

ASPPA

Education & Examination Committee

Glossary of Terms

A

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

Actuarial Assumptions: Certain assumptions made by the plan's actuary that are used to determine contributions to a defined benefit plan. The assumptions may include mortality rates, investment return, turnover rates, retirement rates, retirement age, and salary scale.

Actuarial Equivalence: Two different forms of benefit (such as life annuity and lump sum) that have equal value under a set of actuarial assumptions defined in the plan.

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

After-tax Employee Contributions: Amounts that a participant voluntarily contributes to a plan in addition to the contributions made by the employer. After-tax employee contributions, unlike employer contributions, are not deductible on either the employee's or the employer's tax return. Alternately referred to as voluntary contributions, post-tax contributions or employee after-tax contributions. See also "Designated Roth contributions."

Alternate Payee: A spouse, former spouse, child or other dependent of the participant.

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

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

ASPPA: American Society of Pension Professionals & Actuaries.

Asset Allocation: The process of diversifying a portfolio of investments among various classes of assets.

Asset Class: An identification of the type of investment. The three primary asset classes are stocks, bonds, and cash investments.

Audit Closing Agreement Program (Audit CAP): A special program by which a plan sponsor may correct a plan qualification error discovered during an IRS audit.

B

Back-end Load: A fee charged when an investor redeems certain types of investments. Back-end loads are also known as redemption fees or contingent deferred sales charges because they typically help to cover the commissions paid up front when the original investment was made.

Balance-forward Accounting: A recordkeeping method of allocating plan earnings and expenses to the accounts of participants, while periodically determining the value of participant accounts.

Basis Points: A term used to express fees, expenses, or loads relating to investments. A basis point equals one one-hundredth of one percent, e.g., 0.01percent equals one basis point.

Beneficiary: A person designated by a participant, or someone who by the terms of the plan is or may become eligible for benefits under the plan if the participant dies.

Bond: A debt security issued by a government or corporation promising repayment of a specified amount, plus interest, by a stated date.

Broker: A person who has passed one or more exams with the National Association of Securities Dealers (NASD) and who is affiliated with a Broker/Dealer firm that can transact orders (buys and sells) on behalf of customers. A broker is compensated through commissions. Normally, brokers expect to work with customers for a limited time and are always looking to acquire new customers. For comparison, see “Financial Advisor,” “Financial Consultant,” “Financial Planner,” and “Investment Manager.”

Broker/Dealer: A person or investment firm authorized to execute transactions involving mutual funds or other securities. A firm may act as both a broker (agent) and dealer (principal), but not in the same transaction.

Bundled Administration: A package of complete administrative, recordkeeping, and investment services provided by a single firm.

C

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

Cash or Deferred Arrangement (CODA): A qualified profit sharing or stock bonus plan that gives a participant an option to take cash or to have the employer contribute the money to a qualified profit sharing plan as an “employer” contribution to the plan (i.e., an “elective deferral”). These arrangements are often referred to as “401(k) plans.” See “Salary Reduction Agreement.”

CB: Cumulative Bulletin. A government publication in which revenue rulings and other pertinent IRS pronouncements are published. The Cumulative Bulletin is published semiannually and incorporates the materials that the IRS publishes weekly in its Internal Revenue Bulletins (IRB).

Certificate of Deposit (CD): Negotiable interest-bearing certificates by which a bank promises to repay money deposited with it for a specific time period at a specified interest rate. A “time deposit” in a bank, maturing on a specific date, and traditionally evidenced by a certificate.

Clones: A form of mutual fund intended to mirror another successfully-managed fund. The clone fund hopes to attract investors through name recognition, although the clone’s fund manager may not be the same as that of the fund being cloned.

Closely Held Corporation: A nonpublic corporation that is owned by a small number of shareholders.

Closing Agreement Program (CAP): A program used when significant plan defects are discovered under plan audit. The program’s advantage is to maintain the plan’s qualified status.

Code: See “Internal Revenue Code.”

Collateral: Property that a borrower gives or assigns to a lender as security for a loan. If the borrower defaults (fails to repay), the lender takes the collateral.

Collectively Bargained Plans: Plans that provide retirement benefits under a collective bargaining agreement. Generally, if more than one employer is required to contribute to the collectively bargained plan, the plan is treated as a multiemployer plan, subject to special rules.

