

# Financial Planning Glossary



## A

**Adjusted basis** – The basis of an asset adjusted for such things as improvements, additions, capital contributions, depreciation, stock splits, or returns of capital to calculate the gain or loss on the sale of the asset for tax purposes. See also basis.

**Adjusted gross income (AGI)** – Gross income less certain deductions, such as IRA and Keogh contributions, and ½ selfemployment tax.

**Administrative expenses for estate planning** – Fees for attorney, executor, court filing, real estate transfer and registration, brokerage and title transfer incurred in settling an estate. These costs are in addition to funeral expenses, debts, and death taxes.

**After-tax rate of return** – The earnings from an investment after subtracting any income taxes attributable to those earnings and adding to the earnings any tax credits created by the investment. Simply, it is calculated by multiplying the yield on the investment by 1 minus the marginal tax rate.

**Alternative minimum tax (AMT)** – A tax calculation done side by side with regular income tax. AMT does not allow certain tax deductions and exemptions. Taxes are calculated using both the ordinary and alternative methods, and the greater of the two is paid. The calculation was originally intended to keep taxpayers, who use tax preferences, from escaping all income tax liability. Currently, more and more taxpayers have to pay AMT because exemptions levels were not adjusted for inflation and regular income tax rates have been reduced.

**Annuitize** – Creating a stream of income through regular periodic payments from an annuity contract. See also annuity.

**Annuity** – A contract that provides payments at regular intervals. See also deferred annuity.

**Applicable exclusion amount** – The value of assets protected from federal gift or estate taxes. See also unified credit.

**Asset allocation** – The process of aligning your portfolio holdings with asset classes in a manner that reflects the level of risk you are

willing to accept, your goal, and your time horizon.

**Asset class** – A category of investments grouped by common characteristics (such as relative liquidity, income characteristics, tax status, growth characteristics, etc.) For definitions of specific asset classes see the “Asset Classes” section of this glossary.

**Average tax rate** – Total federal income taxes divided by total federal taxable income. Typically less than the marginal tax rate.

## B

**Basis** – The original cost of an asset. See also adjusted basis.

**Beneficiary** – The person designated to receive the proceeds from a life insurance policy, annuity or retirement plan. It can also be the person who receives assets from trust or estate. A beneficiary can be an individual, trust, organization, corporation or other entity.

**Bond** – Evidence of debt, usually issued in multiples of \$1,000, on which the issuer promises to pay the holder a specified interest and to repay the principal at maturity.

**Bypass trust** – See credit shelter trust.

## C

**Cafeteria plan** – An employee benefit plan that allows employees to choose benefits according to their individual needs.

**Capital gain** – The positive difference between the adjusted basis of a capital asset and the sales proceeds.

**Capital gains tax rate** – One of a number of tax rates applied to capital gains, normally due on the sale of an appreciated asset. May be long- or short-term.

**Capital loss** – The difference between the adjusted basis of a capital asset and the sales proceeds. A short-term capital loss is from the sale of an asset held for one year or less. A long-term capital loss is from the sale of an asset held for more than one year.

**Capital loss carryover** – If a total net loss is more than the yearly limit on capital loss deductions, the unused part may be carried

# Financial Planning Glossary

forward by the individual through the years until completely used.

**Cash flow** – Measures money in and out during a specific time period.

**Cash surrender value (CSV)** – Money accumulated in a life insurance policy. Term life policies have no cash surrender value.

**Casualty** – Damage, destruction, or loss of property as a result of a sudden, unexpected, or unusual event.

**Charitable gift** – Money or property given to qualified charitable organizations. Individuals may give an unlimited amount to qualified charities free of federal gift and estate taxes. Some limitations apply to charitable deductions for federal income tax purposes depending on the individual's adjusted gross income.

**Charitable lead trust** – Irrevocable trust pays income to a charity for a set number of years or for a person's lifetime, and then returns the assets to the donor or designated heirs.

**Charitable remainder annuity trust** – Pays a fixed income (an annuity) to the non-charitable beneficiary for the term of the trust. See also charitable remainder trust.

**Charitable remainder trust** – An irrevocable trust that pays income to the donor or to a named beneficiary for a set number of years or for a person's lifetime, and then the assets pass to the charity. There are both income tax and estate tax advantages.

**Charitable remainder unitrust** – A charitable remainder trust that pays variable income according to the value of the trust assets. See also charitable remainder trust.

**Closed-end fund** – An investment that pools money from many investors in order to invest in securities. A closed-end fund typically issues shares during the initial public offering (IPO). Thereafter, shares of the fund are traded on an exchange or in the Over-the-Counter market.

**Codicil** – A supplement or addition to a will to explain, modify, qualify, or alter provisions in an existing will. The same formalities, requiring signatures by witnesses, must be observed as in creating a new will.

