex invested in his RRSPs, the contract owner must also be the annuitant or his spouse, but not his father (4).

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 6.2

Evaluated competency sub-component in Curriculum: 3.2 Confirm the requirements that must be met to implement the recommendation

Question 10

Two years ago, Jean-Philippe invested $5,000 in a global equity segregated fund. Dissatisfied with the fund's performance, he asks you to switch the total current amount of $5,200 into a diversified segregated fund. His current contract allows for a reset upon switching funds. Since he is switching for the first time, he asks whether there are any financial consequences.

What is your answer?

a) He will have to pay a 2% switch fee but will not have to pay tax.
b) The maturity date of the contract and guarantees will advance 10 years and he will pay tax on the capital gain.
c) A short-term trading fee will be charged against the value of the switched amount.
d) Switches are allowed at any time, but the guarantees will be modified.

Correct answer: b)

Explanations

Answer a: **False**. Insurers provide a number of switches a year for free, and this is Jean-Philippe's first one.

Answer b: **Correct answer**. Switches between funds may act as a reset that changes both the maturity date of the contract and contract guarantees. As the amount switched is higher than the adjusted cost base (ACB) of his units, Jean-Philippe will have to pay income tax on the capital gain.

Answer c: **False**. Some short-term trading fees may be charged when switching units within 90 days of purchase.

Answer d: **False**. Some switches between funds are not allowed.

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, sections 6.3.3.6 and 6.3.3.7

Evaluated competency sub-component in Curriculum: 4.1. Validate the appropriateness of contract amendment, renewal and termination applications in regards to the client’s situation.

Question 11

Brigitte is the beneficiary of a segregated fund that is maturing in two weeks. The investment was originally made by her father, but he has told her that she can consider the money as hers because he has become incapacitated and has signed a power of attorney to this effect. She is happy about the 100% maturity guarantee on this investment as the market value is currently less than the amount invested. Her father made a partial withdrawal two years ago, but he believes the maturity guarantee still applies.

Who can claim the proceeds and the guarantee that will be applied to this segregated fund when Brigitte redeems it in two weeks?

a) The contract owner will claim the invested amount less the partial withdrawal.
b) The person with power of attorney will claim the market value.
c) The person with power of attorney will claim the invested amount less the partial withdrawal.
d) The beneficiary will claim the market value.

Correct answer: c)

Explanations

Answer c:	**Correct answer**. The person with the power of attorney is the one who makes the claim. Since the market value is lower than the guaranteed value, the guaranteed value less the withdrawal will be paid out.
Answers a, b and d:	**False**. The person with the power of attorney must claim. Brigitte's father, the contract owner, is incapacitated and cannot claim himself. Since the market value is lower than the guaranteed value, the guaranteed value less the withdrawal will be paid out. The beneficiary receives the benefit under the contract after the annuitant's death.

References

Relevant sections of exam preparation manual: *Segregated funds and annuities*, 2nd edition, 2015, section 6.4.2.4

Evaluated competency sub-component in Curriculum: 4.2 Inform the claimant of the claims process.