The Money Conference

A project of State Treasurer Timothy P. Cahill

Glossary of Financial Terms

401(k) plan – A type of retirement savings plan, used by private firms or non-profit employers. Also known as a cash-or-deferred.

403(b) plan – A type of retirement savings plan, used mainly by non-profit employers. Also known as a tax- deferred annuity.

457 plan – A type of retirement savings plan, used mainly by governmental employers. Also known as an eligible deferred compensation plan.

accumulation – The value of an individual's savings in an investment fund or deferred annuity until withdrawals or income payments begin.

Activities of Daily Living (ADLs) – Activities of Daily Living are terms used in long-term care insurance policies or programs to specify someone's ability to function independently. ADLs usually include eating, dressing, bathing, transferring in & out of bed, and using the toilet, though some definitions are more liberal than others. LTC insurance policies often base eligibility for benefits on inability to perform 2 or 3 ADLs.

adjustable–rate mortgage – A mortgage whose interest rate changes periodically based on the upward or downward movement of a specified benchmark, e.g. six-month or one-year Treasury bills.

after-tax – Describes funds on which an employee has already paid all income taxes, for example, amounts held outside a 401(k) plan or traditional IRA, or within a Roth IRA. Taxes on benefits derived from these funds, plus investment earnings in a Roth IRA, are not payable when they are received. See basis. Also known as post-tax.

amortization – The process of reducing a debt through installment payments of principal and interest.

annuitant – The named individual who is entitled to receive annuity payments for life under a life annuity.

annuity – (1) A series of periodic payments. (2) A contract under which an insurance company promises to make a series of regular payments to a named individual for life.

annuity certain – An annuity that is payable for a stated period of time, regardless of whether an individual lives or dies.

annuity form or option – A choice of payment methods available to an individual getting a pension or annuity.

annuity rate – The single-sum price that an insurance company or pension plan charges for an annuity contract or option of a standard amount such as $1 per month. Annuity rates usually vary by age, and by sex if the annuity is outside a private pension plan, and are in addition to fixed expense charges. Also known as annuity purchase rate. See unisex annuity rate.

asset (and asset allocation) – Anything of value that you own that adds to your net worth; asset allocation refers to managing your finances by choosing or rejecting investments based on a specified strategy, such as aggressive growth, current income, minimizing taxes, etc.

back-end load – A sales charge or commission for an investment paid by the buyer at the time of sale.

balanced fund – A fund that invests in both stocks and bonds with the goal of reducing risk by investing in different markets.

balanced portfolio – A set of investments balanced between riskier and more conservative securities.

bear market – A period of declining prices in a financial market.

before –tax – Describes funds on which the employee has not yet paid income taxes, for example, amounts held in a qualified plan or traditional IRA. Taxes have been deferred, not waived, and are normally due when funds are paid out from the qualified plan or IRA. Also known as pre-tax.

beneficiary – A person, institution, trustee, or estate named to receive death benefits, if any, from insurance or annuity contracts; also, anyone receiving Social Security benefits.

bequest – Personal property left to another by the individual's will.

bond – A formal certificate of debt, issued by corporations or units of government.

bond fund – A fund that holds municipal, corporate, and/or government bonds.

bull market – A period of rising prices in a financial market.

capital appreciation – The rise in the value of an investment's principal.

cash refund annuity – A type of refund annuity under which the refund is paid in a lump sum. See refund annuity and installment refund annuity.

cash withdrawal – The act of withdrawing some or all of an accumulation from an insurance contract or a deferred annuity.

certificate of deposit (CD) – A short-term debt security, which can have a maturity period of anything from a few weeks to several years; interest rates are established by market conditions and competitive environment.

commission – A fee charged for executing an investment transaction, such as buying or selling securities.

common stock – A share of ownership in a corporation; stockholders participate in the profits or losses of a company through dividends and changes in the stock's market price.

community property – In certain states, the property that a married couple has acquired over the course of their marriage; in the event of a divorce, the property would be equally divided between them.

compound interest – Interest that is credited on both principal and previously credited interest.

consumer price index (CPI) – A commonly used measure of the increase (or decrease) in costs of goods and services, published by the U.S. Bureau of Labor Statistics.

contract – A legally binding agreement between two or more parties.

cost-of-living adjustment (COLA) – An increase in a pension or annuity benefit to compensate for an increase in the cost of living.

coupon rate – The annual interest rate that an issuer promises to pay periodically over the life of a bond or other debt security, expressed as a percentage of the security's face value.

death benefit – The amount payable to a beneficiary at the death of the annuitant or insured (sometimes referred to as the survivor benefit).

deferred annuity – An annuity under which benefit payments do not begin when the annuity is purchased. In a typical deferred annuity, the individual accumulates money on a tax-deferred basis until retirement, then converts the accumulated value into income payments or withdraws it in a lump sum.

defined contribution plan – An employer pension plan with benefits based on formulas that recognize the individual's years of service and other factors such as pay.

disability insurance – Insurance that replaces income for individuals unable to work due to accident or illness.

diversification – A strategy that aims to reduce risk, involving the spreading of assets across a mix of companies, investments, industries, geographic areas, maturity dates, and/or other investment categories.

dividend – The amount distributed to stockholders from a company's net profit.

dollar-cost averaging – Systematically investing the same amount of money in the same stock or group of stocks.

early distribution – Payment of benefits from a qualified plan or IRA to an individual who has not reached age 59 ½, except as permitted by IRS rules, resulting in an excise tax.

equity – Ownership of stocks or real estate.

