

# AFC® Sample Questions

The AFCPE® Education Department has developed the following sample exam quality questions. These questions will allow candidates to familiarize themselves with question structure before the exam, so their focus in testing can be on demonstrating knowledge.

These sample questions were written by subject matter experts, based on retired exam questions.

These sample questions are NOT actual retired exam questions.

## **How to use this tool:**

Pages 2-5 below contain questions only. The answers are provided on pages 6-10.

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### Competency 1: Gather Client Information

Which of the following is a conscious use of mirroring behavior that humans instinctively apply when actively listening?

- A. Framing
- B. Reframing
- C. Pacing
- D. Soliciting exceptions

### Competency 2: Assist a Client in Creating an Action Plan

Which of the following is a SMART and effective goal for Joe, who wants to save money to buy a house? The following goals are all realistic for Joe's budget.

- A. I will save 10% of each paycheck
- B. Joe will save \$100 a week to buy a house
- C. Each week for one year, I will save \$100 to buy a house
- D. By next year, I will have saved \$10,000 to buy a house

### Competency 3: Develop Financial Statements, Ratios, and Spending Plans

Your client makes \$40,000 per year and pays \$1,100 per month on their house, with utilities costing \$300. The house is valued at \$195,000 and they still owe \$173,000. Their car payment is \$400 per month, but they've almost paid it off – the car is worth \$5,000 and they only owe \$800. They have \$1,400 in checking, \$3,000 in savings, \$12,000 in a retirement account, and owe \$40,000 in student loans, which they're paying down at \$300 per month. Food, including eating out, runs \$800 per month.

What is your client's net worth?

- A. -\$7,400
- B. \$433
- C. \$2,600
- D. \$39,700

### Competency 4: Manage Money

A client has a marginal tax rate of 22%. If they get a \$5,000 bonus and decide to put half into an HSA and half into a Roth IRA, their taxable income will:

- A. Go up by \$5,000
- B. Go up by \$2,500
- C. Go down by \$2,500
- D. Not change

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### Competency 5: Manage Credit and Debt

Which of the following is the most important to maintaining a good credit score?

- A. Credit utilization
- B. Length of credit history
- C. Applications for new credit
- D. Payment history

What is the first recommended consumer action when you find a fraudulent charge on a bank statement?

- A. Submit a police report
- B. Contact the bank
- C. Pull credit report and file a dispute
- D. Report the incident to the FTC at IdentityTheft.gov

### Competency 6: Major Acquisitions

What student loan repayment option will result in the least amount of interest paid?

- A. Standard repayment
- B. Graduated repayment
- C. Income based repayment
- D. Extended repayment

### Competency 7: Manage Financial Risks

A client would like to know how much they are going to have to pay out-of-pocket for a surgical procedure scheduled for next month. The surgery is expected to cost \$20,000 in total and they've already spent \$500 in doctor's appointments in the year so far. Their deductible is \$1,500 and they have an 80/20 co-insurance plan. How much will they have to pay for the surgery?

- A. \$4,000
- B. \$4,800
- C. \$5,200
- D. \$15,880

### Competency 8: Investment Basics

A client is 30 years old and recently paid off all their credit card debt, established a budget, accumulated an emergency fund, and is now ready to begin investing so their money is working for them. The client considers themselves a moderate investor. How can you best help?

- A. Help them choose the best low-cost options in their company's 401(k)
- B. Create an asset allocation for them, based on their risk tolerance and time horizon
- C. Explain that moderate investors have higher than average inflation risk
- D. Refer them to a registered investment advisor

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### **Competency 9: Retirement and Estate Planning**

An employee earning \$50,000 per year wants to save approximately \$5,000 a year for retirement in their company's traditional 401(k) plan. The employee will become fully vested in the plan in three years. The company matches 100% for first 3% and 50% for next 2%. What employee contribution will best achieve the employee's goal?

- A. 5%
- B. 6%
- C. 8%
- D. 10%

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### Competency 1: Gather Client Information

Which of the following is a conscious use of mirroring behavior that humans instinctively apply when actively listening?

- E. Framing
- F. Reframing
- G. Pacing**
- H. Soliciting exceptions

Feedback: Pacing is a counseling technique that supports active listening and effective communication. It can be verbal and/or non-verbal.

### Competency 2: Assist a Client in Creating an Action Plan

Which of the following is a SMART and effective goal for Joe, who wants to save money to buy a house? The following goals are all realistic for Joe's budget.

- E. I will save 10% of each paycheck
- F. Joe will save \$100 a week to buy a house
- G. Each week for one year, I will save \$100 to buy a house**
- H. By next year, I will have saved \$10,000 to buy a house

Feedback: Answer C is the only one that is specific (to buy a house), measurable (\$100), time-bound (for one year), and from Joe's point of view (I will).

