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# Glossaries

CALAPRS

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California Association of Public Retirement Systems

# GLOSSARY OF

# TERMS

# AND

# DEFINITIONS

# USED IN

# RETIREMENT ADMINISTRATION

August 2012

This Glossary is a reference for basic retirement and pension benefit terms and definitions, especially as applicable to public retirement systems in California. The Glossary should not be viewed as an authoritative first source. Readers should refer to standard texts and reference works in their employee benefits manuals and current legislation for more detailed analyses of the concepts presented and how they affect their own individual plans and benefits. The field of employee and retiree benefits is constantly changing, including changes in applicable laws and regulations.

The definitions were derived from many first source materials, standard texts, and reference works in the field of employee benefits and tax laws.

A list of reference materials is included at the end of the Glossary.

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**Ability to Pay** (Inv) The ability of an entity to pay a given level of wages or benefit cost increase while remaining profitable or within available tax revenues.

**Absolute Return Fund** (Inv) An actively managed portfolio that aims to produce returns in both up markets and down markets by having a low exposure to the broad market. The portfolio tends to utilize long and short positions, derivatives and leverage to accomplish its goal. This investment is usually set up as a private partnership or an offshore corporation.

**Accrued Benefit** (Ret) For a defined contribution plan, the balance in a participant's plan account, whether vested or not. In defined benefit pension plans, a participant's accrued benefit is his or her benefit as determined under the terms of the plan expressed in the form of an annual amount commencing at normal retirement age.

**Accrued Interest** (Inv) Interest that is earned but not paid out

**Actuarial Accrued Liability** (Ret) The present value of all benefits earned by members of a pension plan, as of the date of the actuarial valuation. This value can be different based on which actuarial cost method or set of assumptions are used.

**Active Member** (Ret) An active member is a person who is working as a permanent employee for the plan sponsor and earning service credit in a retirement plan. Active members also include members on authorized leave who are not earning service credit.

**Active Member Death Benefit** See Death Benefit – Basic.

**Activities of Daily Living** (Dis) Used in qualification for disability benefits; activities such as bathing, dressing and toileting that are needed for self-care. ADLs are measured to evaluate the continued feasibility of self care.

**Actuarial Assumptions** (Ret) Assumptions made about certain events that will affect the budgeting of pension costs. Assumptions generally can be broken down into two categories: demographic and economic. Demographic assumptions include mortality, disability and retirement rates. Economic assumptions include inflation, investment return and salary growth. Economic assumptions are made by Board on recommendation of Actuary. Demographic assumptions are often based on actuarial best practice.

**Actuarial Cost** (Ret) Derived through the application of actuarial assumptions and a retirement plan's demographic data. An actuarial cost is often used to identify the costs of benefits under a retirement system for budgeting purposes.

**Actuarial Equivalent** (Ret) An alternative benefit in which what is gauged as equal, based on actuarial assumptions, to what is given up.

**Actuarial Funding Method** (Ret) Any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide for pension benefits.

**Actuarial Interest Rate** (Ret)The interest rate fixed by the Board for purposes of actuarial valuations of the System's assets and liabilities.

**Actuarial Valuation** (Ret)The procedure used to estimate the present value of benefits to be paid under a plan and to compute the amount of contributions required to cover the normal and unfunded costs of benefits.

**Actuarial Value of Assets** (Ret) Calculation of the value of the retirement plan's assets at a point in time, taking into account the (total) return earned on the assets with gains and losses distributed over a period of years (commonly three or five, but may be as long as fifteen years). See Smoothing.

**Actuarially Sound** (Ret) A pension fund is considered "actuarially sound" when the amount in the fund and the current levels of contributions to the fund are sufficient, on the basis of assumptions made concerning inflation and other factors, to meet the liabilities already accrued and accruing.

**Actuary** (Ret) An actuary is a person trained in mathematics, statistics, and legal accounting methods and in the principles of sound operation of insurance, annuities and pension plans, who employs life demographic projections, financial projections, and related data to determine the funded status of a defined benefit plan and to recommend the annual required contribution payroll to fund the plan benefits.

**Actuary Solvency Test** (Ret) A pension meets the solvency test if (a) the pension is able to pay its obligations as they become due in the normal course of business; and (b) the value of the pension's assets is greater that the value of all its liabilities.

**Ad hoc increase** (Ret) A one-time, unanticipated increase that is added to the current retirement Benefits.

**Adjudication** (Lgl) The exercise of judicial power by hearing, trying and determining the claims of litigants before the court.

**Administrative Policy Regarding Self Correction (APRSC)** IRS policy that allows plan sponsors to correct insignificant operational failures at any time and to correct significant operational failures within a two-year period, without penalty of disqualification. No fees or filings with the IRS are required. See Employee Plans Compliance Resolution System (EPCRS).

**Administrative Remedy** (Lgl) A basic rule of administrative procedure requires that an agency be given the opportunity to hear and decide on a question or complaint before the complainant files a lawsuit.

**Administrator** (Ret) The person or organization specifically designated, by the terms of the statute, charter, or trust document under which a pension or welfare plan operates, to manage the activities of the plan. In California public retirement systems, the Administrator is the person employed full time to direct and control the activities of the pension plan staff in the day-to-day operations of the retirement system.

**Adult Day Care** (Dis) Provision during the day, on a regular basis, of a range of services that may include health, medical, psychological, social, nutritional, and educational services that allow a disabled or elderly person to function in the home or at a center.

**Advanced Health Care Directive** (HP) A written document that allows a patient to give explicit instructions about medical treatment to be administered when the patient is terminally ill or permanently unconscious; also called an advanced directive.

**Adverse Selection** (Ret) The tendency of an individual to select the option under a retirement system or insurance plan that tends to be most favorable to him or her (and more costly to the plan). In insurance usage, a person with an impaired health status or with expected medical care needs applies for insurance coverage financially favorable to himself or herself and detrimental to the insurance company. Also known as anti-selection.

**Advisory Opinion** (Ret) For private sector retirement plans. A short written opinion by the Department of Labor regarding the legality of a given situation under ERISA.

**After Care** (Dis) Continued contact that will support and increase the gains made to date in a health treatment process and prevent relapse.

**After-Tax Contributions** (Nontaxable Contributions)(IRC) Member contributions made through payroll deductions or lump-sum payment and from taxable income or funds and not eligible for deduction from current income taxes. Nontaxable contributions are not subject to taxation when a member withdraws them or retires, although the interest earned on the contribution is taxable.

**Age Discrimination in Employment Act (ADEA)** (Lgl) Makes non-federal employees over age 40 a protected class, relative to their treatment in pay, benefits, employment and other personnel actions.

**Aggregate Funding Method** (Ret) In a defined benefit retirement plan, a method of accumulating money for future payment of pensions, whereby an actuary determines the present value of all future benefit payments, deducts from this the actuarial value of assets on hand with the retirement plan, insurance company or trustee, and distributes the cost of the remainder over the future on a reasonable basis.

**Alpha** (Inv) The premium a fund would be expected to earn if the market rate of return were equal to the Treasury bill rate (for example) – that is, a premium of zero for the market rate of return. A positive alpha indicates that a fund has earned on the average a premium above that expected for the level of market variability. A negative alpha would indicate that a fund received on the average a premium lower than that expected for the level of market variability. Sometimes alpha is used as a performance indicator or as a surrogate for security selection.

**Alternate Payee** (Ret) A person other than a plan participant (such as a spouse, former spouse, child, etc.) who, under a domestic relations order, has a right to receive all or some of a participant's pension benefits.

**Alternative Investments** (Inv) An investment product other than traditional investments such as stocks, bonds, money markets and/or cash that are privately held and illiquid; may include: venture capital, growth equity buyouts, mezzanine financing, and other investment strategies that are not based on public market activities.

**American Depository Receipts (ADRs)** (Inv) Receipts for the shares of a foreign-based corporation held in the vault of a U.S. bank. ADRs, which are denominated in U.S. dollars, allow U.S. investors to hold, purchase and sell foreign stocks through the U.S. stock exchanges.

**AMEX** (Inv) Initials for the American Stock and Options Exchange

**Amortization** (Ret) Paying off an interest bearing liability by gradual reduction through a series of installments as opposed to paying it off by one lump sum payment. A technique for gradually extinguishing a liability, deferred charge, or capital expenditure over a period of time. Includes such practices as depreciation, depletion, write-off of intangibles, prepaid expenses and deferred charges (e.g., mortgages are amortized by periodically retiring part of the face amount). The liquidation of a debt on an installment basis.

**Ancillary Benefit** (Ret) A benefit which is not related to the payment of retirement benefits. Example: a retirement plan can also provide disability, surviving spouse, health plan subsidy, or pre-retirement benefits.

**Annual Required Contributions (ARC)** (Ret)The actuarially determined level of employer contribution that would be required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL) attributed to past service over a period not to exceed thirty years. It is the amount needed to pay benefits as they come due plus amortize the UAAL. The ARC has two components: normal cost and amortization of the UAAL for active employees and amortization of the UAAL for retirees. If an employer funds less (or more) than the ARC, the difference is a liability (or asset) known as the net obligation.

**Annuitant** (Ret) A retiree, survivor of the retiree, or beneficiary receiving a monthly or other periodic allowance from a pension system.

**Annuity** (Ret) Periodic payment made to a pensioner over a fixed period of time, or in the case of a lifetime or insured annuity, until his or her death. To purchase an annuity means to pay a lump sum or make periodic payments to a fund or insurance company. In return, the fund or insurance company guarantees that certain periodic payments will be made to the participant for a specified period of time, or if provided, until death.

**Annuity Certain** (Ret) A contract that provides an income for a specified number of years, regardless of life or death. If an annuitant dies, his or her beneficiary will receive payments for the remaining number of specified years. Also referred to as period certain, term certain, or dollar temporary annuity.

**Annuity, Joint and Survivor** (Ret) An annuity payable to the retiree until his or her death, at which time it becomes payable (either in whole or in part) to a named survivor or contingent annuitant until the survivor's death. Also called a contingent annuity.

**Anti-Cutback Rule** (IRC) A provision in the Internal Revenue Code that prohibits an employer from reducing accrued benefits under a qualified private sector retirement plan by a plan amendment, unless the amendment is approved by the Secretary of Labor and freezes benefit accruals only for the most recent plan year.

**Appreciate** (Inv) To increase in value over time.

**Arbitrage** (Inv) The simultaneous purchase and sale of two instruments for the purpose of capturing a pricing disparity between them. The instruments do not need correlated price movements; the execution of a transaction having no or minimal risk or market exposure to profit from a mispricing between the instruments.

**Asset Allocation** (Inv) is an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame.

**Asset Class Correlation** (Inv) Asset class correlation is a measurement of the relationship between two or more assets and their dependency to each other. The correlation measurement is expressed as a number between +1 and -1.

**Asset Smoothing** (Ret) The annual fluctuation of investment performance is averaged over a period of years. Smoothing is a method used by actuaries to focus the decision making process on a long-term basis. Smoothing does not impact long term costs or funded positions, it only impacts timing.

**Asset Volatility** (Ret) Is the rate at which the price of an asset moves up and down.

**Assisted Living** (Dis) A broad range of residential care services that includes some assistance with activities of daily living and instrumental activities of daily living, but does not include nursing services such as administration of medication. Assisted living facilities and in-home assisted living care stress independence and generally provide less intensive care than that delivered in skilled nursing facilities and other long-term care institutions.

**Audit** (Ret) Any systematic investigation of financial transactions, procedures, or operations for the purpose of determining conformity with prescribed criteria. The purpose of an audit by a CPA is to lend credibility to an entity's financial statements.

**Automatic Enrollment** (Ret) The practice of enrolling all eligible employees in a plan and beginning participant deferrals without requiring the employees to submit a request to participate. Plan design specifies how these automatic deferrals will be invested. Employees who do not want to make contributions to the plan must actively file a request to be excluded from the plan. Participants can generally change the amount of pay that is deferred and how it is invested.

**Baby Boomers** (Ret) Individuals born in the years 1946 through 1964.

**Back DROP** (Ret) A type of Deferred Retirement Option Program where the election is made at the time of retirement (termination of employment) and accumulation of a DROP lump sum is calculated starting at a prior point in time.

**Backloading** (Ret) The practice of providing a faster rate of benefit accrual after an employee has attained a specified age or has completed a specified number of years of service. For example, backloading occurs in a plan that provides a benefit of 1.5% of compensation for each year of service before age 50 and 2% per year thereafter.

**Bad Boy Clause** (Ret) A punitive contract clause in a non-qualified retirement plan requiring employee forfeiture of his or her accrued benefit derived from employer contributions if that employee engages in certain activities such as dishonoring a covenant not to compete or other act of dishonesty. See Revenue Ruling 85-31.

**Bankruptcy- Chapter 9** (Lgl) Is a proceeding that provides financially distressed municipalities with protection from creditors by creating a plan between the municipality and its creditors to resolve the outstanding debt. Municipalities include cities, counties, townships and school districts.

**Basis Points (bps)** (Inv) 100 bps equals 1%. The term is most often associated with fees or investment performance and is mathematically defined as 1/100 of 1%.

**Basis Risk** (Inv) The risk caused by a deviation in the price spread between two related instruments or markets.

**Basic Death Benefit** See Death Benefit – Basic.

**Basis Recovery** (IRC) Calculation of the taxable portion of annuity payments; i.e., that portion of the annuity payment attributable to pre-tax employee contributions to the retirement plan. The taxable portion of annuity payments may be calculated by using (1) the IRC §72(b) exclusion ratio, which is obtained by dividing the "investment in the contract" (after-tax contributions) by the "expected return," or (2) the safe harbor method (IRS Notice 88-118), which provides for calculation of the nontaxable portion by dividing the "investment" by the number of payments to be received. IRS Notice 88-118 provides a table with the number of payments to be received based on the annuitant's age.

**Bear Market** (Inv) A prolonged period of falling prices. A bear market in stocks is a 20% decline in the major indices and is usually brought on by the anticipation of declining economic activity (i.e. widespread pessimism, growing unemployment and business recession). A bear market in bonds is caused by rising interest rates.

**Beauty Parade** (Inv) Competitive review of investment managers usually involving written submissions and personal presentations to pension fund trustees.

**Before-Tax Contributions** (IRC) Member contributions made "pre-tax" through payroll deductions which are excluded from a member's taxable income for the year in which they are made. They also include those contributions that are rolled over into a contributory plan either from an IRA or another qualified employer plan. Taxable contributions are not taxable until received either as retirement income or as a lump-sum payment when a member terminates or dies.

**Benchmark** (Inv) A set of securities with associated weights that provides a passive representation of a manager's investment process. The benchmark return is usually used to measure a manager's performance results.

**Benchmark Fund** (Inv) Theoretical portfolio of assets against which the performance of an actual actively managed portfolio is monitored.

**Beneficiary** (Ret) A beneficiary is the person, designated by the plan member to receive the benefit resulting from the death of the plan member, such as the proceeds of a life or accident insurance policy or benefits from a pension plan.

**Benefit** (Ret) Rights of the participant or beneficiary to either cash or services after meeting the eligibility requirements of the pension or other benefit plans. Pension benefit usually refers to monthly amounts payable on retirement or disability.

**Benefit Attributable To Employer Contribution (BATEC)** (IRC) A calculation used in the Internal Revenue Code's defined benefit limit. Determined by calculating the total benefit less the Benefit Attributable to Member Contributions.

**Benefit Estimate** (Ret) In a defined benefit plan, a projection of future retirement benefits based on a member's age, years of service, and final compensation, usually at the point the member will become eligible to retire. The member often uses the estimate to select an option or even choose between alternate retirement dates.

**Benefit Factor/Benefit Multiplier** (Ret) In a defined benefit plan, a percentage determined by a member's retirement formula and age that is applied to the member's final compensation to determine his or her retirement allowance.

**Benefit Statement** (Ret)A report prepared by a retirement system for an active member that summarizes information about his/her retirement account. It includes the member's plan, amount of contributions and interest in the member's contribution account, designated beneficiaries, and service credit.

**Best Practices** (Ret) Superior performance by an organization in both management and operational processes.

**Beta** (Inv) Beta (market sensitivity) is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market; a measure of the extent to which a fund's portfolio fluctuates with the market as represented by the S&P 500. Where the market beta is always 1.00. A fund with a beta of less than 1.00 will tend to move in smaller fluctuations as compared to the S&P 500 and a fund with a beta of more than 1.00 will tend to move in larger fluctuations.

**Bid and Ask** (Inv) Often referred to as a quotation or quote and generally applied to the stock market. The bid is the highest price anyone has indicated that he or she will pay for a security at a given time, and the asked is the lowest price anyone will accept at the same time.

**Black Monday** (Inv) The name ascribed to Monday, October 19, 1987. On that date the Dow Jones Industrial Average fell 22.6%, the largest one-day decline in the recorded history of the stock market.

**Blackout** (Ret) In a defined contribution plan a blackout occurs when a plan sponsor suspends, restricts, or limits – for a period of three or more consecutive business days – the ability of participants or beneficiaries (as otherwise available under the terms of the plan) to direct the investment of assets in their accounts obtain loans, or obtain benefit distributions. Although the plan sponsor has suspended account transactions, participants continue to accrue benefits. Blackouts may be implemented for a number of reasons such as when a plan sponsor changes administrators or when a plan must perform administrative tasks that require a temporary suspension of account activity.

**Blue Chip Company** (Inv) Large, well-known company with a long history of sound management, consistent earnings and profits.

**Board of Retirement, Retirement Board, Board of Administration** (Ret)The group of people often called trustees who have the collective responsibility for the management of a retirement system or trust. It sets policies and oversees the administration of benefits and services provided to members and survivors as well as the investment of the system's assets. In the private sector and in some cases in the public sector (e.g., Los Angeles County), the assets are managed by another board or entity.

**Bond** (Inv) A unit of debt, $1000 of principal or par amount. For 200 years municipal bonds were sold in $1,000 denominations. Since the mid-1970s the minimum bond denomination has been $5,000; nevertheless, a "Bond" is bought, sold, referred to, and priced as if it were $1,000.

**Book Value** (Inv) An accounting term determined by adding all of the company's assets, then deducting all debts and other liabilities, plus the liquidation price of any preferred issues. The sum arrived at is divided by the number of common shares outstanding and the result is book value per common share. Book value of the assets of a company or a security may have little or no significant relationship to market value.

**Boutique Firm** (Inv) Generally a relatively small firm which has as its sole purpose the management of investments for third parties for a fee and which does not participate in other activities such as banking.

**Brand-Name Drug** (HP) A drug protected by a patent issued to the original innovator or marketer. The patent prohibits the manufacture of the drug by other companies as long as the patent remains in effect. See also Generic Equivalent Drugs.

**Break in Service** (Ret) Temporary discontinuation of employment and contributions to the retirement system. When a break in service occurs, the participant must again meet the plan's eligibility requirements to participate.

**Bridge Job** (Ret) A position that offers reduced hours or provides lower physical or mental stress than career employment and covers the time period between career employment and full-time retirement.

**Brown Act** (Lgl) Was enacted in response to mounting public concerns over informal, undisclosed meetings held by local elected officials. The Brown Act solely applies to California city and county government agencies, boards, and councils. The comparable Bagley-Keene Act mandates open meetings for State government agencies.

**Bubble Economy** (Inv) A time period when stocks rise quickly, usually in a certain sector, but which investors expect to fall when a certain unsustainable level is reached. Also, a period of rising prosperity and increased commercial activity such as in Japan in the late 1980s, resulting from artificially adjusted interest rates.

**Bull Market** (Inv) An advancing stock market. Bull markets usually last at least a few months and are characterized by high trading volume.

**Bureau of Labor Statistics** The U.S. Department of Labor unit that collects and reports labor statistics, including area wage data, national pay data, and industry surveys.

**Buy-Back Provision** (Ret) In a defined benefit plan the authority for former retirement plan members to redeposit withdrawn contributions and interest and receive commensurate service credit.

**Buyouts** See Corporate Restructuring.

**Bylaws** (Lgl, Ret) The rules adopted by the members or by the board of directors of a corporation or other organization for its governing. Bylaws must not be contrary to the laws of the land, and affect only the members of the given corporation or organization; they do not apply to third parties.

**Cafeteria Plan** (Ret) An employee benefit plan authorized under Internal Revenue Code Section 125 that offers participants a choice between cash and one or more qualified, or tax-favored, benefits. Typical benefits include health insurance, child care, 401(k) contributions, group term life and dental benefits.

**CALAPRS: California Association of Public Retirement Systems** A non-profit organization established in 1985 to meet the education and information exchange needs of public retirement systems in California.

**California Public Employees' Retirement System (CalPERS)** (Formerly PERS) The retirement system established under the Government Code of the State of California for State employees, classified (non-teaching) school employees, and employees in California public agencies that contract with CalPERS for retirement and/or health coverage.

**California State Teachers' Retirement System (CalSTRS)** The retirement system founded in 1912 for eligible educators in the State of California.

**Call Option** (Inv) An instrument conveying the right, but not the obligation, to buy a deliverable instrument at a specified price.

**Capital Gain** (Inv) The amount by which an asset selling price exceeds its initial purchase price

**Capital Market** (Inv) That segment of the securities market that deals in instruments with more than one year to maturity, that is long-term debt and equity securities.

**Career Average Pay** (Ret) A benefit formula that bases retirement benefits on the employee's compensation over the entire period of service with the employer.

**Career Bonus** (Ret) A bonus added to the retirement benefit formula to reward employees who have had a long career. CalSTRS Example: For members who retire on or after January 1, 1999 with at least 30 years of earned service credit, a bonus of 0.2 percent (two-tenths of 1 percent) is added to the age factor up to a maximum age factor of 2.4 percent, which is reached at age 61 and six months.

**Carve-Out** (HP) A program separate from the primary group health plan designed to provide a specialized type of care, such as a mental health carve-out. Also, a method of integrating Medicare with an employer's retiree health plan (making the employer plan excess or secondary) which tends to produce the lowest employer cost.

**Case Management** (HP) A utilization management technique that focuses on coordinating a number of health care and disability services needed by clients. It includes a standardized, objective assessment of client needs and the development of an individualized service or care plan that is based on the needs assessment and is goal oriented. Often used for patients with certain conditions who need extensive medical services; usually overseen by an individual or team of medical practitioners.

*TERM APPLICATION: (Dis) Disability or medical care; (HP) Health Plan;*
*(Inv) Investments or economic; (IRC) Internal Revenue Code; (Lgl) Legal; (Med) Medicare;*
*(Ret) Plan design or administration; (SS) Social Security*

**Cash Balance Plan** (Ret) A defined benefit plan that simulates a defined contribution plan. Benefits are definitely determinable, but account balances are credited with a fixed rate of return and converted to a monthly pension benefit at retirement. See also Target Benefit Plan.

**Cash Flow** (Inv) The reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves, which are a bookkeeping deduction and not paid out in actual dollars and cents.

**Cash Out** (Ret) A pension plan may provide for the forfeiture of an accrued benefit where the plan provides for a cash out of an employee's benefits by making a lump-sum distribution to the employee. The cash out applies only to the employee's nonforfeitable interest upon termination of service prior to retirement.

**Cash Remuneration** (Ret) Reward for employment in the form of pay, salary, or wage, including any other compensation that is presented in cash.

**Catch-Up Provision** (IRC) A provision found in IRC Sections 403(b) and 457 plans that allow an eligible employee to make higher annual contributions than normally permitted in the years just prior to retirement.