**Committed expenses** – Living expenses necessary to maintain basic lifestyle including housing, food, clothing, transportation, education, and insurance.

**Community property** – Any property acquired by a married couple; considered to be equally owned by both parties in some states.

**Composite asset mix** – The combined asset classification for all the investment accounts in your plan, across all goals and account types. There is a composite asset mix for your current overall portfolio, and also for your proposed portfolio, rolling up any

changes your advisor may have suggested.

**Consumer liability** – A debt with interest payments not deductible for income tax purposes, such as credit cards and auto loans.

**Cost basis** – The original cost of the asset, plus or minus adjustments made over time, such as commissions and fees, additions, or improvements. Cost basis is used to compute gain or loss when the asset is sold. See also adjusted basis.

**Cost-of-living adjustments (COLAs)** – Adjustments designed to offset changes in the cost of living, usually measured by the Consumer Price Index.

**Coverdell Education Savings Account (CESA)** – An education savings plan in which annual contributions may be made up to \$2,000 per beneficiary, if the person contributing the money is within certain income limits. Contributions are not tax deductible. Earnings are not taxed until withdrawn and may not be taxed at all if the amount withdrawn is less than or equal to the beneficiary's qualified higher education expenses in the year of withdrawal. Qualified higher education expenses may be reduced by other education benefits before CESA earnings can be withdrawn tax-free to cover qualifying education expenses.

**Credit shelter trust** – A testamentary trust designed to minimize federal estate taxes for a couple. On the first death, an amount equal or less than the applicable exclusion is transferred to this trust, which is offset by the unified credit. At the second death, the trust assets are not included, thereby "sheltering" them from tax. Also known as a bypass trust.

**Crummey trust** – An irrevocable trust permitted to bestow annual gifts to its beneficiaries. The beneficiaries have a temporary right to withdraw funds, qualifying the grantor's contributions for the annual gift tax exclusion.

**Current plan** – The current plan projects results based on information provided and reviewed by you. It includes your financial information, your assumptions about the future, your goals and your current efforts to achieve your goals.

**Custodial account** – Allows individuals to transfer assets (and tax liability) to a child while maintaining control until the child reaches the age of majority.

## D

**Debtor** – A person or organization that owes money to another person or organization.

**Deductible debts** – For estate tax purposes, monies owed by the deceased that reduce the amount of the adjusted gross estate. It includes amounts secured by assets in the estate and unsecured debts for which the estate is primarily liable. One-half of joint debts, or debts marked as community property, and all separate

# Financial Planning Glossary

debts are usually deductible.

**Deductible liability** – A debt with interest payments deductible for income tax purposes, such as home mortgage, home equity loan, trade or business loan, investment loan, etc.

**Deferred annuity** – A contract purchased from an insurance company offering tax-deferred growth until payments are made. It can be tailored to provide payments during retirement.

**Defined benefit plan** – A qualified retirement plan that provides a specific set benefit at retirement.

**Defined contribution plan** – A qualified retirement plan that specifies annual contributions to the plan. Contributions may be made by the employer, the employee, or both, depending on how the plan is designed. See also qualified retirement plan.

**Discretionary expenses** – Living expenses not needed to meet basic lifestyle.

**Discretionary income** – The difference between your income and expenses. It can be used to invest towards your financial goals.

**Distribution of non-estate assets** – Assets that pass to a beneficiary outside the decedent's estate.

**Diversification** – Investing among different companies or asset classes in an effort to minimize the risk of poor performance.

**Dollar-cost averaging** – Investing a set amount of money at a set interval over time.

**Domicile** – The state in which you or your business reside for legal purposes.

**Donor-advised fund** – An alternative to a private foundation. Donors make irrevocable gifts and receive an immediate income tax deduction. The gift is pooled with other assets and managed by professional investment advisors. The donor has advisory privileges as to the investment of amounts held in the fund and the distributions to approved charitable organizations.

**Durable power of attorney** – A document authorizing someone to act as your agent or “attorney in fact” if you become incapacitated or incompetent.

## E

**Education IRA** – See Coverdell Education Savings Account.

**Effective marginal tax rate** – Total income taxes (federal, Social Security, Medicare, and state) divided by taxable income.

**Emergency fund** – Money (often equal to three to six months living expenses) available to meet unplanned expenses. Sometimes

called a cash reserve.

**Employee Stock Ownership Plan (ESOP)** – A retirement plan where contributions are invested primarily in the employer's stock and distributed to the employee at retirement or separation.

**Equity assets** – Assets that represent ownership, such as common stock.

**ERISA** – The Employee Retirement Income Security Act of 1974 – a federal law governing pensions and other employee benefits.

**Estate settlement costs** – All expenses, taxes, and debts that must be paid as a result of a person's death.

**Exchanged traded fund (ETF)** – An ETF is an open-ended investment company which owns a collection of securities that is designed to track a particular index (e.g., Standard and Poor's 500 Composite Index).

