

Glossary of Investment Terms

Keeping up with the increasing number of investment products and services in the marketplace today can be challenging. This glossary is designed to help you understand some of the more common investment and financial terms you may encounter. If you have additional questions you should contact your financial advisor, who can explain these terms more completely and discuss with you how they might be relevant to your situation.

12b-1 Fee

A fee assessed on certain mutual funds or share classes pursuant to an SEC rule to help cover the costs associated with marketing and selling the fund. If paid in connection with your plan's investments, 12b-1 fees may also be used to cover shareholder servicing expenses.

401(k) Plan

In general, a 401(k) plan is a type of profit sharing retirement plan. It allows you to contribute pre-tax dollars (or after-tax in the case of a Roth 401(k)) and then invest those dollars in the investment options provided for the purpose of saving for retirement. The earnings on your investments in the plan are tax-deferred until retirement. Contributions and withdrawals are subject to certain regulatory restrictions.

403(b) Plan

Also called a tax-sheltered annuity (TSA) plan, a 403(b) is a retirement plan offered by certain tax exempt organizations including public schools and 501(c)(3)s. It allows you to contribute pre-tax dollars (or after-tax in the case of a Roth 403(b)) and then invest those dollars in the investment options provided for the purpose of saving for retirement. The earnings on your investments in the plan are tax-deferred until retirement.

Accrued Benefit

A benefit that a participant has earned (or accrued) through participation in the plan. In a defined contribution plan, the participant's accrued benefit is the balance in his individual account at a given time. In a defined benefit plan, the accrued benefit is determined as specified by the plan.

Active Management

The trading of securities to take advantage of market opportunities as they occur, in contrast to passive management (see below). Active managers rely on research, market forecasts, and their own judgment and experience in selecting securities to buy and sell.

Affiliated Service Group

Two or more related service or management organizations, whether or not incorporated. Employees of the members of an affiliated service group are treated as employed by a single employer for plan qualification purposes.

Aggressive

An investment approach that accepts above-average risk of loss in return for potentially above-average investment returns.

Aggressive Growth Fund

A fund that employs an investment approach that accepts above-average risk of loss in return for potentially above-average investment returns.

Alternate Payee

A spouse, former spouse, child or other dependent of the participant that may be entitled to receive some or all of your benefits under the plan.

AMEX Major Market Index (XMI)

An index that is an average of 20 Blue Chip Industrial Stocks.

Annual Addition

Term used in connection with the limitation on the contributions that may be made for or by a participant under a defined contribution plan. It includes employer and employee contributions, as well as forfeitures that are allocated to a participant, but does not include investment gains (or losses).

Annual Rate of Return

The annual rate of gain or loss on an investment expressed as a percentage.

Annual Report

A yearly report or record of an investment's (e.g., a mutual fund's or company's) financial position and operations.

Annuity Commencement Date

The date set forth in the annuity contract on which annuity payments will start. Also known as the "annuity start date."

Annuity Contract

A form of insurance contract that provides a stream of periodic payments, typically for life or a specified period. Annuities are available in a variety of forms. See also Life Annuity, Joint and Last Survivor Annuity.

Annuity Payments

A series of periodic payments, usually level in amount or adjusted according to some index (e.g., cost-of-living) that continues for the lifetime of the recipient. In contrast, an installment payment is one of a specific number of payments that will be paid whether or not the recipient lives to receive them. See also Joint and Survivor Annuity.

Appreciation

An increase in the value of an investment.

Asset

Anything with commercial or exchange value owned by a business, institution or individual. Examples include cash, real estate and investments.

Asset Allocation

A method of investing by which investors include a range of different investment classes such as stocks, bonds, and cash alternatives or equivalents in their portfolios. See Diversification.

Asset Class

A group of securities or investments that have similar characteristics and behave similarly in the marketplace. Three common asset classes are equities (e.g., stocks), fixed income (e.g., bonds), and cash alternatives or equivalents (e.g., money market funds).

Average Annual Total Return

The yearly average percentage increase or decrease in an investment's value that includes dividends, gains, and changes in share price

Back-end Load

A fee imposed by some funds when shares are redeemed (sold back to the fund) during the first few years of ownership. Also called a contingent deferred sales charge (CDSC).

Balanced Fund

A fund with an investment objective of both long-term growth and income, through investment in both stocks and bonds.

Barclay's Capital U.S. Aggregate Bond Index

A common index widely used to measure performance of U.S. bond funds.

Basis Point

One-hundredth of one percent, or 0.01%. For example, 20 basis points equal 0.20%. Investment expenses, interest rates, and yield differences among bonds are often expressed in basis points.

Benchmark

An unmanaged group of securities whose performance is used as a standard to measure investment performance. Some well-known benchmarks are the Dow Jones Industrial Average and the S&P 500 Index.

Beneficiary

A person or persons designated by a participant or the terms of the plan who is or may be eligible for benefits under the plan if the participant dies.

Bond

A debt security which represents the borrowing of money by a corporation, government, or other entity. The borrowing institution repays the amount of the loan plus a percentage as interest. Income funds generally invest in bonds.

Bond Fund

A fund that invests primarily in bonds and other debt instruments.

Bond Rating

A rating or grade that is intended to indicate the credit quality of a bond, considering the financial strength of its issuer and the likelihood that it will repay the debt. Agencies such as Standard & Poor's, Moody's Investors Service, and Fitch issue ratings for different bonds, ranging from AAA (highly unlikely to default) to D (in default).

Broker

A person who acts as an intermediary between the buyer and seller of a security, insurance product, or mutual fund, often paid by commission. The terms broker, broker/dealer, and dealer are sometimes used interchangeably.

Brokerage Window

A plan feature that permits participants to open an account with a brokerage firm to purchase investments for their plan account that are not included among the plan's general menu of designated investment alternatives. Also known as a self-directed brokerage account (SDBA).

