Vocabulary Terms

Disclaimer: The terms below do not represent full legal definitions and should be used as a limited reference for conversation surrounding individual retirement planning. Use of the terms and definitions below for legal purposes is prohibited.

1. **401K**

   An employer sponsored retirement savings plan. With a traditional 401(k), you contribute a portion of each paycheck to the plan, select your own investments from a limited list in most cases and don't pay taxes on the contributions or earnings until you start taking withdrawals.

2. **Annuities**

   A contract you make with an insurance company or financial services firm. In exchange for one or several contributions in the present, the company agrees to provide future income for a set number of years, or the rest of your life. Annuities are for people who want to receive reliable income in retirement.

   Annuities include Fixed, variable, Immediate and Indexed. Their contracts and fees can be very complex, so make sure you understand the contract and or seek a Professional Financial advisor to assist in the decision.

3. **Brokerage Account**

   Unlike a retirement savings account a brokerage account is an investment account that allows you to buy and sell a variety of investments, such as stocks, bonds, mutual funds, and ETFs. Whether you're setting aside money for the future or saving up for a big purchase, you can use your funds whenever and however you want. The taxation of gains in these accounts is much different than a retirement account.

4. **Capital Gain**

   The increase in the value of a capitol asset (stock, bond, real estate, etc.) when it is sold. Put simply, a capital gain occurs when you sell an asset for more than what you originally paid for it. Inside a traditional retirement plan the capital gains are taxed as normal income, Roth accounts currently do not tax capital gains.
   Capital gains are "realized" when you sell an asset by subtracting the original purchase price from the sale price. The Internal Revenue Service (IRS) taxes individuals on capital gains in certain circumstances inside a brokerage account.

5. **Disbursement**

   Taxable or tax deductive expenses taken from retirement accounts. These can be recurring such as your monthly living expenses or one-time expenses such as a new car or expensive vacation.

6. **Early Withdrawal Penalty**

   With most defined contribution plans, if you withdraw the money before you reach age 59 ½ years old there is an early withdrawal penalty with few exceptions. These penalties are based on the amount withdrawn as a percentage.

7. Excess Income

When your monthly income from all sources exceeds your specified total month expenses. This often occurs when the government required minimum distributions from traditional IRA retirement account(s) begin in your 70's. Keeping your dollars invested is important in retirement, cash does not keep up with inflation.
NOTE: having 3-6 months of retirement expenses in a money market account as an emergency fund is recommended.

8. Exchange Traded Fund (ETF)

An investment that pools your money in a fund with other investors to buy a diversified mix of investments. ETFs aim to duplicate the performance of underlying stock and bond indexes, like the S&P 500. ETFs aren't generally offered in 401(k)s, but you can invest in ETF's if you have an IRA or taxable brokerage or other investment account.

9. Individual Retirement Account (IRA)

An IRA is an individual retirement investment account that is available for anyone. It's generally not offered by employers.
With a traditional IRA your contributions may be tax deductible, meaning you can decrease your income taxes today. You don't pay any taxes on the earnings until you start making withdrawals in retirement.

10. Long Term Care

A variety of services which help meet both the medical and non-medical needs of people with a chronic illness or disability who cannot care for themselves for long periods.

11. Matching Contribution

Incentives from your employer to encourage you to actively save for retirement. If an employer makes contributions to your retirement plan they generally match a portion of the contributions you're depositing in the account each month, up to a set percentage.
For example, an employer may match 100% of your contributions, up to 3% of your salary. If you earned $50,000 per year, that means your employer would match up to $1,500 of your 401(k) contributions. Percentages vary by employer, check your particular plan for details.

12. Money Market Account

A deposit account that pays interest based on current interest rates in the money markets. The interest rates paid are generally higher than those of savings accounts. Some banks will require higher minimum balances in money market accounts to avoid monthly fees and to earn interest.

13. Minimum Required Distributions (RMD)

The minimum amount you must withdraw annually from most tax-advantaged retirement accounts, like traditional IRAs and 401(k)s of all kinds, once you turn 72 (laws are changing so check the latest regulations). Roth IRAs are the only type of retirement account that doesn't require RMDs. Brokerage and other investment accounts are not subject to RMD's.