**Exclusion of gain from sale of residence** – Up to \$250,000 (\$500,000 if married filing jointly) of gain realized from the sale of a principal residence that may be excluded from income if certain requirements are met.

**Executor** – A person or institution designated in a will to carry out its directions and administer the decedent's estate.

## F

**Fair market value** – The price at which property would sell on the open market.

**Federal Insurance Contributions Act (FICA)** – A federal law requiring employers to withhold wages and make payments to fund Social Security and Medicare.

**Fiduciary** – A person in a position of trust who has a legal duty to act on behalf of another. Examples include trustees, executors, administrators, custodians and trustees.

**Financial aid for education** – Used to pay education expenses and awarded based on a family's financial information and other factors. A financial aid package may consist of grants, scholarships, low-interest loans, tuition discounts, and work-study programs.

**Flexible spending account** – A salary-reduction program allowing employees to contribute pre-tax dollars for qualified expenses such as medical or dependent care.

**Force full deficit coverage** – If there is a Likelihood of Success section of the plan, then this setting applies only to that analysis. The assumption applies if there are cash flow deficits occurring before retirement and whether or not assets should be redeemed to cover these deficits.

# Financial Planning Glossary

**Full retirement age (FRA)** – The age at which an individual is eligible for full Social Security benefits.

## G

**Generation-skipping transfer tax (GSTT)** – In general, a federal tax calculated on taxable gifts/transfers made directly to grandchildren or great-grandchildren. It is levied in addition to any gift or estate tax already paid on that gift/transfer.

**Gift tax annual exclusion** – The amount a person can give to any number of individuals each year without federal gift tax.

**Gift taxes** – Taxes imposed by the federal and some state governments on lifetime gifts made to non-charitable donees.

**Grantor** – A person who transfers property to a trust.

**Grantor retained trusts** – An irrevocable trust created for a set number of years. The person who transfers property into the trust retains the right to income from it for a specified number of years. At the end of the trust, property passes to a remainder person.

**Gross estate** – All assets owned by a person at the time of death, before being reduced by certain deductions.

**Gross income** – Includes all potentially taxable income received from any source.

**Guaranteed renewable** – Prohibits an insurance company from canceling a policy for any reason other than failure to pay premiums. It also prohibits increasing premiums unless there is a rate increase for all policyholders in a particular group.

## H

**Holding** – An investment within an asset account (for example, an IRA account could “hold” mutual funds, CDs, etc.).

**Home health care** – Health care services, including part-time skilled nursing care, speech therapy, physical or occupational therapy and homemaking that are provided in an individual’s residence. May be covered by Medicare or insurance.

**HOPE Scholarship credit** – Federal tax credit available in the first two years of college and applied against qualifying college expenses. One of two education related credits. See also Lifetime Learning credit.

**Human life value** – A method of determining the amount of life insurance needed to replace a person’s future economic contributions (earnings and services) in the event of death.

## I

**Illiquid capital for income needs** – In death analysis, assets not

liquidated at the death of a principal client, but available for future survivor needs.

**Immediate annuity** – A contract purchased to provide an income stream beginning within the first year of purchase.

**Incentive stock option** – A plan which allows employees to purchase company stock at a set price. Taxes are deferred until any purchased shares are sold. The appreciation of the stock at the time of exercise is included in the alternative minimum tax calculation.

**Income in respect of a decedent (IRD)** – Taxable income the deceased would have received had he or she lived (e.g., qualified retirement plan monies). If this income is paid to the decedent’s estate, it is reported on the estate income tax return. If it is paid directly to a beneficiary, the income is reported on the beneficiary’s income tax return. If the IRD generates federal estate tax, a deduction may be claimed on the income tax return that includes the IRD.

**Installment sale** – The sale of an asset in exchange for periodic payments of principal and interest.

**Inter vivos trusts** – This trust is created during the grantor’s lifetime, and may receive a decedent’s assets. It may shelter assets from probate costs at death. Also known as a living trust.

**Interest-free loan** – Requires borrower to pay back only the money borrowed, not the amount that would have been paid in interest. It may be treated by the IRS as a gift, dividend, compensation, or as a contribution to capital of a business from the lender to the borrower.

**Intermediate care** – Occasional nursing care that must be performed by or under the direct supervision of skilled medical personnel. This type of care is not as intensive as skilled nursing care, but is more intensive than custodial care.

**Intestate** – To die without a valid will.

**Irrevocable life insurance trust (ILIT)** – A trust that usually holds only life insurance policies for the purpose of keeping the proceeds out of the insured’s estate.

**Irrevocable trust** – A trust that cannot be revoked or amended once it has been established.

**Itemized deduction** – Reduces adjusted gross income on an individual’s tax return. For example, mortgage interest, charitable contributions, state and local income taxes, property taxes, and unreimbursed business expenses.