**CD (Certificate of Deposit)** (Inv) A certificate from a bank stating that the named party has a specific sum on deposit, usually for given period of time at a fixed rate of interest.

**Centers for Medicare and Medicaid Services (CMS)** (Med) The government agency within the U.S. Department of Health and Human Services that directs the Medicare and Medicaid programs (Title XVII and XIX of the Social Security Act) and conducts research to support these programs. Formerly the Health Care Financing Administration (HCFA).

**CERL** The abbreviation for "County Employees Retirement Law of 1937", or "1937 Act" or '37 Act" which governs the accrual and payment of member benefits by the 20 California counties that operate under it. Enacted by the state legislature in 1937 (effective 1-1-38), CERL is contained within the California Government Code beginning at Section 31450 and includes all subsequent amendments. See 1937 Act Counties.

**Certified Public Accountant (CPA)** A professional license granted by the various states to persons meeting certain educational, experience, and examination requirements. These requirements vary from state to state, but typically they include a college degree with accounting and auditing course work and qualifying experience. The examinations include passing the Uniform CPA Examination, covering accounting theory and practice, auditing, and business law.

**Charter City or County** (Lgl) is a city or county in which the governing system is defined by its own charter document rather than by state or national laws. A city or county can adopt or modify its organizing charter by decision of its local electorate as prescribed in its charter. These cities and counties may be administered predominantly by citizens or through a third-party management structure, because a charter gives a city or county the flexibility to choose novel types of government structure.

**Clawback Provision (Lookback Provision)** (Inv) A provision within the partnership agreement that allows for a review of the total profit distributed by the partnership at the end of a defined period. The clawback is a mechanism to recapture overpayments to the general partner or its limited partners if either party received more than their stated carried interest.

**Cliff Vesting** (Ret) Full (100%) vesting after a set number of years of service, with no gradation of vesting before that time. For example, a benefit that is 100% vested after 5 years.

**Closed Plan** (Ret) A retirement plan that is closed to new membership.

**COB (Coordination of Benefits)** (HP) The coordination of benefits (COB) rule applies in situations where a member (or dependent) is covered by both his/her own health insurance plan and another plan such as a spouse's insurer or Medicare. Under this rule, one plan is considered the primary payer and pays first, while the other plan is considered the secondary payer. Payment is coordinated under the COB rule to ensure that no more than 100% of any insurance claim is paid by all insurers.

**COBRA** The Consolidated Omnibus Reconciliation Act is federal legislation that allows an employee, former employee, or a family member to continue health plan enrollment when coverage is lost. A loss of coverage could include separation from employment, marriage of a dependent, or a divorce or legal separation.

**Coinsurance** (HP) A policy provision, frequently found in major medical insurance, by which the insured person and the insurer share the hospital and medical expenses resulting from an illness or injury in a specified ratio (e.g., 80%:20%), after the deductible is met. A form of cost sharing.

**COLA** See Cost-Of-Living Adjustment.

**Collateral** (Inv) Assets pledged by a borrower to secure a loan or other credit

**Combined Fraction Limit IRC Section §415(e)** (IRC) Limits the sum of benefits provided by an employer through defined benefit and deferred compensation plans.

**Commodities and Futures Trading Commission (CFTC)** (Inv) An agency of the U.S. federal government that regulates the U.S. commodity futures and options markets. The CFTC is responsible for insuring market integrity and protecting market participants against manipulation, abusive trading practices, and fraud.

**Commodity** (Inv) A raw material, for example silver or gold, or primary agricultural product, for example oil or wheat that can be bought and sold.

**Compensation** (Ret) The amount of wages, salary, or other earned income an individual receives from services rendered as a result of employment or self-employment.

**Compensation-Earnable** (Ret) The term that refers to the salary (and other compensation) base used to determine both, 1. the contributions a person pays as an active member in a contributory plan, and, 2. one of the factors used to determine the benefits that a member in a defined benefit plan receives after retirement.

**Compensation-Final** (Ret) Final compensation is a member's average monthly compensation earnable during a specific consecutive period of time. It is used to compute his or her retirement allowance in a defined benefit plan.

**Compound Interest** (Inv) The interest upon principal that is being increased, or augmented, periodically by interest paid on the previous amount of principal. Interest may be compounded daily, monthly, quarterly, semiannually, or annually.

**Comprehensive Annual Financial Report (CAFR)** (Ret) A set of government financial statements comprising the financial report of a state, municipal or other governmental entity that complies with the accounting requirements—generally accepted accounting principles (GAAP)—promulgated by the Governmental Accounting Standards Board (GASB).

**Concurrent Retirement** (Ret) CalSTRS version of reciprocity. Retiring at the same time from more than one retirement system. For example: Retiring at the same time from CalSTRS and from certain other California public retirement systems (Legislator's Retirement System, Public Employees'

Retirement System, San Francisco City and County Retirement System, University of California Retirement System or those systems established under the County Employees' Retirement Law of 1937). CalSTRS may use the salaries for service performed under the other retirement system to calculate the CalSTRS retirement allowance.

**Conduit IRA** (IRC) A conduit IRA is a term used to describe an IRA that has received only funds that were rolled from a qualified employer plan and are not commingled with other monies.

**Conflict of Interest** (Lgl) A situation that provides potential for self-dealing. For example, a trustee has a conflict of interest if he or she has an interest in an investment management company to be retained by the plan the trustee represents.

**Conservator** (Lgl) A person appointed by a court to handle the affairs of someone who is legally incapacitated. When a conservator is a court-appointed payee for a minor child, benefit warrants are made payable to the conservator until the minor is 18 years old.

**Constructive Receipt** (IRC) The controlling concept for determining the timing of tax liability; the IRS contends that the time at which an individual can "reach out and take" compensation is when it should be taxed, even if the employee chooses not to take it at that time.

**Consumer Price Index (CPI)** An indicator of the cost of living published by the Bureau of Labor Statistics, U.S. Department of Labor. It is an indicator of the changing purchasing power of the dollar. Specifically, it measures price changes of items in a fixed "market basket" of goods and services purchased by a hypothetical average family. (Sometimes mistakenly called the "cost-of-living index.")

**Contingency Reserve** (Ret) That portion of contributions or premiums set aside in a special account to cover possible loss resulting from adverse experience with respect to investments interest earnings, mortality, withdrawals, or other plan experience.

**Contingent Annuity** See Annuity, Joint and Survivor.

**Continuation of Benefit** (HP) Under COBRA, employers have the obligation to make available to employees and their dependents some continued benefit coverage, even after the employment relationship ceases. Employees/dependents must pay for this coverage.

**Continuing Allowance** (Ret) A monthly benefit that is paid subsequent to the death of a member. If paid to a spouse or named beneficiary, the allowance is a lifetime benefit. If paid to a minor child, the allowance continues until the child is no longer eligible.

**Continuity of Care** (Dis) The result of a planned treatment program designed to provide the individual patient with the total range of needed services under continuing responsible direction.

**Contribution Holiday** (Ret) In years when investment returns are sufficiently high, government employers may not be required to make pension contributions (i.e. to enjoy a "holiday" from contributions).

**Contribution Limit** (IRC) The Internal Revenue Code maximum dollar limit on annual additions (employer contributions, certain employee contributions and forfeitures) for an employee under defined contribution plans of an employer. See 415 Limits.

**Contributions - Employer** (Ret) Employer contributions are monies contributed to the retirement fund by the sponsors of the plan for all plan participants.

**Contributions – Member** (Ret) Member contributions are the retirement contributions made by plan members who participate in a contributory plan. The contribution amount is calculated by multiplying an age-based percentage rate by the member's compensation earnable. Also see After-tax Contributions; Contributions – Nontaxable; Contributions - Taxable.

**Contributions – Pre-tax** (IRC) Member contributions made through payroll deductions which are excluded from a member's taxable income for the year in which they are made. They also include those contributions that are rolled over into a contributory plan either from an IRA or another qualified employer plan. Pre-tax contributions are subject to income tax when received either as retirement income or as a lump-sum payment when a member terminates or dies.

**Contributions – Taxable** (IRC) Member contributions made through payroll deductions or any lump-sum payment made with funds which may not be excluded from income tax. Taxable contributions are not subject to taxation when a member withdraws them or retires, although the interest earned on them is taxable.

**Contributory Benefit Plan** (Ret) A benefit plan in which the employee contributes part (or all) of the cost, and any remainder is covered by the employer and investment earnings.

**Contributory Plan** (Ret) A contributory plan is a plan that requires its members to make contributions in order to earn retirement service credit. In some cases the member contributions may be made under a 414(h) pickup by the employee, but are still treated as member contributions.

**Convertible Bond** (Inv) A bond that has a provision that permits conversion to the issuer's stock at some fixed ratio.

**Coordination of Benefits** (HP) A group health insurance policy provision designed to eliminate duplicate payments and provide the sequence in which coverage will apply (primary and secondary) when a person is insured under two contracts.

**Co-payment** (HP) Co-payments are part of a health care cost sharing arrangement in which a plan member pays a specified charge for a service, such as $10 for a doctor office visit. The member is usually responsible for payment at the time the service is rendered.

**Corporate Actions** (Inv) An action taken by a company that causes a material change in structure including, but not limited to, name, price, shares, capitalization, or other such events. Typical corporate actions include tender offers, mergers, Dutch auctions, and spin-offs.

**Corporate Restructuring (Buyouts)** (Inv) Investments in the form of equity and/or debt of a public or private company designed to restructure the current capital structure of the company, including debt and equity buybacks, exchange offers and refinancing. Related terms include leveraged buyouts, management buyouts, employee buyouts, and buy-and-build strategies.

**Cost Containment (Medical) Methods** (HP) Methods and programs designed to contain costs by ensuring appropriateness, medical necessity, and relatedness of treatment and procedures. Examples include utilization review and bill review.

**Cost Of Living Adjustment (COLA)** (Ret) An across-the-board wage and salary increase or supplemental payment designed to bring pay in line with increases in the cost of goods and services. COLAs are sometimes included in union contracts, generally tied to increases in price indexes published by the U.S. Bureau of Labor Statistics.

**Credit Default Swap** (Inv) A credit derivative transaction in which two parties enter into an agreement, whereby one party pays the other a fixed periodic coupon for the specified life of the agreement. The other party makes no payments unless a credit event, relating to a predetermined reference asset, occurs. If such an event occurs, the party will then make a payment to the first party, and the swap will terminate. The size of the payment is usually linked to the decline in the referenced asset's market value following the determination of the occurrence of a credit event.

**Credit Rating** (Inv) A current opinion of a borrower's overall financial capacity (its credit worthiness) to pay its financial obligations. This opinion focuses on the borrower's capacity and willingness to meet its financial commitments as they come due. In the case of split ratings, the higher rating of either Moody's, Standard & Poor's, or Fitch Investor Services shall apply.

**Critical Care** (Dis) Health care provided to acutely ill patients during a medical crisis, usually within a critical care area such as an intensive care unit or coronary care unit.

**Custodial Care** (Dis) General assistance in performing the activities of daily living, as well as board, room, and other services, generally provided on a long-term basis and that do not include a medical component.

**Custodian** (Inv) A bank or other financial institution that is an intermediary between the organizations that hold actual shares of stock, bonds, etc. (e.g. The Depository Trust Corp.) and the institutional investor.

**Date of Membership** See Membership Date.

**De Minimus Benefit** (IRC) Any property or service that an employer provides to an employee, if the value of such property or service is so minimal that accounting for it would be unreasonable or administratively impractical. The employee can exclude from income the value of these benefits.

**De Minimis Tax Rule** (IRC) A rule that states that capital gains tax must be paid on a bond if the bond was purchased at a discount to the face value in excess of a quarter point per year between the time of acquisition and maturity. The reason for the capital gains tax is that the bondholder gains on the difference between the price paid and the price received at maturity, which is considered a capital gain.

**Death Benefit** (Ret) Amount paid or payable to the beneficiary of a plan member, retiree, or insured person by the pension plan or insurance policy, on the death of the person.

**Death Benefit – Basic (in some systems called an Active Member Death Benefit)** (Ret) A lump-sum payment that is made to a survivor, named beneficiary, estate, or trust in the event of an active member death. The payment may have two components: 1) Member contributions (plus credited interest) 2) Payment equal to a specific number of months salary.

**Death Benefit – Lump-Sum** (Ret) A lump-sum death benefit is a single payment benefit payable upon the death of an eligible member. If the deceased was an active member, the recipient receives the basic death benefit. If the deceased was a retired member, the recipient's lump-sum benefit depends on the type of retirement option selected by the member.

**Deductible** (HP) The amount of loss or expense that must be incurred by a covered individual before an insurer will assume any liability for all or part of the remaining cost of covered services. Deductibles may be either fixed-dollar amounts or the value of specified services (such as two days of hospital care or one physician visit). Deductibles are usually tied to some reference period over which they must be incurred, e.g. $100 per calendar year, benefit period, or spell of illness.

**Deductible Carryover** (HP) A feature whereby covered charges in the last three months of the year may be carried over to be counted toward the next year's deductible.

**Default** (Inv) Failure to pay in a timely manner principal and/or interest when due, or a Technical Default, the occurrence of an event as stipulated in the Indenture of Trust resulting in an abrogation of that agreement. A Technical Default can be a warning sign that a default on debt service is coming, but in reality actual debt service interruption does not always occur if the problems are resolved in time. A Technical Default will almost always drive down the price of a bond in secondary market trading.

**Deferred Compensation** (IRC) Arrangements by which compensation to employees for current service is postponed until a future date. Pension and profit sharing plans are tax-favored deferred compensation plans. In the public sector, the term deferred compensation plan usually refers to a 457 Plan.

**Deferred Member/Inactive Member** (Ret) A deferred member is a contributory member who is vested (with 5 or more years of sponsor or reciprocal retirement service credit) and who leaves his/her contributions on deposit with the retirement plan after either terminating employment with the sponsor or transferring to a non-qualifying position. Many systems have a written election requirement. A deferred member is eligible to receive a retirement benefit when s/he meets the minimum age and service requirements.

**Deferred Reciprocal Member** (Ret) A deferred reciprocal member is a contributory member who elected to defer his retirement, entered employment covered by a reciprocal retirement system, and is eligible for reciprocity.

**Deferred Retirement Option Plan (DROP)** (Ret) An arrangement under which an employee retires, but elects to continue to work for the employer and have his or her retirement allowance retained by the retirement fund. The retired member collects compensation from the employer but is not permitted to contribute to the retirement plan and no additional service or salary credit accrues. The monthly retirement allowance retained by the retirement system is credited to the retired member's DROP account. The account earns interest (either at a rate stated in the plan, or based on the earnings of the retirement fund). The retired member may continue to work for the employer for only a limited period of time (commonly 5 years). When the retired member leaves employment, the amount in the DROP account is paid to the retired member, including accrued interest. The retired member then begins to receive his or her monthly retirement allowance

**Deficit Reduction Act of 1984 (DEFRA)** (Lgl) One part of this act was the Tax Reform Act of 1984. DEFRA had a major impact on employee benefits in the following areas: 501(c)(9) trusts and experience-rated plans - prohibits tax deductions for contributions to trusts or premiums paid to experience-rated plans if reserves for benefits exceed certain limits. Health care for dependents requires companies to give employee spouses who are senior citizens the opportunity to enroll in corporate insurance programs.

**Defined Benefit (DB) Plan** (Ret) A plan designed to provide eligible participants with a specified benefit at retirement based upon a formula which includes the following three factors: • Member's age at retirement • Member's length of credited service • Member's final compensation.

**Defined Benefit Limit** (IRC) The maximum annual benefit allowed by the Internal Revenue Code that a participant may receive from a qualified defined benefit (generally formula based) retirement plan. See 415 Limits.

**Defined Contribution (DC) Plan** (Ret) A type of savings plan that allows participants to make pre-tax contributions that accumulate tax-free. Contributions, plus any earnings, are not subject to State or federal taxes until withdrawn, in most cases after retirement. The amount paid is determined by the amount of contributions made, the rate of return on the investments chosen, and the method of distribution.

**Definitely Determinable Benefit** (Ret) A mandatory requirement for a service benefit pension plan. For variations, see also money purchase plan; target benefit plan, flexible benefit plans, and flexible spending accounts - excludes most taxable benefits from being offered.

**Deflation** (Inv) A phase of the business cycle during which consumer spending is seriously curtailed, bank loans contract, and the amount of money in circulation is reduced. (Antonym: inflation)

**Demographics** (Ret) The statistical study of the characteristics of a given population. May include such factors as birth rate, age and sex composition, marital status, income, employment, urban/rural distribution, and mobility.

**Department of Labor** (Lgl) Department of the Federal Government which, under Title III of ERISA, has primary jurisdiction over private sector pension fund reporting, disclosure, and fiduciary matters; and can, in certain circumstances, enforce employee benefit rights and reporting and disclosure through civil or criminal actions.

**Department of Treasury** (Lgl) Department of the Federal Government which, under Title III of ERISA has primary jurisdiction over participation, vesting and funding issues and enforces compliance through tax disqualification and imposition of excise taxes. Many of the tax code sections enforced by the Treasury Department cover public sector retirement systems.

**Dependent** (HP) With health care benefits, a dependent is a (retired) member's spouse or unmarried child until age 19 (or until age 23 if enrolled as a full-time student in an accredited school or university and fully reliant on the member for financial support).

**Dependent (CalPERS)** (HP) For health care benefits, dependent for CalPERS refers to a spouse or registered domestic partner, and eligible children under age 23.

**Depreciate** (Inv) To decrease in value

**Derivative** (Inv) An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

**Determination Letter** (IRC) Issued by the office of a district director of the IRS, the letter states whether or not the submitted plan meets the qualification requirements under the Internal Revenue Code.

**Developed Market** (Inv) A high-income country, as defined by the World Bank, that most investors consider to have a well-developed operating and regulatory structure for its capital markets. Generally, countries included in the Financial Times-Actuaries Index are considered to be developed markets.

**Direct Deposit** (Ret) The process, using the Federal Reserve System's Automated Clearing House (ACH) that allows retirement systems to deposit members' monthly retirement allowances directly into their checking or savings accounts at participating financial institutions.

**Direct Rollover** (IRC) A distribution to an employee made in the form of a direct trust-to-trustee transfer of tax-deferred retirement plan money from a qualified retirement plan to an eligible retirement plan, such as an IRA; does not incur any taxes or penalties.

**Disability** (Dis) An inability to substantially perform the duties of one's job due to illness or injury, which is determined to be permanent or of an extended and uncertain duration.

**Disability Benefit** (Ret) Periodic payments, usually monthly, payable to participants under most defined benefit retirement plans if such participants are eligible for the benefits and become disabled prior to the normal retirement date. There are many interpretations of the definitions of "disabled".

**Disability Retirement** (Ret) The benefit based on a physical or mental condition that makes the member qualify for monthly benefits based on meeting the eligibility requirements and the retirement system's definition of "disabled."

**Disability Retirement Allowance** (Ret) A disability retirement allowance is the monthly retirement benefit received by a contributory plan member who has been granted a disability retirement (service-connected or nonservice-connected). The member may receive a disability retirement allowance for life - unless the Board of Retirement terminates the allowance because the member is found to be no longer disabled.

**Discount Rate** (Inv) The rate at which the U.S. Federal Reserve will lend short-term funds.

**Discrimination** (Lgl) (1) Under Section 89 of the Internal Revenue Code, benefit plans may be considered discriminatory if appropriate numbers of non-highly compensated employees (a) are not eligible to participate in the plan, and (b) do not participate in the plan. The intent of Section 89 is to avoid giving tax-favored status to benefit plans that benefit only the highly paid employees in an organization. It is permissible to discriminate by group definition, such as salaried only, union employees only, or hourly workers only. (2) Under the terms of Title VII of the Civil Rights Act of 1964, the Age Discrimination and Employment Act of 1967, and the Equal Pay Act of 1963, discrimination occurs in compensation when any compensation decision is made on the basis of a person's age (over 40), race, color, national origin, religion, or gender, in a way that cannot be justified on the basis of job-relatedness and business necessity.

**Disqualified Employee** (Lgl) Also known as an interested party when determining prohibited transactions as defined in ERISA. See Party In Interest.

**Distribution** (Lgl) A payment to a participant or beneficiary such as a retirement plan's payment to a retiree or terminated member or a payment from a deferred compensation plan or a mutual fund's payment to shareholders of the profits, interest or dividends it has earned on its investments.

**Domestic Partner Coverage (California)** (Lgl) Same sex domestic partnerships between persons who are both at least age 18 and certain opposite sex domestic partnerships (one partner must be 62 years of age or older and the other partner at least 18 years of age) are eligible to register with the Secretary of State. When applying for health plan coverage, the enrollee must provide a copy of the approved Declaration of Domestic Partnership and the domestic partner's Social Security number. In some political jurisdictions in California the domestic partners may be of the opposite sex, must be unrelated and must be registered and there is no age 62 provision e.g. Los Angeles.

**Domestic Relations Order (DRO)** (Lgl) A court-ordered assignment of a portion of a retirement benefit paid by a California public retirement system to a former spouse. The assigned benefit portion may be assigned to the heirs of a deceased former spouse. The DRO expires upon the death of the retiree. See Qualified Domestic Relations Order for the private sector version.

**Double Dipping** (Ret) Variously applied to mean: 1. qualifying for, and obtaining, pension benefits under two or more plans; 2. qualifying for, and obtaining, pension benefits under one plan while remaining employed by another employer.

**Double Pro Rata Rule** (Lgl) An ERISA rule which prohibits a plan benefit based on partial credit for service and partial credit for salary.

**Dow Jones Industrial Average** (Inv) A popular gauge of the stock market based on a closely held formula involving closing prices of 30 active representative stocks, as published by Dow Jones & Co. The stocks are high-quality, common stocks listed on the New York Stock Exchange, which are thought by some to be representative of the entire U.S. economy. However, in recent times other wide, more inclusive indexes are also watched.

**Dual Status** (Ret) Dual status is given to a member who has been both a general member and a safety member and, therefore, has service credit in both a general and a safety plan. This occurs when a member changes job classifications and becomes eligible for the other type of membership -

or when a safety member transfers to a non-qualifying position that allows him to retain membership only as a general member. Persons with dual membership status qualify at retirement to receive a combined retirement allowance based on the service credit earned during each type of membership.

**Due Diligence** (Inv) The process of investigating, evaluating, and analyzing a potential investment's characteristics, investment philosophy, and terms and conditions. Also applies to the careful analysis of investment advisor firms.

**Durable Power of Attorney** (Lgl) A durable power of attorney is a document, executed by a member, which empowers another person or entity to act in his behalf. A member may provide the retirement system with a Durable Power of Attorney form to designate another person to act on his behalf regarding retirement-related decisions only, in the event he becomes incapacitated. The member has the right to revoke or terminate this durable power of attorney at any time, as long as he is competent.

**Durable Power of Attorney for Health Care** (Lgl) A legal document in which a person designates another to make medical decisions for him or her if the person becomes incompetent.

**Duration** (Inv) A measure of price sensitivity to interest rate changes. Duration is the anticipated percentage move in price given a 100 basis point (1 percent) move in interest rates.

**Dutch-Auction** (Inv) A system in which the price of an item is gradually lowered until it meets a responsive bid and is sold.

