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A glossary of financial terms

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This glossary contains terms related to retirement investing and your employer-sponsored retirement plan.

To determine if your retirement savings are on track to meet your future needs or for more information about your retirement plan, call your financial advisor.

401(a) plan, 403(a) plan

Tax-qualified retirement plans sponsored by a business or organization for its employees. Contributions are generally pretax and the earnings grow tax deferred. In most cases, income taxes are payable upon withdrawal. Federal restrictions and a 10% federal early withdrawal penalty can apply to withdrawals taken prior to age 59½.

401(k) plan

A defined contribution plan offered by a business or organization to its employees that allows employees to set aside tax-deferred contributions for retirement purposes. Many 401(k) plans also allow after-tax Roth contributions where withdrawals of earnings are tax-free if certain conditions are met. In some cases employers will match their employees' contributions up to a certain percentage or dollar amount. In most cases, income taxes are payable upon withdrawal. Federal restrictions and a 10% federal early withdrawal penalty can apply to withdrawals taken prior to age 59½.

403(b) plan

A tax-deferred defined contribution plan for employees of public schools and certain tax-exempt organizations. Contributions are generally pretax and the earnings grow tax deferred. Some 403(b) plans provide for after-tax Roth contributions that allow tax-free withdrawal of earnings if certain conditions are met. In some cases employers will match their employees' contributions up to a certain percentage or dollar amount. In most cases, income taxes are payable upon withdrawal. Federal restrictions and a 10% federal early withdrawal penalty can apply to withdrawals taken prior to age 59½.

457(b) governmental plan

A tax-deferred deferred compensation plan for employees of state and local government institutions, including public schools. Income taxes are payable upon withdrawal. Federal restrictions can apply to withdrawals prior to age 70½.

Account maintenance fee

A fee a financial provider charges for administrative expenses, including the expense for establishing and maintaining the variable account option.

Annuity

A contract between an individual and an insurance company that provides for fixed or variable periodic payments to the individual or designated beneficiary in return for an investment. Typically, an annuity agrees to provide payments to the annuitant beginning at some future date. The payments may continue for the lifetime of the annuitant or for an agreed-upon term of years. Many annuities include guaranteed death benefits.

Asset allocation/mix

The apportioning of investment dollars among various asset classes such as short-term reserves, bonds and stocks. Also known as investment mix.

Asset class
Major categories of financial securities. The three major asset classes are cash investments (also called short-term reserves or money market instruments), bonds and stocks.

Asset management fee
Fees charged by an investment advisor to manage the assets in a plan.

Beneficiary
A person designated to receive the income or other benefits from a will, insurance policy, retirement plan, annuity contract, trust, etc., in the event of the owner's death.

Capital gain/loss
The difference between the sale price of an asset — such as a mutual fund, stock or bond — and the original cost of the asset.

Capital gains (in a mutual fund)
Payments made to mutual fund shareholders that come from the profits a fund makes on the sale of its securities. Such payments are typically reinvested in the shareholders' accounts.

Catch-up contribution
An additional amount over basic Internal Revenue Code contribution limits that participants age 50 or older may contribute to eligible retirement plans. Service-based catch-up contributions can also be made to certain 403(b) plans and 457(b) plans.

Compounding

The accrual of interest earned on an investment and its reinvested earnings.

Contingent deferred sales charge

Also called “back-end load” or “redemption fee.” The sales charge or commission that might be paid when selling or taking funds out of an investment such as a mutual fund or annuity.

Contribution allocation/mix change

Changing how the participant’s future payroll deductions are divided among the plans’ investment options such as stocks, bonds and short-term reserves. This action affects only future payroll deductions. It does not affect money already deposited in the participant’s account.

Death benefit

The payment made to a beneficiary from an annuity policy when the policyholder dies. Also called a survivor benefit.

Deferred annuity

An annuity in which payments to the annuitant are to begin either at a stated number of years in the future or when the annuitant reaches a certain age. During the accumulation period, the cash values of the annuity generally accumulate on a tax-deferred basis.

Deferred compensation

An arrangement through which an employee's compensation for past or current services is postponed until some future date.

Defined contribution plan

A retirement plan in which employee and/or employer contributions are made to an individual account on the employee's behalf. The amount of the employee's benefit generally equals the accumulated contributions plus earnings the funds produce. Distributions can be taken as retirement income or in a lump-sum payment.

Distributions

Withdrawals from an employer-sponsored retirement plan (or IRA) typically made after the participant leaves the company. These may or may not be initiated by the participant. Plan rules sometimes require full distribution of account balances below a specific minimum amount. Plan rules or the Internal Revenue Code require distributions begin after a certain age.

Employer contribution

Money an employer contributes to a participant's retirement plan account.

Employer matching contribution
One type of contribution in which an employer contributes to a participant's retirement plan account. However, the amount contributed by the company depends on how much the participant contributes, based on a predetermined formula.

