

The following Sample Paper consists of 39 question items. They span over "Exam 2 - Retirement Planning and Employee Benefits (RPEB)" and the "Module: Introduction to Financial Planning". The actual Question Paper would consist of 77 items of total 150 marks out of which Introduction to Financial Planning items would be 17 items of 30 marks, thus representing 20% of marks in each of Exam 1, 2, 3 & 4. This Sample Paper is representative of the revised and restructured Exam effective from 1st February, 2013 as regards distribution and pattern of question items in respective Sections and their defined difficulty level. For more details, refer to the Revised Syllabus and Topic List. Suggested solutions to 3-mark and 4-mark problems are as per Working Notes alongside.

Exam 2 - Retirement Planning and Employee Benefits (RPEB)

Attempted Answers Are Checked and Displayed In Blue Color.

Correct Answers are Displayed in Red Color after each Question.

SECTION - I

1 Which of the following discipline does not constitute a core financial planning component?

[1 Mark]

- (a) Tax Planning
- (b) Estate Planning
- (c) Retirement Planning
- (d) Portfolio Management
- (e) Not Attempted

Correct Answer : Portfolio Management

2 Wages to be considered for purpose of calculation of gratuity to be paid to an employee covered under the Payment of Gratuity Act, 1972 is ____.

[1 Mark]

- (a) weighted average of wages drawn during the previous 5 years
- (b) average wages drawn during the previous 6 months
- (c) average wages drawn during the previous 10 months
- (d) wages last drawn by him
- (e) Not Attempted

Correct Answer : wages last drawn by him

3 The core financial planning competency under the "Synthesis" function relates to ____.

[1 Mark]

- (a) Identifying and develop distinct strategies for financial goals
- (b) Performing various financial analysis on the data gathered
- (c) Developing and evaluating strategies to create a financial plan
- (d) Assessing quantitative and qualitative information gathered for analytical purposes
- (e) Not Attempted

Correct Answer : Developing and evaluating strategies to create a financial plan

4 For defined benefit plans, which of the following changes in actuarial assumption would not increase plan costs to an employer?

[1 Mark]

- (a) A rising trend in the interest rates
- (b) High rate of salary escalation
- (c) Early retirement
- (d) Longer life expectancy predicted
- (e) Not Attempted

Correct Answer : A rising trend in the interest rates

5

The Payment of Gratuity Act, 1972 applies to the prescribed entities in which _____.

- [1 Mark]
- (a) 10 or more persons are or were employed on any day in the preceding 12 months
 - (b) 10 or more persons have completed continuous service in the preceding 12 months
 - (c) 10 or more persons are employed and at least one has completed 5 years of continuous service
 - (d) 10 or more persons are employed in the preceding 12 months and are also covered under Employees' Provident Fund
 - (e) Not Attempted

Correct Answer : 10 or more persons are or were employed on any day in the preceding 12 months

6

Which of the following Financial Planner Professional Skills would not be categorized under the segment "Cognitive"?

- [2 Marks]
- (a) Analyzing and integrating information from a variety of sources to arrive at solutions
 - (b) Maintaining awareness of changes in the economic, political and regulatory environments
 - (c) Using logic and reasoning to consider the strengths and weaknesses of potential courses of action
 - (d) Arriving at informed decisions when faced with incomplete or inconsistent information
 - (e) Not Attempted

Correct Answer : Maintaining awareness of changes in the economic, political and regulatory environments

7

The following does not constitute as one of the criteria for an employee to claim exemption from income tax of the amount received under a Voluntary Retirement Scheme under the Income-tax Act, 1961:

- (a) The employee should have completed 10 years of service.
- (b) The employee should not take up any employment in future.
- (c) The employee should have completed 40 years of age.
- (d) The scheme should have the approval of Income-tax authorities.
- (e) Not Attempted

Correct Answer : The employee should not take up any employment in future.