## J

**Joint tenancy** – Ownership of property by two or more persons

# Financial Planning Glossary

in which each owns an undivided interest in the whole. Upon the death of one, the interest passes outside of probate and goes directly to the remaining joint tenant(s).

## K

**Kiddie Tax** – The tax treatment that applies to children who have unearned income (like interest or dividends). Under certain conditions, this income is taxed at the parent's marginal tax rate. This tax has been expanded and can include children up to age 18 and full-time students ages 19-23.

**Keogh plan** – A profit sharing/money purchase plan available to self-employed people and small business owners. Offers higher contribution limits than many plans available to small businesses.

## L

**Lifestyle assets** – Items purchased for personal use and enjoyment which typically do not produce income. Examples include a house, car, boat, cottage, etc.

**Lifestyle expense** – Non-deductible expenses such, food, clothing, and vacations that are incurred as part of daily living.

**Lifetime Learning credit** – Federal tax credit that may be claimed for the qualified tuition and related expenses of the students in the taxpayer's family who are enrolled in eligible educational institutions. IRS restrictions apply. One of two education related credits. See also HOPE Scholarship credit.

**Line of credit** – Commitment of a lender to loan a borrower a specified amount of money.

**Liquid assets** – Cash or assets easily convertible to cash without loss of principal.

**Liquid capital available** – In the death analysis, any assets assumed to be liquidated at death and made available for immediate survivor capital needs.

**Living trust** – Allows the grantor to retain control over the assets during his or her life and provides for the disposition of those assets upon death.

**Long-term care insurance** – An insurance policy providing payment for a wide range of services and expenses associated with long term care needs.

## M

**Marginal tax bracket** – The range of taxable income that is taxed at a certain marginal tax rate.

**Marginal tax rate** – Rate of tax levied on one's last dollar of income. Typically, the marginal tax rate is the highest rate a

person's income is taxed at and is used for tax planning.

**Marital deduction** – A deduction against the gross estate that allows assets to transfer to the spouse without limit and without federal estate and gift taxes.

**Marital trust** – A testamentary trust created to benefit the surviving spouse. Assets in this trust qualify for the marital deduction.

**Maximum Family Benefit (MFB)** – The most a family can receive in Social Security benefits in a month.

**Medicaid** – A public assistance program covering health care services for the indigent. May pay for nursing home care and limited home health care services.

**Medicare** – The federal program of hospital and medical insurance for people age 65 and over, and persons of any age with certain disabilities.

**Medicare supplemental insurance or Medigap** – Private insurance covering gaps in Medicare such as deductibles and copayments. Typically, it does not provide benefits for long-term care.

**Money market fund** – A mutual fund investing in short-term securities to maintain a constant net asset value.

**Money purchase pension plan** – A defined contribution retirement plan where employer contributes a specified percentage of employee's compensation each year. See also defined contribution plan.

**Municipal securities** – Bonds issued by state or local government units. Interest from municipal bonds is typically not subject to federal income tax and may not be subject to state or local income tax. Interest income from certain private activity bonds may be subject to the federal alternative minimum tax.

**Mutual fund** – An investment company that pools money from many people and invests it in stocks, bonds, or other securities. Each investor owns shares, which represent a part of these holdings.

## N

**Non-qualified assets** – Assets that do not "qualify" for certain tax treatment or tax advantages.

**Non-qualified deferred compensation (NQDC)** – An employee benefit providing deferral of compensation until a specified event. Funding is not tax-deductible until benefit is paid to the employee.

**Non-qualified tax-deferred annuity** – An annuity that is not purchased within a qualified retirement plan or IRA.

## P

# Financial Planning Glossary

**Passive activity rules** – Limit the deductibility of losses and use of credits from activities in which the taxpayer does not “materially participate.” The portion of the loss or credit that is not allowed as a deduction may be carried forward to the following tax year. Special rules apply to certain rental real estate activities.

**Per capita** – A term used in a will to signify dividing an estate by giving one equal share to each person in a class with the same degree of relationship to the deceased. For instance, grandchildren take equal shares regardless of how many children the deceased person had.

**Per stirpes** – A term used in a will to signify that if a beneficiary dies before the decedent, the beneficiary’s share will go to the beneficiary’s heirs.

**Plan administrator** – A person or organization providing design consulting, record keeping, legal, and/or actuarial services for a retirement or benefit plan.

**PLUS loans (parents loans for undergraduate students)** – Loans to parents to pay college expenses in excess of the Financial Aid granted. Payments begin 60 days after the loan is received.

**Pre-nuptial agreement** – An agreement entered into by prospective spouses before marriage in which the property rights of one or both are determined. Also called an ante-nuptial agreement.

