Glossary

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1035 Exchange

Section 1035 sets out provisions for the exchange of similar (insurance-related) assets without any tax consequence upon the conversion. If the exchange qualifies for like kind exchange considerations, income taxes are deferred until the new property or asset is sold. The 1035 exchange provisions are only available for a limited type of asset which includes cash value life insurance policies and annuity contracts.

401(k) Plan

A 401(k) plan is a tax-deferred defined contribution retirement plan that gives eligible employees the opportunity to defer a portion of their current compensation into that plan. Amounts that are deferred are excluded from the participant's gross income for the year of the deferral. The plan may provide for employer matching contributions and discretionary profit-sharing contributions.

403(b) Plan

Tax-deferred annuity retirement plan available to employees of the public schools and colleges, and certain non-profit hospitals, charitable, religious, scientific and educational organizations.

457 Plan

Non-qualified deferred compensation plans available to employees of state and local governments and tax-exempt organizations.

A

Accelerated Death Benefits (ADB)

Some life insurance policies make a portion of the death benefit available prior to the death of the insured. Such benefits are usually available only due to terminal illness or for long-term care situations.

An accidental death benefit is a rider added to an insurance policy which provides that an additional death benefit will be paid in the event death is caused by the accident. This rider is often called "double indemnity".

Annuitant

An individual who receives payments from an annuity. The person whose life the annuity payments are measured on or determined by.

Annuity

A contract between an insurance company and an individual which generally guarantees lifetime income to the individual or whose life the contract is based in return for either a lump sum or periodic payment to the insurance company. Interest earned inside an annuity is income tax-deferred until it is paid out or withdrawn.

Appreciation

Appreciation is the increase in value of an asset. The term "appreciation" may be applied to real estate, stock, bonds, etc.

B

Basis

An amount usually representing the actual cost of an investment to the buyer. The basis amount of an investment is important in calculating capital gains and losses, depreciation, and other income tax calculations.

Basis Points

Basis Points is a term used by investment professionals to describe yields of bonds. One basis point equals one 100^{th} of 1% or .01%. A bond yield increase from 10.0% to 10.1% represents an increase of 10 basis points.

Bear Market

A prolonged decline in overall stock prices occurring over a period of months or even years.

Beneficiary

The person who is designated to receive the benefits of a contract.

Blue Chip Stocks

The equity issues of financially stable, well-established companies that usually have a history of being able to pay dividends in bear and bull markets.

Bond

A certificate of indebtedness issued by a government entity or a corporation, which pays a fixed cash coupon at regular intervals. The coupon payment is normally a fixed percentage of the initial investment. The face value of the bond is repaid to the investor upon maturity.

Bull Market

A prolonged increase in overall stock prices usually occurring over a period of months or even years.

Buy-Sell Agreement

An agreement between shareholders or business partners to purchase each others' shares in specified circumstances.

C

Capital Stock

All ownership shares of a company, both common and preferred, listed at par value.

Cash Equivalents

Assets that can be quickly converted to cash. These include receivables, treasury bills, short-term commercial paper, short-term municipal and corporate bonds and notes.

Cash Value

Permanent life insurance policies provide both a death benefit and an investment component called a cash value. The cash value earns interest and often appreciates. The policyholder may accumulate significant cash value over the years and, in some circumstances, "borrow" the appreciated funds without paying taxes on the borrowed gains. As long as the policy stays in force, the borrowed funds do not need to be repaid, but interest may be charged to your cash value account.

Charitable Remainder Trust (CRT)

The Charitable Remainder Trust is an irrevocable trust with both charitable and non-charitable beneficiaries. The donor transfers highly appreciated assets into the trust and retains an income interest. Upon expiration of the income interest, the remainder in the trust passes to a qualified charity of the donor's choice. If properly structured , the CRT permits the donor to receive income, estate, and/or gift tax advantages. These advantages often provide for much greater income stream to the income beneficiary than would be available outside the trust.

Closed-end Fund

A fund whose value is held within a fixed number of shares. Until the fund is wound up, shares can be bought and sold on the stock exchange or the over-the-counter market.

Commission

The fee a broker or insurance agent collects for administering a trade or policy.

Common Stock

A security that represents ownership in a corporation.

Compounding

The computation of interest paid using the principal plus the previously earned interest.

Conduit IRA

An individual who rolled over a total distribution from a qualified plan into an IRA can later roll over those assets into a new employer's plan. In this case the IRA has been used as a holding account (a conduit).

Convertible Term Insurance

Term life insurance that can be converted to a permanent or whole life policy without evidence of insurability, subject to time limitations.

