

# Assessment

## ***Personal Financial Fitness*** ***Fifth Edition***

The objectives of this book are:

- To add to your knowledge and understanding of money management in order to invest your funds more effectively
- To help clarify long term goals and prepare for a secure retirement



## **Assessment Questions for Personal Financial Fitness, Fifth Edition**

*Select the best response.*

1. The most time consuming part of financial planning is:
  - A. Examining and diagnosing your current financial situation
  - B. Prescribing and monitoring investments
2. Your cash reserves should be equal to the fixed living expenses of:
  - A. Two weeks
  - B. Three months
  - C. Six months
  - D. One month
3. Financial goals:
  - A. Should be stable at all times
  - B. Should never be static
  - C. Can be changing or static as your personality dictates
4. A budget:
  - A. Is a projection of future expenses
  - B. Helps you control day-to-day expenses
  - C. Teaches you to save money
  - D. All of the above
5. An income statement:
  - A. Portrays your cash flow over a period of time
  - B. Portrays your financial condition as of a given date
6. Assets minus liabilities equals net worth
  - A. True
  - B. False

7. The cash value of life insurance (except term insurance) is:
  - A. The table amount printed in the policy
  - B. The table amount printed in the policy times each \$1000 of the policy's face value
  - C. The table amount printed in the policy times each \$100 of the policy's face value
8. A budget:
  - A. Describes your standard of living
  - B. Is a plan for your future
  - C. Improves your situation with a plan for disciplined spending
  - D. All of the above
9. For expense forecasting, a category that would be best to average over a year is:
  - A. Food and basic household items like soap
  - B. Utilities: gas, electric, water, telephone, disposal
  - C. Transportation including repairs and insurance
  - D. Savings and investments
10. Property, casualty and liability insurance provide protection from:
  - A. The claims of others
  - B. Loss of personal property
  - C. Both of the above
11. If you choose a larger deductible for an insurance policy, you will have:
  - A. Lower premium and greater risk
  - B. Lower premium and lower risk
  - C. Higher premium and lower risk
  - D. Higher premium and greater risk
12. Payments to a retiree by a qualified retirement plan are fully taxable, but withdrawals from a life insurance policy can be tax-free by borrowing the accumulated cash values.
  - A. True
  - B. False

13. Generally, there is more risk associated with:
- A. Growth-oriented investments such as stock shares
  - B. Income-oriented investments such as savings accounts
14. Diversification, a conservative investment policy, can be:
- A. Among several types of investments
  - B. Within a particular type of investment
  - C. According to maturity
  - D. By the timing of investments
  - E. All of the above
15. IRA and company retirement funds can be placed into a Self-Directed Trust, controlled by you, and:
- A. You must pay annual taxes on its income
  - B. Systematic withdrawals must be made by age 70-1/2 or be taxed at 50%
  - C. Withdrawals are not taxed
  - D. All of the above
16. A benefit of an annuity is that interest accumulates on a tax-deferred basis, and the contract is free of probate.
- A. True
  - B. False
17. In planning your investment portfolio, you should:
- A. Identify your tolerance for risk
  - B. Diversify your investments
  - C. Plan for the long term
  - D. All of the above
18. If you are covered by Medicare, you must pay a monthly premium for:
- A. Hospital insurance
  - B. Medical insurance
  - C. Both of the above
  - D. Neither of the above

19. An advantage of a living trust is that it:
- A. Avoids probate
  - B. Can save your estate money by reducing estate taxes
  - C. Provides privacy by not being part of the public record
  - D. All of the above
20. Dollar cost averaging is best suited for people who:
- A. Are not interested in forecasting general economic trends
  - B. Invest a great deal of time and effort in forecasting economic trends
21. Because its interest rate often exceeds 18%, credit card debt should be paid off.
- A. True
  - B. False
22. "Intestate" means:
- A. Between two states
  - B. Without income
  - C. Without a will
  - D. Having conservative investments
23. Compared to the size and reputation of the investment firm, the qualifications of a financial planner are:
- A. More important
  - B. Less important
24. Variable expenses include:
- A. Loan payments
  - B. Medical expenses
  - C. Insurance
  - D. Taxes
25. Most financially secure people use a variety of financial instruments to achieve their goals and objectives.
- A. True
  - B. False

## **Answer Key for Personal Financial Fitness, Fifth Edition**

### ***Recommended response (Corresponding workbook page)***

|           |            |            |            |             |
|-----------|------------|------------|------------|-------------|
| 1. A (6)  | 6. A (20)  | 11. A (37) | 16. A (59) | 21. A (92)  |
| 2. B (5)  | 7. B (21)  | 12. A (40) | 17. D (63) | 22. C (83)  |
| 3. B (11) | 8. D (26)  | 13. A (50) | 18. B (80) | 23. A (108) |
| 4. D (13) | 9. C (31)  | 14. E (53) | 19. D (85) | 24. B (17)  |
| 5. A (14) | 10. C (36) | 15. B (58) | 20. A (73) | 25. A (3)   |