**Pre-tax rate of return** – The rate of return before income taxes (and any applicable tax credits) are taken into account. See also after-tax rate of return.

**Principal** – The amount of money financed, borrowed, or invested. Or a person who authorizes another to act as his or her representative.

**Principal residence** – Property inhabited by the owner, spouse, former spouse, or child of the owner, and is designated as such by the owner.

**Private annuity** – A promise, generally between individuals, to pay income for a person’s remaining lifetime.

**Probate** – Court proceedings for the administration and distribution of an estate; includes determining validity of the will, appointing an executor or administrator, and settling the estate.

**Probate fees** – Fees charged as a percentage of the value of the estate subject to probate.

**Profit sharing plan** – A voluntary retirement plan where the employer determines the amount of contribution usually based on the year’s profits.

**Proposed plan or recommended plan** – The proposed or recommended plan is system-generated based on achieving your stated goals by applying the assumptions in the recommended scenarios.

**Proposed portfolio** – Suggested combinations and proportions of asset classes based on your risk tolerance, financial goals, and historical behavior of the asset classes available. Used to create the proposed strategies in your personal financial plan.

## Q

**Qualified assets** – Assets held in an account that “qualifies” for certain tax treatments and/or tax advantages. Examples include certain employee retirement plans or individual retirement accounts (IRAs). Investment earnings for these accounts are tax deferred. When withdrawn, the taxation of earnings is dependant on the account type. For example, the withdrawal of earnings from a Roth IRA is generally tax-free.

**Qualified retirement plan** – A plan sponsored by an employer that provides retirement benefits for its employees. See also defined benefit plan and defined contribution plan.

**Qualified state tuition plan** – Allows the purchase of tuition credits or certificates, or an investment of dollars into an account, invested by the state, for qualified education expenses. See also 529 Plan.

**Qualifying dividends** – Paid by U.S. and certain foreign corporations, these dividends qualify for a lower income tax rate through 2010.

## R

**Rate of return** – A measure of the amount an investment earns, usually expressed as an annual percentage. An investments rate of return may include interest, dividends and capital gains or appreciation.

**Realized gains and losses** – Profit or loss resulting from the sale or exchange of property and/or assets.

**Required minimum distribution (RMD)** – The amount required by the IRS to be withdrawn each year from traditional IRAs and employer-sponsored retirement plans, starting generally, but not always, in the year following the year in which the owner turns age 70 ½. Different rules apply for required distributions at the death of the owner.

**Risk management** – The use of strategies to reduce the possibility and financial impact of loss.

**Risk tolerance** – A measure of an investor’s willingness to take

# Financial Planning Glossary

on investment risk – typically measured by the variability of an investments return – in exchange for the potential of earning greater investment returns. An individual's risk tolerance may be influenced by their investment experience and understanding of financial markets.

- > Conservative – The lowest risk tolerance. Investors with a conservative risk tolerance are willing to receive the lowest return potential in exchange for the lowest return variability.
- > Moderately Conservative – A below average risk tolerance. In exchange for relatively lower return variability, investors with a moderately conservative risk tolerance are willing to accept relatively lower return potential.
- > Moderate – An average risk tolerance. Investors with a moderate risk tolerance accept a relatively average return potential in exchange for a relatively average variability of return.
- > Moderately Aggressive – An above average risk tolerance. Investors with a moderately aggressive risk tolerance are willing to accept a relatively higher level of return variability in exchange for a relatively higher return potential.
- > Aggressive – The highest risk tolerance. Investors with an aggressive risk tolerance are willing to tolerate the greatest variability in return in exchange for the highest return potential.

**Roth IRA** – An individual retirement savings plan. Contributions not tax-deductible and earnings are tax-deferred until withdrawn (tax free under certain circumstances).

## S

**Securities** – Stocks or bonds issued by corporate or government entities.

**Severance pay** – Money paid to an employee who has been laid off by an employer.

**SIMPLE 401(k) plan** – A retirement plan for businesses under 100 employees. Employees make pre-tax contributions to their own accounts.

**SIMPLE IRA** – A retirement plan for business under 100 employees, funded with mandatory employer and voluntary employee contributions.

**Simplified employee pension plan – IRA (SEP-IRA)** – A retirement plan where an employer may contribute to employees' SEP-IRA – 25% of each employee's compensation up to a maximum dollar amount. The maximum dollar amount is adjusted annually for inflation.

**Skilled nursing care** – Continuous care provided under the direct supervision of skilled medical personnel.

**Spousal IRA** – A retirement savings plan for an unemployed

or lower-earning spouse of an employed or self-employed individual.

**Stafford loans (unsubsidized)** – Allows students to defer payments up to six months past graduation. Qualifications are the same as for subsidized Stafford loans.

**Standard deviation** – A statistical measure of the volatility of an investment or asset class. Statistically, the return of an asset class is expected to fall within one standard deviation of the expected return approximately 68% of the time, and within two standard deviations of the expected return approximately 95% of the time.