ERISA – The Employee Retirement Income Security Act of 1974, as amended. This federal law provides for regulation of private pension and employee benefit plans by the Department of Labor and Pension Benefit Guaranty Corporation. The IRS also regulates such plans under provisions of the Internal Revenue Code.

face value (of a bond) – The value that appears on the face of a bond that indicates the bond's value at its maturity date.

Federal Deposit Insurance Corporation (FDIC) – The federal corporation that insures bank deposits up to $100,000 per Social Security number; not all banks participate.

fixed annuity – An annuity under which the insurer guarantees to pay at least a specified monthly benefit amount for each dollar applied to purchase the annuity. Also called fixed benefit annuity.

forfeiture – The non-vested part of a participant's account balance in a defined contribution plan which he or she loses upon termination of employment before attaining full vesting. Under IRS rules, some defined contribution plans credit forfeitures to the accounts of all other participants.

front-end load – A sales charge or commission paid for an investment at the time of purchase.

growth fund (or growth stocks) – A fund that invests in stocks with prices that are above average in relation to their current earnings because they are considered to have above-average growth prospects.

guaranty association – An organization that protects persons from losses suffered through the insolvency of an insurance company.

immediate annuity – An annuity under which income payments begin when the annuity is purchased.

impairment – Any aspect of the health, occupation, activities, or life-style of an individual that could increase his or her risk of dying or requiring medical care.

income stock – A stock that pays regular and steady income, typically of well-established companies, such as utilities and others whose businesses generate steady cash flows.

income replacement ratio – The percentage of pre-retirement income that a retiree would need to receive after retirement in order to have a post-retirement standard of living equivalent to his or her pre-retirement standard of living. This ratio is generally less than 100 percent because some expenses (i.e., taxes, commuting costs, clothing expenditures, savings needs) decrease after retirement. Also known as a replacement ratio or rate.

indexing – Automatic adjustment of benefits to compensate for the effects of inflation after payments begin, generally in accordance with increases in the level of a price index such as the Consumer Price Index (CPI).

individual retirement account (IRA) – A retirement savings vehicle for individual workers. Traditional IRAs allow tax-deductible contributions, with earnings tax-deferred until withdrawal, subject to minimum distribution rules; contributions to Roth IRAs are made with after-tax funds, and withdrawals are tax-free.

inflation-indexed Treasury bond – A U.S. government security that increases the payments of interest and principal in proportion to the Consumer Price Index (CPI).

installment refund annuity – A type of refund annuity under which the refund is payable in a series of periodic payments. See refund annuity and cash refund annuity.

joint annuitant – The annuitant's spouse or other individual named to receive survivor annuity payments after the death of the annuitant.

joint and survivor annuity – An annuity that provides a series of payments to two or more individuals as long as one of them survives.

liability – Amounts owed by an individual or other entity.

life annuity – A series of payments that are made at regular intervals as long as a named individual, the annuitant, is then alive. Also known as a straight life annuity.

life annuity with period certain – A life annuity which promises that if the annuitant dies before the end of a designated period (usually 5, 10, or 20 years), the insurer will continue payments until the end of the designated period. Also called a life income with period certain annuity.

life expectancy – The average remaining years of lifetime for a group of people based on a specified mortality table or experience study.

life income with refund annuity – An annuity that pays benefits throughout the annuitant's lifetime and guarantees that total benefit payments will at least equal the purchase price of the annuity.

life insurance – Insurance which promises to pay a specified amount of money upon the death of the insured.

long-term care (LTC) insurance – Coverage available on an individual or group basis to provide medical and other services to patients who need constant care in their own home or in a nursing home.

lump-sum distribution – A single-sum payment to a participant retiring or terminating employment in a pension or employee benefit plan.

maturity date – The date on which a bond, mortgage, loan, or other debt security is due to be repaid.

Medicaid – A joint federal-state health insurance program that is run b y the states, with eligibility limited to low-income or disabled people.

Medicare – A federally sponsored health insurance program of hospital insurance (Part A) and supplementary medical insurance (Part B), primarily for individuals aged 65 and older.

Medicare supplement (Medigap) insurance – Medical expense coverage that pays for certain expenses not covered under Medicare.

Medicare supplement (Medigap) insurance– The cost of the insurance protection element of a variable annuity contract.

mortgage – A loan made to finance the purchase of real estate, which serves as the collateral for the loan.

mutual fund – An investment company that pools funds from individuals to by securities to meet stated investment objectives.

net worth – Assets possessed by an individual or company in excess of liabilities.

no-load funds – Mutual funds that do not charge any sales load.