**Duty of Loyalty** (Ret) A term used in corporation law to describe a fiduciaries' "conflicts of interest and requires fiduciaries to put the corporation's interests ahead of their own."

**Duty of Prudence** (Ret) Requires the trustee to manage the trust properly with the same degree of skill that a prudent person would exercise in his or her own affairs; and to preserve and protect the trust assets to satisfy both present and future claims against the trust.

**Duty to Diversify** (Ret) Responsibility of a pension's management to reduce investment risk by techniques that mixes a variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose lower risk than any individual investment found in the portfolio.

**Early Retirement** (Ret) The commencement of retirement benefits to an eligible member before the member is old enough to qualify for normal retirement. The retirement allowance payable in the event of early retirement is often lower than the accrued portion of the normal retirement allowance.

**Earmarking** (Inv) Funds (or capital) that are set aside to pay for a specific project or event. In some cases, the term is also synonymous with the word "flagged", or "marked", especially when used in certain congressional settings.

**Earnings Surprise** (Inv) Is when the earnings reported in a company's quarterly or annual report are above or below analysts' estimates.

**Economic Analysis** (Inv) Examines reference points for indications on what to look for and what events are considered significant in the economy to understand relationships among complex and often seemingly unrelated events. This analysis is used in making decisions concerning duration and sector weightings.

**Economic Benefit Rule** (IRC) A doctrine of the IRS, used to determine current tax liability in the absence of constructive receipt. See Constructive Receipt.

**Economic Recovery and Tax Act of 1981 (ERTA)** (Lgl) Governs specific areas of employee compensation, including incentive stock options, deductible voluntary employee contributions, tax credit ESOPs and withdrawal provisions in savings/thrift plans. Expanded IRAs and KEOGH plans.

**Economically Targeted Investment (ETI)** (Inv) An investment which has collateral intent to assist in the improvement of national and/or regional economies, and the economic well being of the State of California, for example, and its localities and residents.

**Effective Date** (Ret) The date on which an insurance policy or retirement plan goes into effect and coverage begins. Also, the date pay increases go into effect.

**Emerging Equity Market** (Inv) A market classified by Financial Times Stock Exchange (FTSE) as an emerging market based on an assessment of World Bank gross national income per capita, as well as factors related to the market and regulatory environment, custody and settlement, trading, development of a derivatives market and size of the country's stock market. Emerging Equity Markets are distinguished from: (1) Developed Markets which are markets domiciled in high-income countries, as defined by the World Bank, that most investors consider to have a well-developed operating and regulatory structure for its capital markets. These markets are included in the FTSE Benchmark Classification as Developed Markets. (2) Frontier Markets which are markets domiciled in low-income countries, as defined by the World Bank, whose capital market structure and regulatory mechanisms are not developed enough to be included in Emerging Markets. These are markets that are investable but not classified by FTSE as Developed or Emerging Markets. (3) Uninvestable Markets which are those markets that are not classified by FTSE as Developed, Emerging, or Frontier Markets. These markets generally lack a convertible currency and do not allow for investment by non-residents.

**Emerging Fixed Income Market** (Inv) Countries not classified as having developed capital markets by internationally recognized index providers.

**Emerging Manager** (Inv) Are investment managers that are newly created and have a small asset base. They are typically specialized and run by managers that believe they can attain higher returns by being focused and nimble.

**Employee Benefit Plan** (Lgl) Under ERISA, a plan established or maintained by an employer or employee organization, or both. The purpose is to provide employees with a certain benefit such as pension, profit-sharing, stock bonus, thrift, medical, sickness, accident, or disability benefits.

**Employee Contributions** (Ret) The payments, usually by payroll deduction, made by members who participate in a contributory plan. The contribution amount is either a flat percentage of salary or calculated by multiplying an age-based percentage rate by the member's compensation earnable. See Contributions-Member; Contributions-Nontaxable; Contributions Taxable.

**Emerging Manager** (Inv) are investment managers that are newly created and have a small asset They are typically specialized and run by managers that believe they can attain higher returns by being focused and nimble.

**Employee Plan Compliance Resolution System (EPCRS)** (Lgl) An IRS-created system of correction programs that allows sponsors of qualified retirement plans to correct document, operational and demographic defects that would otherwise result in disqualification. EPCRS incorporates the older programs such as Administrative Policy Regarding Self-Correction (APRSC), Closing Agreement Program (CAP), Voluntary Compliance Program (VCR), and Standardized VCR Program (SVP).

**Employee Retirement Income Security Act of 1974 (ERISA)** (Lgl) The Federal Law that first fully regulated pensions. The private sector is covered by the full law (see Department of Labor) and public systems are covered only by the tax code portion of ERISA (see Department of Treasury).

This requires that persons engaged in the administration, supervision, and management of pension monies have a fiduciary responsibility to ensure that all investment-related decisions are made (1) with the care, skill, prudence and diligence that a prudent person familiar with such matters would use and (2) by diversifying the investments so as to minimize risk. This wording mandates two significant changes in traditional investment practice: (1) the age-old "prudent person" rule has been replaced by the notion of a prudent "expert"; (2) the notion of a prudent investment has been replaced by the concept of a prudent portfolio.

**Employee Contributions** (Ret) Monies paid to the retirement fund by the plan sponsors for all plan participants.

**Employer Matching Contribution** (Ret) An amount which an employer pays to a plan, generally in proportion to the employee's contribution. Usually the contribution is to an account held by the plan in the employee's name. Employer Matching Contributions are normally found in Defined Contribution Plans.

**Employer Pick Up** (IRC) Pre-tax contributions to a pension system permitted by IRC §414(h), which allows the members' contributions to be made "pre-tax" and acts like it reduces the participant's salary but is deemed to be employer contributions under the tax code; normally retained in an account in the employee's name.

**Encryption** (Ret) The use of an algorithmic process to transform data into a form in which there is a low probability of assigning meaning without use of a confidential process or key.

**Entry Age** (Ret) The earliest age at which a plan member begins to accrue benefits under a defined benefit pension plan or risk pool. In most cases, this is the same as the date of hire. (The assumed retirement age less the entry age is the amount of time required to fund a member's total benefit. Generally, the older a member is at hire, the greater the entry age normal cost. This is mainly because there is less time to earn investment income to fund the future benefits.)

**Entry Age Normal Actuarial Cost Method** (Ret) A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains or losses are reflected as they occur in a decrease or increase in the unfunded actuarial accrued liability.

**Equities** (Inv) Another term for company shares or stock.

**Equity Investment** (Inv) A financial investment in the ownership of an asset (e.g. stock in a company, or ownership of a building) that offers no fixed return or guarantee of the principal amount.

**ERISA** See Employee Retirement Income Security Act of 1974.

**Escheat** (Lgl) Reversion of property to state.

**Estoppel** (Lgl) A rule of evidence whereby a person is barred from denying the truth of a fact that has already been settled.

**Eurodollars** (Inv) Certificates of deposit in U.S. dollars in a bank that is typically located outside the U.S., usually a bank in Europe.

**Evidence of Insurability** (HP) Any statement or proof of a person's physical condition, occupation or other factor affecting his or her acceptance for insurance. Usually not required for enrollment in group plans, and prohibited for COBRA continuation coverage.

**Ex Ante Risk** (Inv) Forecasted risk; expected levels of volatility.

**Ex Post Risk** (Inv) Realized risk; measured level of actual volatility.

**Excess Benefit Plan** (IRC) A nonqualified plan maintained by an employer solely for the purpose of providing benefits for certain employees in excess of those which, because of Internal Revenue Code §415 limitations on contributions and benefits, can be provided by the employer's qualified plan.

**Excise Tax** (IRC) An indirect tax, levied on monies received that are in excess of limits established in the law. In public retirement systems, a member who withdraws taxable contributions before age 59 ½ must pay an excise tax in addition to income taxes owed on the distribution.

**Exclusive Benefit Rule** (Lgl) Fiduciaries must discharge their duties solely in the interest of the participants and beneficiaries of an employee benefit plan. In addition, under the California Constitution, a fiduciary must act exclusively for the purpose of providing benefits to participants and beneficiaries and in defraying reasonable expenses of the plan. Under ERISA, fiduciaries must discharge their duties solely in the interest of the participants and beneficiaries of an employee benefit plan.

**Exclusive Provider Organization (EPO)** (HP) A type of health plan that offers the same covered services as an HMO; however, it's usually offered in a specific geographic area and can function slightly differently. For example, an EPO could not require enrollees to select a primary care physician.

**Expected Rate of Return** (Inv) The weighted arithmetic average of all possible outcomes for an asset or portfolio; the expected value.

**Experience Study** (Ret) An actuarial analysis of the plan's experience in membership age, sex, salary, and service giving effect to the assumed rates of mortality, disability, employment turnover, investment earnings, and other cost factors.

**Fair Labor Standards Act (FLSA)** (Lgl) A federal law, enacted in 1938 and subsequently amended, which governs minimum wage, overtime pay, equal pay for men and women in the same type of jobs, and child labor.

**Fair Market Value** (Inv) An accounting term defined as the highest cash price a property would bring if exposed for sale in the open market by a willing seller to a willing buyer with both parties to the transaction being fully informed of all the uses and purposes to which the property is reasonably adaptive and available.

**Family and Medical Leave Act of 1993 (FMLA)** (Lgl) Requires employers with more than 50 employees to provide eligible workers with up to 12 weeks of unpaid leave each year for birth, adoptions, foster care placements, and illnesses of employees and their families.

**FASB** See Financial Accounting Standards Board

**Fee-For-Service** (HP) A plan that has an established provider network but allows one the freedom to go to any doctor with the understanding that the plan will generally pay less if she/he chooses a non-network doctor.

**Fiduciary** (Lgl) A person who holds or controls property for the benefit of another person. For example, the relationship between a trustee and the beneficiaries of the trust. Under the California

Constitution, "The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement systems". Under ERISA, any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets, (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan. One who acts in a capacity of trust and who is therefore accountable for whatever actions may be construed by the courts as breaching that trust. See also Prudent Person (Man) Rule.

**Fiduciary Responsibility** (Lgl) Under ERISA, a fiduciary must discharge his or her duties solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits, while defraying reasonable expenses of the plan. The conduct of a fiduciary will be governed by the "prudent person" standards. Fiduciaries must also keep abreast of legal developments and be able to respond to the changes necessitated by economic and demographic fluctuations. See also ERISA; Prudent Person (Man) Rule.

**Final Average Pay Plan** (Ret) A defined benefit formula that bases benefits on the credited earnings, sometimes called "covered compensation", of an employee at or during a selected number of years (typically 1 or 3) immediately preceding retirement.

**Final Compensation** (Ret) In a defined benefit plan a member's average monthly compensation earnable generally during the consecutive twelve (or 36) months prior to retirement, or the twelve (or 36) consecutive months of highest compensation. It is used to compute the retirement allowance.

**Financial Accounting Standards Board (FASB)** The primary rule-making body for accountants practicing in the private sector. An independent, private (non-governmental) authority for establishing accounting principles in the United States. Successor to the Accounting Principles Board.

**Financial Times Stock Exchange (FTSE)** (Inv) The index publisher that produces the Custom FTSE All World ex-US Index for the System. FTSE is partially owned by the London Stock Exchange and Financial Times.

**Fitch Ratings** (Inv) A nationally-recognized credit rating agency that grades the investment quality of bonds in a 10-symbol system. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated BBB- or greater are considered investment-grade. Securities rated BB+ or below are considered to be speculative.

**Fixed Income** (Inv) Income that remains constant and does not fluctuate, such as income derived from bonds, annuities, preferred stock and royalties.

**Flexible Benefit Plan** (Ret) A benefit program under Section 125 of the Internal Revenue Code that offers employees a choice between permissible taxable benefits, including cash, and nontaxable health and welfare benefits, such as life and health insurance, vacation pay, retirement plans and child care. Although a common core of benefits may be required, the employee can determine how his or her remaining benefit dollars are to be allocated for each type of benefit from the total amount promised by the employer. Sometimes employee contributions may be made for additional coverage.

**Flexible Spending Accounts** (HP, IRC) Many flexible benefit programs include flexible spending accounts, which give employees the opportunity to set aside pretax funds for the reimbursement of eligible tax-favored welfare benefits. FSAs can be funded through salary reduction, employer contributions or a combination of both. Employees can purchase additional benefits, pay health insurance deductibles and co-payments, or pay for child-care benefits with the money in their FSAs.

**Floor Offset Pension Plan** (Ret) A defined contribution plan is used as the primary vehicle for providing retirement benefits. Recognizing that many factors might result in the defined contribution plan providing less than adequate benefits in some situations, the employer also maintains a defined benefit floor plan. This floor plan uses a defined benefit formula to establish a minimum benefit. If the defined contribution plan provides a benefit that equals or exceeds this minimum, no benefit is payable from the floor plan. If the defined contribution benefit is less than this minimum, the floor plan makes up the difference. Thus the total benefit from both plans is not less than equal to the minimum described in the floor plan.

**Fraud** (Lgl) An intentional misrepresentation of the truth for the purpose of deceiving another person that causes damage of some sort.

**Freeze/Plan Freeze** (Ret) A period in which a plan sponsor amends the retirement plan to stop all benefit accruals. When a plan is frozen, employees who participate in the plan do not accrue any additional benefits after the effective date of the plan freeze, and new employees are prevented from participating in the frozen plan. This can be done in order to terminate the plan, transfer the plan to another employer, or to make other changes to the plan after participants' currently accrued plan benefits have been paid.

**Full Time Equivalent** (Ret) A personnel term which refers to the value of a permanent position of one budgeted position, generally a 40-hour per week position.

**Fund** (1) (noun) Money in investments held in trust, or share of insurance company assets for payment of pension benefits. (2) (verb) To set aside monies necessary to pay off a benefit, in a trust account or in the possession of an insurance company or other third party, in advance of the date when benefits are payable.

**Funded Status** (Ret) A percentage reflecting how the liabilities of a plan are measured against the assets of the plan or risk pool. Or equivalently, how "on track" a plan or risk pool is with respect to assets vs. accrued liabilities. The funded ratio is calculated by dividing the actuarial value of assets by the accrued liabilities. A ratio greater than 100% means the plan or risk pool has more assets than liabilities and a ratio less than 100% means liabilities are greater than assets.

**Funding Policy** (Ret) The program regarding the amounts and timing of contributions by the employer(s), participants and any other sources (for example, state subsidies, employer bond sale proceeds, or federal grants) to provide the benefits a pension plan specifies

**Funding Ratio** (Ret) In asset/liability management, the market value of assets divided by the present value of present and future liabilities. If the ratio exceeds 1.00, the obligations are said to be overfunded. If the ratio is less than 1.00, the obligations are underfunded.

**Future Contract** (Inv) Exchange-traded contracts to buy or sell a standard quantity of a given instrument, at an agreed price and date. Futures are traded on a range of underlying instruments including commodities, bonds, currencies, and stock indices.

**G10 Countries** (Inv) The group of countries that have agreed to participate in the General Arrangements to Borrow. Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and United States.

**Gainsharing** (Ret) An approach used by some retirement systems (usually when a pension fund's funded status well exceeds 100% of the amount of assets needed to pay current and future pension liabilities) in which the fund's investment returns are shared between the employees, retirees, and the plan sponsor.

**Garnishment** (IRC) A legal process whereby payments towards a debt owed by an individual can be paid by a third party - which holds money or property that is due to the individual - directly to the creditor. The third party in such a case is generally the individual's employer and is known as the garnishee. Garnishments are typically used for debts such as unpaid taxes, monetary fines and child support payments.

**GASB** See Governmental Accounting Standards Board.

**GASB Statements 43 and 45** (Lgl) Encourages adoption of professional standards in financial planning and accounting including clear publication of financial plans and other information according to uniform standards including: The cost of benefits in periods when the related services are received by the employer, information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded, and information useful in assessing potential demands on the employer's future cash flows.

**Gatekeeper** (HP) The primary health care provider responsible for managing medical treatment rendered to an enrollee of a health plan. Alternatively, this term has been used to describe third-party monitoring of care to avoid excessive costs by allowing only appropriate and necessary care to be rendered.

**General Law City** (Lgl) A city whose form of government is defined by the laws, rules and regulations of the state in which it resides.

**General Member** (Ret) A general member is a permanent employee of the plan sponsor or a contracting district working in a covered position other than a "safety" position. See Safety Member.

**General Obligation Bond** (Inv) A bond secured by a pledge of the issuer's taxing powers (limited or unlimited). More commonly the general obligation bonds of local governments are paid from ad valorem property taxes and other general revenues. Considered the most secure of all municipal debt. Limited in California by Proposition 13 to debt authorized by a vote of two-thirds of voters in the case of local governments or a simple majority for State issuance.

**General Partner** (Inv) The manager of a limited partnership. The general partner has full responsibility for investing the capital. The general partner also bears personal liability for any lawsuits that arise from the investment's activities, but is often indemnified by the fund. See Limited Partner.

**Generally Accepted Accounting Principles (GAAP)** (Lgl) The common set of accounting principles, standards, and procedures; a combination of authoritative standards (set by policy boards such as the FASB and GASB) and the accepted ways of doing accounting.

**Generic Equivalent Drugs** (HP) Prescription drugs that are equal in therapeutic power to the brand-name originals because they contain identical active ingredients at the same doses.

**Golden Handcuffs** (Ret) Employee benefits and/or incentives linked to an individual's continued employment with an organization. Leaving the organization would result in forfeiting the value. When such amounts become comparatively large (compared to offers from other organizations) the employee no longer can "afford" to leave the organization.

**Golden Handshake** (Ret) An early retirement incentive program that provides one with additional age or years of service credit enabling one to receive a higher retirement benefit than otherwise provide by a defined benefit plan. Alternately, the offer of a sum of money to induce persons to terminate employment.

**Golden Parachute** (Ret) An employment contract that provides for an increase or acceleration of payments or vesting or other rights for the employee, upon change of control of the corporation as defined in the contract or upon change of control coupled with a change in the employee's duties.

**Government Finance Officers Association (GFOA)** (Lgl) A professional association of approximately 17,500 state, provincial, and local government finance officers in the United States and Canada.

**Government Pension Offset (GPO)** (Lgl) A reduction in the Social Security benefits to a person who receives a pension from a retirement system that is not coordinated with Social Security. The reduction may result in no Social Security benefit. Also known as the "spousal offset".

**Governmental Accounting Standards Board (GASB)** Created to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

**Governmental Plan** (IRC) A plan established or maintained for its employees by the federal or state government, political subdivision, agency or instrumentality. The term also includes plans sponsored by railroads or international organizations exempt from tax under the International Organization Immunities Act.

**Graded Vesting** (Ret) A schedule that provides the gradual accumulation of rights to future benefits i.e. 20% vesting is required after three years of service; the vested portion is increased 20% each year until it reaches 100%; this process cannot exceed seven years. The opposite is cliff vesting where the right to future benefits occurs as soon as a certain condition (generally period of service) is met.

**Gradual Retirement** (Ret) A program permitting workers to phase themselves out of a company over a number of years by gradually reducing their workweek, rather than going directly from full-time work into full retirement.

**Grandfather Clause** (Lgl) An exception to a restriction or new rule or requirement that allows all of those already doing something to continue doing it even if they would be stopped by the new restriction. Any clause which retains a former rule for a group of employees, while new rules apply prospectively.

**Gross National Product (GNP)** (Inv) The total value of a nation's output of goods and services in a given year, plus net income from foreign investments.

**Group Health Care** (HP) Under ERISA, an employee welfare benefit plan providing medical care to participants and beneficiaries, directly or indirectly. Under the Internal Revenue Code, a plan maintained by an employer to provide medical care, directly or indirectly, to employees, ex-employees and their families.

**Guardian** (Lgl) The person legally entrusted with supervision of another who is ineligible to manage his own affairs – usually a child. Guardians fulfill the state's role as substitute parent. Those for whom guardianships are established are called wards. Guardianships for other than children are usually established by courts for the property or persons of the insane or those otherwise not able to take care of their own affairs.

**Haircut** (Inv) 1. The difference between prices at which a market maker can buy and sell a security.
2. The percentage by which an asset's market value is reduced for the purpose of calculating capital requirement, margin and collateral levels.

**Hard Freeze** (Ret) The accrual of future benefits is stopped, with no additional benefits accruing for any current plan participants regardless of their length of employment or salary increases.

**Hardship Withdrawal** (Ret) A savings plan may, but is not required to, provide for hardship distributions from 401(k) plans, 403(b) plans, and 457(b) plans. A hardship withdrawal may be made only in cases of financial emergency provided there are no other sources available to meet the need. Hardship distributions are includible in gross income unless they consist of designated Roth contributions. In addition, they may be subject to an additional tax on early distributions of elective contributions. Unlike loans, hardship distributions are not repaid to the plan. Thus, a hardship distribution permanently reduces the employee's account balance under the plan.

**Headline Risk** (Inv) The possibility that a news story will adversely affect a stock's price. Headline risk can also impact the performance of the stock market as a whole.

**Health Care Coalition** (HP) An organization working on broad health care concerns, including group purchasing, controlling costs and enhancing quality. Participants can be providers, business, third-party payers, and consumers; often there is government participation as well.

**Health Care Flexible Spending Account** (IRC) Allows employees to set aside pretax funds for eligible health care benefits such as physical exams, vision care and dental care, including deductibles and co-payments. See also Flexible Spending Accounts (FSAs).

**Health Care Provider** (HP) An individual or institution that provides medical services (e.g. a physician, hospital, laboratory, etc.). This term should not be confused with an insurance company which "provides" payment or partial payment for medical services.

**Health Insurance Portability and Accounting Act of 1996 (HIPPA)** (Lgl) This federal law protects health insurance coverage for workers and their families when they change or lose their jobs. It also includes provisions providing national standards to protect the privacy of personal health information.

**Health Maintenance Organization (HMO)** (HP) A health plan that provides care from specific doctors and hospitals that contract with the plan. Usually there are no claim forms to be completed and there is often a geographically-restricted service area.

**Health Reimbursement Account (or Health Reimbursement Arrangements)** (IRC) Partially self-funded medical and health insurance plans with special tax advantages.

**Health Savings Account (HSA)** (IRC) Tax advantaged health savings accounts available to those enrolled in a High Deductible Health Plan (HDHP).

**Hedge (Hedging)** (Inv) A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

**Hedge Fund** (Inv) A private investment fund or pool that trades and invests in various assets such as securities, commodities, currency and derivatives on behalf of its clients.

**High Yield** (Inv) Securities that carry a relatively high coupon or yield because they are rated at or below Ba1 by Moody's, BB+ by Standard & Poor's, and BB+ by Fitch Ratings. These securities are also known as non-investment grade, speculative, or "junk" bonds.

**Highly Compensated Employee** (IRC) Under the Internal Revenue Code Section 415, any employee who, during the current or preceding years: (1) owned more than 5% of the company, (2) received more than a certain amount in annual compensation, (3) received more than a certain amount in annual compensation and was in the top paid group (generally, top 20% in annual compensation), or (4) was an officer of the company earning more than 50% of the defined benefit limit under IRC. The dollar amounts are indexed. Discrimination by this provision of more or higher tax deferred savings and retirement benefits to this group than lower paid non-owner employees of the same organization is prohibited.

**Hospice** (Dis) Health care facility or program providing medical care and support services, such as counseling, to terminally ill persons and their families.