Commission: The fee paid to the salesperson or broker for buying or selling securities or other property.

Commodities: Typically physical substances, such as gold or silver, which investors can buy or sell on a commodities exchange market.

Common/Collective Funds: Funds managed by the trust departments of banking institutions that hold the assets of qualified plans maintained by a number of unrelated plan sponsors.

Common/Collective Trust: An investment trust maintained by a bank, trust company, or similar institution that is regulated, supervised, and subject to periodic examination by a state or federal agency. They hold the assets of qualified plans maintained by a number of unrelated plan sponsors for the purpose of collective investment and reinvestment of assets.

Common Stock: A security representing a share of ownership in a corporation.

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

Contingent Deferred Sales Load (CDSL) or Charge (CDSC): A fee incurred by the investor when liquidating part or all of an investment to cover commissions when the original investment was made. The CDSL/CDSC can be avoided by withdrawing less than a certain amount each year, or by keeping the money with the issuer for a specified number of years, usually in the five to seven year range. It is also known as a back-end load (see above) or surrender charge.

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

CPC: Certified Pension Consultant, a professional designation granted by ASPPA.

Cross-tested Plans: A defined contribution plan tested for nondiscrimination on a benefits basis or, conversely, a defined benefit plan tested for nondiscrimination on a contribution basis. Also may be referred to as “New Comparability” plans.

Custodian: The organization (usually a bank or trust company) that holds in safekeeping the securities and other assets of a plan.

D

Daily Valuation: A recordkeeping method whereby participant accounts are valued every business day. This facilitates fund transfers, contributions, and distributions in a timely manner, and results in up-to-date and current participant account balances. Participant accounts are held in shares or units.

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

Debenture: A type of bond issued by a corporation or governmental agency. An unsecured bond backed only by the full faith and credit of the issuer.

DEFRA: Deficit Reduction Act of 1984. One portion of the Act was the Tax Reform Act of 1984 (TEFRA).

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

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

Delayed Retirement: Choosing not to separate from service upon attaining normal retirement age and postponing distribution.

Delinquent Filer Voluntary Compliance (DFVC) Program: An EBSA/DOL program by which a plan sponsor which has not met certain filing requirements may file their delinquent returns.

Designated Roth contributions: Employee contributions made to Roth 401(k) accounts under a 401(k) plan. Also referred to as designated Roth 401(k) contributions, Roth 401(k) contributions, or Roth 401(k) after-tax elective deferrals.

Determination Letter or Letter of Determination: Letter issued by the IRS representing a determination whether or not a plan submitted has satisfied the requirements for qualification.

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

Discount: The difference between a bond's current market price and its face or redemption value.

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

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

Disqualified Persons: An IRS-defined term. See “Party-in-Interest.” All of these individuals or entities are also Disqualified Persons except numbers 10 and 11.

Diversification: The practice of spreading investments over several different securities or types of investment vehicles to reduce risk.

Dividend: Portion of earnings paid to a shareholder by a corporation.

Dividend Reinvestment: A feature by which income, dividends, and/or capital gains distributions are automatically used to buy additional shares of a mutual fund or other security.

DOL: Department of Labor. See “EBSA.”

DRO - Domestic Relations Order: A state judgment decree or order (including approval of a property settlement agreement) which relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of a participant. Upon qualification, a DRO becomes a QDRO (see below).

E

Early Retirement Date: The date on which a participant can receive a distribution if he or she decided to retire prior to attaining the plan’s normal retirement age and the plan allows for it.

EBSA: Employee Benefits Security Administration, the division under the Department of Labor which administers the non-tax (regulatory and administrative) provisions of ERISA. The EBSA issues opinion letters and other pronouncements, and requires certain information forms to be filed with it by plan sponsors.

EGTRRA: Economic Growth and Tax Relief Reconciliation Act of 2001.

Elective Deferral: A contribution to a cash or deferred arrangement made pursuant to an employee's election to have such contribution made in lieu of receiving cash. Alternately referred to as elective contributions, salary deferrals or salary reduction contributions.

Eligible Retirement Plan: An IRA or another qualified retirement plan.

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

Employee: An individual who provides services for compensation to an employer and whose duties are under the control of the employer.