8

The following does not constitute as one of the criteria for a Voluntary Retirement Scheme (VRS) to get approval of the tax authorities to claim exemption from income tax under the Income-tax Act, 1961(the Act):

- (a) The retiring employee should not be employed in another concern belonging to the same management.
- (b) The scheme to be offered to all the eligible employees of the organization including workers and executives.
- (c) The emolument terms of VRS benefit to be exactly the same as prescribed in the Act.
- (d) The scheme to result in overall reduction in the existing strength of the employees of the organization.
- (e) Not Attempted

Correct Answer : The emolument terms of VRS benefit to be exactly the same as prescribed in the Act.

SECTION - II

1 Which of the following factors does not invoke a serious assessment of retirement planning situation?

[1 Mark]

- (a) Declining trend in return from investments
- (b) Improved standard of living and inflation
- (c) Rising Gross Domestic Product of the Economy
- (d) Improved health conditions and increasing longevity
- (e) Not Attempted

Correct Answer : Rising Gross Domestic Product of the Economy

2 An individual begins to accumulate retirement corpus considering today's inflation throughout the post-retirement period. If the inflation actually turns out to be lower after retirement, the accumulated corpus would ____.

[1 Mark]

- (a) get inflated by the margin inflation is lower
- (b) more or less be sufficient till the expected lifespan
- (c) be consumed earlier than anticipated
- (d) last longer than anticipated
- (e) Not Attempted

Correct Answer : last longer than anticipated

3 In case of Primary market, the price band of an issue is determined by _____.

[1 Mark]

- (a) the issuer in consultation with Merchant Banker
- (b) the forces of demand and supply necessarily
- (c) the price formula stipulated by CCI and SEBI
- (d) the prices of securities of similarly traded companies on the exchanges
- (e) Not Attempted

Correct Answer : the issuer in consultation with Merchant Banker

4 In a typical business cycle, which one of the following phases would exhibit periods of increasing employment and increasing output?

[1 Mark]

- (a) Expansion
- (b) Trough
- (c) Recession
- (d) Peak
- (e) Not Attempted

Correct Answer : Expansion

5 Which of the following should be the least preferable engagements by an individual when approaching retirement?

[2 Marks]

- (a) Assessing income generating potential of assets and maximizing income streams
- (b) Entering into long-term financial liabilities and acquiring illiquid assets of large amounts
- (c) Making elaborate succession plans for assets including ones for consumption, or trusts for special needs
- (d) Looking for opportunities for jobs after retirement and self employment
- (e) Not Attempted

Correct Answer : Entering into long-term financial liabilities and acquiring illiquid assets of large amounts

6

A 45-year old man spends Rs. 7.5 lakh p.a., almost the amount he earns, to maintain his family. He expects his expenses to rise by 7% p.a. He has not saved for retirement. He has a second house which he wants to rent at Rs. 20,000 p.m. immediately, the rent expected to increase by 7 % p.a. You advise him to create a corpus by his age of 60 by investing the rent received in an instrument yielding 9% p.a. at the end of every year. You estimate the number of years the accumulated corpus would last taking the received rents post-retirement into account. The same is ____.

[3 Marks]

- (a) over 4 years
 (b) over 7-1/2 years
 (c) 8 years
 (d) over 3 years
 (e) Not Attempted

Correct Answer : 8 years

7

Mr. X who is 40 years old spends annually Rs. 7 lakh towards his household expenses. He expects to retire at 62 years. During this period inflation is expected to be on an average 6% p.a. He wants to cover 35 years' living expenses for self and spouse. If the inflation in the post-retirement period moderates to an average of 4% p.a. and he expects to generate a return of 7% from his accumulated corpus, what corpus should he target for a comfortable retirement?

[3 Marks]

- (a) Rs. 4.90 crore
 (b) Rs. 3.49 crore
 (c) Rs. 5.98 crore
 (d) Rs. 5.67 crore
 (e) Not Attempted

Correct Answer : Rs. 5.67 crore

8

An individual has recently purchased a house worth Rs. 40 lakh for self-occupation by availing housing loan of Rs. 28 lakh at 9.25% p.a. rate of interest. The tenure of loan is 18 years. He has Rs. 12 lakh financial assets at present. He is expected to save annually Rs. 2 lakh which he invests on a quarterly basis beginning a quarter from now in an instrument which is expected to provide return of 9% p.a. What would be his net worth five years from now? The value of the house which is for consumption purposes is not considered in the net worth so arrived.