**Hybrid Pension Plan** (Ret) Pension plan designs that combine the features of defined benefit and defined contribution plans. In general, they are usually treated as defined benefit plans for tax, accounting and regulatory purposes. As with defined benefit plans, investment risk in hybrid designs is largely borne by the plan sponsor. As with defined contribution designs, plan benefits are expressed in the terms of an individual's "account balance", and are usually paid as cash balances upon termination of employment. These features make them more portable than traditional defined benefit plans and perhaps more attractive to a more highly-mobile workforce. One hybrid design is the Cash Balance Plan, where the employee's "account balance" grows by some defined rate of interest and annual employer contribution.

**Illiquidity** (Inv) The state of a security or other asset that cannot easily be sold or exchanged for cash without a substantial loss in value. Illiquid assets also cannot be sold quickly because of a lack of ready and willing investors or speculators to purchase the asset. The lack of ready buyers also leads to larger discrepancies between the asking price (from the seller) and the bidding price (from a buyer) than would be found in an orderly market

**Inactive Member** See Deferred Member/Inactive Member.

**Includable Compensation** (Ret) Salary and other payments which are used in determining the member's final compensation. It may include payments not shown on the member's W-2.

**Income Averaging** (IRC) A method of determining how much tax is owed on a lump-sum distribution from a qualified pension plan. An individual who receives such a distribution and includes it in taxable income may be eligible to treat the tax liability as if the distribution had been received over a five- or ten-year period. Certain requirements must be met.

**Indemnity Plan** (HP) An indemnity plan is a health care plan that provides cash payment for designated covered services to physicians, hospitals, and other providers. Payments may be made directly to service providers or as reimbursement to plan members.

**Independent Living** (Dis) Independent living refers to properties that include multi-unit residential facilities with supportive hospitality services such as meals, housekeeping, transportation, and social programs.

**Index Fund** (Inv) An investment fund (or account) composed of securities the characteristics of which will produce a return that will duplicate (or substantially duplicate) a designated securities index.

**Index Swap** (Inv) An agreement between two parties to exchange cash flows where the floating side would depend on the return of an index.

**Individual Contract Retirement Trust** (Ret) A pension plan under which a trust is created, to buy and hold title to individual insurance or annuity contracts, for those covered under the plan. The trust receives the premium payments from the employer and transmits them to the insurance company, receiving in turn the individual policies.

**Individual Retirement Account (IRA)** (IRC) A personal, tax deferred retirement account defined in Section 408(a) of the Internal Revenue Code. Individuals may make tax-deductible contributions to their own retirement account and to their spouse's, if the spouse is not employed. Contributions are limited to an annual maximum, as defined by law. The Tax Reform Act of 1986 greatly reduced

*TERM APPLICATION: (Dis) Disability or medical care; (HP) Health Plan; (Inv) Investments or economic; (IRC) Internal Revenue Code; (Lgl) Legal; (Med) Medicare; (Ret) Plan design or administration; (SS) Social Security*

the usefulness of IRAs by restricting the tax deductibility of contributions, based on adjusted gross income for active participants in company pension plans.

**Inflation** (Inv) The overall general upward price movement of goods and services in an economy, usually measured by the Consumer Price Index.

**Infrastructure Investments** (Inv) Investing in the basic systems of a business or nation. Transportation, communication, sewage, water and electrical systems are all examples of infrastructure. These systems tend to be high-cost investments. Infrastructure projects may be funded publically, privately, or through public-private partnerships.

**Initial Public Offering (IPO)** (Inv) The first sale of a company's stock to the public. Often the price is supported for a short period of time by the group of investment houses retained to bring the offering to market. Because there is often not enough shares to meet the demand, the price increases quickly or sells at a premium and may fall when the support of the investment houses ends.

**In-Service Distribution** (Ret) A withdrawal of plan benefits (usually in the form of withdrawal of contributions) prior to separation from service with an employer. No in-service withdrawals are permitted by federal law from a defined benefit pension plan.

**Insider Trading** (Inv) Trading of stock by insiders who use unpublished information to make a profit on the sale or purchase of stocks.

**Institutional Investor** (Inv) An organization whose primary purpose is to invest its assets or those held in trust by it for others. Includes pension funds, investment companies, universities, and banks.

**Insurable Interest** (Lgl) An insurable interest is a condition of dependence upon the life and health of a person. Everyone has an insurable interest in himself and also: 1. Any person on whom he depends either wholly or in part for education or support 2. Any person under a legal obligation to him for the payment of money, property or services, whose death or illness might delay performance or prevent payment 3. Any person upon whose life any estate or interest vested in him depends.

**Insurance – COB** See COB.

**Insurance – COBRA** See COBRA.

**Insurance – Copayments** See Copayment.

**Insurance – HMOs** See HMO.

**Insurance - Indemnity Plan** See Indemnity Plan.

**Insurance – Medicare** See Medicare.

**Insurance - Medicare HMO Plan** See Medicare HMO.

**Insurance - Medicare Part A** See Medicare Part A.

**Insurance - Medicare Part B** See Medicare Part B.

**Insurance - Medicare Supplement Plan** See Medicare Supplement Plan.

**Insurance Preferred Provider** See Preferred Providers.

**Insurance - Reasonable and Customary Charge** See Reasonable and Customary Charge.

**Internal Revenue Code (IRC) of 1986** As amended, this code is the basic federal tax law.

**Internal Revenue Service (IRS)** Part of the Treasury Department, the IRS is a government agency charged with the collection of taxes including those related to employee benefit plans. The IRS is responsible for administering the requirements for qualified pension plans as well as other retirement and welfare plans. The IRS enforces the income tax code and regulations and assesses penalties for failure to comply with certain reporting and disclosure requirements.

**Investment Consultant** (Inv) An individual or firm that provides—for a fixed fee based on a percentage of assets or a fee derived from brokerage commissions—investment advice. Such advice generally includes analyzing portfolio constraints, setting performance objectives, counseling on allocation of assets and selecting and monitoring services. It may or may not include performance measurement services.

**Investment Grade** (Inv) A minimum credit rating of Baa3 by Moody's Investor Service or BBB- for Standard & Poor's Corporation, and BBB- by Fitch. Investment grade ratings apply to issuers whose financial risk is relatively low and the probability of future payment relatively high.

**Investment Policy** (Ret) The written instrument, adopted by the Board of Trustees of a retirement plan, that sets the fiduciaries' parameters for asset allocation, risk (portfolio volatility) tolerance, styles of asset management to be employed, and portfolio return expectations.

**IPO(Initial Public Offering)** (Inv) The first sale of stock by a company to the public.

**IRA** See Individual Retirement Account.

**IRA Rollover** See Rollover.

**Irrevocable Beneficiary** (Lgl) An unalterable beneficiary. The owner gives up the right to change the beneficiary designation without the beneficiary's consent.

**ISDA** (Inv) The International Swaps and Derivatives Association (ISDA) represents participants in the privately negotiated derivatives industry, and is the largest global financial trade association. ISDA has pioneered efforts to identify and reduce the sources of risk in the derivatives and risk management business through the development of the ISDA Master Agreement.

**Issuer** (Inv) A state or local unit of government that borrows money through the sale of bonds and notes or both.

**January Effect** (Inv) The observed tendency for stock returns to be higher in January than would be expected.

**Joinder** (Lgl) The term for adding the retirement plan as a party to a marriage dissolution proceeding. The joined retirement plan's only role is to make sure the division of the parties' property rights in the retirement plan can be administered as divided by the court and to carry out the court's order in the division of the rights under the plan.

**Joint and Survivor Option** (Ret) A pension plan provision in which a reduced pension is paid as long as one of the two parties is living. The reduction is generally calculated using actuarial factors based on the ages of the retiree and the designated survivor (usually the member's spouse or domestic partner). Also see Annuity - Joint and Survivor.

**Joint Tenancy** (Lgl) A type of property right where two or more people own or rent a property together, each with equal rights and obligations, until one owner dies. Upon an owner's death, the owner's interest in the property passes to the survivor(s) without the property having to go through probate.

**Junk Bonds** (Inv) Bonds that are initially issued as high-yield securities, often in conjunction with takeovers, leveraged buyouts, and restructurings. They offer high interest and high risk that are rated less than investment grade. These securities generally lack the characteristics of a desirable investment. The rights of the bondholder are subordinated to senior debt holders. Assurance of interest and principal payments in the future is limited. Repayment often depends on asset sales rather than on the ongoing profitability of the business.

**KEOGH Plan** (IRC) A plan, also known as an H.R. 10 Plan, which enables self-employed persons and their employees to establish a qualified tax-deductible pension or profit-sharing plan, subject to meeting IRS requirements. KEOGH plans include defined benefit and money purchase plans.

**Letter of Credit** (Inv) A form of supplement or, in some cases, direct security for a municipal bond, under which a commercial bank or private corporation guarantees payment on the bond under certain specified conditions. The legal obligation to fund these instruments is "unconditional" (irreversible instrument).

**Letter of Testamentary** (Lgl) A court order appointing the person named in the most recent will of a deceased member as executor of his estate - or, in the absence of a will, a court order appointing a public official or institution to administer the deceased member's estate

**Letter Ruling** (IRC) A private ruling issued by the IRS in response to a request from a taxpayer about the tax consequences of a proposed or completed transaction. Private Letter Rulings are published informally by several publishers. They are not considered to be precedents for use by taxpayers other than the one who requested the ruling, but they do give an indication of the current attitude of the IRS toward a particular type of transaction.

**Leverage** (Inv) 1. A strategy that uses borrowed monies to purchase financial assets with the objective of increasing returns. Means of enhancing return or value without increasing investment, e.g., buying securities on margin. 2. A condition where wide changes in earnings and market value of a company's common stock may be expected because of a heavy preponderance of debt and/or

**Leverage** (continued)
preferred stock in a company's capitalization, which necessitates substantial interest and preferred dividend payments be absorbed before anything is left for the common stockholder. Works to the advantage of common shareholders when earnings are good, and to their disadvantage when earnings are bad.

**Leveraged Buyout** (Inv) The purchase of all or part of the stock or assets of a company through the use of debt with some equity capital. The company may be privately or publicly owned, or a subsidiary or division of a privately or publicly owned company.

**Liabilities** (Inv) The amount of money that a business, government, or individual owes to others. Includes amounts owed for mortgages, supplies, wages, salaries, accrued taxes and other debts. Also includes future obligations.

**LIBOR** (Inv) An acronym for London Interbank Offer Rate. These rates are based on rates quoted by 16 (for U.S. dollars) British Bankers' Association designated banks as being in their view, the offered rate at which deposits are being quoted to prime banks in the London Interbank Market at 11:00 a.m. London time. Of the 16 contributors, the four highest and four lowest rates are eliminated. An average of the remaining eight is taken.

**Life Expectancy** (Ret) Length of time a person of a given age has the greatest probability to live. The period is a statistical average, based on mortality tables showing rate of death at each age. It does not seek to predict the life span of any particular individual. See Mortality Table.

**Life-Only Annuity or Single Life Annuity** (Ret) A series of payments made to an individual (See Annuity) as long as the individual lives, with all payments ceasing at death.

**Limited Liability Company (LLC)** (Inv) An alternative structure to a Limited Partnership. It is often described as a hybrid between a corporation and a partnership because it offers limited liability like a corporation and single taxation on income like a partnership.

**Limited Partnership** (Inv) The most common format used in structuring private equity investments. Limited partners provide the capital but have no direct involvement in the management of the fund. Limited partners have limited liability but also have limited control over the management of the fund. See General Partner.

**Lines of Credit** (Inv) These are also referred to as Standby Bond or Note Purchase Agreements and Liquidity Lines. These are designed to provide liquidity (as opposed to credit enhancement) in the event of financial market disruption. The legal obligation to fund under these instruments is "conditional" (revocable instruments).

**Liquid Assets** (Inv) Those assets shown on the left side of the balance sheet that are most easily turned promptly into cash or the equivalent, usually within the course of a year.

**Liquidity** (Inv) The ability to quickly convert a particular investment into cash at a low transaction cost.

**Living Trust** (Lgl) A trust that becomes effective during the life of the owner. Property is placed in the hands of a trustee, who manages the trust for the benefit of one or more individuals. It is not included in probate when the owner of the trust dies.

**Living Will** (Lgl) A document that allows a person to state in advance his or her wishes regarding the use or removal of life-sustaining or death-delaying procedures in the event of a terminal illness or injury.

**Long-Term Care** (HP) Includes all forms of services, both institutional and non-institutional, that are required by all people with chronic health conditions, the elderly or those with physical disabilities who need help with activities of daily living. Long-term care is palliative only—relieving symptoms, but not effecting a cure.

**Lump Sum Distribution** (Ret) Payment within one taxable year to the recipient of the entire balance payable to him or her from a trust that forms part of a qualified pension or employee annuity plan on account of his or her separation from service or death. A lump sum distribution may qualify for special tax treatment.

**Lump-Sum Death Benefit** (Ret) A single payment benefit payable upon the death of an eligible member. If the deceased was an active member, the beneficiary receives the basic death benefit. If the deceased was a retired member, the beneficiary's lump-sum benefit may depend on the type of retirement option selected by the member.

**Malpractice** (Lgl) A dereliction from professional duty or failure of professional skill or learning that results in (1) death, injury, loss, or damage to the patient or (2) loss in rights, property, or equity of a lawyer's client.

**Managed Care** (HP) An approach to health care cost-containment whose goal is to deliver cost-effective care without sacrificing quality or access. The techniques used by managed care programs include case management; primary physicians; provider networks; and components of utilization review such as preadmission certification, continued stay review, discharge planning and mandatory second-opinion programs. Managed care can be provided by HMOs PPOs, exclusive provider organizations (EPOs), or managed indemnity plans.

**Management Audit** (Ret) Analysis and assessment of competencies and capabilities of a company's management in order to evaluate their effectiveness, especially with regard to the strategic objectives and policies of the business.

**Management Fees** (Inv) An ongoing expense that fund companies charge investors for actively managing their fund. It is represented as a percentage (in basis points) of a fund's average daily assets and is typically the largest component of a fund's operating expense.

**Margin** (Inv) Collateral representing a portion of the notional amount of a transaction specified by the exchange clearing the transaction or the counter-party to the transaction.

**Margin Call** (Inv) A call from a clearinghouse to a clearing member, or from a brokerage firm to a customer, to bring margin deposits up to a required minimum level.

**Marginal Tax Rate** (IRC) The tax rate that applies to the next dollar of income received.

**Mark to Market** (Inv) A method of determining the value of securities by applying current trading prices of similar or identical securities to the securities being valued.

**Market Risk** (Inv) That element of return variability from an asset that cannot be eliminated through diversification. It is measured by beta (See Beta).

**Market Timing** (Inv) An investment strategy based on predicting market trends. The goal is to buy before the market goes up and sell before the market goes down.

**Matching Contributions** (Ret) Made by an employer to a defined contribution plan on an employee's behalf when the employee makes elective or non-elective contributions.

**Mean** (Ret) The average amount or value.

**Median** (Ret) The mid-point of a distribution, with half of the samples less than or equal to the median, and half of the samples greater than or equal to the median.

**Medical Necessity** (Dis) Describes services required to prevent harm to the patient or an adverse effect on the patient's quality of life, as judged against generally accepted standards of medical practice. The term is usually used to determine whether or not a procedure or service is covered by insurance. The reasonable and appropriate diagnosis, treatment and follow-up care as determined and prescribed by qualified, appropriate health care providers in treating any condition, illness, disease, or injury.

**Medical Reimbursement Plan** (HP) An employer plan that reimburses employees for medical expenses directly from employer funds, and not through a policy of health or accident insurance.

**Medical Savings Account (MSA)** (IRC) A savings account that can be used to pay medical expenses not covered by insurance for employees of small businesses or self-employed individuals who are covered under health plans with high deductibles. Employers with small group MSAs may make contributions on behalf of employees, or employees may make the entire contribution.

**Medicare – Part A** (Med) Hospital insurance that covers inpatient care in a hospital or skilled nursing facility, and also hospice care. Part A insurance is automatic and free for eligible retirees who are fully insured under Social Security and have applied for Social Security benefits, or who have paid sufficient Medicare payroll tax. Members who are not fully insured pay premiums that are based on the number of Social Security credits they've earned.

**Medicare – Part B** (Med) Medical insurance that covers physician services, outpatient hospital care, lab and x-rays, ambulance charges, and some other services not covered by Medicare Part A. Part B coverage is voluntary and retirees do not have to be fully insured under Social Security to be eligible. Members 65 or older who are not eligible for Part A coverage may elect to pay a flat rate for Part B coverage.

**Medicare – Part D** (Med) Federal program to subsidize the costs of prescription drugs for Medicare beneficiaries in the United States. It was enacted as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) and went into effect on January 1, 2006.

**Medicare – Supplement Plan** (Med) An indemnity plan for individuals who are enrolled in both Part A and Part B of Medicare. The plan supplements Medicare coverage by: • Paying Medicare Part A deductibles and copayments, as well as Medicare Part B deductibles and 20% of Medicare-approved amounts • Providing coverage for certain items that Medicare does not cover, such as some prescription drugs and care while traveling outside the United States

**Medicare-assignment** (Med) A health care provider who accepts Medicare assignment agrees to the Medicare approved amount as 80% payment for Part B services. A provider who does not accept Medicare assignment can legally charge the patient up to 15% above the Medicare approved amount.

**Medicare Supplemental Policy (Medigap)** (Med) A voluntary, contributory private insurance plan available to Medicare eligibles to cover the costs of deductibles, coinsurance, physicians' services and other medical and health services not covered by Medicare. Also called Medigap.

**Member** (Ret) An employee or former employee who is or may become eligible to receive a benefit of any type from an employee benefit plan, or whose beneficiaries may be eligible to receive any such benefit.

**Member Contributions** (Ret) The retirement contributions made by participants in a contributory plan. The contribution amount is a flat rate or is calculated by multiplying a percentage rate by the member's compensation earnable. See also Contributions-taxable and Contributions Nontaxable.

**Member – Deferred** See Deferred Member.

**Member - Deferred Reciprocal** See Deferred Reciprocal Member.

**Member - Dual Status** See Dual Status.

**Member – General** See General Member.

**Member – Retired** See Retired Member.

**Member –Safety** See Safety Member.

**Member –Vested** See Vested Member.

**Membership Date** (Ret) The point in time when an employee becomes a member of the retirement system, is eligible to accrue service credit, and is required to begin making contributions. The membership date for new members is sometimes the date of hire, sometimes the first day of the first pay period following the employee's hire date.

*TERM APPLICATION: (Dis) Disability or medical care; (HP) Health Plan; (Inv) Investments or economic; (IRC) Internal Revenue Code; (Lgl) Legal; (Med) Medicare; (Ret) Plan design or administration; (SS) Social Security*

**Merit Pay** (Ret) Is a term describing performance-related pay. It provides bonuses for employees who perform their jobs effectively, according to measurable criteria, rather than a pay rate based on a collectively bargain agreement or a defined pay scale for the position.

**Merger** (Inv) The combination of two or more companies. Strictly speaking, only combinations in which one of the companies survives as a legal entity are called mergers.

**Minimum Age & Service Requirements** (Ret) The point of time at which a member has met the threshold age and minimum service requirement to retire under the terms of the plan.

**Minimum Distribution** (IRC) The Internal Revenue Code Section (§401 (a)(9)) that requires tax qualified plans to distribute the entire interest of each employee (1) no later than April 1 of the calendar year following the calendar year in which the employee attains 70 1/2 (for governmental plans, the later of the date previously stated), April 1 of the calendar year following the calendar year in which the employee retires, or (2) begin to be distributed by the previous stated dates over the life of the employee, or lives of the employee and a designated beneficiary. Public retirement systems fall under (2).

**Minimum Participation** (IRC) These rules apply to private sector single employer plans. Generally speaking, a qualified plan that bases eligibility for participation on age and service cannot deny or delay participation beyond the time an employee reaches age 25 and completes one year of credited service with the sponsoring employer. If the plan provides for full and immediate vesting of all accrued benefits, however, participation may be denied until the employee reaches age 25 and completes three years of credited service.

**Minimum Retirement Age** (Ret) The minimum age to be eligible for a retirement allowance.

**Minor Survivor** (Ret) A minor survivor is a deceased member's child under the age of 18 who, under some plans, is eligible to receive continuing retirement benefits as a result of the member's death where there is no surviving spouse – or who is eligible to receive a special death benefit.

**Mode** (Ret) Statistical term that refers to the most frequently occurring number found in a set of numbers. The mode is found by collecting the data in order to count the frequency of each result. The result with the highest occurrences is the mode of the set.

**Modern Portfolio Theory** (Inv) The proposition, developed by Harry Markowitz, that the type of securities in a group (or portfolio) of securities can be assembled in proportions within this group so that the price volatility (risk) of the whole group is lower, and return of the whole group is higher than the risk/return of any of the component securities in this group. Used by investment managers to classify, estimate and control the sources of risk and return. In popular usage, the term is not limited to portfolio theory. Instead, MPT encompasses all notions of both modern investment theory and portfolio theory.

**Money Purchase Plan** (Ret) A type of defined contribution plan in which the employer's contributions are determined for and allocated, with respect to specific individuals, usually as a percentage of compensation. The benefits for each employee are the amount that can be provided by the sums contributed to his or her account. Unlike a profit-sharing plan, however, forfeitures are not added to participants' accounts; they are used to reduce the employer's contributions.

**Monte Carlo Simulation** (Inv) A mathematical tool and analytical technique that simulates random quantities for uncertain variables and looks at the distribution results to infer which values are most likely. Used in retirement planning to evaluate whether retirement income will last as long as needed. Computer software can simulate thousands of market-condition scenarios to estimate the probability of funds lasting a lifetime. Named for the city of Monte Carlo, known for its casinos.

**Moody's Investor Service** (Inv) A nationally-recognized credit rating agency that grades the investment quality of bonds in a 9-symbol system. The ranges extend from the highest investment quality, which is Aaa, to the lowest credit rating, which is C. Securities rated Baa3 or greater are considered investment grade. Securities rated Ba1 or below are considered to be speculative.

**Morbidity** (Ret) The relative incidence (number of cases) and severity of disease, usually used with respect to specific disease conditions; e.g. tuberculosis morbidity refers to the number of cases of tuberculosis.

**Mortality Table** (Ret) Shows how many members of a group, starting at a certain age, are likely to be alive at each succeeding age. It is used to calculate the probability of dying in, or surviving through, any period, and the value of an annuity benefit. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as gender or occupational group.

**Mortgage-Backed Security (MBS)** (Inv) A general term used to describe securities backed by mortgages. MBSs are broken down into four types of securities: mortgage pass-through, mortgage-backed bond, collateralized mortgage obligation (CMO), and stripped mortgage-backed bonds. Mortgage pass-throughs are pooled loans, typically issued by the Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. Mortgage-backed bonds have mortgage loans as collateral, but the term and interest payments are fixed. CMOs are derivative securities made up of mortgage-backed bonds, separated into groups (or transactions) intended to provide interest at a certain rate and principal pay down at increasing lengths of time from traunch to traunch. Stripped mortgage-backed securities have the principal and interest distribution altered from a pro rata distribution to an unequal distribution.

**Multiplier Factor** (Ret) The percentage used in the retirement benefit formula to determine the member's monthly retirement annuity.

