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 consideration, 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.

10K
An annual report filed by corporations each year as required by the SEC. The 10K must be filed within 90 days after the end of the fiscal year and provides a comprehensive overview of a company's business practices and financial stability.

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 the 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 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 a

accelerated death benefits (adb's)
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.

accidental death benefit
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 and accident. This rider is often called "double indemnity."

accounts payable
A balance sheet item representing the amount of money a company owes to its creditors.

accounts receivable
A balance sheet item representing the amount of money a company is owed by its customers for goods and services it has provided.

accrual basis
One of several methods of accounting. Requires that all interest and income be included as it is earned and that all expenses are included as incurred.

adjustable rate mortgage (arm)
An adjustable Rate Mortgage offers an initial interest rate that is usually lower than a fixed rate, but that adjusts periodically according to market conditions and financial indices. The rate may go up and/or down, depending on economic conditions. To limit the borrower's risk, the ARM will almost always have a maximum interest rate allowed, called a "rate cap."

amortization
The amortization of a debt is its systematic repayment through installments of principal and interest. An amortization schedule is a periodic table illustrating payments, principal, interest, and outstanding balance.

annual percentage rate (apr)
The Annual Percentage Rate is the cost of credit expressed as a yearly rate. The APR is a means of comparing loans offered by various lenders on equal terms, taking into account interest rates, points, and other finance charges. The federal Truth-in-Lending Act requires disclosure of the APR.

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.

appraisal
An appraisal is an estimate of a property's value, usually real estate, at a specific point in time and as determined by a qualified professional appraiser.

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

arm's length
Acting at arm's length predicates that two parties negotiate with opposing economic interests.

ask price
The price that a seller is willing to sell a security or commodity for.

B b

balance sheet
A balance sheet is a financial statement that is divided into three major parts: assets, liabilities and shareholders' equity.

balloon mortgage
The terms on a balloon mortgage are insufficient to completely amortize the loan. A balloon, or lump sum, payment is required at the maturity of the loan to completely pay off the remaining

principal. Balloon mortgages often contain a contractual opportunity to refinance when the balloon payment is due at prevailing rates.

bank reserves
The amounts that banks are required to keep on deposit at a Federal Reserve Bank, as determined by reserve ratios. Funds in excess of these reserves are loaned out or invested by the banks.

bankruptcy
A federal court proceeding in which a debtor who is unable to continue to meet his/her financial obligations may be relieved from the payment of certain debts. This action seriously affects the borrower's credit worthiness.

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 100th 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.

beta
A statistically generated number that is used to measure the volatility of a security or mutual fund in comparison to the market as a whole.

bid price
The price that a buyer is willing to pay for a security or commodity.

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.

bonding requirement
The individual(s) that are appointed to run the day-to-day operations of a qualified plan, as well as the trustee(s) and investment managers must be bonded. The bond is required to provide protection to the plan against loss due to fraud, theft, forgery or dishonesty.

book value
The value that belongs to a company's owners or shareholders after total liabilities have been subtracted from total assets. Also called shareholders equity.

bull market
A prolonged increase in overall stock pricesusually occurring over a period of months or even years.

buy-down
A buy-down refers to the payment of additional discount points in return for a below market interest rate (and therefore a lower monthly payment) on a home mortgage.

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

C c

capital markets
A general term encompassing all markets for financial instruments with more than one year to maturity.

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 in 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.

certificate of deposit (cd)
A Certificate of Deposit is a low risk, often federally guaranteed investment offered by banks. A CD pays interest to investors for as long as five years. The interest rate on a CD is fixed for the duration of the CD term.

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 a 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.

co-borrower
A co-borrower is individually or jointly obligated to repay a loan entered into with a third party. The co-borrower may or may not share in ownership of loan collateral.

codicil
An instrument in writing executed by a testator for adding to, altering, explaining or confirming a will previously made by the testator; executed with the same formalities as a will; and having the effect of bringing the date of the will forward to the date of codicil.

collateral
Assets pledged as security for a loan. If the borrower defaults on payment, the lender may dispose of the property pledged as security to raise money to repay the loan.

