Your Financial Future

Retirement Plan Glossary

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Use this handy guide to better understand some retirement and investing terms and phrases.

Annuity
An annuity is a contract for the payment of funds on a regular basis over a fixed period of time for the recipient's lifetime. There are many different types of annuities, some of which offer the continuation of benefits to your beneficiary after your death.

Asset Allocation
Asset allocation is dividing investment funds among different asset categories, such as cash, bond or stock investments.

Bonds
A bond is an interest-bearing or discounted government or corporate security that promises to pay the investor a fixed return, usually within established time periods. The principal amount of the loan is paid at maturity.

Capital Gain/Loss
When an investment is sold, the capital gain or loss is the profit or loss realized by the investor from the cost of acquiring the investment.

Compounding
Compounding is earnings gained on principal plus existing earnings left in an investment. Over time, compounding can make investments grow significantly.

Defined Benefit Plan
Generally, defined benefit plans provide eligible participants with a fixed monthly benefit for life. These benefits are promised by the company providing the plan and insured by a government agency – the Pension Benefit Guaranty Corporation (PBGC).

Defined Contribution Plan
Defined contribution plans, such as 401(k) plans, offer benefits that depend on the amount contributed by the employee/employer and any earnings.

Dollar Cost Averaging
Dollar cost averaging is a strategy of investing a fixed amount in a given investment at regular intervals, regardless of the price. This strategy is intended to reduce risk.

Distribution (from a retirement plan)
A distribution is the payout of funds from a retirement plan according to Internal Revenue Service rules.

Diversification
Diversification is a way of spreading investment risk by putting money in different types of investments.

Fixed Income Investment
A fixed income investment pays a set rate of return usually for a fixed period of time. Bonds and certificates of deposit are two examples.

Growth Investments
Growth investments are designed to earn long-term capital gains rather than generate earnings from current income as a result of dividends or interest. Growth investments tend to be riskier and volatile than other investments.

Inflation
Inflation is the rise in the price of goods and services.

Investment
An investment is an asset purchased with the intent to make money.

Investment Risk
Investment risk is the possibility that an investment will be worth less than it's value when the initial investment was made.

Life Expectancy
Life expectancy is the average number of years a person can expect to live.

Lump Sum Distribution
A lump sum distribution is the payment of all funds accumulated within one taxable year.

Money Market Fund
A money market fund is a mutual fund that invests in short-term debt instruments, such as government securities, and certificates of deposit. Investments in money market funds tend to be safe and liquid.

Mutual Fund
A mutual fund is formed when an investment company pools money from shareholders and invests it. Investments can include stocks, bonds, gold or government securities.

Portfolio
A portfolio is all of the different investments made by a given individual or institution.

Prospectus
A prospectus is a legal document issued by a company as a formal written offer to sell stocks, bonds or other securities to potential investors. A prospectus sets forth the formal business plan and includes facts about the company, its investments and objectives to help potential investors make informed decisions.

Qualified Retirement Plan
A defined benefit or defined contribution retirement plan that receives special tax treatment because it meets certain Internal Revenue Code requirements is also referred to as a qualified retirement plan.

Return
The return is the amount earned relative to the amount invested, typically expressed as a percentage.

Risk Tolerance
Risk tolerance is the degree to which an investor is willing to take risk in the hopes of a certain level of returns.

Rollover
A rollover is the tax-free transfer of funds from one plan to another.

Stock
To own stock in a company means to be a part owner of the company.

Tax-Deferred
Tax-deferred is the postponement of the payment of taxes.

Tax-Free or Tax-Exempt
Tax-free or tax-exempt means taxes are not owed.

Vested
Participants become vested in a plan or gain ownership to some or part of their benefits.

Yield
Yield is the return of an investment, generally expressed as a percentage of the original investment.

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