Capital Appreciation Fund

An investment fund that seeks growth in share prices by investing primarily in stocks whose share prices are expected to rise.

Capital Gain

An increase in the value of an investment, calculated by the difference between the net purchase price and the net sale price.

Capital Loss

The loss in the value of an investment, calculated by the difference between the net purchase price and the net sale price.

Capital Preservation

An investment goal or objective to keep the original investment amount (the principal) from decreasing in value.

Capitalization (Cap)

The total market value of a company's outstanding equity (see Market Capitalization or Market Cap).

Cash Alternative or Cash Equivalent

An investment that is short term, highly liquid, and has high credit quality.

Cash Refund Annuity

An annuity that makes periodic payments for the life of an individual and a benefit payable to a beneficiary upon death equal to the premium(s) paid less payments made to the individual.

Closely Held Corporation

A nonpublic corporation that is owned by a small number of shareholders.

Collective Investment Fund

An investment created by a bank or trust company for employee benefit plans, such as 401(k) plans, that pool the assets of multiple retirement plans for investment purposes. They are governed by rules and regulations that apply to banks and trust companies and are generally not registered with the SEC. These funds are also referred to as collective or commingled trusts.

Collectively Bargained Plan

A plan that provides retirement benefits under a collective bargaining agreement. Generally, if more than one employer is required to contribute to the collectively bargained plan, the plan is treated as a multiemployer plan and is subject to special rules.

Commission

Compensation paid to a broker or other salesperson for his or her role when investments are bought or sold.

Common Stock

A security representing a share of ownership in a corporation.

Common/Collective Trust

An investment trust maintained by a bank, trust company, or similar institution that is regulated, supervised, and subject to periodic examination by a state or federal agency for the collective investment and reinvestment of assets contributed thereto from employee benefit plans.

Commonly Controlled Businesses

All employees of corporations that are members of a controlled group of corporations are treated as employed by a single employer for purposes of plan qualification. A comparable requirement applies to partnerships, sole proprietorships and other businesses under common control. See also Controlled Group of Corporations.

Company Stock Fund

A fund that invests primarily in employer securities that may also maintain a cash position for liquidity purposes.

Competing Funds

An investment fund that is identified by the investment manager of another fund and which is subject to special rules relating to an investor's ability to buy and sell investments between the two funds. See Equity Wash Restriction.

Compounding

The cumulative effect that reinvesting an investment's earnings can have by generating additional earnings of their own.

Conservative

An investment approach that accepts lower rewards in return for potentially lower risks.

Contingent Deferred Sales Charge (CDSC)

A fee imposed when shares of a mutual fund or a variable annuity contract are redeemed (sold) during the first few years of ownership. Also called a back-end load.

Controlled Group of Corporations

The three types of controlled groups are (1) the parent-subsidary controlled group, (2) the brother-sister controlled group and (3) the combined group. All employees of the corporations that are members of a controlled group of corporations are treated as employed by a single employer for plan qualification purposes.

Corporate Bond

A bond issued by a corporation, rather than by a government. The credit risk for a corporate bond is based on the re-payment ability of the company that issued the bond.

Corporation

An entity formed by business associates to conduct a business venture and divide profits among investors. It files a charter or articles of incorporation in a state, draws up bylaws, issues stock, and has its affairs managed by a board of directors.

Credit Risk

The risk that a bond issuer will default, meaning not repay principal or interest to the investor as promised. Credit risk is also known as "default risk."

Cross-tested Plans

A defined contribution plan tested to ensure that it does not discriminate in favor of highly-compensated employees on a benefits basis or, conversely, a defined benefit plan tested to ensure that it does not discriminate on a contribution basis. Also may be referred to as a "New Comparability" plan.

Current Yield

The current rate of return of an investment calculated by dividing its expected income payments by its current market price.

Custodian

A person or entity (e.g., bank, trust company, or other organization) responsible for holding financial assets.

Death Benefits

Payments to a beneficiary of a deceased participant that may be provided under a qualified plan.

Debenture

A type of bond issued by a corporation or governmental agency. It is an unsecured bond that is backed only by the full faith and credit of the issuer.

Deferred Annuity

An annuity contract under which periodic income payments begin at a future date. See Annuity Commencement Date.

Defined Benefit Plan

A plan designed to provide participants with a definite benefit at retirement (e.g., a monthly benefit of 50 percent of final average compensation upon reaching age 65). Contributions under the plan are determined by reference to the benefits provided.

Defined Contribution Plan

A plan that provides an individual account for each participant and in which benefits to the participant or the beneficiaries are based solely upon the amount contributed to the account (plus or minus any income, expenses, gain, and losses allocated to the account).

Deflation

The opposite of inflation - a decline in the prices of goods and services.

Depreciation

A decrease in the value of an investment.

Designated Investment Alternative

The investment options picked by your plan into which participants can direct the investment of their plan accounts.

Designated Roth Account

A separate account in a 401(k) or 403(b) plan to which an employer allocates an employee's designated Roth contributions and their gains and losses. The employer must separately account for all contributions, gains and losses to this designated Roth account until this account balance is completely distributed.

Designated Roth Contribution

A type of elective deferral that an employee can make to a §401(k) or 403(b) plan. With a designated Roth contribution, the employee irrevocably designates the deferral as an after-tax contribution that the employer must deposit into a designated Roth account. The employer includes the amount of the designated Roth contribution deferral in the employee's gross income at the time the employee would

have otherwise received the amount in cash if the employee had not made the election. It is subject to all applicable wage-withholding requirements. The law does not allow designated Roth contributions in SARSEP or SIMPLE IRA plans.

Direct Rollover

A distribution made in the form of a direct trustee-to-trustee transfer from a qualified retirement plan to an eligible retirement plan.

Discrimination

A situation in which a plan, through its provisions or through its operations, favors highly compensated employees to the detriment of other employees.