**Municipal Bankruptcy... Chapter 9** (Lgl) A bankruptcy proceeding that provides financially distressed municipalities with protection from creditors by creating a plan between the municipality and its creditors to resolve the outstanding debt. Municipalities include cities, counties, townships and school districts. The purpose of Chapter 9 is to negotiate a repayment plan between the municipality and creditors, which can include reducing the outstanding debt or interest rate, extending the term of the loan and refinancing debts

**Municipal Bond** (Inv) Bonds issued by any of the 50 states, the territories and their subdivisions, counties, cities, towns, villages and school districts, agencies (such as authorities and special districts created by the states), and certain federally-sponsored agencies (such as local housing authorities). There are two broad groups of municipals: (1) Public Purpose bonds, which remain tax-exempt and can be issued without limitation; and (2) Private Purpose Bonds, which are taxable unless specifically exempted.

**Mutual Fund** (Inv) A company that collects funds of thousands of small investors who share similar investment objectives and then uses the funds to purchase a variety of investments such as stocks and bonds. These pooled assets lower transaction costs and allow small investors to invest more as a group. Mutual funds can be categorized according to investment objectives, such as growth mutual fund or income mutual fund.

**Nasdaq** (Inv) A computerized system that facilitates trading and provides price quotations on more than 5,000 of the more actively traded over the counter stocks. Created in 1971, the Nasdaq was the world's first electronic stock market.

**National Council of Real Estate Investment Fiduciaries Index (NCREIF)** (Inv) A property level performance benchmark for institutionally owned real estate. The benchmark is composed of an income return, an appreciation return and a total return and is calculated on a quarterly basis.

**National Health Insurance** (HP) Any system of socialized health insurance benefits, covering all or nearly all citizens, established by federal law, administered by the federal government and supported or subsidized by taxation.

**Nationalization** (Lgl) Refers to the process of a government taking control of a company or industry, which can occur for a variety of reasons. When nationalization occurs, the former owners of the companies may or may not be compensated for their loss in net worth and potential income.

**NAV (Net Asset Value)** (Inv) The value of a company or a corporation asset according to accounting records, which is determined by subtracting the company liabilities from the company assets.

**Negative Amortization** (Ret) An increase in the principal balance of a loan caused by making payments that fail to cover the interest due. The remaining amount of interest owed is added to the loan's principal, which ultimately causes the borrower to owe more money.

**Net Asset Value (NAV)** (Inv) A term used to describe the value of an entity's assets less the value of its liabilities.

**Net Pension Liability (NPL)** (Ret) Is the employer's actuarial accrued liability using the entry age normal method minus market value of assets.

**New York Stock Exchange** (Inv) Since 1792, a marketplace where members of the exchange, acting as agents for clients, meet in an auction-like setting to trade securities. Buy and sell orders meet directly on the trading floor, in assigned locations, where prices are determined by the interplay of supply and demand. Exchange members trade almost 3,000 listed stocks. Membership on the exchange is obtained by purchasing a seat from a retiring, deceased or expelled member.

**Nominal Return** (Inv) The rate of return on an asset expressed in monetary terms; i.e. unadjusted for any change in the price level. The nominal return is contrasted with the real return, which is adjusted for changes in the price level.

**Noncontributory Plan** (Ret) A retirement plan that does not require its members to make contributions in order to earn service credit.

**Non-Discrimination** (IRC) A condition for determining plan qualification under ERISA. Requires that plan benefits do not favor highly compensated employees. See also Discrimination.

**Nondiscrimination Rules** (IRC) The requirements in Section 105(h) of the IRC that self-funded employee benefit plans not provide significantly greater benefits to higher paid employees and owners than to lower paid employees. Although some disparity is permitted, there are limits which, if crossed, result in the benefits being deemed taxable income to the beneficiaries. Similar rules apply to 401(k) plans, flex plans, and pension plans.

**Non-Diversifiable Risk** (Inv) The change in price of an individual security due to circumstances shared by the general market. This risk will predominate in a well diversified portfolio.

**Non Profit 501(c)(3) or 501(c)(6) Institutions** (IRC) These are institutions exempt from federal, and in some cases, state income tax.

**Non-Qualified Retirement Plan** (IRC) Plans that provide benefits in excess of those permitted by qualified plans, or otherwise do not meet IRS requirements of Section 401(a) of the Internal Revenue Code, and therefore do not qualify for favorable tax treatment. Generally, current contributions by both employer and employees are currently taxable to the employees as are the earnings of the fund.

**Nonservice-Connected Death** (Ret) A nonservice-connected death is determined to be unrelated to a member's employment. Some plans have special provisions affecting the beneficiaries and survivors of members who suffer a nonservice-connected death.

**Nonservice-Connected Disability** (Dis) A nonservice-connected disability is an injury or disease, not related to a member's employment, that (in some plans, permanently) prevents him or her from performing the duties of his/her job. Plans have varying requirements regarding the amount of service required for nonservice-connected disabilities to be eligible for benefits.

**Nontaxable Contributions** See Contributions – Nontaxable.

**Normal Cost** (Ret) Computed differently under different funding methods, the employers' annual normal cost represents the present value of benefits that have accrued on behalf of the members during the valuation year. The normal cost should be viewed as the long-term contribution rate.

**Normal Retirement Age (NRA)** (Ret, IRC) The age established in a plan's provisions when members become eligible for full benefits, without reduction for age, within that plan. For example, age 60 in a "2% @ age 60" formula.

**Notes** (Inv) Intermediate-term, interest-bearing instruments issued by corporations, municipalities, or the federal government with maturities commonly ranging from five to 12 years.

**Notwithstanding** (Lgl) Means despite something; not prevented by; in spite of the fact that. For example, it may be said that the postman always makes his appointed rounds, notwithstanding the weather.

**OASDI** (Lgl) Old Age, Survivors and Disability Insurance, the Social Security program that provides disability benefits and monthly retirement benefits to those individuals who are fully insured.

**Occupational Death Benefit** (Ret) A benefit payable upon death of an employee resulting from his/her performance of an act or acts relating to the duties of his/her position in the employer's service.

**Occupational Disability Benefit** (Dis) A benefit payable on account of disability arising out of and in the course of employment.

**Offset** (Ret) Provisions in a pension plan for directly reducing a plan benefit by all or a portion of pensions payable to the individual from a government program. For defined benefit plans that are coordinated with Social Security, the final compensation is reduced by $133.33. The $133.33 reduction is commonly referred to as an "offset" and the final compensation in the retirement benefit is also reduced by the same amount.

**Older Worker Benefit Protection Act (OWBPA)** (Lgl) A Federal law passed by Congress in 1991, it is designed to insure plans must provide benefits equally for older workers. Prohibits the exclusion of benefits based solely on age.

**Omnibus Budget Reconciliation Act (OBRA)** (Lgl) 1990 Legislation which (1) increased employer's cost of obtaining reversion of a terminated defined benefit plan, (2) created a mechanism, on a limited basis, for the transfer of assets in an over-funded pension plan to a §401(h) retiree medical account, (3) extended certain provisions (deductions and income exclusions), which were scheduled to expire, (4) increased the taxable wage base for Medicare tax to $125,000, (5) modified applicability of COBRA rules, (6) increased PBGC premiums, and (7) provided personal income tax changes which may indirectly affect employee benefits.

**OPEB** See Other Post-Employment Benefits.

*TERM APPLICATION: (Dis) Disability or medical care; (HP) Health Plan; (Inv) Investments or economic; (IRC) Internal Revenue Code; (Lgl) Legal; (Med) Medicare; (Ret) Plan design or administration; (SS) Social Security*

**Open Enrollment** (HP) A period during which subscribers in a health benefit program have an opportunity to select an alternate health plan being offered to them; or a period when uninsured employees and their dependents may obtain coverage without presenting evidence of insurability.

**Open Panel** (HP) A managed care plan (such as an HMO) that contracts with physicians who operate out of their own offices. Permits any willing provider, if qualified, to contract with an HMO.

**Opinion Letter** (IRC) A written statement issued by the National Office of the Internal Revenue Service (IRS) to a sponsoring organization to address the acceptability of the form and terminology of a master or prototype plan, as well as any related trust or custodial account documentation.

**Option** (Inv) Contracts that give the purchase the right, but not the obligation, to buy or sell an underlying instrument at a certain price (the exercise or strike price) on or before an agreed date (the exercise period). For this right, the purchase pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price, should the purchaser exercise his right.

**Opportunistic** (Inv) An established investment program temporarily investing outside its benchmark or asset category based on current favorable market conditions.

**Ordinary Life Retirement Trust** (Ret) A trust-funded retirement plan that provides death benefits through the purchase of ordinary or whole life insurance contracts for employees covered. The trust pays premiums on the insurance coverage until the employee reaches retirement age. The trust also accumulates, in an auxiliary fund, the additional sums necessary to purchase the retirement benefits of the plan for the employees, using the paid-up cash value of the life insurance policy for each employee as part of the purchase price of the annuity.

**Other Post Employment Benefits (OPEB)** OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) provided separately from a pension plan.

**Out of Area Benefits** (HP) Those benefits that the plan supplies to its subscribers when outside the geographical limits of the HMO. These benefits usually include emergency care benefits plus low indemnity payments for non-emergency benefits. Most plans stipulate that area services for emergency care will be provided until the subscriber can be returned to the plan for medical management of the case.

**Over the Counter (OTC)** (HP) Pharmaceutical products available without a prescription. (Investments) The market for securities and traded products that are not listed on the major exchanges. OTC options are options with negotiated premium, strike price, and expiration date.

**Partial Freeze** (Ret) The accrual of future benefits is stopped for some but not all participants. See also Partial Plan Termination.

**Partial Plan Termination** (Ret) Reducing benefits or making participation requirements more rigid, although not amounting to a complete termination of the plan. Partial termination results in the vesting of accrued benefits for at least part of the plan. There are two kinds of partial terminations: "Horizontal" and "Vertical". A "horizontal partial termination" occurs if there is a potential for a reversion of plan assets to the employer. This rule does not require that an employer secure a reversion, only that a potential for reversion exists. A "vertical partial termination" occurs when employer-initiated action causes a permanent reduction of either a significant number or a significant percentage of participants from a plan.

**Part-Time Employee** (Ret) A part-time employee is a permanent employee who works less than full time. Part-time employees may not be eligible for membership depending on the system.

**Party In Interest** (Lgl) A person who is prohibited from engaging in certain transactions with the plan. Defined as (1) a fiduciary, counsel or employee of the plan; (2) a person who provides services to the plan; (3) an employer any of whose employees are covered by the plan; (4) an employee organization any of whose members are covered by the plan; (5) a 50% or more owner of an employer or employee organization; (6) a relative of any of the foregoing except item 4; (7) a corporation, partnership, trust or estate 50% or more owned by persons in items 1-5 above; (8) an employee, officer or director of the plan or of a person in items 2-5 and 7 above. See also Disqualified Employee; Prohibited Transaction.

**Passive Investment** (Inv) Investing in a manner that attempts to replicate the characteristics and performance of a market index. In theory, passive investing/management assures investment performance is neither worse nor better than the market as a whole. In practice, actual results differ from the results reported for the index due to transactions costs and tracking error.

**Pay or Play** (HP) A proposal that would require all employers either to provide health insurance for their workers or to pay a tax that would enable the government to provide insurance. Employers can either "pay" (pay into the public health insurance program) or "play" (provide coverage for their employees in the private market).

**Pay-As-You-Go** (Ret) A method of recognizing the costs of a retirement system only as benefits are paid. Also known as the current disbursement cost method.

**Pension** (Ret) A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer and/or employee contributions.

**Pension Benefit Guaranty Corporation (PBGC)** (Lgl) A federal government corporation established by Title IV of the Employee Retirement Income Security Act (ERISA) in 1974 to encourage the growth of defined benefit plans, provide timely and uninterrupted payment of benefits, and maintain pension insurance premiums at the lowest level necessary to carry out the Corporation's obligations.

Employers with private defined benefit plans pay premiums to the PBGC, which guarantees benefits up to a specified maximum for participants and beneficiaries when plans terminate.

**Pension Formula** (Ret) A methodology for calculating the amount of money payable from the pension plan to a participant. The method may calculate a benefit comprised of a flat dollar or percentage amount based on service, age and compensation that are eligible for inclusion the benefit calculations.

**Pension Plan** (Ret) A plan that provides benefits, usually after retirement, from a trust or other separately maintained fund, by the purchase of insurance, or from general assets (unfunded plan). The amount of benefits is either specified or can be calculated in accordance with a set formula based on various factors such as age, earnings and service, but not profits.

**Pension Protection Act of 2006 (PPA)** (Lgl) The Act made sweeping changes to the defined benefit funding rules and numerous other changes, many of which also affect defined contribution plans.

**Pension Shortfall** (Ret) A situation in which an entity offering employees a defined benefit plan does not have enough money set aside at a point in time to meet the pension obligations to employees who will be retired in the future.

**Pension Spiking** (Ret) The practice of increasing a member's retirement allowance (without a change in plan benefits) by increasing final compensation, or including various non-salary items (such as unused vacation pay, mileage pay, uniform pay, or other allowances) in the final compensation figure used in the member's retirement benefit calculation.

**Pensionable Income** See Compensation-Earnable.

**Period Certain Annuity** (Ret) A contract that provides an income for a specified number of years, regardless of life or death. If an annuitant dies, his or her beneficiary will receive payments for the remaining number of specified years. Also referred to as period certain, term certain, or dollar temporary annuity.

**Permanent Employee** (Ret) A permanent employee is an employee who works on a continuing basis for an indefinite duration. Permanent employees who work less than full time may not be eligible for membership, depending on the retirement system.

**Permanently Disabled** (Dis) A member is determined to be permanently disabled when he or she is permanently incapacitated from performing a substantial portion of his or her job duties, or in some systems the duties of his or her classification, and in some rare instances, any gainful employment whatsoever.

**Perquisite** (Ret) A benefit tied to a specific key or management-level job; for example, a company car for personal use, free meals, financial counseling or use of company facilities.

**PERS: Public Employees' Retirement System** See California Public Employees' Retirement System (CalPERS).

**Phantom Stock** (Inv) An executive-incentive plan in which the participant receives a payment in cash, representing the value of a number of shares of virtual stock, or the amount of dividends paid on a number of shares using the company's actual stock prices or dividend rates as value determinants.

**Phased Retirement** (Ret) The practice in which older employees continue working with their current employer with reduced work hours and salary while receiving a partial retirement allowance to facilitate the transition into retirement.

**Placement Agent** (Inv) Is a firm assisting either funds managers in alternative asset classes or. entrepreneurs/private companies seeking to raise financing through a so-called private placement.

**Plan Administrator** (Ret) As defined by ERISA, the person or organization designated (by the terms of the instrument under which a pension or welfare plan operates) to administer the plan.

**Plan Assets** (Ret) Stocks, bonds and other investments that have been segregated and restricted (usually in a trust) so they can only be used to provide for postretirement benefits. Plan assets include amounts contributed by the employer (but not amounts accrued and unpaid), amounts contributed by plan participants for a contributory plan and amounts earned from investing the contributions, less benefits, income taxes and other expenses incurred. In a private sector plan, assets may include securities of the employer if they are transferable.

**Plan Conversion** (Lgl) Changing from one type of retirement plan to another. Example: An employer currently provides a defined benefit plan and now wants to change to a defined contribution plan.

**Plan Document** (Lgl) For purposes of qualified retirement plans, a definite written program maintained by an employer for the benefit of employees or beneficiaries that is intended to be permanent and is communicated to employees. Sets forth the benefits available under an employee benefit plan and the eligibility requirements. This document is often separate from the trust agreement in order to allow plan modifications without frequent trust agreement amendments.

**Plan Freeze** See Freeze/Plan Freeze.

**Plan Sponsor** (Lgl) The entities that establish pension plans, including state and local entities operating on behalf of their employees; private business entities acting for their employees; unions acting on behalf of their members; and individuals representing themselves.

**Plan Termination** (Lgl) When the plan ceases to exist and benefits are settled. Replacement with another plan is not a termination. ERISA requires that all accrued benefits (to the extent funded) must be fully vested upon the termination or partial termination of a plan. (A partial termination could result from a large reduction of the workforce or a sizable reduction of benefits under the plan.)

**Plan Year** (Lgl) Any 12-month period during which a plan chooses to keep its records. In most cases, this period will be either the calendar year or the fiscal year of the plan sponsor.

**Plenary** (Lgl) Full, complete, absolute. Plenary authority is granted to California Retirement Boards by the State Constitution.

**PLOP (Partial Lump-Sum Option Program)** (Ret) Any one of several retirement benefit options that provide for a reduced annuity in exchange for a partial lump-sum payout (e.g., a refund of employee contributions in exchange for a reduced annuity).

**Poison Pill** (Inv) An attempt by a company's management to insulate the firm from either a two-tier bid or a low-ball bid by creating additional equity at very low prices, thereby substantially increasing the acquiring company's acquisitions cost. It is an anti-takeover ploy.

**Policy Index** The Policy Index is calculated as the sum of each asset class' strategic target weight in the portfolio times its actual total return.

**Pooled Funds** (Inv) Funds from many investors that are aggregated for the purposes of investment, as in the case of a mutual or pension fund. Investors in pooled fund investments benefit from economies of scale, which allow for lower trading costs per dollar of investment, diversification and professional money management.

**Pop-Up Option** (Ret) A variation of the usual joint and survivor option in which, if the participant survives the contingent annuitant, the amount of benefit payable reverts back (or "pops up") to the original life-only amount of benefit.

**Portability** (Ret) A retirement plan feature that allows participants to change employers without changing the source from which benefits (for both past and future accruals) are to be paid.

**Portfolio** (Inv) The mix and composition of an investor's holdings among different classes of assets, such as bonds, mortgages, common stocks, real estate, private equity, derivatives, etc.

**Postretirement Benefits** (Ret) All forms of benefits, other than retirement income, provided by an employer to its retirees.

**Power of Attorney** (Lgl) A document, executed by a person, which empowers another person or entity to act in his behalf. See also Durable Power of Attorney.

**PPO-Preferred Provider Organization** (HP) A health plan with an established network of health care providers that allows maximum benefit coverage when using its contracted physicians and hospitals. The plan may reduce benefits when one uses providers outside of the set network.

**Precedent** (Lgl) A previously decided court case that can serve as an authority in deciding a present controversy. In law, the term "stare decisis" refers to the practice of adhering to decided cases and settled principles, providing for the development of a consistent body of law.

**Preemption of State Law (ERISA)** (Lgl) The regulatory portion of ERISA supersedes all state law that otherwise would be applicable to private plans covered by the reporting, disclosure, fiduciary responsibility, participation and vesting, funding and plan termination insurance provisions of ERISA. However, the preemptive effect of the act does not relieve any person from state law regulating insurance, banking or securities. Nor does the act preempt any generally applicable state criminal law.

**Preexisting Condition** (HP, Dis) A physical and/or mental condition of an insured person that existed prior to the issuance of his or her policy. Some plans may cover these conditions after a waiting period of six months to a year, while others may permanently exclude a person with a preexisting condition from coverage.

**Preferred Provider** (HP) Physicians, hospitals, and other health care providers who contract to deliver health care services to persons covered by a particular health plan at a cost included in the basic benefits of the plan.

**Pre-Funding** (Ret) The setting aside of assets to provide future post retirement benefits – usually in a trust. This is the alternative to "pay-as-you-go" funding.

**Premium** (Inv)Investment – The cost paid or revenue received for an option.
(HP) Insurance - The amount paid to gain the right to a payment of insured benefits.

**Prescription Drug Formulary** (HP) A listing of prescription medications that will be covered by a plan or insurance contract that often fosters substitution of generic or therapeutic equivalents on a cost-effective basis.

**Present Value** (Ret, Inv) The recognition of the interest earning power of money over time. Used to assign a value today of money to be received (or paid) at a future time at an assumed rate of return. Present-value formulas and variants are used in determining funding requirements for several compensation and benefit programs.

**Present Value of Benefits** (Ret) The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for current members, discounted to the valuation date.

**Presumption** (Lgl) In the law of evidence, a presumption of a particular fact can be made without the aid of proof in some situations. The types of presumption include a rebuttable discretionary presumption, a rebuttable mandatory presumption, and an irrebuttable or conclusive presumption. The invocation of a presumption shifts the burden of proof from one party to the opposing party in a court trial. Presumptions are sometimes categorized into two types: presumptions without basic facts, and presumptions with basic facts.

**Pre-Tax Contributions** See Contributions - Taxable.

**Price Inflation** (Inv) An increase in the price of a standardize good or service or a basket of goods and services over a specific period of time (usually one year). Because of the nominal amount of money available in an economy tends to grow larger every year relative to the supply of goods and services available for purchase, this overall demand tends to cause some degree of price inflation.

**Private Letter Ruling** (IRC) A written response issued to a taxpayer by the National Office of the IRS that interprets and applies the tax laws to that taxpayer's case. While private letter rulings may not be used as a precedent, they tend to predict IRS treatment of similar cases.

**Privatization** (Lgl) 1. The transfer of ownership of property or businesses from a government to a privately owned entity. 2. The transition from a publicly traded and owned company to a company which is privately owned and no longer trades publicly on a stock exchange. When a publicly traded company becomes private, investors can no longer purchase a stake in that company.

**Profit-Sharing Plan** (IRC) A plan established and maintained by a private sector employer to provide for the participation in its profits by its employees or their beneficiaries.

**Prohibited Transaction** (Lgl) An ERISA rule which states that, with certain exceptions, a trustee or the plan fiduciary may not engage in any financial transaction with the employer or individuals in control of the employer (referred to as parties in interest under the regulatory provisions and as disqualified persons under the tax provisions) if he or she knows or should have known that such a transaction is prohibited by ERISA. This includes the selling or leasing of property, the lending of money, the furnishing of goods, services, or facilities, or the transfer of any assets to or for the use of a part in interest (or disqualified person). In addition, plans other than eligible individual account plans may not invest more than 10% of plan assets in the employer's securities and/or real property. A plan may not hold or acquire an employer security or employer real property that is not a "qualifying employer security."

In regard to an IRA, any action that results in a constructive distribution from an IRA. According to the IRS, such actions are borrowing money from an IRA, selling property to an IRA or receiving unreasonable compensation for managing an IRA. The effect is a loss of favorable tax treatment.

**Projected Annual Benefit** (Ret) Used in funding calculations of pension liabilities. Generally, calculates an annual benefit when a participant would retire.

**Projected Unit Credit Method** (Ret) An actuarial evaluation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

**Provider** (HP) An individual or group of individuals who furnish health care services. It can include hospitals and clinics, as well as doctors and other practitioners.

**Proxy** (Inv) Authorization, via a written power of attorney, written or electronic, that shareholders' votes may be cast by others on a specific vote on their behalf at corporate meetings. Shareholders can and often do give management or others their proxies, delegating the right and responsibility to vote their shares as specified.

**Prudent Expert Rule** (Lgl) The Prudent Person Rule with the added caveat that the person must act as a person "familiar with such matters would use in the conduct of like character and like aims".

**Prudent Person (Man) Rule** (Lgl) A common-law standard applicable to the holding and investment of trust funds. Briefly stated: All that can be required of a trustee in the investment of trust funds is that she or he conduct her or himself faithfully and exercise sound discretion. She or he is to observe how persons of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of the capital to be invested.

**Public Employees' Medical and Hospital Care Act (PEMHCA)** (Lgl, HP) California's Public Employees' Medical and Hospital Care Act directs the administration of the CalPERS Health Program. It is part of the California Government Code, Section 22751 et seq.

