Essay Exam
Certified Wealth Preservation Planner (CWPP™)

Instructions: Forget the standard Essay Exams you have taken in the past. With ours, you are not required to create paragraphs or pages of explanation for why you answered the questions the way you did.

Simply identify all of the problems you see in a particular fact scenario, list the appropriate solutions to fix the problems, and then make a recommendation for what you believe would be the best course of action for the client.

Example test question and answer.

Facts: Dr. Smith is a male, age 32, married with no children. His spouse is a grade school teacher. Dr. Smith has gross income of $350,000 a year from his solo practice (sole proprietor), and works as a pain management physician. He has an office which he leases and one employee. He has a fully insured health plan with Blue Cross. He has $5,000 per month in disability insurance and no life insurance. The couple just purchased a $500,000 house with a $460,000 mortgage. The couple has no brokerage account, no retirement plan and no investment real estate. Please point out the potential problems Dr. Smith has, the potential solutions to those problems, and your recommendation.

Problems: Dr. Smith;

1) has no life insurance
2) has too little DI.
3) is a sole proprietor
4) has a fully insured health insurance plan
5) has no qualified retirement plan or other supplemental program to build wealth in a tax favorable manner.

Potential solutions: Dr. Smith should;

1) Purchase life insurance of at least $1,000,000. He could purchase term, UL, EIUL, WL or Variable.
2 go to the primary market and purchase more DI.
3) immediately incorporate to lessen his liability and potentially give him the opportunity to take “distributions” from his company to lessen his taxes.
4) consider a high deductible health insurance plan.
5) implement a qualified retirement plan (which could range from a 401k/profit sharing plans to a money purchase to a SEP or SIMPLE IRA). In addition, Dr. Smith should consider using a plan such as WealthBuilder Annuity to reduce his current income and taxes and build wealth in a tax favorable manner for use in the future.

Recommendation:

1) Unless Dr. Smith, after discussions, had a strong need for “permanent” life insurance, I would recommend that he purchase at least $1,000,000 of 20-30 year term life. At his age, return of premium term life would work well and would be financially appealing to the client.

2) Dr. Smith earns enough money to purchase at least another $5,000 per month of DI. I would recommend that he purchase as much additional DI as possible. At his age, the price will never be less expensive.

3) I would recommend that Dr. Smith immediately incorporate and become a P.C. or LLC (depending on what his state allows). I would recommend that the entity be treated as an S-Corporation for tax purposes.

4) Assuming Dr. Smith and his wife are healthy; I would recommend that they purchase a Health Saving Account (high deductible) health insurance plan. If the employee is a full time employee, Dr. Smith could purchase it through the office as a deductible expense and the premium for the one employee would be very low.

5) I would recommend that Dr. Smith implement a simple 401k/profit sharing plan and I would recommend that he max out his contribution. Because he only has one employee the amount of money contributed for the employee will be low.

In addition, I would recommend that Dr. Smith implement WealthBuilder Annuity in the amount of $50,000. He could implement the plan this year and if things did not go as planned, he would not be required to make any future contributions. I would recommend that Dr. Smith set up the installment payment from WBA to start paying when he turns age 55, and I would have it pay over a 10 year period (this would help Dr. Smith have the option of slowing down or retiring before age 59 ½).

Test Question #1

Facts: Dr. Smith (male, age 45) is married (the spouse is 46 years old) and lives in the state of IL. The couple has two children, ages 12 and 7. The couple each has a will, durable powers and revocable living trusts.

The couple has the following assets:

-A home worth $600,000 with a $450,000 mortgage (owned as joint tenants with rights of survivorship).
- A $500,000 death benefit variable life policy on Dr. Smith, which he has had for 10 years. The policy has no surrender charges, has performed very poorly from a financial standpoint, and currently has $25,000 of cash surrender value.
-A brokerage account with $500,000 (owned in Dr. Smith’s name).
-A SEP-IRA worth $200,000.

Dr. Smith is in practice with another physician, and the practice is a C-Corporation which also owns the building where his medical practice is located. Dr. Smith earns $500,000 a year as W-2 income (which includes bonuses). He has $10,000 a month in disability insurance. The medical practice has a SEP-IRA as its retirement plan.

Dr. Smith is concerned about asset protection, making sure his estate plan is in order, and reducing his tax liabilities. Please list his potential problems, the solutions to fix those problems and your recommendation.

Test Question #2

Mr. Phillips is a 65-year-old attorney who lives in North Carolina. He is the managing partner in a 45-attorney law firm. He is married with two children ages 35 and 32 and grand children ages 7, 6, 4 and 3. Mrs. Phillips is a retired teacher who is now collecting a pension of $1,500 a month. Mr. Phillips plans on working for another 10 years, and has the following:

-Wills and A&B marital trusts.
-A “paid up” $2,000,000 death benefit UL policy with $200,000 of cash value which he owns individually.
-A $1,000,000 brokerage account (all stocks), which is owned in his own name.
-A vacation condo in AZ that he rents when not using it, which is worth $500,000 and is owned jointly with his spouse.
-A home worth $750,000, which is owned jointly with his spouse (no debt).
-$1,000,000 in his law firm’s profit sharing plan.
-A $250,000 yacht and two wave runners.
-His equity position in the law firm is worth $250,000.

Mr. Phillips is concerned about reducing his estate taxes, making sure he is asset protected, providing for long-term care expenses, and ensuring that his liquid investments do not lose value prior to his retirement (although he would still like to partake in the upswings in the equity markets).

Test Question #3

Mr. Kelly, male, age 60 is a successful businessman who lives in Miami, FL and owns five McDonald’s franchises. His spouse is 45 years old (second marriage) and he has one child, age 28. He has done NO estate planning at this point. He has the following assets:

-Five McDonald’s franchises worth $10 million dollars with no debt. They are all owned by the same S-Corporation (which also owns the buildings).
-A $10,000,000 brokerage account (all invested in stocks) in his own name.
-A private jet worth $1,000,000 (which is owned by a C-Corporation).

-Five vacation rentals with a combined value of $8,000,000. The rentals are owned in his own name, and create net revenue of $500,000 a year.
-A $1.5 million dollar vacant lot in South Beach, FL (you know, Miami) with a basis of $100,000.
-A $2,000,000 home (no debt).

Mr. Kelly has five key employees who have been with him for over ten years. The rest of the employees are hourly employees who, on average, work for him for less than 12 months. There is no retirement plan for any of the employees at the present time.

Mr. Kelly earns $1,500,000 net from his business and investment income.

He wants to create an estate plan that will reduce his estate taxes, or create a way to pay for the remaining estate taxes with life insurance. He does not like the idea of paying for life insurance by cutting checks from his bank account. He wants to lower his income taxes and wishes to make sure that he is asset protected. Mr. Kelly is also concerned that his one child could become a “trust fund” baby and wants to make sure his planners help the child understand that not everyone in the world has money. Mr. Kelly is also thinking of selling the business and would like a recommendation as to his various options.