[3 Marks]

- (a) Rs. 2.83 lakh
 (b) Rs. 18.82 lakh
 (c) Rs. 6.68 lakh
 (d) Rs. 7.36 lakh
 (e) Not Attempted

Correct Answer : Rs. 6.68 lakh

9

A 40 year old person spending Rs. 3 lakh p.a. plans to retire at age 63 and expects to live till 75 years. The basic inflation at 7% p.a. and lifestyle inflation at 1.75% p.a. are expected in the pre-retirement period. He starts investing for retirement at Rs. 30,000 p.a. in a 10% p.a. return instrument with immediate effect, and increases the contribution by 20% every year of the prior year investment amount. If the expenses post-retirement are curtailed by 20%, what maximum inflation would sustain his corpus till he survives, if the corpus is invested at 7% p.a.?

[4 Marks]

- (a) 1.56%
 (b) 4.18%
 (c) 7.88%
 (d) 6.07%
 (e) Not Attempted

Correct Answer : 6.07%

SECTION - III

1 Under the Senior Citizens Savings Scheme, the maximum amount of investment is limited to _____.

[1 Mark]

- (a) Rs. 15 lakh
(b) Rs. 10 lakh
(c) Rs. 5 lakh
(d) Rs. 12 lakh
(e) Not Attempted

Correct Answer : Rs. 15 lakh

2 The Real Rate of Return necessarily takes into account the following:

[1 Mark]

- (a) Compounding
(b) Inflation
(c) Present Value
(d) Frequency of investment or payment
(e) Not Attempted

Correct Answer : Inflation

3 The process of retirement planning would generally not involve _____.

[2 Marks]

- (a) planning to maintain current lifestyle and providing cost of staying physically healthy after retirement
(b) making a plan for covering lifelong living expenses & disposition of assets at death
(c) concentrating on maximizing returns from corpus after retirement to leave a sizable estate
(d) projecting individual needs and goals into the future and making sound financial plan
(e) Not Attempted

Correct Answer : concentrating on maximizing returns from corpus after retirement to leave a sizable estate

4 A 55 year old individual could not save for retirement while he met his children's education and marriage. In the next 5 years he would have Rs. 35,000 per month investible surplus. The couple has household expenses of Rs. 27,000 per month. They have a second house which earns Rs. 18,000 per month in rental income. You direct their monthly savings to an 8 % p.a. instrument. Considering this return as sustainable after retirement also, inflation at 6% p.a., rental increments at 6% p.a., you estimate the period after retirement at 60 years when they may have to start curtailing their expenses. The same is _____.

[3 Marks]

- (a) 13 years 5 months
(b) 21 years 7 months
(c) 31 years 5 months
(d) 16 years 8 months
(e) Not Attempted

Correct Answer : 21 years 7 months

5 For a nominal interest rate of 10% per annum compounded monthly, quarterly, and semi-annually, the respective annual effective rates would be _____.

[3 Marks]

- (a) 10.47% p.a., 10.38% p.a., 10.25% p.a.
(b) 9.57% p.a., 9.65% p.a., 9.76% p.a.
(c) 9.44% p.a., 8.16% p.a., 8.04% p.a.
(d) 8.96% p.a., 8.32% p.a., 8.16% p.a.
(e) Not Attempted

Correct Answer : 10.47% p.a., 10.38% p.a., 10.25% p.a.

6

A 30 years old lady plans to retire at 50. She already has financial investments amounting to Rs. 18 lakh. Her current expenses are Rs. 27,000 per month. She wants to cover 30 years post-retirement expenses inflation-adjusted by a suitable annuity. Average inflation is considered at 7% p.a. and the annuity is expected to yield 8% p.a. You advise to invest her current financial investments at 9.5% p.a. If she can incrementally invest Rs. 2.5 lakh annually, you optimize average rate of return to achieve this goal. The same is .