Disqualification

A loss of qualified (tax-favored) status by a plan, generally resulting from operation of the plan in a manner that is contrary to the provisions of the plan or that discriminates against rank-and-file employees.

Diversification

The practice of investing in multiple asset classes and securities with different risk characteristics to reduce the risk associated with owning any single asset class or investment.

Dividend

Money an investment fund or company pays to its stockholders, typically from profits. The amount is usually expressed on a per-share basis.

Dividend Reinvestment

A feature by which income, dividends, and/or capital gains distributions are automatically used to buy additional shares of the mutual fund or other security that they were issued for.

Domestic Relations Order (DRO)

A state court judgment decree or order (including approval of a property settlement agreement) which relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of a plan participant. (Compare "Qualified Domestic Relations Order").

Dow Jones Industrial Average (Dow or DJIA)

A widely followed price-weighted index of 30 of the largest, most widely held U.S. stocks.

Early Retirement Date

The date at which a participant can receive a distribution from the plan if they decided to retire prior to attaining the plan's normal retirement age and the plan allows for it.

Elective Deferral

A contribution to a cash or deferred arrangement made pursuant to an employee's election to have the contribution made to their plan account in lieu of receiving cash.

Eligible Rollover Distribution

A distribution from a qualified retirement plan that may be rolled over to an eligible retirement plan or IRA.

Emerging Market

Generally, economies that are in the process of growth and industrialization, such as in Africa, Asia, Eastern Europe, the Far East, Latin America, and the Middle East which, while relatively undeveloped, may hold significant growth potential in the future. Investing in these economies may provide significant rewards, and significant risks. May also be called developing markets.

Emerging Market Fund

A fund that invests primarily in emerging market countries.

Employee Stock Ownership Plan (ESOP)

A profit sharing, stock bonus, or money purchase pension plan, the funds of which must be invested primarily in employer company stock. Unlike other plans, an ESOP may borrow from the employer or use the employer's credit to acquire company stock.

Employer Securities

Securities issued by the sponsoring employer of a retirement plan that may be used as a plan investment option.

Equity Fund

A fund that invests primarily in equities (see definition below).

Equity Wash Restriction

A provision in certain stable value or fixed income products under which transfers made from the stable value or fixed income product are required to be directed to an equity fund or other non-competing investment option of the plan for a stated period of time (usually 90 days) before those funds may be invested in any other plan-provided competing fixed income fund (such as a money market fund).

Equity/Equities

A security or investment representing ownership in a corporation, unlike a bond, which represents a debt owed to the investor by the corporation. Often used interchangeably with “stock.”

Exchange Traded Fund (ETF)

An investment company, such as a mutual fund, whose shares are traded throughout the day on stock exchanges. While the net-asset value (NAV – see definition below) of an ETF is calculated daily, ETFs may trade throughout the day at a premium (above) or a discount (below) their NAV depending on the market.

Exclusive Benefit Rule

The rule that plan fiduciaries must discharge their duties solely in the interest of participants and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries and paying administrative expenses of the plan.

Expense Ratio

A measure of what it costs to operate an investment, expressed as a percentage of its assets or in basis points. These are costs the investor pays through a reduction in the investment's rate of return. See Operating Expenses and Total Annual Operating Expenses.

Fair Market Value

The price at which an asset or service passes from a willing seller to a willing buyer. It is assumed that both buyer and seller are rational and have a reasonable knowledge of the relevant facts.

Federal Deposit Insurance Corporation (FDIC)

A federal agency that insures money on deposit in member banks and thrift institutions.

Federal Truth in Lending Act

Act that applies to any plan that has more than 25 loans in total during a calendar year. This act requires the Trustee to provide additional paperwork to a participant taking a loan.

Fiduciary

Any person (individual or corporation) who exercises discretionary authority or control over the management of a plan or its assets.

Financial Accounting Standards Board (FASB)

A private (non-governmental) organization that is responsible for determining uniform standards for treatment of accounting items in the United States. For example, FASB 87 refers to the statement issued by FASB regarding employers' accounting for pension liabilities.

Financial Industry Regulatory Authority (FINRA)

A self-regulatory organization for brokerage firms doing business in the United States. FINRA operates under the supervision of the SEC. The organization's objectives are to protect investors and ensure market integrity.

Financial Statements

The written record of the financial status of a fund or company usually published in the annual report. The financial statements generally include a balance sheet, income statement, and other financial statements and disclosures.

Fiscal Year

A 12-month period used for accounting purposes.

Fixed Annuity

An annuity contract in which the insurance company makes fixed or guaranteed payments to an individual for the term of the contract.

Fixed Income Fund

A fund that invests primarily in bonds and other fixed-income securities, often to provide shareholders with current income.

Fixed Return Investment

An investment that provides a specific rate of return to the investor.

Forfeiture

Benefits that a participant loses if he or she terminates employment before becoming eligible for full retirement benefits under the plan.

Front-end Load

A sales charge on mutual funds or annuities assessed at the time of purchase to cover selling costs.

Fund Family

A group or "complex" of mutual funds, each typically with its own investment objective, and managed and distributed by the same company. A Fund Family also could refer to a group of collective investment funds or managed portfolios distributed by the same company.

Fund of Funds

A mutual fund, collective investment fund or other pooled investment that invests primarily in other mutual funds, collective investment funds or pooled investments rather than investing directly in individual securities (such as stocks, bonds or money market securities).

Ginnie Mae (GNMA)

A quasi-governmental agency carrying the full faith and credit of the U.S. government, which purchases mortgages from the original mortgage lenders.

Glide Path

The change over time in a Target Date Fund's asset allocation mix to shift away from a focus on growth and toward a focus on income.

Global Fund

A fund that invests primarily in securities anywhere in the world, including the United States.

Government Securities

Any debt obligation issued by a government or its agencies (e.g. Treasury Bills issued by the United States).