Employee Contributions: See “After-tax Employee Contributions” and “Mandatory Employee Contributions.”

Employee Plans Compliance Resolution System (EPCRS): A comprehensive IRS correction program that allows plan sponsors to correct plan defects voluntarily. It is comprised of the Audit Closing Agreement Program (Audit CAP), Self-Correction Program (SCP), and Voluntary Correction with Service Approval Program (VCP).

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

Employer Securities: Shares of stock or bonds issued by the corporation sponsoring the retirement plan.

Enrolled Actuary: A person, enrolled with the Joint Board for the Enrollment of Actuaries, who performs actuarial services for a defined benefit plan. The actuary's services include making a determination of how much to contribute to the plan each year to provide the stated benefits at retirement, the certification of a Schedule B (Form 5500) to be filed with the plan's annual return to the EBSA and certain PBGC forms.

Equity: The ownership interest in a corporation which distinguishes stockholders from bondholders. Also a term often used interchangeably with stock.

Equity Wash Restrictions: Typically requires that participant-directed transfers from a fixed rate investment contract be made to an equity fund and remain in that equity fund for a specified period of time before transferring to another fixed income fund.

ERISA: Employee Retirement Income Security Act of 1974. The basic labor law covering qualified plans, it incorporates both the pertinent Internal Revenue Code provisions by reference and labor law provisions.

ERTA: Economic Recovery Tax Act of 1981.

Excise Tax: Taxes that apply to certain types of distributions from qualified plans or in circumstances where the employer has made nondeductible contributions or has not made a required minimum contribution to the qualified plan.

Exclusive Benefit Rule: Plan fiduciaries must discharge their duties solely in the interest of participants and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries and paying administration expenses.

Expense Ratio: A percentage of a fund's net assets paid out in annual operating expenses. Expenses include management and investment advisory fees, all fees associated with distributing shares and literature, and administration of the fund. The expense ratio for most funds ranges from as low as 0.20 percent to around 2.50 percent, or 20 to 250 basis points. Expenses are higher for funds that do an extraordinary amount of trading.

F

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

Fannie Mae or FNMA: The Federal National Mortgage Association, a quasi-governmental agency now publicly owned that purchases mortgages from the original mortgage lenders.

FASB: Financial Accounting Standards Board. This board is responsible for determining uniform standards for treatment of accounting items. For example, FASB 87 refers to the statement issued by FASB regarding employers' accounting for pension liabilities.

Federal Truth in Lending Act: An act that applies to plans which have more than 25 participant loans in total during a calendar year. This act requires the trustee to provide additional paperwork to a participant taking a loan.

Fee-sharing Arrangement: A revenue-sharing arrangement where mutual funds offer share revenue and/or fees with service providers of defined contribution plans.

Fiduciary: Any person (individual or corporation) who exercises discretionary authority or control over the management or disposition of plan assets.

Financial Advisor: A person who advises clients on financial issues in general. In particular, a financial advisor may advise on how to select certain investments. Normally they are compensated through fees for services. They may have passed one or more NASD exams, be associated with a Broker/Dealer, and buy or sell securities for a commission or a fee. Typically a financial advisor will work with the same client over many years. For comparison, see "Broker," "Financial Consultant," "Financial Planner," and "Investment Manager."

Financial Consultant: A person who may consult on specific topics with customers. For example, a QPFC consults in the retirement benefits area. Usually, financial consultants are compensated through fees for services. They may have passed one or more NASD exams, be associated with a Broker/Dealer, and buy or sell securities for a commission or a fee. A financial

consultant also may be a Broker who does consulting on specific topics for customers. Similar to a broker, they tend to have a higher customer turnover. For comparison, see “Broker,” “Financial Consultant,” “Financial Planner,” and “Investment Manager.”

Financial Planner: A person who will collect financial data from clients and will organize and analyze the data to meet a client’s goals and objectives. They may have passed one or more NASD exams, be associated with a Broker/Dealer, and buy or sell securities for a commission or for a fee. Financial planners will tend to implement their client recommendations either directly or through other professionals (attorneys, certified professional accountants and retirement plan administration firms). They will tend to have clients for a long time since they are planning a client’s financial future. They may be compensated by fees for the planning aspect of their services and commissions for implementation of their recommendations. For comparison, see “Broker,” “Financial Advisor,” “Financial Consultant,” and “Investment Manager.”