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

commodity
A commodity is a physical substance such as a food or a metal which investors buy or sell on a commodities exchange, usually via futures contracts.

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).

conforming loan
A mortgage loan that conforms to Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines. Currently, conforming first mortgages are under $275,000 ($413,000 in Alaska and Hawaii).

construction loan
A construction loan is a short term loan applied to the construction of a new home. The builder gradually withdraws the loan proceeds and the home serves as collateral on the loan.

consumer debt
Debt incurred for consumable or depreciating non-investment assets. Items include credit card debt, store-financed consumer purchases, car loans, and family loans that will be repaid.

contrarian
An individual whose opinion is the opposite of the majority.

conventional mortgage
A conventional mortgage is not insured, guaranteed or funded by the Veterans Administration, the Federal Housing Administration, or Rural Economic Community Development.

convertible mortgage
A convertible mortgage is an adjustable mortgage (ARM) that allows the borrower to convert to a fixed rate mortgage during a specified period of time.

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.

co-signer
An individual or party who agrees to assume a debt obligation of a third party in the event the principal borrower defaults on the terms of the loan.

coupon rate
The rate of interest paid on a bond, expressed as a percentage of the bond's par value.

credit cards
Cards such as Visa and MasterCard allow the holder to charge purchases rather than pay cash.

credit bureau repositories
A credit bureau repository is an organization that compiles credit history information directly from lenders and creditors into credit summaries and reports. These reports are made available to lenders and creditors to assist them in gauging an individual's credit worthiness.

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.

currency risk
The level of risk when investing in international markets, due to the fluctuations in exchange rates of the various world currencies. Investing in any foreign country should be preceded by a careful estimation of how well its currency is likely to do against the dollar.

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

cyclical companies
Companies that report strong earnings when the overall economy is doing well and weaker earnings when the economy is in recession.

D d

debit cards
Debit cards allow the cost of a purchase to be automatically deducted from the customer's bank account and credited to the merchant.

debt markets
The fixed income sector of the capital markets devoted to trading debt securities issued by corporations and governments.

debt to income ratio
The ratio of a person's total monthly debt obligations compared to their total monthly resources is called their debt to income ratio. This ratio is used to evaluate a borrower's capacity to repay debts.

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.

deed of trust
A document used to convey title (ownership) to a property used as collateral for a loan to a trustee pending the repayment of the loan. The equivalent of 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.

defined contribution plan
In a defined contribution plan, contributions are allocated to individual accounts according to a pre-determined contribution allocation. This type of plan does not promise any specific dollar benefit to a participant at retirement. Benefits received are based on amounts contributed, investment performance and vesting. The most common type of defined contribution plan is the 401(k) profit-sharing 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.

direct deposit
A means of authorizing payment made by governments or companies to be deposited directly into a recipient's account. Used mainly for the deposit of salary, pension and interest checks.

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 it's 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.

down payment
The down payment on a property is the amount of cash applied to the purchase, with the remainder of the purchase accomplished through a mortgage or other debt.

E e

earnest money
Similar to a deposit, earnest money is the money given by the buyer to the seller of a property as an assurance of their intentions to purchase the property.

earnings per share (eps)
Total net profits divided by the number of outstanding common shares of a company.

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 ends 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. ESOPs 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.

escrow funds
Escrow funds are funds accumulated and held in an account for the periodic payment of property taxes and insurance.

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, titles to property, real estate, stocks, bonds and notes receivable.

estate planning
The orderly arrangement of one's financial affairs to maximize the value transferred at 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 in 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 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.

federal housing administration (fha)
The Federal Housing Administration (FHA) is a government agency that sets standards for underwriting residential mortgage loans made by private lenders and insures such transactions.

federal national mortgage association (fnma or fannie mae)
FNMA is a private corporation that acts as a secondary market investor in buying and selling mortgage loans.