Corporation

A legal business entity created under state law. Because the corporation is a separate entity from its owners, shareholders have no legal liability for its debts.

Correction

A sudden decline in stock or bond prices after a period of market strength.

Critical Illness Insurance

Insurance protection designed to provide a lump-sum payment equal to the full value of the policy or a percentage of the policy, depending upon the product design, to the insured/policy owner upon the diagnosis of a covered critical illness. Typical illnesses covered include heart attack, stroke, cancer, paralysis, renal failure and Alzheimer's disease. Many policies offer a partial payment for certain medical procedures such as coronary bypass surgery or angioplasty. Some policies offer a return of all premiums in the event of death of the insured; others pay the full benefit upon the insured's death.

Custodian

A financial institution, usually a bank or trust company, that holds a person or company's cash and or securities in safekeeping.

D

Decedent

The term decedent refers to a person who has died.

Decreasing Term

A term life insurance featuring a decreasing death benefit. Decreasing term is well suited to provide for an obligation that decreases over the years such as a mortgage.

Deferral

A form of tax sheltering in which all earnings are allowed to compound tax-free until they are withdrawn at a future date. Placing funds in a qualified plan, for example, triggers deductions [not all qualified plans provide for tax deductions; contributions may, however, be excluded from gross income, i.e. 401(k) plans] for the current tax year and postpones capital gains or other income taxes until the funds are withdrawn from the plan.

Deferred Compensation

Income withheld by an employer and paid at some future time, usually upon retirement or termination of employment.

Defined Benefit Plan

A defined benefit plan pays participants a specific retirement benefit that is promised (defined) in the plan document. Under a defined benefit plan, benefits must be definitely determinable. For example, a plan that entitles a participant to a monthly pension benefit for life equal to 30 percent of monthly compensation is a defined benefit plan.

Deflation

A period in which the general price level of goods and services is declining.

Depreciation

Charges made against earnings to write off the cost of a fixed asset over its estimated useful life. Depreciation does not represent a cash outlay. It is a bookkeeping entry representing the decline in value of an asset over time.

Disability Insurance

Insurance designed to replace a percentage of earned income if accident or illness prevents the beneficiary from pursuing his or her livelihood.

Disposable Income

After-tax income available for spending, saving or investing.

Diversification

Spreading investment risk among a number of different securities, properties, companies, industries or geographical locations. Diversification does not assure against market loss.

Dividend Reinvestment Plan (DRIP)

An investment plan that allows shareholders to receive stock in lieu of cash dividends.

Dividends

A distribution of the earnings of a company to its shareholders. Dividends are "declared" by the company based on profitability and can change from time to time. There is a direct relationship between dividends paid and share value growth. The most aggressive growth companies do not pay a dividend, and the highest dividend paying companies may not experience dramatic growth.

Dollar Cost Averaging

Buying a mutual fund or securities using a consistent dollar amount of money each month (or other period). More securities will be bought when prices are low, resulting in lowering the average cost per share. *Dollar cost averaging neither guarantees a profit nor eliminates the risk of losses in declining markets and you should consider your ability to continue investing through periods of market volatility and/or low prices.*

E

Economic Cycle

Economic events are often felt to repeat a regular pattern over a period of anywhere from two to eight years. This pattern of events tends to be slightly different each time, but usually has a large number of similarities to previous cycles.

Effective Tax Rate

The percentage of total income paid in federal and state income taxes.

Efficient Market

The market in which all the available information has been analyzed and is reflected in the current stock price.

Employee Stock Ownership Plans (ESOPS)

An ESOP plan allows employees to purchase stock, usually at a discount, that they can hold or sell. ESOP's offer a tax advantage for both employer and employee. The employer earns a tax deduction for contributions of stock or cash used to purchase stock for the employee. The employee pays no tax on these contributions until they are distributed.

Estate

A decedent's estate is equal to the total value of their assets as of the date of death. The estate includes all funds, personal effects, interest in business enterprises, title to property, real estate, stocks, bonds, and notes receivable.

Estate Planning

The orderly arrangement of one's financial affairs to maximize the value transferred to death to the people and institutions favored by the deceased, with minimum loss of value because of taxes and forced liquidation of assets.

Excess Distributions

An individual may have to pay a 15% tax on distributions received from qualified plans to excess of $150,000 during a single year. The tax, however, does not apply to distributions due to death, distributions that are rolled over, and distributions of after-tax contributions.

Executor

The person named in a will to manage the estate of the deceased according to the terms of the will.