Group Annuity Contract

An annuity contract entered into between an insurance company and an owner for the benefit of a designated group, such as retirement plan participants.

Growth and Income Fund

A fund that has a dual strategy of growth or capital appreciation and current income generation through dividends or interest payments.

Growth Fund

A fund that invests primarily in the stocks of companies with above-average risk in return for potentially above-average gains. These companies often pay small or no dividends and their stock prices tend to have the most ups and downs from day to day.

Guaranteed Interest Account

An account within a fixed annuity or a variable annuity that is guaranteed by an insurance company to earn at least a minimum rate of interest while invested in the contract.

Guaranteed Investment Contract

A contract issued by an insurance company that guarantees a specific rate of return on an investment over a certain time period.

Guaranteed Lifetime Withdrawal Benefit or Guaranteed Minimum Withdrawal Benefit

A feature that may be offered under an annuity contract in which the insurance company promises an individual may withdraw a specified amount from an account, even if the account balance is reduced to zero: (1) for the life of the individual, or the joint lives of two individuals (e.g., the individual and spouse); or (2) for a specified period of time.

Hardship Withdrawal

A withdrawal that is requested by a participant while they are still participating in the plan to satisfy "an immediate and heavy financial need" of the participant, their spouse, their dependent, or in some cases, the participant's non-spouse, non-dependent beneficiary. The amount requested must not be greater than the amount necessary to satisfy the financial need. However, the amount required to satisfy the financial need may include amounts necessary to pay any taxes or penalties that may result from the distribution. The participant must demonstrate that they have exhausted all other available assets including distributions and loans under the plan and all other plans maintained by the employer. To be characterized as immediate and heavy depends on the facts and circumstances. However, there are certain expenses explicitly deemed to be immediate and heavy, including: (1) certain medical expenses; (2) costs relating to the purchase of a principal residence; (3) tuition and related educational fees and expenses; (4) payments necessary to prevent eviction from, or foreclosure on, a principal residence; (5) burial or funeral expenses; and (6) certain expenses for the repair of damage to the participant's principal residence, including assets of the employee's spouse and minor children. After receiving a hardship withdrawal, the participant is prohibited from making elective contributions to the plan and all other plans maintained by the employer for at least 6 months after receipt of the hardship distribution.

Immediate Annuity

An annuity contract under which periodic income payments begin within 12 months of purchase.

Inception Date

The date that a fund began operations.

Income Fund

A fund that primarily seeks current income rather than capital appreciation.

Index

A benchmark against which to evaluate a fund's performance. The most common indexes for stock funds are the Dow Jones Industrial Average and the Standard & Poor's 500 Index.

Index Fund

An investment fund that seeks to parallel the performance of a particular stock market or bond market index. Index funds are often referred to as passively managed investments.

Individual Annuity Contract

An annuity contract generally entered into between an insurance company and a person or persons.

Individual Retirement Arrangement (IRA)

A type of retirement account that permits individuals to make contributions, up to specific limits, to an investment account. The earnings grow tax-deferred and the contributions may be tax-deductible.

Inflation

The overall general upward price movement of goods and services in an economy. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their savings.

In-Service Withdrawal

A withdrawal of vested money from a qualified plan to an employee who is still actively employed.

Integrated Plan

A plan that takes into account either benefits or contributions made under Social Security.

Interest Rate Risk

The possibility that a bond's or bond fund's market value will decrease due to rising interest rates. When interest rates (and bond yields) go up, bond prices usually go down and vice versa.

Interest/Interest Rate

The fee charged by a lender to a borrower, usually expressed as an annual percentage of the principal. For example, someone investing in bonds will receive interest payments from the bond's issuer.

International Fund

A fund that invests primarily in the securities of companies located, or with revenues derived from, outside of the United States.

Investment Advisor

A person or organization hired by an investment fund, a retirement plan sponsor or an individual to give professional advice on investments and asset management practices.

Investment Company

A corporation or trust that invests pooled shareholder dollars in securities appropriate to the organization's objective. The most common type of investment company, commonly called a mutual fund, stands ready to buy back (or "redeem") its shares at their current net asset value.

Investment Manager

A person or organization who manages and controls the investment of all or a portion of the assets of a fund or a plan. The investment manager of a plan may be responsible for selecting, monitoring, evaluating, and, if appropriate, replacing a plan's investment options.

Investment Objective

The goal that an investment fund or investor seeks to achieve (e.g., growth or income).

Investment Return

The gain or loss on an investment over a certain period, expressed as a percentage. Income and capital gains or losses are included in calculating the investment return.

Investment Risk

The possibility of losing some or all of the amounts invested or not gaining value in an investment.

Joint and Last Survivor Annuity

An annuity that provides periodic payments for the joint lives of two individuals with benefits payable upon the death of one individual to the surviving individual at, for example, 50%, 75% or 100% of the original payment amount depending upon the terms of the contract.

Keogh Plan

A qualified retirement plan, either a defined contribution plan or a defined benefit plan, that covers a self-employed person and his or her employees.

Large Cap Fund

A fund that invests primarily in large cap stocks.

Large Cap Stocks

Stocks of companies with a large market capitalization. Large caps tend to be well-established companies, so their stocks typically entail less risk than smaller caps, but large-caps generally offer less potential for dramatic growth.

Large Capitalization (Cap)

A reference to either a large company stock or an investment fund that invests in the stocks of large companies.

Life Annuity

An annuity that makes periodic payments only for the life of one individual. Also known as “single life annuity.”

Lifecycle Fund

A fund designed to provide varying degrees of long-term appreciation and capital preservation based on an investor’s age or target retirement date through a mix of asset classes. The mix changes over time to become less focused on growth and more focused on income. The principal value of the investment in a lifecycle or target-date portfolio is not guaranteed at any time, including at the target date. Also known as “target date retirement” or “age-based” funds.