Fiscal Year: A 12-month period used for accounting purposes.

5 Percent Owner: Any person who owns, directly or indirectly, more than 5 percent of the stock of the employer. If the employer is not a corporation, the ownership test is applied to the person's capital or profit interest in the employer.

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

Front-end Load: Sales commissions paid when shares of a mutual fund are purchased.

FSPA: Fellow of the American Society of Pension Professionals & Actuaries, a professional designation granted by ASPPA.

Fund Family: A group of mutual funds sponsored by the same (investment) organization.

G

GATT: General Agreement on Tariffs and Trade (part of the Uruguay Round Agreements Act)

Ginnie Mae or GNMA: The Government Mortgage Association, a quasi-governmental agency carrying the full faith and credit of the U.S. government, which purchases mortgages from the original mortgage lenders.

Guaranteed Investment Contract (GIC): A contract issued by an insurance company that guarantees a set rate of interest.

GUST Amendments: The term that collectively refers to plan amendments required under GATT, USERRA, SBJPA and TRA of '97.

H

Hardship: A distribution that is on account of an immediate and heavy financial need and must be necessary to satisfy that financial need.

Highly Compensated Employee (HCE): An employee who, (1) during the current or preceding year, is or was a more than 5 percent owner, or (2) received compensation in excess of the specified dollar limit for the preceding year.

H.R. 10 Plan: See “Keogh Plan.”

I

In-Service Withdrawal: A withdrawal of vested money from a qualified plan to an employee who is still actively employed. Also referred to as an in-service distribution.

Institutional Investors: Managers of large amounts of money for a big organization, such as mutual funds, insurance companies, and retirement funds.

Insured Plan: A plan funded exclusively by insurance contracts.

Integrated Plan: A plan that considers either benefits or contributions made under Social Security within the plan’s benefit structure.

Interested Parties: Generally means all employees at the time the employer applies for a determination letter. The IRS requires that interested parties be notified when the application is made.

Internal Revenue Code (IRC): This is the basic federal tax law.

Investment Manager: A person who manages investments for clients. Normally they will charge fees based on the amount of assets that they are investing. Investment managers will execute the buys and sells of mutual funds or individual securities normally without commissions. If they are registered with the NASD, they may receive commissions from the transactions. Investment managers tend to have the same clients only as long as their services (and return on investments) tend to be competitive. For comparison, see “Broker,” “Financial Advisor,” “Financial Consultant,” and “Financial Planner.”

IRA: An individual retirement account or annuity. IRAs may provide the taxpayer deductions for contributions to the IRAs and tax deferrals on the earnings.

IRB: Internal Revenue Bulletin. A weekly collection of materials published by the IRS. See also “CB.”

IRS: Internal Revenue Service. This is an agency of the Treasury Department, headed by the Commissioner of Internal Revenue, charged with enforcing the tax laws. Included in IRS functions are issuances of interpretations of the tax law, auditing of tax returns, and making criminal investigations.

J

JCWAA: Job Creation and Worker Assistance Act of 2002.

Joint and Survivor Annuity: An annuity paid for the life of the participant with a survivor annuity for his or her spouse.

K

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

Key Employee: A participant who, at any time during the plan year is: (1) an officer who earns more than \$130,000 as indexed, (2) a more-than-5 percent owner of the employer, or (3) a more-than-1 percent owner earning more than \$150,000.

Kiosk: A centralized unit with a touch screen that allows participants to access information about their account balances and options within their plan.

L

Limitation Year: The calendar year of the plan, unless the employer elects to use any other consecutive 12-month period as the limitation year.

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

Load: The sales charge or commission charged on the purchase of some mutual funds or insurance products. The charge can be a front-end load or a back-end load.

LRM: List of Required Modifications. Model language issued by the IRS when there are significant law changes affecting qualified retirement plans.

M

Management Fee: An annual fee paid by an investment company to the managers of a fund, which is usually a mutual fund.

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

Margin: Buying a stock or bond on borrowed funds. The margin is the amount the customer puts up.

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

Master Plan: Usually a two part document. One part is the Basic Plan Document that contains language and definitions, which are the same for all plans. The other part is an Adoption Agreement, which is a fill-in-the-blank document containing employer information and specific plan provisions.

