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01	A	B	**C**	D	E	14	A	B	**C**	D	E	27	**A**	B	C	D	E
02	A	B	C	**D**	E	15	A	B	**C**	D	E	28	**A**	B	C	D	E
03	A	B	C	D	**E**	16	A	**B**	C	D	E	29	A	**B**	C	D	E
04	A	B	**C**	D	E	17	A	B	C	**D**	E	30	A	B	C	D	**E**
05	A	B	C	D	**E**	18	A	**B**	C	D	E	31	**A**	B	C	D	E
06	**A**	B	C	D	E	19	A	B	C	**D**	E	32	A	B	C	D	**E**
07	A	B	C	D	**E**	20	**A**	B	C	D	E	33	A	B	**C**	D	E
08	**A**	B	C	D	E	21	A	**B**	C	D	E	34	A	B	C	D	**E**
09	A	**B**	C	D	E	22	A	B	C	**D**	E	35	A	B	C	**D**	E
10	**A**	B	C	D	E	23	**A**	B	C	D	E	36	A	**B**	C	D	E
11	A	B	**C**	D	E	24	A	B	C	D	**E**	37	A	**B**	C	D	E
12	**A**	B	C	D	E	25	A	B	C	D	**E**	38	A	**B**	C	D	E
13	A	B	C	**D**	E	26	**A**	B	C	D	E	39	A	**B**	C	D	E

PRACTICE QUESTIONS

Society of Actuaries (SOA)

EA2F

Pension EA-2, Segment F Examination

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Society of Actuaries (SOA) `EA2F`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `EA2F`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

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QUESTION 1 MULTIPLE CHOICE

Which of the following parties are typically involved in the operation of a defined benefit pension plan? (Choose two.)

- **A** **Plan administrator**
- **B** **Plan actuary**
- **C** Plan sponsor's marketing director
- **D** **Plan trustee**

ANSWER **A · B · D**

WHY The plan administrator, plan actuary, and plan trustee are all key parties involved in operating a defined benefit pension plan. The plan administrator manages the plan, the plan actuary performs valuations and recommends contributions, and the plan trustee holds plan assets. The marketing director of the plan sponsor is not a functional party in plan operations.

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QUESTION 2 MULTIPLE CHOICE

Which of the following are common features of a nonqualified deferred compensation plan as compared to a qualified plan? (Choose two.)

- **A** **It is not subject to ERISA's coverage and participation requirements.**
- **B** Plan benefits are protected by PBGC insurance.
- **C** **It can discriminate in favor of highly compensated employees.**
- **D** Employer contributions are fully deductible when made.

ANSWER **A · C**

WHY Nonqualified deferred compensation plans are generally exempt from many ERISA requirements (including coverage and participation rules) and may discriminate in favor of highly compensated employees. They are NOT protected by PBGC insurance (B is wrong) and the employer's deduction is generally deferred until the benefits are included in the employee's income (D is wrong).

QUESTION 3 SINGLE CHOICE

Under ERISA, which of the following best describes a fiduciary's standard of conduct?

A **Prudent person standard — act with the care, skill, prudence, and diligence that a prudent person acting in a like capacity would use.**

B Best efforts standard — act to maximize plan assets regardless of cost.

C Reasonable belief standard — act based solely on the recommendations of the plan's enrolled actuary.

D Sole interest standard — act exclusively to maximize the employer's tax deduction.

ANSWER **A**

WHY ERISA imposes the prudent person standard on fiduciaries, requiring them to act with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use. The other options are not the ERISA standard and either describe different duties or are distractors.

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QUESTION 4 SINGLE CHOICE

A defined benefit pension plan promises participants which of the following?

A **A lifetime benefit upon retirement based on a formula.**

B An account balance that varies with investment performance.

C A lump-sum benefit equal to employee contributions plus interest only.

D Stock options exercisable at retirement.

ANSWER **A**

WHY A defined benefit plan provides a promised benefit, typically a lifetime annuity at retirement, based on a formula involving factors such as salary and years of service. Account-balance plans (such as 401(k) or money purchase plans) vary with investment performance, which describes B, not a defined benefit plan.

QUESTION 5 SINGLE CHOICE

Which of the following is a primary source of funding for a defined benefit pension plan?

A Employee stock options

B **Employer contributions based on actuarial valuations**

C PBGC premium refunds

D Plan participant loans

ANSWER **B**

WHY Defined benefit pension plans are primarily funded by employer contributions, the amount and timing of which are determined through actuarial valuations. Employee stock options, PBGC refunds, and participant loans are not primary funding sources for a defined benefit pension plan.

QUESTION 6 SINGLE CHOICE

Integration of a pension plan benefit formula with Social Security is intended primarily to:

A Replace Social Security benefits for highly compensated employees.

B **Provide a higher rate of benefits on compensation above the Social Security taxable wage base than below.**

C Eliminate the need for minimum vesting standards.

D Reduce the employer's funding requirement to zero.

ANSWER **B**

WHY Integration with Social Security is a design feature in which the plan provides a higher rate of benefit (or a larger benefit accrual) on compensation above the Social Security taxable wage base than on compensation below it, recognizing that Social Security provides a larger relative replacement percentage for lower-paid employees. It does not replace Social Security, eliminate vesting requirements, or zero out funding requirements.

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QUESTION 7 SINGLE CHOICE

Under ERISA, which entity acts as the insurer of defined benefit pension plan benefits in the event of a plan termination with insufficient assets?

A The Department of Labor

B The Internal Revenue Service

C **The Pension Benefit Guaranty Corporation (PBGC)**

D The Social Security Administration

ANSWER **C**

WHY The Pension Benefit Guaranty Corporation (PBGC) is the federal agency created by ERISA that insures benefits of participants in private-sector defined benefit pension plans, taking over as trustee when a plan terminates with insufficient assets. The Department of Labor and IRS have other roles, and the Social Security Administration is unrelated.

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QUESTION 8 SINGLE CHOICE

Which of the following is generally NOT a factor influencing a retiring participant's election between a lump-sum distribution and an annuity from a defined benefit pension plan?

A The participant's health and life expectancy.

B The participant's other sources of retirement income.

C The current interest rate environment used to compute the lump sum.

D **The participant's annual earnings in the year of retirement.**

ANSWER **D**

WHY A participant's health, other income sources, and the interest rates used to calculate the lump sum all materially influence the choice between lump sum and annuity. The participant's current annual earnings in the year of retirement is not a direct factor in the election, since retirement is, by definition, a separation from active employment.

QUESTION 9 SINGLE CHOICE

Under a typical cliff vesting schedule permitted under ERISA, after how many years of service is a participant fully vested?

A 3 years

B **5 years**

C 7 years

D 10 years

ANSWER **B**

WHY ERISA permits a cliff vesting schedule of 100% vesting after 5 years of service (with no vesting before that), or alternatively a graded schedule such as 7-year graded vesting. Three years and 10 years are not statutory cliff vesting periods.

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