

Personal Financial Planning Terminology

Common Terms

401(k) Plan	A popular, tax-advantaged retirement plan offered by many employers.
403(b) Plan	Similar to 401(k), but for employees of non-profit organizations, such as public school teachers and church employees.
457(b) Plan	A deferred compensation retirement plan, available for specific state and local governments and some tax-exempt non-governmental organizations.
Adjusted Cost Basis	A tax accounting term that represents the net cost of some asset (Original cost – Depreciation +Capital Expenditures).
Alternative Investment	An investment that strays from typical investments (think stocks and bonds) such as commodities or cryptocurrency.
Annuity	A fixed amount of money paid periodically which entitles the investor to a series of cash flows in the future.
Assets	Items of monetary value owned by an individual or business.
Asset Allocation	Spreading out your investments among various asset categories such as cash, stocks, bonds, real estate, etc. to minimize financial risk. Typically expressed as a percentage i.e., 70% stocks, 25% bonds, 5% cash.
Asset Class	A group of investments with similar characteristics and behaviors in the marketplace.
Bear Market	An economic condition in which share prices are falling and there is large selling of equities.
Beneficiary	A person (or entity) who is designated to receive the benefits of property owned by someone else. Beneficiaries often receive these benefits as part of an inheritance.
Bond	A debt instrument where the issuer (borrower) promises to pay back the lender (bond purchaser) at a specific rate over a certain amount of time.
Bull Market	An economic condition in which share prices are rising and there is a large purchasing of equities.

Contribution	A dollar amount (pretax or after taxes) placed in a retirement plan account. Amounts may be limited based on the plan participant's income and prior contributions.
Diversification	Spreading out investments to gain exposure in different markets and instruments. "Don't put all your eggs in one basket."
Due Diligence	A common term heard in business, financial, and legal matters, that refers to "the care that a reasonable person exercises to avoid harm to other persons or their property."
Exchange-Traded Fund (ETF)	A basket of securities that trades on an exchange just like a stock. It provides diversification similar to a mutual fund, but ETF share prices can be bought and sold all day, while mutual funds trade only once a day after the market closes. ETFs offer low expense ratios and can be structured to mirror anything from the price of a commodity to a diverse collection of securities (i.e. The S&P 500 index).
Fiduciary	A person or entity with the power and obligation to act for another under circumstances which require total trust, good faith, and honesty.
Individual Retirement Account (IRA)	A personal retirement account that is tax-exempt until the owner starts to withdraw the money.
Joint Tenancy with Full Rights of Survivorship	A common form of joint ownership, in which a surviving owner is automatically granted ownership of an asset when the other owner dies.
Liability	A legal responsibility, usually to pay some amount of money in the future.
Liquidity	The measure of how fast an asset can be converted into cash without losing value.
Medicaid	A state and federal program that provides those with low income some medical coverage.
Medicare	A federal program providing some medical coverage for those 65 and older, or those of any age with a disability.
Net Income	The amount of money an individual receives after taxes and deductions have been subtracted from wages and other income streams.
Net Worth	The value of everything you own (assets) minus the value of everything you owe (liabilities).
Opportunity Cost	When you make a choose one option, you are saying "no" to a different option. The value of the option you do not choose is known as your opportunity cost.

Qualified Charitable Distribution (QCD)	A charitable gift of cash sent directly from your Traditional IRA directly to a charity of your choice. It is a tax-efficient way to give, counts toward your RMD, and could help minimize your taxable income. Individuals over age 70 ½ are eligible to make QCDs.
Real Estate Investment Trust (REIT)	An investment company that owns and operates income-generating properties.
Registered Investment Advisor (RIA)	A financial professional firm that advises clients on securities investments. RIAs have fiduciary obligations to their clients, which means they have a fundamental duty to always and only provide investment advice that is in their client's best interest.
Risk Tolerance	A person's capacity for how much risk they are willing or able to withstand for a possibly larger reward.
Required Minimum Distribution (RMD)	The amount of money that must be withdrawn annually from certain retirement savings accounts (i.e. 401(k) and Traditional IRA). RMDs begin the year you turn 73 years old. If you do not withdraw your RMD each year, you face a penalty from the IRS. Note: RMDs do not apply to Roth IRA accounts until after the account owner dies.
Roth IRA	Tax-advantaged individual retirement account to which you can contribute after-tax dollars toward your retirement. Then all earnings on those contributions can grow tax-free and be withdrawn tax-free after age 59½, assuming the account has been open for at least five years.
SEP IRA	Similar to 401(k), but for self-employed individuals
Simple IRA	Similar to 401(k), but for employees of small businesses
Social Security	Started in 1935, SS was created to provide support for workers (and their families) who could no longer work due to age, disability, or death. It's comprised of the Old-Age and Survivors Insurance (OASI) program for retired workers, their families, and survivors of deceased workers, and the Disability Insurance (DI) program for disabled workers and their families.
Stock	A stock or security is a financial asset an individual buys as an investment. Investing money in a company's stock means you're buying a small portion of the company.
S & P 500	An index that tracks the performance of 500 large companies on the U.S. Stock Exchange. Considered a good representation of the overall performance of the stock market.
Tax-Advantaged Account	A type of savings plan or financial account, that provides a tax benefit such as tax-deferral or tax exemption.

Tax-Deferred Savings Plan	A pre-tax investment account that defers your tax payments on amounts you contribute until a later date
Volatility	A measure of the amount and frequency of fluctuations in the price of a given security or market. Assets with high volatility are generally considered higher risk because of price unpredictability.

Sources for Definitions

<https://womenwhomoney.com/glossary-personal-finance-terminology>
<https://www.investopedia.com/terms/>
<https://www.investopedia.com/terms/>
<https://www.investopedia.com/terms/r/rothira.asp>



4085 Hager Street SE Suite 100
Salem, OR 97317
503-370-9003