Maturity: The date when a debt obligation is due to be repaid.

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

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

Money Market Fund: Typically, a mutual fund that aims at maximum safety, liquidity, and (usually) a constant price for its shares. Its assets are invested to earn current market interest rates on the safest, short-term, highly liquid investments. Note that not all money market funds are mutual funds.

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

MSPA: Member of the American Society of Pension Professionals & Actuaries, a professional designation granted by ASPPA.

Multi-employer Plan: A retirement plan, maintained under a collective bargaining agreement, that covers the employees of more than one employer. Generally, the various employers are not financially related but rather are engaged in the same industry.

Multiple Employer Plan: A single plan maintained by more than one unrelated employer.

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

Mutual Fund: As defined by the Investment Company Act of 1940, an investment that pools the funds of many investors to provide them with professional management, diversification, and other advantages. The fund's stated investment objective indicates what kind of investments (stock, bonds, money market instruments and other securities) the fund's manager may include in the portfolio.

N

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

NASD: National Association of Securities Dealers.

Net Asset Value (NAV): The market value of one share of a mutual fund. A mutual fund must determine its NAV at least once each business day, usually at the close of business of the New York Stock Exchange. It is calculated by taking the value of all of the fund's assets (closing market price for all securities plus cash and receivables), less expenses, and dividing by the number of shares outstanding.

No-Load Fund: A mutual fund with no sales charge to buy or sell shares.

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

Nonqualified Plan: An agreement or promise by an employer to certain employees to pay benefits at some future date for services performed currently. These plans do not qualify for the special tax treatment given to qualified plans.

Non-Standardized Plan: A plan document that gives the employer more flexibility than a standardized document.

O

OBRA'87: The Omnibus Budget Reconciliation Act of 1987 contained provisions affecting the minimum funding standards in the section of the Act also known as the Pension Protection Act of 1987.

Old Age, Survivors, and Disability Insurance (OASDI): Payroll tax imposed on employers that is equal to a set percentage of the wages paid to the employees, not to exceed the Social Security wage base. Social Security payroll taxes also include Medicare taxes.

Options: Securities that represent the right to buy or sell a specified amount of an underlying security (i.e., a stock or bond) at a fixed price called the “strike price” within a specified time. A contract allowing an investor to buy stock at the fixed strike price is called a “call” option. A contract that lets an investor sell stock at a fixed strike price is called a “put” option.

Owner-Employee: A sole proprietor or a partner who owns more than 10 percent of either the capital interest or the profit interest in a partnership.

P

Par: In bonds, a price of 100 stands for 100 percent of face value (that is, a price of \$1,000 for a \$1,000 bond). The full amount to be paid for the bond by the issuer at maturity.

Partial Termination: May occur if a plan amendment is adopted reducing benefits or making participation requirements less liberal, although not amounting to a complete termination of the plan. This results in the vesting of accrued benefits for the affected participants.

Party-in-Interest: An ERISA term used in applying the prohibited transaction rules. The following individuals are parties-in-interest with respect to a plan:

1. Any plan fiduciary;
2. A person providing services to the plan;
3. An employer that has employees covered by the plan;
4. An owner, direct or indirect, of 50 percent or more of the employer;
5. Members of the family of any person listed above;
6. An employee organization, any of whose members are covered by the plan;
7. A corporation, partnership, estate or trust that is 50 percent (or more) owned by a person listed above;
8. Officers, directors, 10 percent-or-more shareholders and employees of the employer or employee organization;
9. A 10 percent-or-more partner or joint venture with one of the people listed in some, but not all, of the categories above;
10. Counsel to a plan; and
11. An employee of the plan.

Also see “Prohibited Transaction” and “Disqualified Persons.”

Pension Benefit Guaranty Corporation (PBGC): A nonprofit corporation, functioning under the jurisdiction of the Department of Labor, responsible for insuring benefits to participants of certain defined benefit plans.

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

Preferred Stock: The portion of a corporation's stock having a priority or preference over the common stock in the distribution of dividends and assets.

Premium: The amount by which a bond sells above its face (par) value.

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

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

Prohibited Group: Reference to definition of highly compensated employees (HCE). Discrimination in favor of the prohibited group may cause disqualification of a plan.