### Competency 3: Develop Financial Statements, Ratios, and Spending Plans

Your client makes \$40,000 per year and pays \$1,100 per month on their house, with utilities costing \$300. The house is valued at \$195,000 and they still owe \$173,000. Their car payment is \$400 per month, but they've almost paid it off – the car is worth \$5,000 and they only owe \$800. They have \$1,400 in checking, \$3,000 in savings, \$12,000 in a retirement account, and owe \$40,000 in student loans, which they're paying down at \$300 per month. Food, including eating out, runs \$800 per month.

What is your client's net worth?

- E. -\$7,400
- F. \$433
- G. \$2,600**
- H. \$39,700

Feedback: The client's assets are their house (\$195,000), car (\$5,000), checking account (\$1,400), savings account (\$3,000), and retirement account (\$12,000). Their liabilities are their mortgage (\$173,000), car loan (\$800), and student loans (\$40,000). Assets = \$195,000 + \$5,000

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+ \$1,400 + \$3,000 + \$12,000 = \$216,400. Liabilities = \$173,000 + \$800 + \$40,000 = \$213,800.  
Net worth = assets – liabilities = \$216,400 - \$213,800 = \$2,600.

#### Competency 4: Manage Money

A client has a marginal tax rate of 22%. If they get a \$5,000 bonus and decide to put half into an HSA and half into a Roth IRA, their taxable income will:

- E. Go up by \$5,000
- F. Go up by \$2,500**
- G. Go down by \$2,500
- H. Not change

Feedback: As long as health savings account (HSA) funds are used for qualified medical expenses, the money in HSAs are not taxed. Contributions to Roth IRAs are taxed as income, but earnings are tax-free. This means that the \$2,500 that is put into the HSA is not considered taxable income, and the \$2,500 that is contributed to the Roth IRA is considered taxable income.

#### Competency 5: Manage Credit and Debt

Which of the following is the most important to maintaining a good credit score?

- E. Credit utilization
- F. Length of credit history
- G. Applications for new credit
- H. Payment history**

Feedback: There are five factors that impact most credit scores. Payment history has the most weight in the score.

What is the first recommended consumer action when you find a fraudulent charge on a bank statement?

- E. Submit a police report
- F. Contact the bank**
- G. Pull credit report and file a dispute
- H. Report the incident to the FTC at IdentityTheft.gov

Feedback: The first step when responding to identity theft is to contact the companies where the fraud occurred.

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What student loan repayment option will result in the least amount of interest paid?

- E. Standard repayment**
- F. Graduated repayment
- G. Income based repayment
- H. Extended repayment

Feedback: The loan with the shortest repayment time is the loan that will result in the least amount of interest paid. Standard and graduated repayment plans both last 10 years (the shortest repayment time for federal student loans). Because the standard repayment plan starts with higher payments than the graduated plan, less interest accrues over the 10 year repayment period.

### Competency 7: Manage Financial Risks

A client would like to know how much they are going to have to pay out-of-pocket for a surgical procedure scheduled for next month. The surgery is expected to cost \$20,000 in total and they've already spent \$500 in doctor's appointments in the year so far. Their deductible is \$1,500 and they have an 80/20 co-insurance plan. How much will they have to pay for the surgery?

- E. \$4,000
- F. \$4,800**
- G. \$5,200
- H. \$15,880

Feedback: \$500 of the \$1,500 deductible has already been covered before the surgery, which means that the remaining \$1,000 deductible needs to be subtracted from the surgery cost before considering the co-insurance portion of the plan. With an 80/20 plan, the patient pays 20% of the cost of service, so the cost of the surgery would be the amount covered by the deductible (\$1,000) plus the amount covered under the coinsurance ( $\$19,000 \times 20\% = \$3,800$ ). The total cost of the surgery for the patient is  $\$1,000 + \$3,800 = \$4,800$ .

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- A. Help them choose the best low-cost options in their company's 401(k)
- B. Create an asset allocation for them, based on their risk tolerance and time horizon
- C. Explain that moderate investors have higher than average inflation risk
- D. Refer them to a registered investment advisor**

Feedback: The field of investment advice is very highly regulated and the AFC designation does not qualify people to give investment advice. While investment education is allowed, the line between education and advice is quite thin and options A and B can be interpreted by some regulators as advice. If there is any doubt about information requested being advice or education, an accredited financial counselor should always refer a client to an investment advisor. Answer C is factually incorrect.

### Competency 9: Retirement and Estate Planning

An employee earning \$50,000 per year wants to save approximately \$5,000 a year for retirement in their company's traditional 401(k) plan. The employee will become fully vested in the plan in three years. The company matches 100% for first 3% and 50% for next 2%. What employee contribution will best achieve the employee's goal?

- A. 5%
- B. 6%**
- C. 8%
- D. 10%

Feedback: The client's goal is to save \$5,000, or 10% of their income. Their employer will pay a maximum match of 4% (requiring 5% of contributions:  $3\% \times 100\% + 2\% \times 50\% = 4\%$ ), so the employee must contribute 6% to reach the desired 10% contribution.

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