Lifestyle Fund

A fund that maintains a predetermined risk level and generally uses words such as “conservative,” “moderate,” or “aggressive” in its name to indicate the fund’s risk level. Used interchangeably with “target risk fund.”

Lipper

A leading mutual fund research and tracking firm. Lipper categorizes funds by objective and size, and then ranks fund performance within those categories.

Liquid Investment

An investment that can be converted easily and without penalty into cash.

Liquidity

The ease with which an investment can be converted into cash. If a security is very liquid, it can be bought or sold easily. If a security is not liquid, it may take additional time and/or a lower price to sell it.

Load

A sales charge assessed on certain investments to cover selling costs. A front-end load is charged at the time of purchase. A back-end load is charged at the time of sale or redemption.

Longevity Risk

The risk that you will live longer than expected with the potential result that you will outlive the ability of your investments to provide you with income.

Management Fee

A fee or charge paid to an investment manager for their services.

Mandatory Employee Contributions

Contributions made by an employee in order to become eligible to participate under a plan.

Market Capitalization or Market Cap

The market value of a company. Market capitalization can be determined by multiplying the number of outstanding shares of a company's stock by the stock's current market price per share.

Market Price

The latest price of a security (or other asset) in the market where the security (or other asset) is traded.

Market Risk

The possibility that the value of an investment will fall because of a general decline in the financial markets.

Maturity Date

The date on which the principal amount of a loan, bond, or any other debt becomes due and is to be paid in full.

Mid Cap Fund

A fund that invests primarily in mid-cap stocks.

Mid Cap Stocks

Stocks of companies with a medium market capitalization. Mid caps are often considered to offer more growth potential than larger caps (but less than small caps) and less risk than small caps (but more than large caps).

Mid Capitalization (Cap)

A reference to either a medium sized company stock or an investment fund that invests in the stocks of medium-sized companies.

Minimum Funding

The minimum amount an employer must contribute to adequately fund a defined benefit, money purchase, or target benefit pension plan.

Minimum Funding Standard Account

An account that is maintained for a defined benefit, money purchase, or target benefit pension plan for purposes of keeping track of the plan's liabilities and credits. If the account shows a deficiency (excess of liabilities over credits), an excise tax is imposed on that amount.

Money Market Fund

A mutual fund that invests in short-term, high-grade fixed-income securities, and seeks the highest level of income consistent with preservation of capital. Although Money Market Funds generally seek to maintain a stable share price of \$1.00 per share, it is possible for the share price to drop below that level).

Money Purchase Pension Plan

A defined contribution plan under which the employer is subject to minimum funding requirements. Contributions are usually based on each participant's compensation. Retirement benefits under the plan are based on the amount in the participant's individual account at retirement.

Morningstar

A leading mutual fund research and tracking firm. Morningstar categorizes funds by objective and size, and then ranks fund performance within those categories.

MSCI EAFE Index

An index known by an acronym for the Europe, Australasia, and Far East markets produced by Morgan Stanley Capital International (MSCI). Markets are represented in the index according to their approximate share of world market capitalization. The index is a widely used benchmark for managers of international stock fund portfolios.

MSCI World Index

An index of major world stock markets, including the United States. The index is a widely used benchmark for managers of global stock fund portfolios.

Multiple Employer Plan

A single plan in which more than one employer participates. Participating plans in a multiple employer plan may be unrelated, or may be related through their participation in an industry or trade association or a professional employer organization.

Municipal Bond

A bond issued by a state or local government. The interest is usually exempt from federal income tax.

Mutual Fund

An investment company registered with the SEC that buys a portfolio of securities selected by a professional investment advisor to meet a specified financial goal (investment objective). Mutual funds can have actively managed portfolios, where a professional investment advisor creates a unique mix of investments to meet a particular investment objective, or passively managed portfolios, in which the advisor seeks to parallel the performance of a selected benchmark or index.

Named Fiduciary

A fiduciary that is named in the plan instrument or identified through a procedure set forth in the plan. One of the distinguishing features of the named fiduciary is that he or she has the authority to designate others to carry out fiduciary responsibilities (e.g., invest the plan funds).

NASDAQ

The National Association of Securities Dealers Automated Quotations is a licensed national securities exchange. NASDAQ was started in 1971 as the first electronic stock market. The NASDAQ composite index measures the performance of more than 5,000 U.S. and non-U.S. companies traded “over the counter” through NASDAQ.

Net Asset Value (NAV)

The net dollar value of a single investment fund share or unit that is calculated by the fund on a daily basis. NAV is calculated by taking the current market value of the fund's net assets (the underlying investments held by the fund minus any liabilities) and dividing by the number of shares outstanding.

New York Stock Exchange (NYSE)

The oldest and largest stock exchange in the United States, founded in 1792.

No-Load Fund

A mutual fund whose shares are sold without a sales commission and which does not charge a combined 12b-1 fee and service fee of more than 25 basis points or 0.25% per year.

Nonforfeitable Benefits

Benefits that cannot be lost by a participant even if he terminates service with the employer before qualifying for retirement. The nonforfeitable percentage is determined by applying the years of service, as defined by the plan, to the vesting schedule used by the plan. The nonforfeitable benefit is determined by multiplying the benefit by the nonforfeitable percentage.

Old Age, Survivors, and Disability Insurance (OASDI)

OASDI is a federal social insurance program funded through a payroll taxes imposed on employers under the Federal Insurance Contributions Tax Act ("FICA"), commonly known as "Social Security payroll taxes." The taxes collected under FICA also include Medicare taxes.

Operating Expenses

The expenses associated with running or operating an investment fund. Operating expenses may include custody fees, management fees, and transfer agent fees. See Expense Ratio and Total Annual Operating Expenses.

Owner-Employee

A sole proprietor of a proprietorship or a partner of a partnership who owns more than 10 percent of either the capital interest or more than 10 percent of the profits interest in a partnership.