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

Prospectus: A formal written document filed with the Securities and Exchange Commission (SEC) summarizing facts about a security being offered to the public and the issuing company. The prospectus must be delivered to an investor prior to or at the time of purchase. Shares of a mutual fund must be sold with a prospectus.

Prototype Plans: See “Master Plan.”

Prudent-Man Rule: The standard under which a fiduciary must act. The fiduciary is required to act “with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.”

Q

QKA: Qualified 401(k) Administrator, a professional designation granted by ASPPA.

QPA: Qualified Pension Administrator, a professional designation granted by ASPPA.

QPFC: Qualified Plan Financial Consultant, a professional designation granted by ASPPA.

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

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

Qualified Plan: A plan that meets the requirements of IRC §401(a) and, therefore, provides special tax considerations to the plan sponsor, the trust, and plan participants.

Qualified Pre-Retirement Survivor Annuity (QPSA): An immediate annuity for the life of the surviving spouse of a participant who dies before the annuity starting date.

R

Real Estate Limited Partnership: A real estate investment unit that consists of a general partner and limited partners. The general partner organizes the deal and is responsible for managing it. The limited partners, or investors, have liability only up to the amount of their investment and hope to receive income and capital gains from the deal. There is no liquid market for reselling these investments and they are generally considered a long-term investment.

Realized Gain or Loss: The actual gain or loss on a sale of a security or other asset.

Record Date: Alternately called the “ex-date,” this is the date on which each shareholder becomes a shareholder of record on the books for the purposes of dividend payment.

Redemption: The procedure by which a mutual fund purchases on demand shares from shareholders. For bonds, the repayment of the bond principal amount by the issuer.

Registered Representative or Registered Rep: An individual who sells securities, including mutual funds. All registered reps are licensed with the National Association of Securities Dealers (NASD) for the states in which they do business. Anyone who sells securities to the public must be a registered rep.

Remedial Amendment Period: The period of time during which a plan may be amended retroactively to conform the terms of the plan to legal requirements.

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

REA: Retirement Equity Act of 1984.

Retirement Plan Administration Firm: An entity with which an employer may contract to handle various retirement plan recordkeeping duties. Also referred to as a third-party administrator (TPA).

Revenue Procedure (Rev. Proc.): Issued by the IRS, a Rev. Proc. is similar to a revenue ruling. However, it focuses on procedural matters or details the requirements to be followed in connection with various dealings with the IRS. Rev. Procs. also may set forth guidelines that the IRS follows in handling certain tax matters.

Revenue Ruling (Rev. Rul.): Issued by the IRS, these rulings express the IRS' views as to the tax results that apply to a specific problem.

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

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

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

Rule 12(b)1: Introduced in 1980 by the Securities and Exchange Commission (SEC), it allows mutual funds to add an annual charge for marketing and distribution. This charge, which ranges from 0.10 percent of the fund's assets to 1.25 percent (10 to 125 basis points), can be used for advertising or to pay additional compensation to brokers who sell the funds.

Russell 2000 Index: Tracks 2,000 smaller U.S. company stocks.

S

S Corporation: A corporation whose shareholders have elected not to be taxed as a regular (or "C") corporation, but like a partnership. Profits and losses pass through directly to the shareholders rather than being taxed at the corporate level.

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

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

Savings Plan: See “Thrift Plan.”

Sector Fund: A mutual fund that concentrates in one segment of the market, such as energy, transportation, or gold.

Securities and Exchange Commission (SEC): The federal agency that regulates the securities industry. The SEC regulates investment companies as well as the securities they offer and the salespeople who sell them.

Security: A publicly traded financial instrument such as stocks, bonds, and shares of mutual funds or limited partnerships. Securities are regulated by the Securities and Exchange Commission (SEC).

Self Correction Program (SCP): A special program a plan sponsor can use to self-correct insignificant errors found in administering a retirement plan.

Self-Employed Person: A sole proprietor or a partner in a partnership.

Separation from Service: When a participant ceases to be an employee of the employer. It is a distributable event.

Settlement Date: The day that money actually changes hands and a trade is considered to be complete; i.e., the proceeds from a sale are available for another purpose, or the money for a purchase has been used to buy the shares.

Share: Any of the equal parts into which the capital stock of a corporation or company is divided.