14. Mutual Fund

Similar to ETFs, mutual fund pools money from many investors to purchase a broad range of stocks, bonds or short-term debt. Mutual funds provide instant diversification, since you're buying a basket of securities rather than investing in a single company.
Mutual funds are commonly actively managed, meaning a team of experts selects and trades securities to try and provide positive returns. Index Funds are mutual funds that aim to duplicate the performance of major market indices are increasingly popular because of the low costs but solid returns they provide.
You can purchase shares of index and mutual funds inside a 401(k), IRA or taxable brokerage or other investment account.

15. Net Worth

The total worth of all your assets (home, car, savings) minus your liabilities (mortgage, loans).

16. Non-Mortgage Debt

Debt that is not related to mortgage liability. This includes credit cards, student loans, personal loans, and other non-mortgage related liabilities.

17. One Time Expense

Large non-recurring expenses generally take as disbursements from your retirement savings account. These can be foreseeable expenses such as a trip to Europe, new roof, HVAC replacement, wedding.

18. Passive Income

Income that requires little or no labor to produce and maintain. Such income may require substantial planning, labor and finances to set up initially such as renovations to rental properties, online stores, etc. Passive income streams are often combined with other income sources like a regular job, business, or retirement income.

19. Pension Plan

An employee benefit that where the employer makes regular contributions to a pool of money set aside for payment to eligible employees after they retire. In the United States, traditional pension plans, or defined benefit plans, have become uncommon replaced by less costly retirement plans to employers, such as the 401(k)-retirement savings plan.

20. Recurring Contribution

For the purpose of retirement savings this refers to a regular ongoing contribution made by a person and or company into individual retirement savings account(s). These contributions can split into multiple accounts such as a Tax deferred 401K and a nontaxable ROTH IRA account.

21. Recurring Expense

Long term expenses paid on a weekly, monthly, yearly basis such as rent, groceries, utilities, insurance. Unlike "debt" these expenses are normally classified as needs for everyday living and are not considered an asset.

22. Retirement Expense

Expenses retirees will need to continue their current standard of living. Typically, retirees will need 80% of their pre-retirement income to continue their current standard of living.

23. Retirement Income

Income that is required to fill the gap now and into the future once a person has left the workforce or self-employed business. Income can come from multiple places such as investment accounts, social security, pension, trusts, part-time work, and passive income streams.

24. Rollover IRA

An IRA funded with money you move, or roll over, from an employer sponsored 401(k). This most often happens when you leave your job and want to avoid high plan fees or limited investment options. Multiple retirement accounts can be consolidated using this method without penalty as long as they contributed into the proper pre-tax or post tax format.

25. Roth 401K

An employer sponsored retirement savings plan that offers special tax advantages. Unlike traditional 401(k) accounts, where you make contributions on a pre-tax basis, Roth 401(K) contributions are made with money you've already paid taxes on. Because there is no upfront tax deduction, your earnings and withdrawals are tax free once you reach 59 ½.

26. ROTH Individual Retirement Account (IRA)

Contributions to Roth IRA's come from money that's already been taxed. Because you haven't taken a tax deduction, you're able to withdraw earnings and contributions in retirement without paying federal income tax, although some state taxes may apply depending on the state the money was contributed in.

Because the money has already been taxed, you can access your contributions before retirement without paying early withdrawal penalties. Although investment gains, are subject to taxes and early withdrawal penalty. Income restrictions apply to those who are eligible

27. Self-Directed IRA (SDIRA)

A retirement plan that allows you to invest in a wider range of investments. than the Traditional IRA. Self-directed IRAs can hold precious metals, including gold and silver, real estate, and cryptocurrency. They can be traditional or Roth retirement accounts.

28. Social Security

A Federal Government pension program primarily for retirees and their families. It replaces a portion of your wages (around 40%) based on your highest 35 years of earnings and when you decide to start receiving benefit payments. Retirement Social Security can be taken as early as age 62 with reduced benefits or delayed past full retirement age with increased benefits.

29. Vesting

Vesting generally refers to the amount of ownership you’ve built up over something, like your employer’s contributions to your workplace retirement account.
To encourage long term employment, an employer might set up a vesting schedule that increases ownership over your 401(k) matching dollars each year. For example, you might earn 20% of your employer match each year you work at your company until you own all of it outright after five years. If you leave before you’ve reached the end of your vesting period, you forfeit any unearned contributions.

30. Windfall

One-time after tax contributions to savings such as inheritance, tax refund or other financial event.