[3 Marks]

- (a) 11.10%
 (b) 19.65%
 (c) 15.41%
 (d) 12.61%
 (e) Not Attempted

Correct Answer : 12.61%

7

A software professional who retires today has two fixed life annuities, one provided by his invested pension plan at Rs. 20,000 per month and the other provided by his employer at Rs. 35,000 per month. He has a second house which currently is let out at Rs. 2.2 lakh p.a. rental. The rentals are expected to increase at 7 % p.a. compounded. He currently spends Rs. 45,000 per month which will rise annually at inflation of 6 % p.a. If he invests excess amount at the end of every year in an instrument of return 8 % p.a. and utilizes this fund in case of shortfall in funding household expenses, what could be the approximate size of this fund 30 years after retirement?

[4 Marks]

- (a) Rs. 81 lakh
 (b) Rs. 121 lakh
 (c) Rs. 130 lakh
 (d) Rs. 88 lakh
 (e) Not Attempted

Correct Answer : Rs. 121 lakh

8

Mr. A purchased a flat worth Rs. 50 lakh in January 2007 by availing a housing loan of Rs. 35 lakh for tenure 15 years at the rate of 9% p.a. The value of his flat as in January 2013 has appreciated to Rs. 90 lakh. What approximate value of home equity can he consider in his flat towards his unencumbered interest after also setting aside 15% of the appreciation value towards taxes and other costs to be discharged on selling the unit?

[4 Marks]

- (a) Rs. 49 lakh
 (b) Rs. 74.56 lakh
 (c) Rs. 57.79 lakh
 (d) Rs. 63.79 lakh
 (e) Not Attempted

Correct Answer : Rs. 57.79 lakh

9

Mr. A has invested annually Rs. 2 lakh towards his retirement in an aggressive fund from his age of 40 onwards. After initial high returns, the fund could generate return of just 3.5% p.a. in 10 years. He can direct a higher amount towards retirement goal in the remaining 10 years to retirement. You advise to switch half of the accumulated funds along with fresh investment in a debt fund with indicative return of 8% p.a. in the future. To achieve a target corpus is Rs. 1.2 crore, what revised amount should be invested every year if the future expectation from aggressive fund is 11% p.a.?

[4 Marks]

- (a) Rs. 5.33 lakh
 (b) Rs. 4.62 lakh
 (c) Rs. 1.06 lakh
 (d) Rs. 3.79 lakh
 (e) Not Attempted

Correct Answer : Rs. 3.79 lakh

SECTION - IV

1 A person opened her PPF account on 1st April 2002. When can she make his first withdrawal from this PPF account?

[1 Mark]

- (a) After 31st March 2008
- (b) After 31st March 2009
- (c) After 31st March 2007
- (d) After 31st March 2017
- (e) Not Attempted

Correct Answer : After 31st March 2008

2 An NPS account can be closed before attaining normal retirement age under all of the following circumstances, except _____.

[1 Mark]

- (a) in case of the change in citizenship status
- (b) when account value reduces to zero
- (c) on death of the subscriber
- (d) when relocated to another city
- (e) Not Attempted

Correct Answer : when relocated to another city

3 Which of the following is an infringing use of CFP marks to describe an individual eligible to use them?

[1 Mark]

- (a) CFP certificant
- (b) CFP expert
- (c) CFP professional
- (d) CFP practitioner
- (e) Not Attempted

Correct Answer : CFP expert

4 Which of the following does not correspond to the principle of "Professionalism" under Financial Planner Code of Ethics and Professional Responsibility?

[2 Marks]

- (a) Enhancing and maintaining the profession's public image and its ability to serve the public interest
- (b) Complying with appropriate rules, regulations and professional requirements
- (c) Behaving with dignity and showing courtesy to clients, fellow professionals and business associates
- (d) Appearing in executive attire, using latest gadgets of communication, fine dining skills, etc.
- (e) Not Attempted

Correct Answer : Appearing in executive attire, using latest gadgets of communication, fine dining skills, etc.

5 Which one of the following options is appropriate, if an NPS subscriber wants to exit from NPS before attaining the age of 60?