**Stepped-up basis** – Generally, the basis of any property acquired from a decedent is its fair market value on the date of the decedent's death or on the alternative valuation date. A new carryover basis system is scheduled to apply for decedent's dying in 2010, unless Congress acts before then.

**Surplus cash** – Excess funds available once expenses are covered and investments made.

**Surplus/deficit account** – Records the surplus or deficit for a given year.

**Surplus expense** – Hidden or unexpected expenses that reduce surplus cash.

## T

**Tax-deferred** – Generally, income tax is levied only upon maturity or withdrawal of funds.

**Tax-deferred life insurance cash value** – Funds in a life insurance policy that exceed the amount used in the current year for administrative and mortality expenses plus any earnings. These funds are not taxed until withdrawn.

**Tax option** – The tax option used to calculate federal estate taxes. Three options are available. The first option assumes no change to the current tax law as legislated. The second and third options represent how new legislation could affect federal estate taxes. Congress is expected to address estate and gift tax rules soon. The resulting legislation may differ from any of these options.

> As legislated – In 2010 the federal estate tax is repealed. This includes the adoption of a new carryover basis system in 2010 only. In 2011, the federal estate tax laws revert to those used in 2001. The federal estate tax applicable exclusion is equal to \$1,000,000 in 2011.

> No sunset – In 2010 the federal estate tax is repealed. The repeal continues into 2011 and future years. This includes the adoption of the new carryover basis system.

> No sunset and no federal estate tax repeal – In 2010 the federal

# Financial Planning Glossary

estate tax is not repealed. Instead the federal estate tax laws of 2009 are used for 2010 and future years. The federal estate tax applicable exclusion of \$3,500,000 available in 2009 is available in 2010 and future years. No change to the step-up in basis system currently in use.

Also see application exclusion amount.

**Tax-Sheltered Annuity (TSA)** – A 403(b) plan that invests in an annuity. See also 403(b) plan.

**Tax-Sheltered Custodial Account (TSCA)** – A 403(b) plan that invests in mutual funds. See also 403(b) plan.

**Taxable assets** – Assets not tax-exempt or tax-deferred; income is taxed in the year in which it is produced.

**Taxable income** – Used to compute tax liability. From adjusted gross income, subtract itemized or standard deduction and personal exemptions.

**Tenancy by the entirety** – Joint tenancy property ownership between spouses, used only in certain states. See also joint tenancy.

**Tenancy in common** – Property ownership by two or more persons in which each owns an undivided interest in the whole. Upon death of a co-tenant, his/her interest passes as through probate, not directly to remaining co-tenant(s).

**Term life insurance** – Life insurance paying a death benefit for a specified period of time only.

**Terminable interest** – Property Ownership that may expire due to passage of time, occurrence of a future event, or failure of an event to occur.

**Testamentary trust** – A trust created within a will that takes effect at the death of the grantor.

**Testator** – A person who dies leaving a will.

**Total return** – The actual rate of return of an investment or portfolio of investments over a period of time. Total return can include interest, dividends, and capital appreciation/depreciation.

**Treasury bill** – Issued by the U.S. Department of Treasury and backed by the full faith and credit of the U.S. government. Treasury bills are relatively short-term securities, with maturities available of 4, 13 and 26 weeks.

**Treasury bond** – Issued by the U.S. Department of Treasury and backed by the full faith and credit of the U.S. government. Treasury bonds are offered with maturities of 20 and 30 years.

**Treasury Inflation-Protected Securities (TIPS)** – Issued by the U.S. Department of Treasury and backed by the full faith and credit of the U.S. government. TIPS are offered with maturities of 5, 10 and 20 years. The value of your investment is adjusted every six months to account for inflation – as measured by changes in the Consumer Price Index (CPI).

**Treasury note** – Issued by the U.S. Department of Treasury and backed by the full faith and credit of the U.S. government. Treasury notes are available in 2-, 3-, 5-, and 10-year maturities.

**Trust** – Property ownership in which legal title is held by one person (“trustee”) for the benefit of another person (“beneficiary”). Property is placed into the trust by the “grantor.”

**Trustee** – An individual or corporation holding legal title to assets and administering the trust for its beneficiaries.

## U

**Underwriter** – As related to insurance: a person who determines the degree of risk that a proposed insured represents. As related to finance: a person or business that finances the initial issuance of stock in a public offering.

**Unified credit** – This credit is applied against an individual’s federal gift or estate taxes.

**Uniform Transfer to Minors Act (UTMA) and Uniform Gift to Minors Act (UGMA)** – Custodial accounts normally used to hold a child’s investments, owned by the minor with an adult custodian.

