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QUESTIONS & ANSWERS
DEMO VERSION
(LIMITED CONTENT)

Question 1

Question Type: MultipleChoice

Which of the following statements about non-qualified employer-sponsored retirement plans is false?

Options:

- A- An employer does not have to offer the plan to all employees over 21 years old.
- B- The earnings on the plan's contributions remain untaxed until they are withdrawn.
- C- The plan does not have to abide by ERISA's vesting requirements.
- D- The plan may be either funded or unfunded.

Answer:

B

Explanation:

The false statement is that the earnings on the plan's contributions remain untaxed until they are withdrawn. Earnings on non-qualified employer-sponsored retirement plans do not grow tax-deferred except for a special situation in which a sizeable forfeiture risk exists. All the other statements are true since non-qualified employer-sponsored plans are exempt from most, if not all, of ERISA's requirements.

Question 2

Question Type: MultipleChoice

Which of the following plans does not have the requirement that its participants must begin withdrawing funds from the plan by April 1st of the year after they turn 70 ?

- i. SIMPLE IRA II. 401(k)
- iii. Roth IRA
- IV. profit-sharing plan

Options:

- A- I and III only
- B- I, III and IV only
- C- III only
- D- All of the above have a mandatory distribution requirement.

Answer:

C

Explanation:

The Roth IRA does not have the requirement that its participants must begin withdrawing funds from the plan by April 1st of the year after they turn 70 . The Roth IRA does, however, have a mandatory distribution requirement that goes into effect if the participant dies.

Question 3

Question Type: MultipleChoice

on No: 187

A plan under which employees of state and local governments can contribute part of their salaries such that those earnings will grow tax-deferred until retirement is called a:

Options:

- A- profit-sharing plan.
- B- money purchase plan.
- C- Section 457 plan.
- D- Section 501 plan.

Answer:

C

Explanation:

A plan under which employees of state and local governments can contribute part of their salaries such that those earnings will grow tax-deferred until retirement is called a Section 457 plan. Profit-sharing and money purchase plans are retirement plans that may be available to employees of for-

profit companies. Section 501 of the IRS code covers non-profit corporations.

Question 4

Question Type: MultipleChoice

The essential difference between a 401(k) plan and a 403(b) plan is that:

Options:

- A- the 403(b) plan is for small businesses while the 401(k) plan is for large corporations.
- B- only employers can contribute to 403(b) plans while both employers and employees can contribute to 401(k) plans.
- C- the 403(b) plan is for employees of specific non-profit organizations whereas the 401(k) plan is for the employees of private corporations.
- D- contributions to 403(b) plans are always tax deductible, which is not the case with 401(k) plan contributions.

Answer:

C

Explanation:

The essential difference between a 401(k) plan and a 403(b) plan is that the 403(b) plan is for employees of specific non-profit organizations whereas the 401(k) plan is for the employees of private corporations. The tax advantages and eligibility requirements of a 403(b) plan are the same as those for a 401(k) plan.

Question 5

Question Type: MultipleChoice

Ms. Fortune died at the relatively young age of 60. Which of the following options are available to her 65-year-old spouse, the beneficiary of her IRA?

- i. withdraw the entire balance in a single lump sum

- ii. continue to make contributions to the IRA as if it were his own
- iii. roll his deceased wife's IRA into an existing IRA that he owns

Options:

- A- I only
- B- I and II only
- C- I and III only
- D- I, II, and III

Answer:

D

Explanation:

If Ms. Fortune died at the age of 60 and her beneficiary is her 65-year-old spouse, he can choose to withdraw the entire balance in a single lump sum, continue to make contributions to the IRA as if it were his own, or roll the IRA into another existing IRA. If he opts to withdraw the entire balance in a single lump sum, he will have to pay tax on that distribution at his marginal tax rate.

Question 6

Question Type: MultipleChoice

Ms. Pye has quit her job to become a full-time mother and wants to roll over the funds from her 401(k) plan into an IR

Options:

- A- As her financial adviser, you should tell her that:
- A- this is unwise since she will have to pay both taxes and a penalty on the funds that are rolled over.
- B- if she has the funds transferred directly from her 401(k) plan to the IRA, she will avoid having 20% withheld.
- C- if she opts to take possession of the funds herself prior to depositing them in the IRA account, she must make the deposit within 30 days to avoid a 10% penalty.
- D- both B and C.

Answer:

B

Explanation:

If Ms. Pye wants to rollover the funds from her 401(k) plan into an IRA, you should tell her that if she has the funds transferred directly from her 401(k) plan to the IRA, she will avoid having 20% withheld. She will not have to pay either taxes or a penalty on the funds that are rolled over if she follows specified guidelines, and if she opts to take possession of the funds herself prior to depositing them in the IRA account, she has 60 days in which to do so before a 10% penalty is assessed.

Question 7

Question Type: MultipleChoice

The "catch-up provision" that has been established for both the traditional and Roth IRAs applies to people of what age?

Options:

- A- 50 and older
- B- 55 and older
- C- 60 and older
- D- 62 and older

Answer:

A

Explanation:

The "catch-up provision" that has been established for both the traditional and Roth IRAs applies to people who are 50 and older.

Question 8

Question Type: MultipleChoice

Ralph has a traditional IRA from which he has yet to make any withdrawals. Ralph will be turning 70 in June, 2011. According to the required minimum distribution rule associated with traditional IRAs, Ralph is required to start withdrawing funds from this account:

Options:

- A- no later than the day after he turns 70 .
- B- on April 15, 2011.
- C- on April 1, 2012.
- D- on April 15, 2012.

Answer:

C

Explanation:

According to the required minimum distribution rule associated with traditional IRAs, Ralph is required to start withdrawing funds from this account on April 1, 2012. The rule states that he must begin making withdrawals on April 1st of the year following the year in which he turns 70 .

Question 9

Question Type: MultipleChoice

George Geek is 30 years old, single, and earns \$103,000 a year as a software engineer for a small, start-up IT company. George's company does not itself offer a retirement plan, and George is considering his options. The current contribution limits for both the traditional IRA and Roth IRA plans is the lesser of \$5,000 or 100% of earned income.

Which of the following statements applies to George's situation?

Options:

- A- George's contributions to a traditional IRA will be tax-deductible.
- B- George's contributions to a Roth IRA will be tax-deductible as long as his income is below the threshold specified by the IRS for the current year.
- C- Assuming that George can contribute to both the traditional IRA and the Roth IRA under the current income thresholds, he will be allowed to contribute \$5,000 to each of the plans.
- D- Assuming that George can contribute to both a traditional IRA and a Roth IRA under the current

income thresholds, his combined contribution to the two plans cannot exceed \$5,000.

Answer:

D

Explanation:

If George is 30 years old, single, and earns \$103,000 as a software engineer for a company that does not offer a retirement plan, his combined contribution to a traditional IRA and a Roth IRA cannot exceed \$5,000, assuming that he is eligible to contribute to both. Since George has no other retirement plan, he will be eligible to make tax-deductible contributions to a traditional IRA regardless of his income level. Contributions to a Roth IRA are never tax-deductible in any situation. (FYI: In 2010, a single taxpayer who earns less than \$105,000 during the year is eligible to participate fully in a Roth IRA, but this number can change.)

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