F

Face Amount

The face amount stated in a life insurance policy is the amount that will be paid upon death or policy maturity. The face amount of a permanent insurance policy may change with time as the cash value in the policy increases.

Fair Market Value

The fair market value of a property or other asset is the price that a buyer and seller can establish in an arms-length transaction where neither one is compelled to buy or to sell.

Family Trust

An inter vivos trust established with family members as beneficiaries.

Fiduciary

An individual or institution occupying a position of trust. An executor, administrator or trustee.

Financial Planner

A person who helps you plan and carry out your financial future.

Fixed Investment

Any investment paying a fixed interest rate, such as: a money market account, a certificate of deposit, a bond, a note, or a preferred stock. A fixed investment is the opposite of a variable investment.

Fluctuation

A variation in the market price of a security.

Fund Manager

A person who manages the assets of a mutual fund.

Future Value

The future worth of a payment, or stream of payments, projected at a given interest rate for a given period of time.

G

Grace Period

A period (usually 31 days) following each premium due date, other than the first due date, during which an overdue premium may be paid, and during which time all policy provisions remain in force and effect.

Group Insurance

A form of insurance designed to insure classes of persons rather than specific individuals.

Growth Stock

The common equity of a company that consistently grows significantly faster than the economy.

Guardian

A person or persons named to care for minor children until they reach the age of majority. A will is the best way to ensure that the person or persons whom you wish to have care for your minor children are legally empowered to do so in the event of your death.

I

Illustration

A life insurance illustration, or ledger, is a reference tool used to illustrate how a given life insurance policy underwritten by a specific insurer is expected to perform over a period of years. The insurance illustration assumes that conditions remain unchanged over the period of time that the policy is held.

Income Stocks

Stocks that have a consistent, stable, above-average dividend yield.

Individual Retirement Account (IRA)

An Individual Retirement Account (IRA) is a personal savings plan that offers tax advantages to those who set aside money for retirement. Depending on the individual's circumstances, contributions to the IRA may be deductible in whole or in part. Generally, amounts in an IRA, including earnings and gains, are not taxed until distributed to the individual.

Inflation

A term used to describe the economic environment of rising prices and declining purchasing power.

In-Force Policy

An in-force life insurance policy is simply a valid policy. Generally speaking, a life insurance policy will remain in-force as long as sufficient premiums are paid, and for approximately 31 days thereafter. (See Grace Period)

Insurability

Insurability refers to the assessment of the applicant's health and is used to gauge the level of risk the insurer would potentially take by underwriting a policy, and therefore the premium it must charge.

Insured

A life insurance policy covers the life of one or more insured individuals.

Interest Rate

The simple interest rate attached to the terms of a mortgage or other loan.
This rate is applied to the outstanding principal owed in determining the portion of a payment attributable to interest and to principal in any given payment.

Interest Rate Risk

Is the uncertainty in the direction of interest rates. Changes in interest rates could lead to capital loss, or yield less than available to other investors, putting at risk the earnings capacity of capital.

Intestate

A term describing the legal status of a person who dies without a will.

Investment Considerations

Choosing which investments are right for you will depend on a number of factors, including; your primary objectives, your time horizon and your risk tolerance.

Investment Portfolio

A term used to describe your total investment holdings.

Investment Risk

The chance that the actual returns realized on an investment will differ from the expected return.

Investment Strategy

The method used to select which assets to include in a portfolio and to decide when to buy and when to sell those assets.

IRA Rollover

An individual may withdraw, tax-free, all or part of the assets from one IRA, and reinvest them within 60 days in another IRA. A rollover for this type can occur only once in any one-year period. The one-year rule applies separately to each IRA the individual owns. An individual must roll over into another IRA the same property he/she received from the old IRA.

J

Joint Tenants with Right of Survivorship (JTWROS)

A type of brokerage account which is owned by at least two people, where all tenants have an equal right to the account's assets and are afforded survivorship rights in the event of the death of another account holder.

K

Keogh

A Keogh is a tax-deferred retirement plan for self-employed individuals and employees of unincorporated businesses. A Keogh plan is similar to an IRA but with significantly higher contribution limits.

L

Life Expectancy

Life expectancy represents the average future time an individual can expect to live. Life expectancies have been increasing steadily over the past century and may continue to increase in the future. As people are living longer the cost of retirement is increasing.

Life Insurance

A contract between you and a life insurance company that specifies that the insurer will provide either a stated sum or a periodic income to your designated beneficiaries upon your death.