**Unit Investment Trust** – A portfolio of bonds left unchanged once it is selected. It has a specific date when holdings will be sold and earnings and gains returned to investors. Similar to a mutual fund, a UIT pools money from many investors in order to purchase securities. Unlike a mutual fund, the UIT only purchases securities when it is first created and holds them for a +specified period of time.

**Universal life insurance** – Life insurance coverage that permits the owner to vary the amount of protection and premiums to reflect changing needs. Earnings on the cash value accumulate tax-deferred.

**Unallocated accounts** – All accounts not linked to a goal.

## V

**Variable universal life insurance** – Life insurance coverage that permits the owner to vary the amount of protection and premiums to reflect changing needs. The cash value can be invested in a variety of separate accounts similar to mutual funds.

## W

# Financial Planning Glossary

**Whole life insurance** – Life insurance with a death benefit designed for the entire life of the insured person. It usually has a fixed face amount and fixed premiums.

## Y

**Yield** – The current cash income produced by an investment.

## 1, 2, 3

**401(k) plan** – A retirement plan into which employees contribute a portion of their compensation, generally on a pre-tax basis. If the plan permits, employees can designate a portion of their compensation as an after-tax Roth contribution.

**403(b) plan** – A retirement plan that allows employees of public schools and 501 (c) (3) tax-exempt organizations to have salary reduction and/or employer contributions made on a pre-tax basis to the plan on their behalf. If the plan permits, employees can designate a portion of their compensation as an after-tax Roth contribution.

**457 plan** – A non-qualified deferred compensation plan into which employees contribute a portion of their compensation on a pre-tax basis. Used by governmental units, governmental agencies, and tax-exempt organizations other than religious organizations.

**501(c)(3) organization** – A tax-exempt organization to which charitable contributions may be made, if certain requirements are met.

**529 plan** – A tax-advantaged investment vehicle created to encourage saving for higher education expenses. Every state offers at least one of these. Tax advantages, investment options, restrictions, and fees can vary a great deal from one plan to another. Money invested in a 529 Plan grows federal and state income tax-free and can be withdrawn free from income tax to pay for tuition, fees, room, board, books, supplies and required equipment.

**1035 exchange** – Allows the direct transfer of funds in a life insurance policy, endowment policy, or annuity policy to another like policy (within certain guidelines) without taxation.

## Glossary – Asset Classes

**Aggregate bond** – Bonds issued by domestic or foreign governments, corporations, or municipalities that have a duration of greater than 1 year, as well as mutual funds that invest in those bonds. These bond funds have an average duration of greater than 1 year or an average effective maturity of greater than 1 year. These bonds or bond funds may or may not invest in bonds rated below investment grade.

**Balanced** – A fund that invests its assets in the money market, bonds, preferred stocks, and common stocks.

**Cash equivalents** – Cash or liquid, fixed interest investments such as Treasury bills, FDIC-insured CDs, other liquid assets, and money market funds that invest in such investments.

**Hedge funds** – Funds that invest broadly across the equity, bond, currency, and derivatives markets. These funds may use short selling and other aggressive investment techniques.

**High-yield fixed income** – High-yield bonds are any domestic-issue bond with the following ratings: Standard and Poor's Rating of BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C, Ci, D; or a Moody's rating of Ba, Ba1, Ba2, Ba3, B, B1, B2, B3, Caa, Ca, C. And taxable bond mutual funds with at least 70% of their portfolio invested in high-yield corporate bonds. Also known as junk bonds.

**International fixed income** – An international bond is issued by a foreign government, corporation, or municipality as well as the mutual funds that invest at least 40% of the assets in foreign bonds and 70% of all assets in bonds.

**International stock** – Common stock of companies located anywhere outside the U.S. as well as mutual funds that invest in these stocks.

**Large cap blend stock** – Common stock of large U.S. companies that either appear undervalued by the market or have above average prospects for earnings growth, as well as mutual funds that invest in these stocks. Companies are generally considered large cap if their market capitalization (the value of all of their outstanding stock) is above \$12 billion.

**Large cap growth stock** – Common stock of, large U.S. companies with above average prospects for earnings growth, as well as mutual funds that invest in these stocks. Companies are generally considered large cap if their market capitalization (the value of all of their outstanding stock) is above \$12 billion.

**Large cap stock** – Common stock of large U.S. companies, as well as mutual funds that invest in these stocks. Companies are generally considered large cap if their market capitalization (the value of all of their outstanding stock) is above \$12 billion.

**Large cap value stock** – Common stock of large U.S. companies that appear undervalued by the market, as well as mutual funds that invest in these stocks. Companies are generally considered large cap if their market capitalization (the value of all of their outstanding stock) is above \$12 billion.

**Long/intermediate corporate** – An investment-grade bond issued by a domestic corporation has a maturity greater than four years, and mutual funds that invest in those bonds. These bond funds have an average duration greater than 3.5 years or an average

# Financial Planning Glossary

effective maturity above 4 years.