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.

fixed rate mortgage
With a fixed rate mortgage, your interest rate will remain the same for the entire term of the loan. Although the rate will begin slightly higher than a comparable adjustable rate mortgage (ARM), the interest rate you pay can never go up for as long as you have the mortgage.

fluctuation
A variation in the market price of a security.

foreclosure
A foreclosure is the legal process by which a borrower losses their ownership interest in a collateralized property due to default on the attached loan.

fund manager
A person who manages the assets of a mutual fund.

fundamental analysis
Fundamental analysis is a technique of estimating a stock's future value based on the in-depth study of the stock's underlying financial statements. Fundamental analysis is the opposite of technical analysis.

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

futures market
A market in which contracts for future delivery of a commodity are bought and sold.

G g

generally accepted accounting principals (gaap)
Conventions, rules and procedures that define accepted accounting practices in the U.S.

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.

guaranteed investment certificate (gic)
A type of debt security sold to individuals by banks and trust companies. They usually cannot be cashed before the specified redemption date, and pay interest at a fixed rate.

guarantor
A third party who agrees to repay any outstanding balance on a loan if you fail to do so. A guarantor is responsible for the debt only if the principal debtor defaults on the loan.

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.

H h

hazard insurance
Hazard insurance protects the insured from losses arising due to physical property damage associated with catastrophic hazards such as flood, fire, earthquake, tornado, etc. Hazard insurance will often be required by a lender to protect their collateral from such risks.

home equity line of credit (heloc)
A home equity line of credit allows a homeowner to borrow against the equity in their home with specific limits and terms. This is an open end loan which allows the borrower to borrow and repay funds as needed.

home equity loan
A home equity loan is a collateralized mortgage, usually in a subordinate position, entered into by the property owner under specific terms of repayment.

I i

illiquid
The description of a security for which it is difficult to find a buyer or seller. An illiquid investment is an investment that may be difficult to sell quickly at a price close to its market value. Examples include stock in private unlisted companies, commercial real estate and limited partnerships.

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 averaging
Income averaging allows individuals who were age 50 before January 1, 1986 to pay tax on a lump sum distribution as though it had been received over a five or ten year period, rather than all at once. By using income averaging individuals may be able to pay income tax at a more favorable rate.

income statement
A financial statement that shows the components of profit, such as sales, expenses, taxes and net profit.

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 a yield less than that 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 banker
A firm that engages in the origination, underwriting, and distribution of new issues.

investment company
A corporation or trust whose primary purpose is to invest the funds of its shareholders.

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 (individual retirement account)
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.

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 of 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 j

jumbo loan
A loan that is larger than the limits set for conventional loans by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corportation (FHLMC). This limit is currently set at $300,700.

junk bonds
A bond that pays an unusually higher rate of return to compensate for a low credit rating.

K 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 l

leverage
Using "leverage" is the process of investing using borrowed funds. Leveraging your investments magnifies your returns, both positive and negative.

leveraged buyout (lbo)
Leveraged buyouts are deals in which a company is bought with mostly borrowed money, money frequently raised through selling high-yield and high-risk junk bonds.

liability risk
The risk that the legal system may assess punitive damages against you if property damage or personal injuries can be attributed to your carelessness or negligence.

lien
A lien represents a claim against a property or asset for the payment of a debt. Examples include a mortgage, a tax lien, a court judgment, etc.

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 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.

loan-to-value ratio
A loan-to-value ratio represents the relationship between all outstanding and proposed loans on a property and the appraised value of the property. For example, an $80,000 loan on a $100,000 property would represent an 80% loan-to-value ratio. This ratio assists a lender in determining the risk associated with the loan. The higher this ratio, the riskier the loan.

long position
A long position in an investment indicates a current ownership in that investment which would increase in value as the underlying asset(s) increase in value, opposite of a short position.