[2 Marks]

- (a) Required to annuitize at least 60% of pension corpus and remaining can be withdrawn; the annuity to begin only after attaining age 60 years.
- (b) He cannot withdraw from pension corpus before attaining the normal retirement age of 60 years.
- (c) Required to annuitize at least 80% of pension corpus and the remaining can be withdrawn as a lump sum.
- (d) Required to annuitize at least 40% of pension corpus and the remaining pension can be withdrawn as a lump sum.
- (e) Not Attempted

Correct Answer : Required to annuitize at least 80% of pension corpus and the remaining can be withdrawn as a lump sum.

6

A person invested Rs. 45 lakh in a 30-year fixed monthly annuity providing a yield of 9 % p.a. What will be the amount of monthly annuity if the start date is deferred by 3 years?

[3 Marks]

- (a) Rs. 35,368
- (b) Rs. 44,526
- (c) Rs. 34,826
- (d) Rs. 45,100
- (e) Not Attempted

Correct Answer : Rs.45,100

7

A person at age 57 has accumulated Rs. 50 lakh towards retirement funds and opts for premature retirement. He purchases an immediate annuity for a total term of 20 years, a fixed monthly amount for the initial period of 10 years and a provision to double the monthly amount in the second 10-year period. If the minimum yield guaranteed in the annuity is 8% p.a., what monthly amount he is expected to receive in the subsequent 10-year period?

[4 Marks]

- (a) Rs. 81,391
- (b) Rs. 28,176
- (c) Rs. 61,821
- (d) Rs. 39,697
- (e) Not Attempted

Correct Answer : Rs. 61,821

SECTION - V

1

Under the NPS Tier I, the minimum contribution per year is _____ and minimum amount per contribution is _____.

[1 Mark]

- (a) Rs. 7,500 and Rs. 750
- (b) Rs. 1,000 and Rs. 200
- (c) Rs. 5,000 and Rs. 750
- (d) Rs. 6,000 and Rs. 500
- (e) Not Attempted

Correct Answer : Rs. 6,000 and Rs. 500

2

As per workmen's Compensation Act 1923, an employer is not liable to pay compensation to a workman for _____.

[1 Mark]

- (a) Disablement of workman for three or less days
- (b) Personal injury caused during the course of his employment
- (c) Personal injury caused by accident arising out of his employment
- (d) Any occupational disease contracted by him
- (e) Not Attempted

Correct Answer : Disablement of workman for three or less days

- 3 An establishment notified by Central Government of India and which is also a factory engaged in a specified industry, would be covered under Employees Provident Fund and Miscellaneous Provision Act, 1952 if the number of employees are _____.
- [1 Mark]
- (a) more than 10
 - (b) 10 or more
 - (c) more than 20
 - (d) 20 or more
 - (e) Not Attempted
- Correct Answer : 20 or more

- 4 Which of the following cannot be categorized under Fiduciary Responsibility of a financial planner towards his/her client?
- [1 Mark]
- (a) Disclose all material facts
 - (b) Get the best returns on client's investments
 - (c) Serve the client's best interest
 - (d) Act in utmost good faith
 - (e) Not Attempted
- Correct Answer : Get the best returns on client's investments

- 5 Which of the following is not prescribed for an entity to act as bank under the Banking Regulation Act, 1949?
- [2 Marks]
- (a) Use of at least one word bank, banking, banking company in its name
 - (b) Restriction on granting loan to person interested in management of the bank
 - (c) Prohibition to form subsidiary company for certain purposes
 - (d) Restriction on business of certain kinds such as trading of goods etc.
 - (e) Not Attempted
- Correct Answer : Prohibition to form subsidiary company for certain purposes

- 6 Which of the following is not one of the recommendations of OASIS report?
- [2 Marks]
- (a) Opening of a single Individual Retirement Account (IRA) with a depository provider, which remains the same throughout the life of individual.
 - (b) Developing different points of accesses to provide operational capability of Individual Retirement Account (IRA).
 - (c) Government should sponsor majority of pension needs of individual while individual contributes to manage the rest.
 - (d) Entry of professional fund managers and risk management strategies to manage the funds.
 - (e) Not Attempted
- Correct Answer : Government should sponsor majority of pension needs of individual while individual contributes to manage the rest.