**Public Employees' Retirement System** See California Public Employees' Retirement System.

**Purchasing Power** (Ret) In cost-of-living agreements, any index that measures the power of a dollar to purchase goods. Inflation is reflected in loss of purchasing power of currency.

**Purchasing Service Credit** (Ret) The application and payment process by which service prior to membership may be purchased as additional retirement service credit or the redeposit of money for service credit for periods for which the previously made contributions have been withdrawn. See Redeposit.

**Qualified Domestic Relations Order (QDRO)** (Lgl) Under ERISA, A domestic relations order is a qualified domestic relations order if it creates or recognizes the existence of an alternate payee's right, or assigns to an alternate payee the right, to receive all or a portion of the benefits payable to a participant under a retirement plan; specifies required information and does not alter the amount or form of plan benefits. An alternate payee is a spouse, former spouse, child or other dependent of a participant who is recognized by the domestic relations order as having a right to receive all, or a portion of, the benefits under a plan with respect to the participant. The rights to a retirement benefit cannot be assigned to a party other than the one who earned it. The exception is in a marital dissolution where a domestic relations order is a judgment, decree or order (including approval of property settlement agreement) that (1) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of participants and (2) is made pursuant to a state domestic relations law (including community property law). Public Retirement Systems in California do not require a "Qualified" DRO.

**Qualified Employer Plan** (IRC) A qualified employer plan is a pension plan that has satisfied the Section 401 requirements of the Internal Revenue Code. All such pension plans are "qualified" to receive special tax treatment. Government plans may qualify under Section 401(a) without satisfying some of the requirements that must be met by other plans.

**Qualified Plan (Pension Or Profit Sharing)** (IRC) Commonly refers to plans established under Sections 401(k), 401(a) or 403(b). A plan that meets certain requirements of the Internal Revenue Code. Such plans receive tax advantages for the employer (deductibility of contributions to the plan) and employees (tax deferral of some employer contributions and plan earnings). To qualify, a plan must be held as a trust and not discriminate in favor of officers, shareholders, supervisory personnel, or highly compensated employees, among other things. It may be either a defined-benefit or a defined-contribution plan.

**Quarter (Q1, Q2, Q3, Q4)** (Inv) A three-month period on a financial calendar that acts as a basis for the reporting of earnings and the paying of dividends.

**Rabbi Trust** (IRC) So named because one of the first was created for a rabbi. Under this nonqualified arrangement, the employer sets aside money specifically for payment of excess pensions or deferred pay. Employer takes no tax deduction, and the beneficiaries pay no tax on contributions to the trusts until they start receiving their money. Although funds are subject to employer's creditors, they are inaccessible to present and future management. Rabbi trusts are often used for executives and key employees.

**Rate of Return** (Inv) The yield obtainable on a security based on its purchase price (yield to maturity) or its current market price (current income return).

**Rate Stabilization** (Inv) A situation in which interest rates in an economy do not change much over time.

**Ratings** (Inv) Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch use the same system, starting with their highest rating of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Services uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services use + or - or +1 to indicate half steps in between. The top four grades are considered investment grade ratings.

**Real Estate Investment Trust (REIT)** (Inv) Refers to a private or publicly traded company which typically invests in income-producing properties and which qualifies as a REIT under Sections 856-860 of the Internal Revenue Code of 1986. As a REIT, a company must distribute to its shareholders at least 95 percent of its taxable income and is not subject to federal (and typically state) income tax to the extent income is distributed, among other requirements.

**Reasonable And Customary Charge** (HP) A reasonable and customary charge is the prevailing charge made by physicians of similar expertise, for a similar procedure, in a particular geographical area of a community.

**Reasonable Care** (Lgl) The care that prudent persons would exercise under the same circumstances.

**Rebalancing** (Inv) The process of selling securities to bring the portfolio back to its policy asset allocation. Generally, assets that have grown in value are sold and assets that have underperformed are purchased.

**Recession** (Inv) A period of slow economic growth. Defined by economists as two consecutive quarters of negative gross domestic product.

**Reciprocal Agreement** (Lgl) An agreement between two public retirement systems on coordination of benefits.

**Reciprocal Benefit** (Ret) A deferred retirement benefit earned by a member while employed by the plan sponsor or a reciprocal agency. A reciprocal benefit is available only if he transitions employment from one reciprocal agency to another within a specified time after termination, does not have overlapping service and retires from both systems at the same time.

**Reciprocal Retirement Systems** (Lgl) California public retirement systems that by statute (all PERS contract agencies and the 20 counties covered under the CERL) or agreement (certain cities and special districts) have reciprocity with each other.

**Reciprocity** (Ret) Refers to the special relationship between the California Public Employees' Retirement System and certain other California public retirement systems. Systems reciprocal with CalPERS are reciprocal with each other. It was established to encourage career public service and to protect retirement benefits earned by employees under two or more systems. Reciprocity provisions apply to any member entering a retirement plan from a reciprocal system - or leaving a retirement plan and entering a reciprocal system - as long as he is employed by the reciprocal agency within a certain time after termination and elects to defer his retirement benefit with the prior system. Establishing reciprocity affects a member's: • Benefit eligibility • Contribution rate • Final compensation

**Reconstitution** (Inv) In a REIT Index the screening which occurs every June 30 for potential additions or deletions to the index. The screening examines the market capitalization of Real Estate Investment Trust (REIT) stocks, their content, concentration of ownership and position in the market sector. Stocks which no longer meet the criteria of the REIT index according to this policy will be eliminated from the index while new stocks which have qualified in the past year are included. A tolerance level will be applied to stocks which have dropped from the index since the past year in order to minimize transactional costs.

**Redeposit** (Ret) Depositing an amount equal to the accumulated contributions that were previously withdrawn, plus the interest that would have accrued had the contributions remained in the member's account. This would restore the member's service credit lost as a result of the withdrawal.

**Reduced Workload Program (CalPERS)** (Ret) The Reduced Workload Program is provided to specified members of the CalPERS Defined Benefit Plan pursuant to Government Code Sections 20900 and 20905. This program allows eligible academic or school employees, upon employer approval, to work part-time and receive service credit for retirement as though they had worked full-time. Eligible CalSTRS members also have a Reduced Workload Program.

**Refund** (Ret) Withdrawal of all member contributions, tax-deferred contributions and interest credited on those contributions. If contributions are withdrawn, the person is not entitled to benefits from the retirement plan.

**Replacement Ratio** (Ret) A calculation of retirement income divided by current salary. Designed as a planning tool to identify future income against living requirements after retirement.

**Rebuttable Presumption** (Lgl) An assumption that is made in the law that will stand as a fact unless someone comes forward to contest it and prove otherwise.

**Required Distribution** (IRC) Payments that must be made once a participant reaches age 70½ or retires (whichever is later); they are calculated to span his or her life expectancy. When a participant dies, the payments that must be made to the beneficiary.

**Reserves** (Ret) Represent claims against, or deductions from, assets in the balance sheet and are established to reduce or revalue assets to identify the existence of liabilities and to earmark a part of surplus for some future use.

**Retired Annuitant** (Ret) Under some retirement systems, a retiree that has returned to work for a participating employer.

**Retired Member** (Ret) A retired member is a former plan sponsor's employee who has taken either a service retirement or a disability retirement.

**Retirement** (Ret) The exit from one's primary "career" job with eligibility for a lump-sum early retirement payment, a pension, and/or Social Security.

**Retirement Allowance – Continuing** See Continuing Allowance.

**Retirement Allowance - Disability** See Disability Retirement Allowance.

**Retirement Allowance - Service** See Service Credit.

**Retirement Allowance - Temporary Annuity Option** (Ret) In systems that are coordinated with Social Security, the temporary annuity option is a retirement payment option offered to contributory plan members who are fully insured under Social Security, retire before age 62, and receive a service Retirement Allowance. It is designed to provide approximately the same total retirement plan/Social Security income before and after age 62. Prior to age 62 a member's basic retirement allowance is increased by a percentage of the member's estimated Social Security benefit. At age 62 the allowance is then decreased by the full amount of the estimated Social Security benefit. (The estimated Social Security benefit used may be more or less than the actual Social Security benefit.)

**Retirement Benefit Estimate** See Benefit Estimate.

**Retirement Service Credit** (Ret) Sum of the units of benefit, earned as a plan sponsor's employee and used to calculate a member's defined benefit retirement allowance. It is also used to determine vesting, eligibility for service retirement, nonservice-connected disability retirement, and active member death benefits. See Service Credit.

**Retroactive** (Lgl) Taking effect from some date in the past.

*TERM APPLICATION: (Dis) Disability or medical care; (HP) Health Plan;*
*(Inv) Investments or economic; (IRC) Internal Revenue Code; (Lgl) Legal; (Med) Medicare;*
*(Ret) Plan design or administration; (SS) Social Security*

**Return** (Inv) A measure of the total performance of an investment over a designated time period. The return calculation for private equity is typically based on the internal rate of return, net of all fees and expenses.

**Return Deviation** (Inv) The difference between the total return of a portfolio and the total return of the benchmark index.

**Revenue Ruling** (IRC) These IRS rulings provide analysis of the Internal Revenue Code's application and tax consequences in a specific or hypothetical tax-related situation or event.

**Reverse Mortgage** (Inv) A federally sponsored program enabling elderly home owners to meet living expenses by tapping the equity in their property. Mortgages offered by lenders are authorized to make FHA-insured loans. Lender disburses money to home owner (borrower) in monthly checks or lump sums, and the borrower keeps the home. When borrower dies or vacates the home, he or she, or the heirs, pay off the debt by selling the property. Also known as home equity conversion mortgage.

**Risk** (Inv) The measured difference in price movement of a security, a group of securities or a whole portfolio versus the price movement of a chosen index or market indicator. A measure of relative price volatility.

**Risk Budget** (Inv) An investment approach where one uses measures of risk to assist in the allocation, management, and monitoring of the investments of an entity, such as a pension fund.

**Risk Management** (Inv) The process of defining, identifying, measuring, and managing risk.

**Risk Pooling** (Inv) Risk pooling is the process of combining assets and liabilities across employers to produce large risk sharing pools.

**Rollover** (IRC) Direct reinvestment of funds received from a fund or maturing security in a new fund eligible to receive the funds or issue of the same or like security. In order to provide greater investment flexibility, an individual is permitted to shift his or her investment in one individual retirement plan to another without incurring any tax liability if done within a specific time frame. These shifts are referred to as rollovers and involve transfers from individual retirement accounts to individual retirement annuities, for example. Tax free rollovers are also permitted for the transfer of amounts from a tax-qualified plan to an individual retirement plan or to another tax-qualified plan. The amounts, frequency, and timing of tax free rollovers are restricted under the regulations. A rollover is the transfer of a plan distribution from one qualified retirement fund to another, as defined by section 408(a) of the Internal Revenue Code.

**Roth IRA** (IRC) A type of IRA created by the Taxpayer Relief Act of 1997. It is funded with after-tax dollars, and qualifying distributions are not taxed. Eligible individuals can contribute $3,000 a year ($3,500 if over the age of 50), and earnings can be withdrawn tax-free after five years, provided the individual is at least age 59 1/2, is disabled or is using the money for a first-time home purchase.

**Rule of 72** (Inv) A rule of thumb for calculating the amount of time it will take for a dollar to double, at a specified rate of interest. The rule derives from the fact that at 7.2% annual interest, an investment will double in ten years. It is calculated by dividing the interest rate (converting to a whole number) into the number 72. The result is the number of time periods that it will take for a dollar to double. For example, at an 8% annual interest rate, it will take nine years for a dollar to double. Also may be used to estimate the interest rate, when only the time period is known.

**Safe Harbor** (IRC) Used to determine a safety net approach to various tax rules. Often, simplified safe harbor rules will provide an easier approach to detailed calculations or procedures.

**Safety Member** (Ret) A permanent employee of the plan sponsor working full time in firefighting or law enforcement.

**Salary Escalation** (Ret) An assumption used to project salary increases based on inflation plus factors for productivity improvement and salary step progression.

**Salary Reduction Agreement** (Ret) The employer and the employees enter into individual, separate contracts in which each employee agrees to take a reduction in salary (either as a stated dollar amount or as a percentage of compensation).

**Sarbanes-Oxley Act of 2002** (Lgl) The act first aims to redress accounting and financial reporting abuses, that set major changes in corporate governance, internal financial controls and record managing rules for public traded and companies and public accounting firms. Another significant provision applies to blackout periods, when plan participants or corporation insiders cannot access their accounts because of insufficient information. This legislation was named for Senator Paul Sarbanes of Maryland and Congressman Mike Oxley of Ohio.

**Secondary Payer** (HP) The insurance carrier that is second in responsibility under coordination of benefits. Often mentioned in the context of Medicare's efforts to recoup payments made as primary payer when other primary, duplicate coverage exists.

**Securities and Exchange Commission (SEC)** (Lgl) The organization created by the Securities Exchange Act of 1934; an independent bipartisan, quasi-judicial agency of the United States government. The laws administered by the commission relate in general to the field of securities and finance and seek to provide protection for investors and the public in their securities transactions. The SEC is charged with enforcing the Securities Acts.

**Security** (Inv) Instrument that signifies an ownership position in a corporation (stock), a creditor relationship with a corporation or governmental body (bond), or rights to ownership such as those represented by an option, subscription right, and subscription warrant.

**Securities Lending** (Inv) A practice whereby owners of securities either directly or indirectly lend their securities to primarily brokerage firms for a fee, and against which either cash, securities or a letter of credit is pledged to protect the lender.

**Self-Administered Trustee Plan** (Ret) A retirement plan under which contributions to purchase pension benefits are paid to a trustee (generally a bank) which invests the money, accumulates the earnings and interest, and pays benefits to eligible employees under the terms of the retirement plan and trust agreement. This plan is administered by the employer, or by a committee appointed by the employer under the terms of the plan and the trustees.

**Self-Dealing** (Lgl) Under ERISA, certain activities are prohibited for fiduciaries, including using plan assets for personal profit, taking bribes or kickbacks from someone who deals with the plan, or acting on behalf of a party whose interests are adverse to those of the plan. See also Prohibited Transaction.

**Self Funding** (HP) An employer or group of employers sets aside funds to cover the cost of health benefits for their employees. Benefits may be administered by the employer(s) or handled through an administrative service-only agreement with an insurance carrier or third-party administrator. Under self-funding, it is generally possible to purchase stop-loss insurance that covers expenditures above a certain aggregate claim level and/or covers catastrophic illness or injury when individual claims reach a certain dollar threshold.

**Separation in Service** (Ret) In order to comply with federal in-service distribution requirements, members who retire must have a qualifying period between retirement and subsequent employment without reinstating to active membership. The IRS has considered a good faith and complete termination of the employment relationship, without an agreement to continue working at a later date, a qualifying (or "bona fide") separation. However, there are not IRS guidelines on the length of such a "bona fide" separation.

**Service** (Ret) Employment taken into consideration under a pension plan. Years of employment before the inception of a plan constitute an employee's past service; years thereafter are classified in relation to the particular actuarial valuation being made or discussed. Years of employment (including past service) prior to the date of a particular valuation constitute prior service; years of employment following the date of the valuation constitute future service; a year of employment adjacent to the date of the valuation, or in which such date falls, constitutes current service (included in future service).

**Service Credit** (Ret) Time, denominated in pay periods, months or other measurement periods that is used in a DB plan benefit formula. See Retirement Service Credit.

**Service Credit Purchasing** (Ret) Purchasing service credit is the application and payment process by which previous service credit for which the contributions were withdrawn or eligible non-contributory service may be purchased as additional retirement service credit by making the contributions for the service to be acquired.

**Service Credit – Vesting** See Vesting.

**Service Retirement Allowance** (Ret) A service retirement allowance is the lifetime monthly benefit received by a member who has retired after meeting the minimum age and plan sponsor/reciprocal service requirements.

**Service Retirement – Minimum Age & Service Requirements** See Minimum Age & Service Requirements.

**Service-Connected Death** (Ret) A service-connected death is a death that occurs as a result of the member performing his or her job.

**Service-Connected Disability** (Dis) A service-connected disability is an injury or disease that occurs or is aggravated as a result of the member's employment and that permanently prevents her or him from performing the duties of her or his job. See also Disability Benefit; Disability Retirement.

**Severance Pay** (Ret) A lump-sum benefit payable on termination of employment either in lieu of or in addition to a pension.

**Short Selling** (Inv) Selling securities that are not owned and buying them back later to: 1) take advantage of an anticipated decline in the price; or 2) to protect a profit in a long position.

**Simplified Employee Plan (SEP)** (IRC) Essentially, an IRA to which an employee and his or her employer may contribute. Any employer contributions are excluded from an employee's income.

**Single Life Annuity Plan** (Ret) An employee's accrued benefit from mandatory contributions to a defined benefit plan that provides a benefit in the form of a single life annuity (without ancillary benefits) beginning at normal retirement age is the employee's accumulated contributions multiplied by a conversion factor. (Since the accrued benefit from voluntary contributions must be separately accounted for, it does not come into consideration.) Initially, the conversion factor is to be set at 10% for a normal retirement age of 65. The conversion factor for other normal retirement ages will be fixed by regulation. An employee's accumulated contribution consists of (1) mandatory contributions; (2) interest, if any, on mandatory contributions to the end of the last year before the vesting rules are applicable; and (3) 5% compound interest on (1) and (2) after the vesting rules are applicable. The interest rate and conversion factor mentioned above can be adjusted by the regulations.

**Smoothing** (Ret) (1) The actuarial procedure of spreading employer contribution rate adjustments over a limited number of years, rather than making a large rate adjustment in a single year. (2) The term also applies to methods that spread investment gains and losses over a period of years. These are used to help stabilize contribution rate changes from year to year.

**Social Security Advancement (Temporary Annuity)** See Retirement Allowance - Temporary Annuity Option.

**Social Security Offset/Windfall Penalty** (Lgl) In 1983 Congress passed legislation stating that if one worked for a federal, state or local government where one did not pay social security taxes, then the government pension one receives from that agency may reduce a large portion of the Social Security benefits for which one would qualify. There has been some remediation of this issue in 2004.

**Social Security Supplement** See Retirement Allowance - Temporary Annuity Option.

**Socially Responsible Investments** (Inv) Generally considered to include those investments that (1) carry a lesser rate of return and/or, (2) have a lower credit rating and quality and/or (3) have less liquidity or marketability than other forms of investment or specific investments readily available in the marketplace, but that will (A) create employment opportunities for plan participants and/or (B) have a greater social or moral quality. Also includes "socially sensitive" investments that otherwise are equal to other investments when compared by traditional financial analysis, but have favorable non-economic characteristics. Socially responsible investments are known as divergent, target and political investments.

**Soft Dollars** (Inv) The portion of a plan's commissions expense incurred in the buying and selling of securities that is allocated through a directed brokerage arrangement for the purpose of acquiring goods or services for the benefit of the plan. In many soft dollar arrangements, the payment scheme is effected through a brokerage affiliate of the investment consultant.

**Soft Freeze** See Partial Freeze.

**Source Tax** (Lgl) Law in some states that gave the state legal right to tax retirement payments if the benefit recipient lived in another state. Recent federal legislation repealed the right of individual states to tax retirement payments of recipients who are not residents of the state from which they are receiving benefits.

**Special Compensation** (Ret) Payments made in addition to salary for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions.

**Spin Offs** (Inv) Companies which are derived from other companies and begin to trade publicly on their own.

**Split Rated Security** (Inv) A security that has a different credit classification by two rating agencies.

**Spot Market** (Inv) Commodities market in which goods are sold for cash and delivered immediately.

**Spousal Consent** (Ret) Elections to waive benefits for the spouse and to (generally) elect a single-life or other form of benefit or to designate some other beneficiary. Such elections are not valid unless the spouse of the participant consents in writing in the election.

**Spousal Offset** See Government Payment Offset (GPO).

**Stagflation** (Inv) Very limited or no growth in the economy accompanied by a rise in prices.

**Stakeholders** (Ret, Inv, HP) Those people or entities who have an interest in the performance of organizations such as public pension, i.e. labor organizations, the Legislature, and taxpayers.

**Standard & Poor's** (Inv) A nationally-recognized credit rating agency that grades the investment quality of bonds in a 10-symbol system. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated BBB- or greater are considered investment grade. Securities rated BB+ or below are considered speculative.

**Standard Deviation** (Inv) A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. It is widely used as a measure of risk for portfolio investments. It is the square root of variance. In a symmetrical distribution, such as the normal distribution, approximately two-thirds of all outcomes fall within +/-1 standard deviation, and approximately 95 percent of all outcomes fall within +/-2 standard deviations.

**State Teachers' Retirement System** The retirement system founded in 1912 for eligible educators in the State of California. See California State Teachers' Retirement System.

**Statutory Plan** (Lgl) In California any retirement plan established by state, city or district law. This includes all public plans in California. Private sector retirement plans are typically established via corporate or union resolution.

**Step Rate Retirement Formula** (Ret) A method of integrating "coordinated" pension plan benefits with Social Security retirement benefits. A higher benefit multiplier is applied to earnings above a specified level or breakpoint (e.g., one percent up to $20,000; 1.5 percent above $20,000). IRS regulations limit the differential in the multiplier.

**Stochastic Modeling** (Ret) "Stochastic" means being or having a random variable. A stochastic model is a mathematical tool and analytical technique for estimating probability distributions of potential outcomes by allowing for random variation in one or more inputs over time. The random variation is usually based on fluctuations observed in historical data for a selected period using standard time-series techniques. Distributions of potential outcomes are derived from a large number of simulations (stochastic projections) which reflect the random variation in the input(s).

**Stock Bonus Plan** (Inv) A plan established and maintained by a corporate employer to provide benefits similar to those of a profit-sharing plan, except that the contributions by the employer are not necessarily dependent upon profits and the benefits are distributable in stock of the employer company. For the purpose of allocating and distributing the stock of the employer that is to be shared among employees or their beneficiaries, such a plan is subject to the same requirements as a profit-sharing plan.

**Stock Grant Plan** (Inv) Gives equity ownership to employees at little or no cost. Stock grants take two basic forms: (1) stock-appreciation grants and (2) full-value grants. Stock appreciation grants entitle the employee to receive payment equal to the appreciated value of a share of stock (or number of shares or units) over a designated period of time. May be qualified or non-qualified under IRS regulations. A full-value grant entitles the employee to receive a total value of the worth of the share of stock (or number of shares or units) over a predetermined period of time.

**Stock Option** (Inv) A right for employees to purchase shares of company stock at a fixed price (grant price) over a stated time period (award period) after certain time requirements are met (vesting period).

**Stock Purchase Plan (Non-Qualified)** (Inv) A plan that is, in effect, a management stock purchase plan. It allows senior management or other key personnel to purchase stock in the business. There are, however, certain restrictions (1) the stockholder must be employed for a certain period of time, (2) the business has the right to buy back the stock, (3) stockholders cannot sell the stock for a defined period of time.

**Stock Purchase Plan (Qualified)** (Inv) A program under which employees buy shares in the company's stock, with the company contributing a specific amount for each unit of employee contribution. Also, stock may be offered at a fixed price (usually below market) and paid for in full by the employees. Benefits are distributed in stock of the employing company.

**Strategic Planning** (Ret) Long-term planning (at least five to 10 years out) that includes consideration of the external environment and future trends.