M m

margin
The amount of money supplied by an investor as a portion of the total funds needed to buy or sell a security, with the balance of required funds loaned to the investor by a broker, dealer, or other lender.

margin account
A special account set up by a broker for a client who wants to buy and sell securities using margin.

margin call
A call from a broker to a client asking for more money to back up a security purchased on margin when such a security has declined in value. If more money is not supplied, the broker usually sells the security.

market order
An order to buy at the lowest price going, or sell at the highest price possible.

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 percent 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.

mortgage
A legal instrument providing a loan to the mortgagee to be used to purchase a real property in exchange for a lien against the property.

mortgage broker
A mortgage broker acts as an intermediary between a borrower and a lender. A broker's expertise is to assist the borrower in identifying mortgage lenders and products that they might not identify otherwise.

mortgage insurance (mi)
Mortgage insurance protects the lender against the default of higher risk loans. Most lenders require mortgage insurance on loans where the loan-to-value ratio is higher than 80% (less than 20% equity).

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 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.

non-conforming loan
A loan that does not conform to Federal National Mortgage Association (FNMA) or Federal Home

Loan Mortgage Corporation (FHLMC) guidelines. Such loans include jumbo loan, sub-prime loans and high risk loans.

note
A note is a legal document that acknowledges a debt and the terms and conditions agreed upon by the borrower.

O o

odd lot
An uneven number of securities that represents less than a board lot.

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 fund.

origination fee
The origination fee on a mortgage is usually the amount charged by the lender for originating the loan. Origination fees vary by lender and are expressed in points where one point is equal to 1% of the original loan balance.

over-the-counter (otc) market
Market created by dealer trading as opposed to the auction market, which prevails on most major exchanges.

P p

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

par bond
A bond selling at par.

payroll deduction
Payments made on your behalf by your employer. They are automatically deducted from your pay check.

points
Points are charges added to a mortgage loan by the lender and are based on the loan amount. One point is equal to 1% of the original loan balance.

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.

present value
The current worth of a future payment, or stream of payments, discounted at a given interest rate over a given period of time.

principal
The principal amount of a loan or mortgage is the outstanding balance, excluding interest.

private mortgage insurance
Private mortgage insurance protects the lender against the default of higher risk loans. Most lenders require private mortgage insurance on loans where the loan-to-value ratio is higher than 80% (less than 20% equity).

probate
The process used to make an orderly distribution and transfer of property from the deceased to a group of beneficiaries. The probate process is characterized by court supervision of property transfer, filing of claims against the estate by creditors and publication of a last will and testament.

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 percent of a participant's compensation.

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 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 qualification rules". If the rules are satisfied the plan's trust is exempt from taxes.

R r

refinance
To refinance one's mortgage is to retire the existing mortgage using the proceeds of a new mortgage and using the same property as collateral. This is usually done to secure a lower interest rate mortgage or to access equity from the property.

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.

revolving debt
A debt or liability that does not have a fixed principal balance or payment. Examples include credit cards, home equity lines of credit, etc.

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 interest is reinvested, you will double your money in 9 years.

S 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".

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

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

short position
A short position in an investment indicates a position in an investment that would increase in value as the underlying asset(s) decrease in value. Opposite of a long position.

short sale
The sale of stock that you do not yet own in order to take advantage of an expected share price decline. If the stock declines in price, the stock is purchased at the now lower price and the short position is closed.

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.

smart card
A card with an embedded computer chip which stores more information, performs more functions and is more secure than a credit card or debit card.

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
Stock certificates represent an ownership position in a corporation. Stockholders are often entitled to dividends, voting rights, and financial participation in company growth.

stock dividends
The investor's share of the income earned by the company issuing the stock.

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 t

tax credit
An income tax credit directly reduces the amount of income tax paid by offsetting other income tax liabilities.

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 form the investment. Some vehicles or products that enjoy this special tax treatment include permanent life insurance, annuities, and any investment held in IRA's.

technical analysis
Technical analysis is a technique of estimating a stock's future value strictly by examining its prices and volume of trading over time. Technical analysis is the opposite of fundamental analysis.