Life Settlement

Occurs when a person who does not have a terminal or chronic illness sells his/her life insurance policy to a third party for an amount that is less than the full amount of the death benefit. The buyer becomes the new owner and/or beneficiary of the life insurance policy, pays all future premiums, and collects the entire death benefit when the insured dies. Some states regulate the purchase as a security while others may regulate it as insurance.

Liquidity

Liquidity is the measure of your ability to immediately turn assets into cash without penalty or risk of loss. Examples include a savings account, money market account, checking account, etc.

Living Will

If you become incapacitated this document will preserve your wishes and act as your voice in medical decisions, if you are unable to speak for yourself as a result of medical reasons.

M

Market Risk

Every investment carries some element of market risk, the risk that the entire market will decline, reducing the investment's value regardless of other factors.

Medical Power of Attorney

This special power of attorney document allows you to designate another person to make medical decisions on your behalf.

Minimum Distributions

An individual must start receiving distributions from a qualified plan by April 1 of the year following the year in which he/she reaches age 70. Subsequent distributions must occur by each December 31st. The minimum distributions can be based on the life expectancy of the individual or the joint life expectancy of the individual and beneficiary.

Money Purchase Plan

A Money Purchase Plan has contributions that are a fixed percentage of compensation and are not based on the employer's profits. For example, if the plan requires that contributions be 10% of the participant's compensation, the plan is a Money Purchase Pension Plan. With this type of plan, the employer is committed to making contributions each year even if the employer has no profits or is experiencing cash flow problems. Employee contributions are limited to 25% of compensation. Employer contributions are limited to the smaller of $30,000 or 25% of a participant's compensation.

Mortality

Mortality is the risk of death of a given person based on factors such as age, health , gender, and lifestyle.

Municipal Bonds

A bond offered by a state, county, city or other political entity (such as a school district) to raise public funds for special projects. The interest received from municipal bonds is often exempt from certain income taxes.

Mutual Funds

A mutual fund is a pooling of investor (shareholder) assets, which is professionally managed by an investment company for the benefit of the fund's shareholders. Each fund has specific investment objectives and associated risk. Mutual funds offer shareholders the advantage of diversification and professional management in exchange for a management fee.

N

Net Asset Value

The value of all the holdings of a mutual fund, less the fund's liabilities [also describes the price at which fund shares are redeemed].

Net Worth

Your net worth is the difference between your total assets and total liabilities.

O

Offer Price

The price that a buyer is willing to pay for an investment.

Open-end Fund

An open-end mutual fund continuously issues and redeems units, so the number of units outstanding varies from day to day. Most mutual funds are open-end funds. The opposite of closed-end funds.

P

Paper Gain (loss)

Unrealized capital gain (loss) on securities held in portfolio, based on a comparison of current market price to original cost.

Policy

A contractual arrangement between the insurer and the insured describing the terms and conditions of the life insurance contract.

Policy Loan

The policy owner can borrow from the cash value component of many permanent insurance policies for virtually any purpose. Any policy loans that are outstanding at the time of death of the insured will be deducted from the benefit paid to the beneficiary.

Political Risk

Political risk is the risk that stock prices may decline dramatically during periods of political unrest or crisis.

Power of Attorney

A legal document authorizing one person to act on behalf of another.

Premium

The payment that the owner of a life insurance policy makes to the insurer. In exchange for the premium payment, the insurer assumes the financial risk (as defined by the insurance policy) associated with the death of the insured.

Profit-Sharing Plan

A Profit-Sharing Plan is the most flexible and simplest of the defined contribution plans. It permits discretionary annual contributions that are generally allocated on the basis of compensation. The employer will determine the amount to be contributed each year depending on the cash-flow of the company. The deduction for contributions to a Profit-Sharing Plan cannot be more than 15% of the compensation paid to the employees participating in the plan. Annual employer contributions to the account of a participant cannot exceed the smaller of $30,000 or 25% of a participant's compensations.

Prohibited IRA Transactions

Generally, a prohibited transaction is any improper (self-dealing) use of the IRA by the account owner. Some examples include borrowing money from an IRA, using an IRA to secure a loan and selling property to an IRA.

Prospectus

A detailed statement prepared by an issuer and filed with the SEC prior to the sale of a new issue. The prospectus gives detailed information on the issue and on the issuer's condition and prospects.

Q

Qualified Retirement Plan

A qualified retirement plan is a retirement plan that meets certain specified tax rules contained primarily in section 401(a) of the Internal Revenue Code. These rules are called "plan qualifications rules". If the rules are satisfied, the plan's trust is exempt from taxes.