**STRS** See California State Teachers' Retirement System (CalSTRS).

**Sullivan Principles** (Inv) A code of conduct advocated by the Rev. Leon H. Sullivan for corporations doing business in South Africa. The code dictates non-segregation in work facilities; equal pay for equal work; fair employment practices; training programs for blacks, those of mixed race and Asians; and
improved facilities in housing, schooling and other quality-of-life areas. The Principals receded in importance upon the Presidency of Nelson Mandela.

**Summary Plan Description (SPD)** (IRC) A written, easy-to-read summary statement describing the provisions and features of a benefit plan, including eligibility, coverage, employee rights and appeals procedures. The SPD must be provided to participants, beneficiaries and, upon request, to the Department of Labor.

**Super-Funded** (Ret) A condition existing when the actuarial value of assets exceeds the present value of benefits. When this condition exists on a given valuation date for a given plan, employee contributions for the rate year covered by that valuation may be waived.

**Supplemental Benefits** (Ret) Benefits provided by a pension plan in addition to regular retirement benefits. Supplemental benefits vary according to the terms of a plan and include such items as the payment of benefits in the event of terminations, death, disability or early retirement.

**Surprise Earnings** (INV) When the earnings reported in a company's quarterly or annual report are above or below analysts' earnings estimates.

**Survivor** (Ret) A survivor is an eligible spouse or (in some systems) a minor child who has survived a deceased member and is entitled to either a continuing allowance or lump sum payment. The member's surviving spouse receives a monthly allowance for life, whereas in many systems, a surviving minor child receives an allowance for as long as the child remains eligible.

**Survivor Benefit** See Continuing Allowance.

**Swap** (Inv) Private agreement between two entities to exchange cash flows in the future according to a prearranged formula.

**Swaption** (Inv) An option on a swap. An agreement between two parties that gives one party the right but not the obligation to enter into a swap under specified terms at a later time.

**Systemic Risk** (Inv) That portion of total return that can be explained by a single- or multi-factor model of returns. Such components of return are directly proportional to the market's return and cannot be eliminated by diversification.

**Tactical Asset Allocation (TAA)** (Inv) An active management portfolio strategy that balances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors.

**Taft-Hartley Plans** (Ret) Joint labor-management benefit plans, generally for trade union members, that have an equal number of trustees who are employer representatives and trustees who are union representatives. The plans are governed by federal law.

**Target Benefit Plan** (Ret) Contributions are based upon an actuarial valuation designed to provide a target benefit to each participant upon retirement. The plan does not guarantee that such benefit will be paid; its only obligation is to pay whatever benefit can be provided by the amount in the participant's account. A hybrid of a money purchase plan and a defined benefit plan.

**Tax and Miscellaneous Revenue Act, 1988 (TAMRA)** (Lgl) This set of Federal laws modified the rules relating to integration of qualified plans with Social Security by making non-discrimination rules applicable to integrated plans; (1) it provides that, generally, only employer-provided contributions and benefits are taken into account in determining whether contributions and benefits satisfy the integration rule, 2) TAMRA modifies the definition of "covered compensation" so that references to age 65 are changed to "retirement age for social security purposes", (3) it defines "average annual compensation" to mean highest average annual compensation for any period of at least three consecutive years (or, if shorter, the participant's full period of service) so that defined benefit plans with benefits based on career average compensation are not prevented from integrating. The Act modified the minimum distribution rule by providing that the date of retirement is irrelevant and distributions must begin not later than April 1 of the calendar year following the calendar year when the employee reaches age 70 1/2. TAMRA amended the definition of a cafeteria plan to provide that a plan offering only a choice among nontaxable benefits is not a cafeteria plan.

**Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)** (Lgl) This Federal law lowered limits on contributions and benefits for corporate plans; certain loans from plan to be treated as distributions; reduced estate tax exclusion for retirement plan death benefits to maximum of $100,000; repealed special KEOGH plan and subchapter S restrictions; stopped employers and health plans from forcing employees ages 65 to 69 to use Medicare rather than the group health plan.

**Tax Exempt** (lgl) To be free from, or not subject to, taxation by regulators or government entities. A tax- exempt entity can be excused from a single or multiple taxation laws.

**Tax Qualified Status** (Lgl) Internal Revenue Code provisions that allow favorable tax treatment under certain specific conditions. For pensions, contributions made by the employee, employer and investment returns of the fund will not be considered taxable until the members retires and begins to receive pension benefits.

**Tax Reform Act of 1986 (TRA86)** (Lgl) This Federal law changed the ground rules for much of compensation planning. Termination of favored tax treatment for capital gains, for example, has made many former executive-compensation techniques less attractive. Change of treatment of benefits has altered the relative attractiveness and feasibility of benefit types.

**Tax Shelter** (IRC) An investment that provides tax savings by creating losses to offset taxable income. An investment upon which taxes are deferred.

**Taxable Contributions** See Contributions – Taxable.

**Temporary Employee** (Ret) A temporary employee is a plan sponsor's employee who works on an intermittent or as-needed basis and is generally not eligible for benefits.

**Tender Offer** (Inv) An offer to buy securities for cash, other securities, or both.

**Terminated Plan (Pension)** (Ret) Term used by private businesses that are under the Pension Benefit Guaranty Corporation (PBGC) wherein employers can end a pension plan through a process called "plan termination". There are two ways an employer can terminate its pension plan: either by a standard termination where the plan has sufficient funds to pay all benefits owed to participants; and distress termination where the employer is in financial distress.

**Termination Pay** (Ret) In the public sector, the term refers to the payout of benefit obligations in cash owed to the employee by the employer that are paid out after separation from employment.

**Third-Party Administrator** (Ret) The party to an employee benefit plan that may collect premiums, pay claims and/or provide administrative services. Usually an out-of-house professional firm providing administrative services for employee benefit plans.

**Thirteenth Check** (Ret) An annual supplemental retirement benefit payment arising from earnings on the investments of a retirement system in excess of those determined as needed for funding purposes.

**Three-Legged Stool** (Ret) Theory that a combination of an individual's savings, Social Security and a private pension will provide secure retirement income.

**Thrift Plan** (IRC) A defined contribution plan to which employees make contributions on an after-tax basis, usually as a percentage of salary. Incentive matching or partially matching contributions may be made on behalf of the participating employees by the employer. Also known as savings plan.

**Total Compensation** (Ret) Value of direct pay plus benefits package, including money, benefits, services and in-kind payments. See also Compensation - Earnable.

**Total Return** (Inv) The sum of the appreciation return and income return.

**Tracking Error** (Inv) The annualized standard deviation of the difference between the total return of the portfolio and the total return of the benchmark. The term tracking error is frequently used to describe return deviation, the total return of a portfolio, minus the total return of a benchmark index.

**Trader** (Inv) An individual who engages in the transfer of financial assets in any financial market, either for themselves, or on behalf of someone else. The main difference between a trader and an investor is the duration for which the person holds the asset. Investors tend to have a longer term time horizon, whereas traders tend to hold assets for shorter periods of time in order to capitalize on short-term trends.

**Transparency (Government)** (Lgl) Has to do with disclosure. Providing information about an issue, event, project, program, etc. and then providing a method for interested individuals to find and view that information. In politics, it is used as a means of holding public officials accountable and eliminating corruption.

**Trust (Irrevocable)** (Ret) A trust that cannot be modified or terminated without the permission of the beneficiary. The grantor, having transferred assets into the trust, effectively removes all of his rights of ownership to the assets and trust.

**Trust (Revocable)** (Ret) A trust whereby provisions can be altered or canceled dependent on the grantor. During the lifetime of the trust, income earned is distributed to the grantor, and only after death does the property transfer to the beneficiaries.

**Trust Fund** (Lgl) A fund whose assets are held separately for the benefit of another party or parties and managed by a trustee or a board of trustees. Applicable State and Federal law and the instrument establishing the trust govern the fund.

**Trustee** (Lgl) (1) One who acts in a capacity of trust as a fiduciary and to whom property has been conveyed for the benefit of another party. (2) A member of a board of trustees charged with the authority and responsibility to oversee the administration of a California public retirement system.

(3) Under the terms of ERISA, a fiduciary is "one who occupies a position of confidence or trust and who exercises any power of control, management or disposition with respect to monies or other property of an employee benefit fund or who has authority or responsibility to do so." (4) A person, bank or trust company that has responsibility over financial aspects (receipt, disbursement and investment) of pension funds. Where this responsibility is not exercised by a bank or trust company, it is usually exercised by a board of trustees in which the individual trustee has but one vote. (5) A person, bank or trust company designated in the trust agreement as having responsibility for holding and investing plan contributions (and possibly having responsibility over other financial aspects of the plan). See also Fiduciary.

**UAAL** (Ret) Unfunded Actuarial Accrued Liability is the portion of the actuarial Accrued liability not currently covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability.

**Underfunded Benefit Plan** (Ret) An employee benefit plan in which the company's past contributions plus investment returns are insufficient to cover current and future liabilities. If accrued liabilities exceed accrued assets (i.e., insufficient assets to pay all benefits that have accrued to participants) the plan has unfunded liabilities and is deemed under-funded.

**Unfunded Liability** (Ret) A plan or risk pool with an actuarial value of assets below the accrued liability is said to have an unfunded liability and must temporarily increase contributions to get back on schedule. A plan or risk pool with an actuarial value of assets in excess of the accrued liability is said to have excess assets (or is over funded) and may temporarily reduce future contributions.

**Unitized Fund Structure** (Inv) Allows multiple participants to contribute to a pool of assets while maintaining historical records and producing individual Net Asset Values (NAVs) for each participant. Each participant's share in the portfolio is separately accounted for using a system that accounts for each class of shares' proportional entitlement to the portfolio's Total Net Assets. The system maintains all of the funds' holdings at the fund level, and maintains the fund prices at the class level.

**Usury** (Lgl) An illegally high rate of interest.

**Utilization Review** (HP) The evaluation of medical necessity, efficiency or quality of health care services, either prospectively, concurrently or retrospectively. The term utilization review is more limited to the physician's diagnosis, treatment and billing amount.

**Valuation** (Ret, Inv) A determination of the value, as of a given date, of an investment or investment portfolio (asset valuation).

**Value Added** (Inv) The positive difference in realized returns between a portfolio and its benchmark.

**Variable Annuity** (Ret) A scheme of regular payments in which the amount of each periodic payment fluctuates according to some variable factor. Under an equity annuity plan, payments vary according to the value of a specific portfolio of common stocks and similar investments. Under a cost-of-living plan, benefits are adjusted to reflect variations in a specific index, such as the CPI. An insured variable annuity is one under which the benefit varies according to the investment results of an insurance company's separate account (usually invested primarily in common stocks) in which funds have been set aside to provide the annuity.

**Venture Capital** (Inv) The financing of rapidly-growing companies that do not have access to public equity or debt financing. Early-stage venture capital may involve financing a company during its initial years when assets may be limited and when there may be no revenues. Late-stage venture, sometimes referred to as growth equity or expansion capital, may involve financing a company that has established products or services and revenues.

**Vertical Partial Termination** (Ret) Employer-initiated action that causes a permanent reduction of either a significant number or a significant percentage of participants from a plan. The rule of thumb is that a discharge of at least 20 percent of all plan participants might result in a partial termination, provided the discharge is coupled with other factors, such as the closing of a plant or division. Termination of a lower percentage of plan participants is significant only if participants present evidence of egregious factors such as evasion of pension obligations.

**Vested Benefits** (Ret, IRC) Accrued benefits of a participant that have become nonforfeitable under the schedule adopted by the plan.

**Vested Member** (Ret) A member with the required number of years of retirement service credit (usually 5) that makes the member eligible for benefits under the plan at a future age. In most systems, a member may use reciprocal retirement system credit to meet vesting requirements.

**Vesting** (Ret, IRC) A benefit plan provision that a participant will, after meeting certain requirements, retain a right to the benefits he or she has accrued (or some portion of them) even if employment under that plan terminates before retirement, except if the member withdraws his or her contributions Employee contributions are always fully vested.

**Volatility** (Inv) Expected or historical annualized standard deviation of returns. Returns can be total returns or the differential returns between a portfolio and its benchmark.

**Voluntary Compliance Resolution Program** (IRC) The IRS allows plan sponsors to identify and correct operational defects in their plans and to obtain a compliance statement indicating how the defects will be fixed. The program allows defects to be corrected without negative tax consequences to workers and without significant financial penalties being imposed on employers. Failure to remedy defects results in plan disqualification. See also Employee Plans Compliance Resolution System (EPCRS).

**Voluntary Employees' Benefits Association (VEBA)** (IRC) As defined in Section 50l(c)(9) of the IRC, a separate organization "providing for the payment of life, sickness, accident, or other benefits to the members or their dependents or designated beneficiaries". Subject to specific rules and limitations, a company or public agency may establish a VEBA for employees, to which it makes tax-deductible contributions. The association invests and accumulates funds for the purpose of paying benefits on a tax-exempt basis.

**W-2 Form** The Federal form an employer gives an individual at year's end, which reflects the individual's total earnings from active employment reported to the government, along with the total of all items withheld for various purposes, including federal, state, local and FICA taxes.

**W-4 Form** The Federal form typically completed at time of initial employment, which is used to authorize federal income tax withholding amounts. Any change in status (e.g., marriage, divorce) may justify revising the W-4 form.

**Waiver** (Lgl) The act of intentionally relinquishing or abandoning a known right, claim, or privilege; also: the legal instrument evidencing such an act.

**Warrant** (Lgl) The evidence of payment amount due, generally issued by a public agency, for payment of employee compensation due or other obligation of the public agency.

**Watchlist Status** (Inv) Indicates a level of concern, the degree of which shall be unique to each situation with the parameters specified in the relevant policy.

**White Knight** (Inv) A company, friendly to management, that rescues another firm that is faced with a hostile takeover.

**Will** (Ret) A document in which a person specifies the method to be applied in the management and distribution of his/her estate after death.

**Windfall Elimination Provision (WEP)** See Social Security Offset/Windfall Penalty.

**Withdrawn Contributions** (Ret) Member contributions (plus earned interest) that the retirement plan pays to employees after their termination from membership.

**Working Capital** (Inv) Found by subtracting current liabilities from current assets.

**Year of Service** See Service Credit.

**Yield** (Inv) The return of an investment expressed as a percentage of cost or market. There are various ways to calculate yield depending upon whether you are dealing with a bond or stock. Straight yield on either a bond or stock is found by dividing the price into the expected dollar amount to be received from interest or dividends. A stock selling at $40 and paying a $2 dividend yields 5% ($2 divided by $40), and a bond with an 8% coupon selling at $1,000 yields 8% (i.e., $80 divided by $1,000). Where a bond is purchased at a premium or discount, the yield will vary depending upon whether the bond is held to its first call date or to maturity. Amortized yield allows for an actual gain or loss of principal to be realized at maturity.

**Yield Curve** (Inv) Graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest available.

**1099-R** (Form) Used to report payments from a retirement system to terminated members, retirees and survivors on an annual basis to the Internal Revenue Service and the State of California.

**1937 Act Counties or '37 Act** (Lgl) The 20 California counties which have their own county retirement systems established (separate from the PERS system) by the 1937 Act: Alameda, Contra Costs, Fresno, Imperial, Kern, Los Angeles, Marin, Mendocino, Merced, Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara, Sonoma, Stanislaus, Tulare, and Ventura Counties.

**401(a) Plan** (IRC) Governs qualified retirement plans, including defined benefit, money purchase or profit-sharing plans. Generally, a pension plan within the meaning of IRC section 401(a) is established and maintained by an employer primarily to provide systematically for the payment of definitely determinable benefits to its employees over a period of years, usually for life, after retirement.

**401(h) account** (IRC) Permits a pension or annuity plan to provide for payment of benefits for sickness, accident, hospitalization and medical expenses for retired employees, their spouses and dependents. Accordingly, the exclusive method for providing medical benefits in a pension plan (or money purchase plan) is by utilizing a section 401(h) account.

**401(k) Plan** (IRC) A defined contribution plan into which employees can make pre-tax contributions through salary reduction agreements. Generally found in the private sector, although a few public sector jurisdictions established them during a brief time permitted in the 1980s.

**403(b) Plan** (IRC) Provides a tax shelter account (TSA) for 501(c)(3) tax-exempt employers (which include public schools). Employers qualifying for a TSA may defer taxes on contributions to certain annuity contracts or custodial accounts. In 2007, limited to $15,500/year.

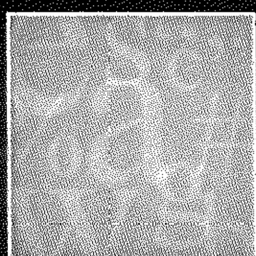
**414(h) Pickup** (IRC) Allows government employers to make employee contributions on behalf of their employees; the contributions are not considered wages for federal income tax purposes.

**415 Limits** (IRC) For defined benefit plans caps the retirement allowances that may be paid directly from employer defined-benefit pension accounts, and requires benefit amounts over the cap be funded by the employer via alternate means. For defined contribution plans, limit the amount of contributions that may be made in a year. Rollovers into DC plans do not count against these limits.

**419(A) Plan** (IRC) A welfare benefit plan funded through trusts to which many unrelated employers contribute. It is referred to as a multiple employer plan. These plans are often structured as nondiscriminatory VEBAs or taxable trusts and offer life insurance or severance benefits.

**457 Plan** (IRC) A tax-exempt deferred compensation program made available to employees of state and federal governments and agencies. A 457 plan is similar to a 401(k) plan, except there are never employer matching contributions and the IRS does not consider it a "qualified" retirement plan. Distributions are subject to ordinary income taxes and the amounts cannot be transferred into an IRA.

# Glossary
## of Key Investment Terms



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## Absolute Return

The percentage change in value of an asset or portfolio over a given period of time. The portfolio's or asset's absolute return can be compared with that of a benchmark to derive "relative return." (See Benchmark, Relative Return and Total Return.)

## Absolute Return Strategy

An investment strategy that seeks to generate the highest possible absolute return within specified, often multiple, asset classes without the construction limitations imposed when managing against a specific benchmark. By separating itself from a benchmark, an absolute-return strategy seeks to generate a positive return regardless of the positive or negative performance of relevant markets.

## Active Return

The performance difference between a portfolio and a benchmark that is attributable to an investment manager's decisions to construct a portfolio of securities that differs from the benchmark's construction. For example, if a portfolio of securities selected by an investment manager returned 5% while the benchmark returned 3%, the portfolio's "active return" is 2%. Active return is only possible when a manager takes on active risk. (See Active Risk.)

## Active Risk

The risk that the performance of a portfolio will differ from a benchmark and the risk that is attributable to an investment manager's decisions to construct a portfolio of securities that differs from the benchmark's construction. Active risk is typically measured as the standard deviation of active returns and is often referred to as tracking error. Investment managers must take on active risk in order to seek active return. (See Active Return.)

## Alpha

Alpha is a beta-adjusted measure of return. Positive alpha indicates that an investment portfolio has earned, on average, a premium above what is expected for the level of market variability (beta). A negative alpha indicates that the investment portfolio has received, on average, a premium lower than that expected for the level of market variability. (See Beta.)

## Arbitrage

A trade that exploits price differences between two or more markets involving similar financial instruments—the profit being the price spread between the prices in the different markets. Arbitrage is common in the currency, stock and bond markets. For instance, an investor may identify an exchange-rate disparity for a given currency in two countries. The investor may sell a given currency in the US where the exchange rate is higher and then repurchase the same currency in the UK where the exchange rate is lower, pocketing the difference.

## Ask Price (Offer Price)

Typically the lowest price that a seller is willing to accept for a security—the counterpart of the bid price, which is the highest price that the buyer is willing to pay. The difference between the ask price and bid price is known as the bid-ask spread. (See Bid-Ask Spread and Bid Price.)

### Bankruptcy

A judicial, regulatory or administrative proceeding or filing that is triggered when a company is unable to meet its debt obligations. Bankruptcies typically end either with reorganization and debt relief or with liquidation of the company.

### Basis Point

One hundredth of one percentage point (0.01%).

### Benchmark

A standard barometer against which investments can be measured in terms of performance, characteristics, construction and similar criteria. Sometimes widely recognized instruments (e.g., US Treasuries) or interest rates (e.g., the US fed funds rate or LIBOR) serve as benchmarks. More commonly, a benchmark is composed of an unmanaged group of securities with the same general characteristics as the portfolio being measured against it. Stock indices such as the S&P 500, the FTSE 100 and the Nikkei 225 are commonly used for equities, while indices such as the Lehman Aggregate or the Nomura Bond Performance Index are commonly used in fixed income. (See Market Weight, Overweight and Underweight.)

### Beta

A measure of the expected change of a security's or portfolio's return relative to that of the market. By definition, the beta of a benchmark index is 1.00. A security with a beta of more than 1.00 tends to rise or fall more than the market; a security with a beta of less than 1.00 tends to rise or fall less.

### Bid-Ask (Bid-Offer) Spread

The difference between the selling and purchasing price of an asset. (See Ask Price, Bid Price and Spread.)

### Bid Price

The purchase price that a buyer is willing to pay for an asset. (See Ask Price and Bid-Ask Spread.)

### Bond

A security that pays interest. The issuer agrees to pay the bondholder a regular set sum based on the amount borrowed and the bond's coupon, and to repay the principal amount of the loan at a future date. Many variations exist on this basic format, including bonds with no coupon and with variable coupons; bonds may also contain call or put provisions. The price of a bond is quoted assuming a par value of 100; thus, if a bond price is quoted as £90 and the principal value of the actual holding is £1,000, that holding is valued at £900. A bond selling above 100 is said to be trading at a premium; at 100, at par; and below 100, at a discount. The price varies over the life of the bond as interest rates, perceived credit quality and other factors fluctuate, and as the bond approaches its maturity date. A bond's price is inversely related to its yield: It rises when the bond's yield falls and declines when the yield rises.

Bonds belong to the fixed-income asset class. (See Call Provision, Coupon, Maturity, Par or Face Value and Put Provision; also, see The Major Fixed-Income Sectors, page 15.)

### Book Value

An accounting term that defines the net value of an asset as it appears on a company's balance sheet; a company's book value is equal to its total assets minus its total liabilities.

### Call Option

A contract that gives an investor the right to buy a specified asset at a predetermined price and date prior to the security's stated maturity, if any (common stock doesn't have a maturity), or the date that the issuer makes the final payment to the security holder. (See Put Option.)

### Call Provision

A bond feature that allows the issuer to retire the debt, in full or in part, prior to the bond's stated maturity date. Such a feature is favorable to the borrower, who can retire the bond and replace it with a lower-coupon issue if market rates fall. Conversely, such a feature is detrimental to the investor, who risks losing the higher-coupon bond when rates fall. Because of this disadvantage to the investor, callable bonds typically yield more than otherwise comparable bonds without a call provision. (See Put Provision.)

### Cap-Weighted Index

An index weighted by the market capitalization of each security in the index. Larger-cap companies thus account for a greater portion of the index. For example, if a company's market capitalization is $1 billion and the market capitalization of all securities in the index is $100 billion, the company would be 1% of the index. An index may also be fixed weighted, with each security, sector or country having a specified weight; fixed-weight indices are often equal weighted. (See Equal-Weighted Index.)

### Cash Earnings

Net earnings, excluding intangibles such as goodwill. The higher the proportion of cash earnings to reported earnings, the higher a company's earnings quality is deemed to be. (See Earnings per Share.)