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.

testamentary trust
A trust created under the terms of a will and that takes effect upon the death of the testator.

ticker symbol
A ticker symbol is a combination of letters that identifies a stock-exchange security.

title
A legal document establishing property ownership.

title search
A detailed examination of legal records to determine the history and legal ownership of a property.

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 percent 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.

treasury bill
Treasury bills, often referred to as T-bills, are short-term securities (maturities of less than one year) offered and guaranteed by the federal government. They are issued at a discount and pay their full face value at maturity.

treasury bond
Treasury bonds are issued with maturities of more than 10 years and are offered and guaranteed by the U.S. Government. They are issued at a discount and pay their full face value at maturity.

treasury note
Treasury notes are issued with maturities between one and 10 years. These notes are offered and guaranteed by the U.S. Government. They are issued at a discount and pay their full face value at maturity.

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 u

underwriter (banking)
A person, banker or group that guarantees to furnish a definite sum of money by a definite date in return for an issue of bonds or stock.

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 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.

unemployment rate
The number of people unemployed measured as a percentage of the labor force.

universal life insurance
An adjustable Universal Life insurance policy provides both a death benefit and an investment component called a cash value. The cash value earns interest at rates dictated by the insurer. 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 (taxes may be required if policy is surrendered). 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. Premiums are adjustable by the policy owner.

V v

variable investment
A variable investment is any investment whose value, and therefore returns, fluctuates with market conditions such as a common stock, a plot of raw land, and a hard asset.

variable universal life insurance
A Variable Life insurance policy provides both a death benefit and an investment component called a cash value. The owner of the policy invests the cash value in subaccounts selected by the insurer. The policyholder may accumulate significant cash value over the years and "borrow" the appreciated funds without paying taxes on the borrowed gains (taxes may be required if policy is surrendered). 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.

variable rate mortgage (VRM)
A Variable Rate Mortgage offers an initial interest rate that is usually lower than a fixed rate, but that adjusts periodically according to market conditions and financial indices. The rate may go up and/or down, depending on economic conditions. To limit the borrower's risk, the VRM will almost always have a maximum interest rate allowed, called a "rate cap."

venture capital
A common term for funds that are invested by a third party in a business either as equity or as a form of secondary debt. In the event of failure or business wind-up, these funds rank behind all other secured creditors.

vesting
The law requires that a qualified plan have a schedule under which a participant earns an ownership interest in employer provided contributions based on his or her years of service with the employer. Amounts contributed by the participant are always 100% vested.

viatical settlement
Occurs when a person with 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.

W w

waiver of premium
A waiver of premium rider on an insurance policy sets for conditions under which premium payments are not required to be made for a time. The most popular waiver of premium rider is the disability waiver under which the owner of the policy (also called the policyholder) is not required to make premium payments during a period of total disability.

whole life insurance
A traditional Whole Life insurance policy provides both a death benefit and a cash value component. The policy is designed to remain in force for a lifetime. Premiums stay level and the death benefit is guaranteed. Over time, the cash value of the policy grows and helps keep the premium level. Although the premiums start out significantly higher than that of a comparable term life policy, over time the level premium eventually is overtaken by the ever-increasing premium of a term policy.

will
The most basic and necessary of estate planning tools, a will is a legal document declaring a person's wishes regarding the disposition of their estate. A will ensures that the right people receive the right assets at the right time. If an individual dies without a will they are said to have died intestate.

wrap account
An account offered by investment dealers whereby investors are charged an annual management fee based on the value of invested assets.

write-off
Any loan not expected to be recovered and is recorded as a loan loss.

X x

Y y

yield
The yield on an investment is the total proceeds paid from the investment and is calculated as a percentage of the amount invested.

Z z

zero-coupon bond
A zero-coupon bond is a bond sold without interest-paying coupons. Instead of paying periodic interest, the bond is sold at a discount and pays its entire face amount upon maturity, which is usually a one year period or longer.