Party-in-Interest

An ERISA term used in applying the prohibited transaction rules. The following individuals are parties-in-interest with respect to a plan: 1. Any plan fiduciary; 2. A person providing services to the plan; 3. An employer that has employees covered by the plan; 4. An owner, direct or indirect, of 50 percent or more of the voting power, capital interest or profits interest of an employer; 5. Members of the family of any person listed above; 6. An employee organization, any of whose members are covered by the plan; 7. A corporation, partnership, estate or trust that is 50 percent (or more) owned by a person listed above; 8. Officers, directors, 10 percent-or-more shareholders and employees of the employer or employee organization; 9. A 10 percent-or-more partner or joint venture with one of the people listed in some, but not all, of the categories above. 10. Counsel to a plan. 11. An employee of the plan.

Passive Management

The process or approach to operating or managing a fund in a passive or non-active manner, typically with the goal of mirroring an index. Funds that utilize a passive management strategy are often referred to as index funds and differ from investment funds that are actively managed.

Pension Benefit Guaranty Corporation (PBGC)

PBGC is a nonprofit corporation, functioning under the jurisdiction of the Department of Labor that is responsible for insuring benefits to participants of certain defined benefit plans.

Plan Year

Generally, any 12-consecutive-month period identified by the plan for keeping its records. The plan year does not have to coincide with the employer's taxable year or begin on the first day of the month. Changing a plan year may require the consent of the IRS. Short plan years, consisting of a period of less than 12 months, are also permitted.

Portfolio

A collection of investments such as stocks and bonds that are owned by an individual, organization, or investment fund.

Portfolio Manager

The individual, team or firm that makes the investment decisions for an investment fund, including the selection of the individual investments.

Portfolio Turnover Rate

A measure of how frequently investments are bought and sold within an investment fund during a year. The portfolio turnover rate is usually expressed as a percentage of the total value of an investment fund.

Preferred Stock

A portion of a corporation's stock having a priority or preference over the common stock in the distribution of dividends and assets. Preferred stock is usually non-voting.

Principal

The original dollar amount of an investment. Principal may also be used to refer to the face value or original amount of a bond.

Private Letter Ruling

Ruling issued by the IRS in response to a request from a taxpayer as to the tax consequences of a proposed or completed transaction. Private letter rulings are published informally by several publishers. They are not considered as precedent for use by taxpayers other than for the individual who requested the ruling, but they do give an indication of the IRS's current attitude as to a particular type of transaction.

Profit Sharing Plan

A defined contribution plan under which the employer makes discretionary contributions (usually out of profits). A participant's retirement benefits are based on the amount in his or her individual account at retirement.

Prohibited Transactions

Specific transactions that may not be entered into (directly or indirectly) by a party-in-interest with the plan. Those include, for example, sales or exchanges, leases, and loans between the parties. The Department of Labor has exempted specific transactions from the prohibited transaction restriction.

Prospectus

The official document that describes certain investments, such as mutual funds, to prospective investors. The prospectus contains information required by the SEC, such as investment objectives and policies, risks, services, and fees.

Prudent-Man Rule

The standard under which a plan fiduciary must act. The plan fiduciary is required to discharge his or her duties with respect to the plan solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to them or of defraying reasonable expenses of administering the plan, and in doing so must act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The prudent man standard of care includes a responsibility to act in accordance with the plan documents and ERISA and, except in certain cases relating to qualifying employer securities, to diversify the investments of the plan.

Qualified Domestic Relations Order (QDRO)

A court order issued under state domestic relations law that relates to the payment of child support or alimony or to marital property rights. A QDRO creates or recognizes an alternate payee's right, or assigns to an alternate payee the right, to receive plan benefits payable to a participant. The alternate payee may be the participant's spouse, former spouse, or dependent.

Qualified Joint & Survivor Annuity (QJSA)

A series of periodic payments beginning on the annuity commencement date and continuing for the annuitant's life and for the life of a survivor annuitant. The survivor annuity must be at least 50 percent, but not more than 100 percent, of the annuity received by the participant during his lifetime. Also, the joint and survivor annuity must be at least equivalent to a single life annuity that would otherwise have been paid to the participant.

Qualified Plan

A plan that meets the requirements of Internal Revenue Code Section 401(a) and, therefore, provides special tax considerations to the plan sponsor, the trust and plan participants.

Qualified Pre-Retirement Survivor Annuity (QPSA)

An immediate annuity for the life of the surviving spouse of a participant who dies before the annuity starting date.

Rate of Return

The gain or loss on an investment over a period of time. The rate of return is typically reported on an annual basis and expressed as a percentage.

Real Rate of Return

The rate of return on an investment adjusted for inflation.

Realized Gain or Loss

The actual gain or loss on a sale of a security or other asset.

Rebalance

The process of moving money from one type of investment to another to maintain a desired asset allocation.

Redemption

To sell fund shares back to the fund. Redemption can also be used to mean the repayment of a bond on or before the agreed upon pay-off date.

Redemption Fee

A fee, generally charged by a mutual fund, to discourage certain trading practices by investors, such as short-term or excessive trading. If a redemption fee is charged it is done when the investment is redeemed or sold.

Remedial Amendment Period

A period of time during which a plan may be amended retroactively to conform the terms of the plan to legal requirements.

Reportable Event

An event that may indicate that the plan is in danger of being terminated. ERISA requires plan administrators of certain defined benefit plans to notify the PBGC of the occurrence of such event so as to give the PBGC enough time to protect the benefits of participants and beneficiaries. The notice must usually be given within 30 days of the occurrence of the reportable event unless the PBGC waives notice. A reportable event includes an occurrence such as: (1) disqualification of the plan for tax purposes; (2) benefit decrease by plan amendment; (3) substantial decrease (more than 20%) of the number of employees that are participating under the plan, if the present value of unfunded benefits equals or exceeds \$250,000; or (4) an IRS determination that the plan has been partially or completely terminated.