R

Registered Representative

A registered representative is licensed with the NASD (National Association of Securities Dealers), through association with an NASD member broker/dealer, to act as an account representative for clients and collect commission income.

Rider

A life insurance rider is an amendment to the standard policy that expands or restricts the policy's benefits. Common riders include a disability waiver of premium rider and a children's life coverage rider.

Risk

Investment risk is the chance that the actual returns realized on an investment will differ from the expected return.

Rule of 72

A way to determine the effect of compound interest. Divide 72 by the expected return on your investment. If your expected return is 8% assuming that all the interest is reinvested, you will double your money in 9 years.

S

Safety of Principal

Safety of principal is an objective that emphasizes the security of the invested principal.

Salary Reduction Simplified Employee Pension (SARSEP)

A SARSEP is a simplified alternative to a 401(k) plan. It is a SEP that includes a salary reduction arrangement. Under this special arrangement, eligible employees can elect to have the employer contribute part of their before-tax pay to their IRA. This amount is called an “elective deferral”.

Second Mortgage

A mortgage on real property in a junior position to a primary or first mortgage. The increased risk associated with a second mortgage is often reflected in a higher interest rate and a shorter term of repayment.

Securities

Stocks and bonds are traditionally referred to as securities. More specifically, stocks are often referred to as “equities” and bonds as “debt instruments.”

Securities and Exchange Commission (SEC)

The main regulatory body regulating the securities industry is called the Securities and Exchange Commission.

Simplified Employee Pension (SEP)

A SEP provides employers with a "simplified" alternative to a qualified profit-sharing plan. Basically, a SEP is a written arrangement that allows an employer to make contributions towards his or her own and employees' retirement, without becoming involved in a more complex retirement plan. Under a SEP, IRAs are set up for each eligible employee. SEP contributions are made to IRAs of the participants in the plan. The employer has no control over the employee's IRA once the money is contributed.

Small Cap

A small cap stock is one issued by a company with less than $1.7 billion in market capitalization.

Spousal IRA

An individual can set up and contribute to an IRA for his/her spouse. This is called a "Spousal IRA" and can be established if certain requirements are met. In the case of a spousal IRA, the individual and spouse must have separate IRAs. A jointly owned IRA is not permitted.

Stock Exchange

A market for trading of equities, a public market for the buying and selling of public stocks.

Stop-Loss Order

This is when you tell your broker to sell the stock if it drops to a certain price.

Succession Planning

Planning for a business to pass to the next generation of owner/managers.

Surrender Value

When a policy owner surrenders his/her permanent life insurance policy to the insurance company, he or she will receive the surrender value of that policy in return. The surrender value is the cash value of the policy plus any dividend accumulations, plus the cash value of any paid-up additions minus any policy loans, interest, and applicable surrender charges.

T

Tax Deduction

A reduction of total income before the amount of income tax payable is calculated.

Tax-Deferred

The term tax-deferred refers to the deferral of income taxes on interest earnings until the interest is withdrawn from the investment. Some vehicles or products that enjoy this special tax treatment include permanent life insurance, annuities, and any investment held in IRA's.

Tenants in Common

Two or more people who own the same piece of property, with the inherent condition that if one of the tenants die, his interest automatically passes on to his heirs.

Term Insurance

Term insurance is life insurance coverage that pays a death benefit only if the insured dies within a specified period of time. Term policies do not have a cash value component and must be renewed periodically as dictated by the insurance contract.

Top-Heavy Plans

Each year, a qualified plan must be tested to determine whether it is "top-heavy". Generally, a "top-heavy" plan is one in which more than 60% of the benefits under the plan are for key employees (usually owners and officers). Additional requirements apply to a top-heavy plan such as faster vesting and mandatory employer contributions.

Total Disability

In order to make a disability claim a person must meet the definition of disability set forth in the insurance contract. There are two general definitions of disability used in today's contracts. The first definition is that the insured is unable to perform all of the substantial and material duties of his/her own occupation. The second, and more restrictive, definition is that the insured is unable to perform any occupation for which he/she is reasonably suited by education, training, or experience.

TSA (tax-sheltered annuity)

Tax-deferred annuity retirement plan available to employees of public schools and colleges, and certain non-profit hospitals, charitable, religious, scientific and educational organizations.

U

Underwriter (insurance)

The one assuming a risk in return for the payment of a premium, or the person who assesses the risk and establishes premium rates.

Underwriter (investments)

In the bond/stock market it means a brokerage firm or group of firms that has promised to buy a new issue of bonds/shares from a government or company at a fixed discounted price, then arranges to resell them to investors at full price.