ERISA
Employee Retirement Income Security Act of 1974. The federal law that established legal guidelines for private pension plan administration and investment practices.

Fixed annuity
An annuity contract where the insurance company pays a guaranteed fixed rate of return.

Immediate payment annuity
An annuity that is purchased with a single payment and begins to pay out within a short time.

Income/Income dividend
Payment of interest or dividends to mutual fund or variable account shareholders generated by a fund's investments. These are reinvested in the shareholders' accounts.

Inflation

A condition in which there is an increase in the amount of cash or credit available as compared to goods and services, resulting in higher prices and a decrease in the purchasing power of money. In the United States, the rate of inflation is measured by the Consumer Price Index.

In-service withdrawal

A withdrawal from an employer-sponsored retirement plan while the participant is still employed by the company.

IRA — Individual Retirement Arrangement

A personal investment account or annuity that may be established by any individual who has earned income. Annual contributions to a traditional IRA may be deductible from gross income in the calculation of federal and state income taxes (subject to applicable federal tax code limits). Income taxes on the earnings are deferred until withdrawal at which time the untaxed contributions and earnings are taxed as ordinary income. IRA funds withdrawn prior to age 59½ may also be subject to a 10% federal early withdrawal penalty on the taxable amount. IRA funds can be invested in stocks, bonds, funds, limited partnership units and annuities. Life insurance, collectibles (other than certain U.S. gold and silver coins) and any investments made on margin are prohibited.

Loan provision
A feature of a retirement plan that allows a participant to take a loan from the plan. Loan amounts are based on the participant's account balance.

Market value adjustment
An adjustment made when withdrawals or transfers are made from certain fixed accounts prior to the end of the guaranteed interest period. The adjustment might be positive or negative, based on the difference in the selected interest rate at the time the guaranteed interest rate was established and at the time of the withdrawal or transfer.

Minimum distribution
The minimum annual required distribution amount from an employer-sponsored retirement plan account or traditional IRA. Distributions from an IRA are required when the owner reaches age 70½. Distributions from an employer-sponsored plan are required when the participant reaches age 70½ or retires from the employer sponsoring the plan, whichever is later. Also called a required minimum distribution (RMD).

Mutual fund
An investment company that pools the money of many shareholders and invests it in a variety of securities in an effort to achieve a specific objective over time.

Portfolio manager
One of the individuals who controls the assets of a mutual fund or variable account. The portfolio manager chooses and monitors investments and allocates funds.

Pretax contributions
Money that is taken from a participant's pay and directed into his or her plan account before any federal taxes are withheld. Making pretax contributions reduces current taxable income so that a participant might pay less in current taxes.

Principal payment
An amount paid in excess of the interest portion of a regularly scheduled loan payment to reduce an outstanding plan loan.

Qualified retirement plan
A plan that meets the qualification requirements set out in detail in Internal Revenue Code Sections 401 and 403(a), and as such, are plans established, operated and supported by employers.

Rate of return
The annual change in value of an investment, expressed as a percentage of the total amount invested. Also called return on investment.

Risk
Generally, the potential to lose money (principal and any earnings) or not make money on an investment. Statistically, the measurable possibility of loss or no gain on an investment expressed as the standard deviation calculated from historical returns.

Rollover
The nontaxable movement of assets from one eligible retirement plan to another, such as from a defined contribution plan to an IRA. A rollover from an employer-sponsored plan requires that the participant has met a distribution event under the plan.

Securities
Stocks, bonds, money market instruments and other investment vehicles.

Separate account
A pooled fund, created by an insurance company, that is segregated from the general funds maintained by the company for the purpose of paying claims. Separate accounts invest in a variety of securities and funds and often contain retirement funds.

Separate account charges

Charges set by the fund company to compensate the company for assuring certain risks such as guaranteeing payments during the payout period; paying interest-guaranteed death benefits; and issuing, administrating and marketing the product.

Surrender charge

A fee imposed for terminating an annuity contract prior to its maturity.

Tax-deferred investment

A description of an investment whose earnings are not taxed until they are distributed to an investor. For example, funds placed in a 401(k) plan are not taxed until withdrawal or when annuity payments begin.

Tax-qualified retirement plan

A retirement plan that is afforded special tax treatment by the IRS. Contributions are generally made on a pretax basis and earnings can accumulate tax deferred.

Transfer

A nontaxable movement of funds between like plans that does not result in any reporting for federal income tax purposes.

Transfer of Value (TOV)

A movement of money between investment options within a retirement plan. A TOV only affects money already in the account. It does not affect future payroll deductions.

Variable annuity

An insurance contract that accepts contributions and provides the investor with a choice among variable-return investment options. It serves as an income vehicle and bases its return and income payments on the performance of the underlying variable-return investments.

Variable investment option

A fund that has a rate of interest that varies with the performance of the funds in the underlying account.

Vesting

A participant's right of ownership to the money in his or her plan account. A participant's contributions and their earnings are always 100% vested; however, employer contributions may become vested over a period of time.

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