Pension Benefit Guaranty Corporation (PBGC) – The U.S. government agency that insures benefits in defined benefit pension plans.

pension plan – A plan set up by one or more employers to pay retirement benefits to employees. See defined benefit plan, defined contribution plan.

period certain – The stated period for which the insurer guarantees to make benefit payments under an annuity contract.

portfolio – A diversified pool of investments typically comprising stocks, bonds, or money-market instruments.

pre-existing condition – A physical or mental condition that was known to exist before a health insurance policy was issued; many policies specifically exclude certain pre-existing conditions from coverage.

premium – The fee paid to an insurance company in exchange for protection against a specified risk (for an insurance policy); the amount by which the sale price of a bond exceeds its face value.

qualified joint and survivor annuity – A form of annuity which provides for pension benefits from a qualified plan to continue to the spouse after a retired participant's death. The spouse's benefits are payable for life unless the participant (with consent of the spouse) has elected to forego it, and must be between 50 and 100 percent of the original benefits.

qualified plan – A pension plan or employee-benefit plan which meets a series of IRS requirements and is therefore eligible for income tax deferral.

qualified savings plan – A defined contribution plan with certain tax advantages offered by an employer or other plan sponsor to let employees invest for retirement or other needs. Many savings plans feature employer matching of employee contributions, with plan participation voluntary. Also known as a thrift savings plan, 401(k) plan, 403(b) plan, 457 plan, cash-or-deferred arrangement, tax-deferred annuity plan, or tax-sheltered annuity plan.

real estate – Property such as unimproved land, a home with surrounding property, or other larger investments in property.

real estate investment trust (REIT) – A pool of real properties marketed to individual investors, similar to a closed-end mutual fund.

refund annuity – A life annuity contract that guarantees total benefit payments will at least equal the purchase price of the annuity. See also cash refund annuity and installment refund annuity.

required minimum distribution – An amount that must be paid annually from a qualified plan or IRA to an individual who has reached age 70 ½ to comply with IRS rules.

reverse mortgage – A contract with a financial institution that allows a homeowner to get retirement income by borrowing against the equity in the home, with no repayment needed while the individual lives in the home.

risk – The possibility that an investment will lose or not gain value; also refers to a peril covered by an insurance contract.

rollover – The tax-free transfer of an account balance between an individual retirement account and a qualified retirement plan or another individual retirement account.

rollover IRA – A type of individual retirement account usually funded with money transferred from a former employee's company-sponsored retirement plan account. Investment earnings continue to grow tax-deferred until benefits are distributed.

sales charge – A transaction fee or commission paid for the purchase of an investment, such as a mutual fund.

securities – Investment instruments such as stocks or bonds issued by corporations, governmental units, or other entities that offer investors ownership shares or creditor relationships.

Social Security – A U.S. government program that provides retirement, survivors, and disability income benefits for eligible workers and their families. Formally known as Federal Old-Age and Survivors Insurance and Disability Insurance or OASDI.

surrender value – The amount that an insurance policyholder is entitled to receive when he or she discontinues coverage.

survivor benefits – Income payable to a beneficiary or beneficiaries from an annuity or insurance policy when the policyholder and/or insured dies; Social Security income payable to the family of a deceased worker.

tax deferral – The postponement of taxes on the earnings or growth related to certain favored investments until the earnings are withdrawn.

term insurance – Life insurance that provides protection for a specific period of time and does not accrue any cash value; term insurance is the least expensive and simplest form of life insurance.

Treasury bills, notes, and bonds – Federal government-backed debt securities; bills range in maturity from 3 months to one year; notes mature in one to 10 years; bonds mature in 10 to 30 years.

underwriting – The process whereby insurers identify and quantify the amount of risk posed by an applicant for an insurance policy; the process whereby investment bankers arrange to distribute newly issues securities to the public.

unisex annuity rate – An annuity rate that is the same for men and women, as required by federal law governing benefits under public and private employee benefit plans. On the average, women tend to live longer than men and thus pay more than men for an annuity issued outside such a plan.

U.S. Savings Bonds – Registered, nontransferable securities issued by the U.S. government in amounts up to $10,000.

value fund (or value stocks) – A fund that invests in stocks with prices that are below average in relation to their current earnings because they are considered to have below-average growth prospects.

variable annuity – An annuity under which monthly payments vary depending upon the value of the underlying investments, usually common stocks.

vesting – The right of an employee, earned over a specific period of time, to receive some retirement benefit, whether or not he or she remains with the employer.

whole life insurance – Individual life insurance protection which pays benefits to a beneficiary or beneficiaries when the insured dies; a savings amount, called the cash value, builds over time and can be used to accumulate wealth (and is available for loans).

will – A legal document whereby an individual declares his or her wishes regarding the disposal of personal property after death; may be changed by the individual at any time before death.

Glossary of Financial terms, compiled by The Actuarial Foundation and The Women's Institute for a Secure Retirement (WISER)