Return

The gain or loss on an investment. A positive return indicates a gain, and a negative return indicates a loss.

Revenue Ruling

Issued by the IRS, these rulings express the IRS's views as to the tax results that apply to a specific problem.

Reversion

A qualified plan (or trust) is prohibited from diverting plan assets for purposes other than for the exclusive benefit of employees or beneficiaries. However, this prohibition does not preclude the return of a contribution made by an employer if the contribution was made, for example, by reason of a mistake of fact or conditioned on the initial qualification of the plan or the deductibility of the contribution, provided the plan contains a provision allowing for the return of such amounts.

Risk

The potential for investors to lose some or all the amounts invested or to fail to achieve their investment objectives.

Risk Tolerance

An investor's ability and willingness to lose some or all of an investment in exchange for greater potential returns.

Rollover

A tax-free transfer of cash or other assets from one retirement plan to another. Certain payouts from a qualified plan may also be rolled over to an IRA or to another employer's plan.

Rollover IRA Account

An individual retirement account that is established for the sole purpose of receiving a distribution from a qualified plan so that the assets can subsequently be rolled over into another qualified plan. It is also sometimes referred to as a conduit IRA.

Round Trip Restriction

A policy that limits the number of times an investor can exchange into, and out of a fund within a given time frame. This is intended to discourage frequent trading that increases the costs to all the fund's investors.

Russell Indexes

A group of indexes that are widely used to benchmark investment performance. The most common Russell index is the Russell 2000 Index, an index of U.S. small cap stocks, which measures the performance of the 2,000 smallest U.S. companies in the Russell 3000 Index.

S Corporation

A corporation whose shareholders have elected not to be taxed as a regular (or “C”) corporation, but like a partnership. Profits and losses pass through directly to the shareholders rather than being taxed at the corporate level. An IRA is not allowed to invest in an S Corporation.

Salary Reduction Simplified Employee Pension Plan (SARSEP)

A retirement program that takes the form of individual retirement accounts for all eligible employees (subject to special rules on contributions and eligibility) that allows employee pre-tax salary deferral contributions. SARSEPs must have been effective by January 1, 1997.

Salary-Reduction Arrangement

Under this type of cash or deferred arrangement, each eligible employee may elect to reduce his current compensation or to forgo a salary increase and have these amounts instead contributed to the plan on his or her behalf on a pretax basis. See Cash or Deferred Arrangement.

Sales Charge

A fee charged for buying an investment. See also Contingent Deferred Sales Charge (“CDSC”) or Back-end Load.

Sector Fund

A fund that invests in a particular or specialized segment of the marketplace, such as stocks of companies in the software, healthcare, or real estate industries.

Securities and Exchange Commission (SEC)

Government agency created by Congress in 1934 to regulate the securities industry and to help protect investors. The SEC is responsible for ensuring that the securities markets operate fairly and honestly.

Security

A general term for stocks, bonds, mutual funds, and other investments.

Self-Correction Program (SCP)

A special program a Plan Sponsor can use to self-correct insignificant errors found in administering a retirement plan.

Self-Employed Person

A sole proprietor or a partner in a partnership.

Separate Account

An insurance company account that is segregated or separate from the insurance company's general assets. Also refers to an investment account managed by an investment advisor for a single plan.

Separation from Service

A situation where a participant ceases to be an employee of the employer. It is a distributable event.

Share

A representation of ownership in a company or investment fund.

Share Class

Some investment funds and companies offer more than one type or group of shares, each of which is considered a class (e.g., "Class A," "Advisor" or "Institutional" shares). For most investment funds each class has different fees and expenses but all of the classes invest in the same pool of securities and share the same investment objectives.

Shareholder

An owner of shares in an investment fund or corporation.

Shareholder-Type Fees

Any fee charged against your investment for purchase and sale, other than the total annual operating expenses.

SIMPLE IRA

An IRA-based plan that gives small employers a simplified method to make contributions toward their employees' retirement and their own retirement. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or nonelective contributions. All contributions are made directly to an Individual Retirement Account or Individual Retirement Annuity (IRA) set up for each employee (a SIMPLE IRA). SIMPLE IRA plans are maintained on a calendar-year basis. See IRS Publication 560, IRS Publication 590 and IRS Notice 98-4 for detailed information on SIMPLE IRA plans.

Simplified Employee Pension Plan (SEP)

A retirement plan that provides employers with a simplified method to make contributions toward their employees' retirement and, if self-employed, their own retirement. Contributions are made directly to an Individual Retirement Account or Annuity (IRA) set up for each employee (a SEP-IRA). See Publication 560 for detailed SEP information for employers and employees.

Small Cap Fund

A fund that invests primarily in small-cap stocks.

Small Cap Stocks

Stocks of companies with a smaller market capitalization. Small caps are often considered to offer more growth potential than large caps and mid-caps but with more risk.

Small Capitalization (Cap)

A reference to either a small company stock or an investment fund that invests in the stocks of small companies.

Spousal IRA

An IRA that is established for the nonworking spouse of an employee who qualifies for an IRA.

Stable Value Fund

An investment fund that seeks to preserve principal, provide consistent returns and liquidity. Stable value funds may include certain collective investment funds sponsored by banks or trust companies or contracts issued by insurance companies.

Standard & Poor's 500 Stock Index (S&P 500)

An index comprised of 500 widely held common stocks considered to be representative of the U.S. stock market in general. The S&P 500 is often used as a benchmark for equity fund performance.

Step-Rate Plan

An integrated plan that provides different levels of benefits that are based on levels of compensation. For example, a contribution under a money purchase plan of 8 percent of compensation for amounts up to \$76,200 and 13 percent of compensation for amounts in excess of \$76,200.

Stock

A security that represents an ownership interest in a corporation.