**Long/intermediate government** – An investment-grade bond issued by a municipality or government entity that has a maturity greater than four years, and mutual funds that invest in those bonds. These bond funds have an average duration greater than 3.5 years or an average effective maturity above 4 years.

**Long/intermediate-term fixed income** – An investment-grade bond issued by a domestic corporation, municipality or government entity that has a maturity greater than four years, and mutual funds that invest in those bonds. These bond funds have an average duration greater than 3.5 years or an average effective maturity above 4 years.

**Long/intermediate-term government/corporate** – An investment-grade bond issued by a domestic corporation, municipality or government entity that has a maturity greater than four years, and mutual funds that invest in those bonds. These bond funds have an average duration greater than 3.5 years or an average effective maturity above 4 years.

**Long/intermediate-term tax exempt** – Bonds issued by a municipality or government entity that have a maturity greater than 4 years, or mutual funds that invest in those bonds. These bond funds have an average duration greater than 3.5 years or an average effective maturity above 4 years. Interest payments provided by these bonds are generally not subject to federal income tax and, possibly, state or local income tax. Interest income from certain private activity bonds may be subject to the federal alternative minimum tax.

**Mid/small cap blend stock** – Common stock of mid/small-sized U.S. companies that either appear undervalued by the market or have above average prospects for earnings growth, as well as mutual funds that invest in these stocks. Companies are generally considered mid/small cap if their market capitalization (the value of all of their outstanding stock) is less than \$12 billion.

**Mid/small cap growth stock** – Common stock of mid/small-sized U.S. companies with above average prospects for earnings growth, as well as mutual funds invest in these stocks. Companies are generally considered mid/small cap if their market capitalization (the value of all of their outstanding stock) is less than \$12 billion.

**Mid/small cap stock** – Common stock of mid/small-sized U.S. companies as well as mutual funds invested in these stocks. Companies are generally considered mid/small cap if their market capitalization (the value of all of their outstanding stock) is less than \$12 billion.

**Mid/small cap value stock** – Common stock of mid/small-sized U.S. companies that appear undervalued by the market, as well as mutual funds that invest in these stocks. Companies are generally

considered mid/small cap if their market capitalization (the value of all of their outstanding stock) is less than \$12 billion.

**Multi-sector fixed income** – Multisector bond portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

**Not classified** – Non-classified refers to investments that have not been classified by the system or that do not fit the descriptions of the above categories.

**Other** – Investments in specialty, hedge, world stock and balanced funds.

**Principal preservation** – Investments that seek to preserve capital and provide current income. They invest primarily in investment contracts and other stable value investments. In addition they may invest in money market instruments such as commercial paper and certificates of deposit. There is no guarantee these investment will meet their objective.

**Real estate** – Mutual funds or Real Estate Investment Trusts (REIT's) that invest in real estate or in companies in the real estate industry. It also includes direct, limited or general partnership investments in various types of residential and commercial developments and raw land.

**Short-term corporate** – An investment-grade bond issued by a domestic corporation that has a maturity of between 1 and 4 years, and mutual funds that invest in those bonds. These bond funds have an average duration of between 1 and 4 years or an average effective maturity of between 1 and 4 years and invest 70% of their assets in bonds.

**Short-term fixed income** – An investment-grade bond issued by a domestic corporation, municipality or government entity that has a maturity of between 1 and 4 years, and mutual funds that invest in those bonds. These bond funds have an average duration of between 1 and 4 years or an average effective maturity of between 1 and 4 years and invest 70% of their assets in bonds.

**Short-term government** – An investment-grade bond issued by a municipality or government entity that has a maturity of between 1 and 4 years, and mutual funds that invest in those bonds. These bond funds have an average duration of between 1 and 4 years or an average effective maturity of between 1 and 4 years and invest 70% of their assets in bonds.

# Financial Planning Glossary

**Short-term government/corporate** – An investment-grade bond issued by a domestic corporation, municipality or government entity that has a maturity of between 1 and 4 years, and mutual funds that invest in those bonds. These bond funds have an average duration of between 1 and 4 years or an average effective maturity of between 1 and 4 years and invest 70% of their assets in bonds.

**Short-term tax exempt** – Bonds issued by a municipality or government entity that have a maturity of between 1 and 4 years, or mutual funds that invest in those bonds. These bond funds have an average duration between 1 and 4 years or an average effective maturity of between 1 and 4 years and invest 70% of their assets in bonds. Interest payments provided by these bonds are generally not subject to federal income tax and, possibly, state or local income tax. Interest income from certain private activity bonds may be subject to the federal alternative minimum tax.

**Specialty/sector** – Mutual funds that limit their investment to a subset of industries that share similar characteristics.

**World stock** – Equity mutual funds that invest in companies located anywhere in the world, including the U.S.