Shareholder-Employee: A more-than-5 percent shareholder of an S corporation.

Simplified Employee Pension Plan (SEP): A retirement program that takes the form of individual retirement accounts for all eligible employees (subject to special rules on contributions and eligibility).

SBJPA: The Small Business Jobs Protection Act of 1996.

Split-Funded Plan: A plan that is funded in part by insurance contracts and in part by funds accumulated in a separate trusteed fund.

SOA '02: Sarbanes-Oxley Act of 2002. Also an acronym for Society of Actuaries.

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

Standard & Poor's 500 Index (S&P 500): Often used as a proxy for the stock market and includes 500 widely held stocks from 400 industrial companies, 40 financial companies, 40 public utilities, and 20 transportation companies.

Standardized Plan: A simple document that allows just a few options.

Step-Rate Plan: An integrated plan that provides different levels of benefits that are based on levels of compensation. For example, a contribution under a money purchase plan of 8 percent of compensation for amounts up to the Social Security Taxable Wage Base and 13 percent of compensation for amounts in excess of the wage base.

Stock: A security representing an ownership interest in a corporation.

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

Subchapter S Corporation: See “S Corporation.”

Summary of Material Modifications (SMM): A detailed summary to notify participants of minor plan changes to the plan document.

Summary Plan Description (SPD): A detailed, but easily understood, summary describing a qualified plan's provisions that must be provided to participants and beneficiaries.

T

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

TEFRA: Tax Equity and Fiscal Responsibility Act of 1982.

Tax Reform Act of 1986 (TRA '86): The Act that made such major changes to the Code that it renamed the Code as the “Internal Revenue Code of 1986.” It was signed on October 22, 1986.

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

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

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

TRA ‘97: The Taxpayer Relief Act of 1997.

Transfer Agent (of a mutual fund): An organization that maintains the records of shareholder ownership and is the entity that actually does the buying and selling of shares.

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

Treasury Bond (T-bond): A U.S. Treasury debt security with an original maturity of more than 10 years from the date of issuance.

Treasury Note (T-note): A U.S. Treasury debt security with an original maturity of 1 to 10 years from the date of issuance.

Treasury Regulations: Regulations interpreting the IRC are technically Treasury regulations. The IRS is a part of the Treasury Department.

Trust: A fund established under local trust law to hold and invest the assets of a plan.

Trustees: The parties named in the plan or trust documents that are authorized to hold the assets of the plan for the benefit of the participants. The trustees may function merely in the capacity of a custodian of the assets or also may be given authority over the investment of the assets. Their function is determined by the trust instrument or, if no separate trust agreement is executed, under the trust provisions of the plan.

Turnover Rate (of investments): The frequency of trading of assets in a portfolio, expressed as a percentage. A high turnover rate and heavy trading can result in high transaction costs. Every time securities are bought and sold in a mutual fund, for example, the fund must pay commissions.

U

UCA: Unemployment Compensation Act of 1992.

USERRA: Uniformed Services Employment and Reemployment Rights Act of 1994.

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

Unit Investment Trust (UIT): An investment vehicle that sells redeemable shares in a professionally selected portfolio of securities. It is organized under a trust indenture, not a corporate charter. Because UITs are not managed, when any securities in the portfolio are liquidated, the proceeds must be distributed.

Unrealized Gain or Loss: On a security or other asset that still owned, the gain or loss that would be realized if it were sold at current market value. An unrealized gain results if the current market price is above the original cost, and an unrealized loss occurs if the current market price is below cost.

UBTI: Unrelated business taxable income to a qualified plan or other tax-exempt organization that may be taxed to prevent the entity from having an unfair business advantage over a taxable entity.

V

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

Volume Submitter Plan: Documents that look like individually-designed documents and have been preapproved by the IRS.

Voluntary Contributions: See "After-tax Employee Contributions."

Voluntary Correction Program (VCP): A program designed to handle the more common and less flagrant plan defects submitted to the IRS for review upon payment of a user fee.

Voluntary Fiduciary Correction (VFC) Program: An EBSA program designed for plan fiduciaries to identify and correct certain fiduciary failures.

Y

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

Yield: The return on an investment. In securities, the dividends or interest received, usually expressed as an annual percentage of either the current market value or the cost of the investment.

Z

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

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