Stock Bonus Plan

A defined contribution plan that is similar to a profit sharing plan except that benefit payments generally must be made available in the form of employer company stock. See also Profit Sharing Plan and Employee Stock Ownership Plan.

Stock Fund

A fund that invests primarily in stocks.

Stock Symbol

An abbreviation using letters and numbers assigned to securities to identify them. Also see Ticker Symbol.

Summary of Material Modifications (SMM)

A detailed summary to notify participants of minor plan changes to the plan document.

Summary Plan Description (SPD)

A detailed, but easily understood, summary describing a qualified plan's provisions that must be provided to participants and beneficiaries.

Summary Prospectus

A short-form prospectus that mutual funds generally may use with investors if they make the long-form prospectus and additional information available online or on paper upon request.

Target Benefit Plan

A variation of a defined benefit plan and a money purchase plan. Similar to a defined benefit plan, the annual contribution is determined by the amount needed each year to accumulate a fund sufficient to pay a targeted retirement benefit to each participant at retirement. Similar to a money purchase plan, contributions and earnings are allocated to separate accounts maintained for each participant and benefits to be paid at retirement are not guaranteed.

Target Date Fund

A fund designed to provide varying degrees of long-term appreciation and capital preservation based on an investor's age or target retirement date through a mix of asset classes. The mix changes over time to become less focused on growth and more focused on income. The "target date" refers to the approximate date when an investor plans to start withdrawing funds. The principal value of the investment in a target-date portfolio is not guaranteed at any time, including at the target date. Also known as a "lifecycle fund."

Target Risk Fund

A fund that maintains a predetermined asset mix and generally uses words such as "conservative," "moderate," or "aggressive" in its name to indicate the fund's risk level. Often used interchangeably with "lifestyle fund."

Taxable Year

The 12-month period used by an employer to report income for income tax purposes. The employer's taxable year does not have to coincide with the plan year.

Thrift Plan

A defined contribution plan that requires employee after-tax contributions. Employer contributions are often made on a matching basis.

Ticker Symbol

An abbreviation using letters and numbers assigned to securities and indexes to identify them. Also see Stock Symbol.

Time Horizon

The amount of time that an investor expects to hold an investment before taking money out.

Top-Heavy Plan

For plan years beginning in 1984, a plan that primarily benefits key employees is considered top-heavy and qualifies for favorable tax treatment only if, in addition to the regular qualification requirements, it meets several special requirements. See also Key Employee.

Total Annual Operating Expenses

A measure of what it costs to operate an investment, expressed as a percentage of its assets, as a dollar amount, or in basis points. These are costs the investor pays through a reduction in the investment's rate of return. See Expense Ratio and Operating Expenses.

Treasury Bill (T-Bill)

A short-term debt security of the U.S. Treasury, issued with a maturity of 3, 6, or 12 months and sold on a discounted basis.

Treasury Bond (T-Bond)

A U.S. Treasury debt security with an original maturity of more than 10 years from the date of issuance.

Treasury Note (T-Note)

A U.S. Treasury debt security with an original maturity of 1 to 10 years from the date of issuance.

Treasury Regulations

Regulations interpreting the Internal Revenue Code are technically Treasury regulations. IRS is a part of the Treasury Department. The Treasury Department issues regulations.

Trustee

A person or entity (e.g., bank, trust company, or other organization) that is responsible for the holding and safekeeping of trust assets. A trustee may also have other duties such as investment management.

A trustee that is a “directed trustee” is responsible for the safekeeping of trust assets but has no discretionary investment management duties or authority over the assets.

U.S. Treasury Securities

Debt securities issued by the United States government and secured by its full faith and credit. Treasury securities are the debt financing instruments of the United States Federal government, and they are often referred to simply as Treasuries.

Unit

A representation of ownership in an investment that does not issue shares. Most collective investment funds are divided into units instead of shares. See Share.

Unit Benefit Plan

A type of defined benefit pension plan that calculates benefits on the basis of units earned by the employee during his employment, taking into consideration length of service as well as compensation.

Unit Class

Investment funds that are divided into units (e.g., collective investment funds) instead of shares may offer more than one type or group of units, each of which is considered a class (e.g., “Class A”). For most investment funds, each class has different fees and expenses but all of the classes invest in the same pool of securities and share the same investment objectives.

Unit Value

The dollar value of each unit on a given date.

Unitholder

An owner of units in an investment. See Shareholder.

Value Fund

A fund that invests primarily in stocks that are believed to be priced below what they are really worth.

Variable Annuity

An annuity contract under which the insurance company promises to make payments beginning immediately or at some future date. The value of the annuity and amount of the benefits paid by the insurance company will vary depending on the performance of the investment options.

Variable Return Investment

Investments for which the return is not fixed. This term includes stock and bond funds as well as investments that seek to preserve principal but do not guarantee a particular return, e.g., money market funds and stable value funds.

Vested Benefits

A participant's accrued benefits that have become nonforfeitable under the vesting schedule adopted by the plan. See Forfeitures.

Volatility

The amount and frequency of fluctuations in the price of a security, commodity, or a market within a specified time period. Generally, an investment with high volatility is said to have higher risk since there is an increased chance that the price of the security will have fallen when an investor wants to sell.

Voluntary Correction Program (VCP)

A program designed to handle the more common & less flagrant plan defects that are submitted to the IRS for review at a user fee.

Wrap Fee

A fee or expense that is added to or "wrapped around" an investment to pay for one or more product features or services.

Year of Service

A 12-month period during which an employee is credited with service for benefit accrual, eligibility or vesting purposes. The number of hours or equivalencies necessary to receive a year of service may vary from plan to plan.

Yield

The value of interest or dividend payments from an investment usually stated as a percentage of the investment price.

Zero-Coupon Bond

Bonds that pay no interest (i.e., no coupon) during their life. The interest is compounded, accumulated, and paid off in one lump sum at maturity of the bond. As with coupon bonds, these bonds may be callable before maturity.