### Compressed Valuations

When the difference between the highest- and lowest-priced segment of a stock market is much smaller than usual. This limits an investor's opportunity to buy value stocks trading at deep discounts but increases the ability to buy faster-growing stocks at a lower-than-usual premium to the market. (See Growth Stock and Value Stock.)

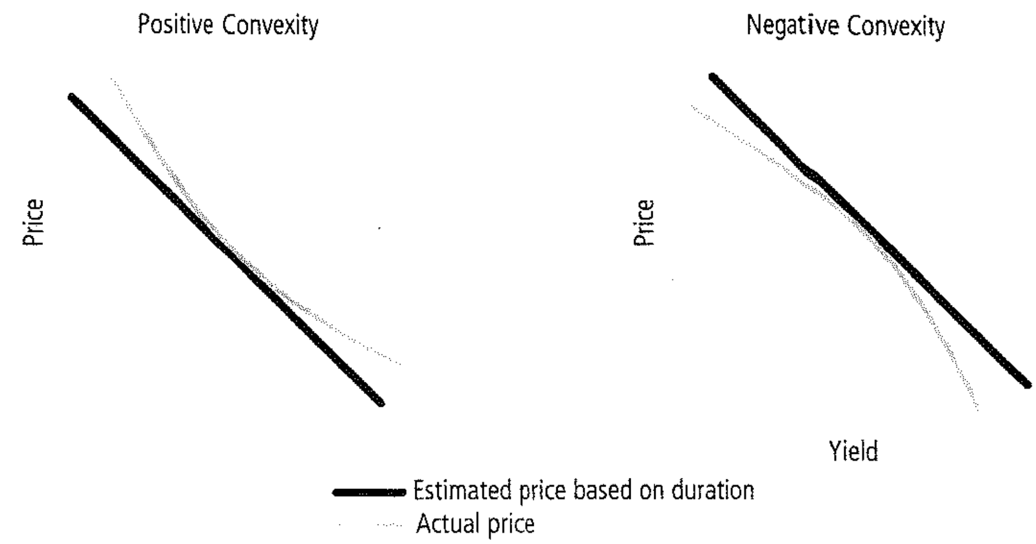
### Convertible Bond

A bond that, at the option of the issuer or the investor, can be exchanged for common stock of the issuing company, at a predetermined conversion ratio and at predetermined dates. Some convertible bonds are convertible throughout their lives. Although a convertible bond is chiefly a fixed-income instrument, its price tends to be highly influenced by the stock price.

### Convexity

A measure of a bond's price volatility that, in conjunction with duration, describes its sensitivity to changes in interest rates, particularly when the change in rates is sizable. Duration describes a linear relationship between yield and price that holds true only for small shifts in rates. As rate shifts increase in magnitude, a bond's dura-

## Positive and Negative Convexity




tion changes, causing it to become more or less sensitive to the change in rates than would be expected based on a static duration measure. Convexity aims to describe that changing relationship. Bond convexity falls into two camps: positive convexity and negative convexity. The durations of bonds with positive convexity—most option-free bonds—lengthen when rates fall and shorten when rates rise. This is a beneficial effect, as it means that their prices rise faster and fall more slowly than in a one-to-one, linear relationship with incremental changes in yield. The durations of bonds with negative convexity experience the opposite effect: They lengthen when rates rise and shorten when rates fall, causing their prices to fall faster and rise less rapidly than in a linear relationship with yield. Mortgages, which have implicit call options (the homeowner may prepay at any time), and corporate bonds that have embedded call provisions exhibit negative convexity. (See Duration.)

### Coupon

The rate at which a bond pays interest, expressed in percentage terms. A bond with a 4% coupon and a principal value of £1,000 would pay £40 annually to the bondholder. Coupon payments are typically made either annually or semiannually, according to the terms of the bond's covenant. The coupon may be fixed or variable.

### Credit Rating

A measure of credit quality. Bond-rating agencies such as Moody's Investors Service, Standard & Poor's and Fitch Ratings publish issuer ratings that, in their view, reflect the likelihood that the issuer will default on interest and principal payments. Rating systems vary from agency to agency; generally, however, bonds rated triple A (AAA or Aaa) are of the highest quality, while those rated below triple B (BBB or Baa) are of the lowest quality and are considered speculative or non-investment grade.

### Credit Risk

The risk that a bond issuer may default on its debt obligations or that a counterparty will default on a payment in the sale or purchase of a negotiable instrument. (See Default.)

### Currency Forward

A contract that obligates participants to buy or sell a specified quantity of a currency at a specified price on a specified future date. Investors often use these contracts to lock in the current value of a foreign currency that the investor expects to lose value against his or her home market.

### Current Coupon

The prevailing coupon rate in the new-issue market for securities that are priced at or close to par. (See Discount Coupon and Premium Coupon.)

### Cyclical Stock

Equity in a company that makes products or provides services that tend to be in demand during periods of strong economic growth and out of favor when the economy is weak. Examples include commodities and durable goods, both of which are in greater demand during economic booms. (See Defensive Stock.)

### Cyclical Trend

Recurring movements in prices or interest rates, usually linked to different stages in a business cycle. (See Secular Trend.)

### Debt-to-Equity Ratio

A company's debt (borrowings) divided by the market value of its shareholder equity.

### Default

An event triggered when a debt obligor fails to pay the interest or principal of its obligations and a specified grace period has expired.

### Defensive Stock

Refers to a company that tends to produce goods or services that are in demand irrespective of economic cycles, such as health-care companies or utilities.

### Derivative

A tradable financial instrument that derives its value from underlying assets—such as stocks, bonds, market indices, commodities and livestock. It is typically a contract based on the buyer's/seller's assumptions regarding the future price of the underlying assets. Given the uncertainty of future prices, participants often hedge their bets by entering into a contract for a future sale or purchase at a specified price. This contract, or financial instrument, is the derivative. (See Future, Hedging and Option.)

### Discount Coupon

A rate below current coupon. Bonds with discount coupons are typically priced below par. (See Current Coupon.)

### Discount to Fair Value

A measure of the valuation difference between the lowest-valued segment of a stock market, such as the cheapest 20%, relative to the overall market. It indicates whether the value opportunity is strong or muted at any given time relative to long-term history. (See Fair Value.)

### Duration

A measure of a bond's price sensitivity to changes in interest rates, expressed in years. Duration approximates how much a bond's price will change if interest rates change by a given amount. For each year of duration, a bond's price will fall (or rise) roughly one percentage point for each one-percentage-point increase (or decrease) in yield. Thus, a bond with a longer duration will perform worse when rates rise than a bond with a shorter duration; conversely, it will perform better when rates fall. Technically, duration is the weighted average term to maturity of the bond's cash flows. Thus, it is shorter than maturity for coupon-bearing bonds, which make annual or semiannual payments throughout the life of the bond. Duration is an excellent approximation of price sensitivity when interest-rate changes are small, but it becomes less accurate when rate changes are large. (See Convexity.)

### Dynamic Gap

The difference between our analysts' estimates of a company's growth potential and the market's, as measured by consensus forecasts of earnings, revenues or other barometers. Alliance Growth Equities research shows that "upside surprise"—growth above what the market was expecting—is more closely associated with outperformance than the absolute level of growth. The Alliance investment process favors companies with dynamic gaps that are positive and widening over those whose gaps are narrowing or negative.

### Earnings per Share (EPS)

A company's net profit divided by the number of common shares outstanding.

### EBITDA

(Earnings Before Interest, Taxes, Depreciation and Amortization)

A measure of a company's cash flow, excluding the impact of its financial structure or tax position, both of which could be altered.

### Equal-Weighted Index

An index in which all the securities are given equal weight. As soon as the price of one security changes, it is no longer equal weighted. Therefore, such indices are rebalanced on a quarterly, semiannual or annual basis.

### Equity

Ownership of a company in the form of shares that represent a claim on the corporation's earnings and assets. Common stockholders have the right to vote on directors and other key matters. While preferred stockholders lack voting rights, they have priority in dividend payments. A corporation can authorize additional classes of stock, each with its own set of contractual rights.

### Equity Risk Premium

A forward-looking estimate of how much equities are likely to outperform bonds. Equity investors typically demand a higher return due to their greater risk of not receiving cash flows for their investment.

### Excess Return

Difference between returns, which may be applied to managers or sectors. When referring to a manager or portfolio, the excess return is typically the same as the active return—the difference between the manager's/portfolio's return and the benchmark's. A fixed-income sector's excess return is the difference between its return and that of a comparable-duration government bond: If short-term corporate debt returns 6% and a short-term government security returns 4%, the excess return is 2%. (See Risk-Free Rate.)

### Exchange-Traded Fund (ETF)

An instrument that provides exposure to an index and is traded on a stock exchange. The price of these units depends on the prevailing market prices of the underlying index components. ETFs offer investors a low-cost, liquid means to invest in indices; they are essentially an alternative to an index portfolio.

### Factor Risk

A common trait that causes many securities to trade together. Equity factor risks include industry or sector, home country, currency, valuation, earnings variability, growth rate and market capitalization; fixed-income factor risks include sector, industry, rating and currency. (See Idiosyncratic Risk and Systemic Risk.)

### Fair Value

A price deemed to accurately reflect the value of a company, asset or financial instrument and thought to be equitable for both buyer and seller. Fair value is generally calculated based on measurable financial performance and potential. In the futures market, fair value refers to the relationship between the futures contract on a market index and the actual value of the index. When futures are above fair value, traders are betting that the market index will go higher. The converse is true when futures fall below fair value. (See Discount to Fair Value.)

### Fundamental Success

When a company is well positioned to outperform over the long term due to the growth or stability of earnings or cash flow and balance-sheet strength. Longer-term investors tend to focus more on such fundamental strengths than on bouts of underperformance due, for instance, to market volatility, technical factors or short-term difficulties. (See Debt-to-Equity Ratio.)

### Future

A forward contract that is traded on an exchange, requiring the future delivery of a commodity, bond, stock index or currency at a specified price and date.

### Government-Sponsored Enterprise (GSE)

A private corporation created by the US Congress to reduce the cost of capital for certain sectors of the economy. GSEs include the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae) and the Student Loan Marketing Association (Sallie Mae). GSE securities carry the implicit backing of the US government but are not the government's direct obligations.

### Growth Factor Risk

A benchmark-relative measure of a portfolio's exposure to characteristics typically associated with the growth investment style. A positive reading indicates that the portfolio is more leveraged to the growth style and, thus, should outperform when growth stocks are in favor; the higher the reading, the higher this leverage. For example, a growth factor risk of 0.2 typically means that a portfolio is 20% more leveraged to the growth style than the index. Conversely, a negative reading would indicate that the portfolio is less exposed than its benchmark to growth and will likely underperform when growth is in favor, and outperform when growth is out of favor.

### Growth Stock

A company that is expected to generate above-average revenue and earnings growth relative to its industry or the overall market. Such companies usually pay little or no dividend, preferring to use excess cash to finance expansion. However, because of the company's rapid earnings growth, investors typically expect the stock's price appreciation over time to more than compensate for the lack of short-term dividends. (See Defensive Stock.)

### Hedging

A trading practice aimed at limiting financial loss in an asset due to unexpected price changes. For example, cross-border securities investors need to exchange their home currencies for the local currencies of the markets in which they're investing in order to make the purchases. Through hedging instruments such as forwards or futures contracts, they can arrange to re-exchange the currencies at fixed prices at specified points in the future. This arrangement allows an investor to gain exposure to price changes in the underlying security without having to risk depreciation of the home currency relative to the local currency, which would lower the total value of the transaction when the proceeds are brought back home. There are many forms of hedging, which, in effect, seeks to neutralize a specific risk. (See Future.)

### Hybrid Security

A security that combines characteristics of two or more financial instruments, generally debt and equity. The most common type of hybrid is a so-called convertible bond, which is a fixed-income security that can be exchanged for common stock. Another popular type of hybrid is a Basket D. Basket Ds, which are issued by banks and insurance companies, are considered 75% equity and 25% debt. Hybrid securities are typically lower in the capital structure than senior corporate bonds, so recovery rates in times of corporate financial stress tend to be lower; however, debt-equity hybrids usually rank ahead of common stock. (See Convertible Bond.)

### Idiosyncratic Risk

Risk that is isolated to a limited number of assets, such as an individual company or a small group of securities, and that can be reduced through diversification. Errors in management strategy are one kind of idiosyncratic risk. (See Factor Risk and Systemic Risk.)

### Information Ratio

The ratio of a portfolio's excess return, or premium, to its tracking error, or the standard deviation of the premium over the period being measured. It is designed to measure how much excess return a manager delivers for each unit of risk. A higher number indicates a more favorable balance of reward to risk than a lower number. A positive number indicates that the portfolio outperformed, and a negative number indicates underperformance. (See Excess Return and Tracking Error.)

### iShares

Index funds traded like shares on stock markets. Each share represents a proportion of ownership in the collection of stocks that make up an index. This investment vehicle enables smaller investors to diversify their holdings by giving them exposure to a potentially large number of companies without the necessity of buying each stock.

### Leverage

In a financial context, the degree to which a business or asset is financed by borrowing. High financial leverage is generally regarded as a negative for a company, since it increases the risk of bankruptcy in the event of a financial squeeze and can make future borrowing more difficult and/or expensive. However, leverage to finance highly profitable new ventures, for example, can result in higher returns to shareholders. "Leveraged investing" is when investors borrow money to purchase more securities or other assets than they could with cash. This allows an investor to capture more of the upside if a security appreciates, but increases the loss if the security depreciates.

### Liability

A legal obligation to pay a specific amount within a defined time frame. For businesses, this typically includes debt payments, accounts payable, taxes, wages and similar pending expenses recorded on a company's balance sheet. Short-term liabilities are those payable within the next year, and long-term liabilities are those payable over a longer time frame.

### LIBOR
(London InterBank Offered Rate)

The interest rate that banks charge one another in the short-term international interbank market. It applies to loans borrowed anywhere from one day to five years. LIBOR is officially fixed each day by a handful of large London banks, although the actual rate changes throughout the day. It is also used as a benchmark to set other short-term interest rates, which are sometimes set as specific increments relative to LIBOR (e.g., LIBOR plus 2%).

### Liquidity

The ease with which an asset can be bought or sold quickly. High liquidity means that an asset can very easily be exchanged for currency, and low liquidity means that supply and demand are somewhat constrained. Highly liquid assets tend to have more narrow bid-ask spreads; illiquid assets tend to have wide bid-ask spreads.

### Long-Duration Assets

Securities or other assets whose cash flows to investors tend to be further out in the future. In equity markets, these are typically companies that pay little or no dividends, often because they are reinvesting most of their earnings. The term is most typically used in conjunction with growth stocks but may also apply to emerging-market stocks and other assets.

### Market Capitalization

Also referred to as market cap, it reflects the total equity of a company. A company's market capitalization is determined by multiplying the number of shares outstanding by the current stock price. Stock markets are frequently subdivided in terms of capitalization, with typical groups often including large-cap (those with the largest capitalizations), mid-cap (medium-size companies) and small-cap (the smallest publicly traded companies). Each group has distinct attributes and performance patterns, and spreading investments across the various groups tends to diversify risk.

### Market Value

The current price of a security in the market, as reflected by the last reported price on an exchange, or the current bid-ask price if the security is traded over the counter. (See Bid-Ask Spread, Market Capitalization and Over the Counter.)

### Market Weight

When a portfolio allocates the same percentage of assets to a specific security or group of securities as its benchmark. Also known as a "neutral weight."

### Mark to Market

To record the value of open positions in a security, a portfolio or an account based on current prices, not the purchase price or "cost basis." This technique allows any interim gain or loss to be recognized for tax or accounting purposes even though the positions have not yet been closed out.

### Maturity

The date when, or the remaining time until, an issuer is obligated to deliver the final coupon and principal payments owed to a bondholder. Bonds with a remaining term to maturity of one to five years are generally considered short-term; those maturing between six and 12 years out are considered intermediate-term; and those with maturities beyond 12 years are considered long-term. Bonds maturing in less than one year are categorized as cash equivalents.

### Net Asset Value (NAV)

The dollar value of a mutual-fund share, calculated by dividing the fund's total net assets (assets minus liabilities) by the total number of shares outstanding. NAV, which is typically calculated at the end of each day, can change constantly to reflect changes in the value of a fund's holdings.

### Option

A contract that provides the right to buy or sell a specific asset such as a stock, a commodity or a currency at a particular price during a defined period of time. The right to buy is referred to as a "call option," while the right to sell is known as a "put option." Although option holders have the right to buy or sell, they are not obligated to do so.

### Option-Adjusted Spread (OAS)

A measure of a bond's yield spread relative to another instrument (typically a government bond or swap) that adjusts for the yield effect of a bond's explicit or implicit call or put options. Using OAS rather than nominal spread allows for direct comparison between option-free bonds and those with put or call features. (See Spread.)

### Over-the-Counter (OTC)

Securities not listed on an established exchange such as the London Stock Exchange, Tokyo Stock Exchange or New York Stock Exchange, but rather traded by broker-dealers who negotiate directly with one another over computer networks and by telephone. Stocks traded over the counter may be more speculative, since these companies often have not yet met the size or stability requirements for listing on an established exchange and have less accurate pricing data and other information readily available. Still, these trades tend to fall under the oversight of relevant regulatory bodies. Many bonds trade over the counter rather than on an exchange. Also known as "unlisted securities."

### Overweight

When a portfolio allocates a larger percentage of assets to a specific security or group of securities than its benchmark does. (See Benchmark.)

### Par or Face Value

The amount of principal that the issuer must pay the bondholder at maturity. Although an individual bond typically has a par value of $1,000, the term "par" is often used interchangeably with 100 in the context of a bond's price. (See Bond.)

### Premium Coupon

A rate above current coupon. Bonds with premium coupons are typically priced above par. (See Current Coupon and Discount Coupon.)

### Price-to-Book Ratio (P/B)

A comparison of a stock's market value with its book value, calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

### Price-to-Earnings Ratio (P/E)

The most common measure of a stock's value, calculated by dividing the market value per share by after-tax earnings per share. The higher the P/E ratio, the more the market is willing to pay for each unit of earnings.

### Price-to-Growth Ratio (PEG)

A ratio used to determine a stock's current value per unit of earnings growth. It is calculated by dividing the price/earnings ratio by the annual earnings-per-share growth and indicates a stock's potential value. A lower PEG means that the company's growth is priced more attractively than its peers.

### Put Option

A financial contract that gives the holder the right, but not the obligation, to sell an asset at a predetermined price on or before a particular date. (See Call Option.)

### Put Provision

A bond feature that allows the investor to redeem the bond at par value before the bond's stated maturity date. A put provision is typically valid only for predetermined dates and would only be attractive to the investor if the bond's market value declined below par. Such a feature is favorable to the investor and detrimental to the issuer. Because of their potential advantage to the investor, putable bonds typically yield less than otherwise comparable bonds without a put provision. (See Call Provision.)

### Relative Return

An asset's or a portfolio's return over a period of time relative to that of a chosen benchmark. It is calculated as the difference between the asset's absolute return and the benchmark's performance. (See Absolute Return and Benchmark.)

### Return on Equity (ROE)

A measure of how much profit a company is able to generate with the capital provided by shareholders. Calculated by dividing after-tax income for a specified time period (e.g., trailing 12 months, trailing five years, forward 12 months) by the book value. ROE is expressed as a percentage.

### Risk

In common parlance, the chance of loss or of something bad occurring. In financial parlance, it usually means the uncertainty of outcomes due to one or many causes; it can be positive as well as negative. Return is usually measured by the standard deviation of returns—in other words, the extent to which returns may vary from the norm. Volatile assets tend to have a wider range of possible returns and thus are said to be higher-risk.

### Risk-Free Rate

An investment with a predictable rate of return. An example is a short-term government bond. A short-term government bond has the explicit backing of a government, and the time period before the bond matures is short enough to minimize the risks of inflation and market interest-rate changes. Its yield is therefore considered risk-free. (See Credit Risk.)

### Risk Premium

The expected return above the risk-free rate that investors demand to compensate for the volatility of returns or the possibility of default of risky assets. (See Risk-Free Rate.)

### Secular Trend

A long-term change attributable to an important fundamental shift in the economy or business environment that is not related to seasonal or cyclical factors. Industrialization and globalization are examples of secular trends. (See Cyclical Trend.)

### Securitization

The process of creating a tradable financial instrument from a pool of underlying assets, such as loans or mortgages, which generate an income stream for the issuers. Securitization allows issuers to remove assets from their balance sheets, thereby freeing up capital for other uses. It also allows investors to better diversify risk.

### Share Buyback

A company's repurchase of its own shares. It typically increases the market price of the remaining shares because each of the remaining shares represents a larger claim on earnings and assets.

### Spread

The difference between two variables, such as a security's bid and ask prices (bid-ask spread). In the bond market, the "yield spread" is the difference in yield between bonds, most often between the yield of a bond and a benchmark such as a government bond, swap or LIBOR.

Valuation spreads measure the difference between expensive and cheap segments of the market.

### Standard Deviation

A statistical measure of risk that shows how aligned or at variance the returns of an asset, industry or fund are relative to their historical performance.

### Style Drift

The tendency of a portfolio manager to stray from its investment philosophy and process to boost short-term returns.

### Swap

A contract between two parties to exchange future cash flows based on a set principal amount. An interest-rate swap normally involves swapping fixed-rate and floating-rate payments in the same currency. Other common types include currency swaps and credit default swaps.

### Systemic Risk

A risk or event that affects an entire financial market or system, such as a stock market crash or a banking-system failure. Systemic risks cannot be avoided through diversification. (See Factor Risk and Idiosyncratic Risk.)

### Total Return

The return on an investment, including price appreciation and depreciation, as well as income from dividends or interest.

### Tracking Error

The variance of a portfolio's investment returns relative to those of its benchmark or index. (See Active Risk, Information Ratio and Standard Deviation.)

### Tranche

When a bond's cash flows are repackaged as a collateralized debt obligation (CDO) or a portfolio of mortgage securities is repackaged as a collateralized mortgage obligation (CMO), the various securities constituting the CDO or CMO are called tranches. Each tranche within a deal has a different risk/return profile, and the tranches trade separately from one another.

### Transaction Costs

The costs incurred when buying or selling an asset security, such as commission, fees and any indirect taxes.

### Underweight

When a portfolio allocates a smaller percentage of assets to a specific security or group of securities than its benchmark does. (See Benchmark.)

### Valuation

The worth of an asset or a company using various techniques or the value of an investment portfolio's holdings at a specific date.

### Value Risk Premium

The anticipated return premium of value stocks versus the broader market. (See Value Stock.)

### Value Stock

A stock that is underpriced by the market relative to its long-term fundamentals, such as dividends, earnings and sales. Such stocks tend to have a high dividend yield, low price-to-book ratio and/or low price-to-earnings ratio.

### Volatility

The extent to which the price of a financial asset or market fluctuates, measured by the standard deviation of its returns. Volatility is a commonly cited risk measure. (See Standard Deviation.)

### Warrant

A certificate entitling the holder to buy or sell a certain quantity of an underlying instrument at a predetermined price. The right to buy the underlying instrument is referred to as a call warrant; the right to sell it is known as a put warrant. In this respect, a warrant is similar to an option. Warrants typically have much longer time available to exercise than options. (See Option.)

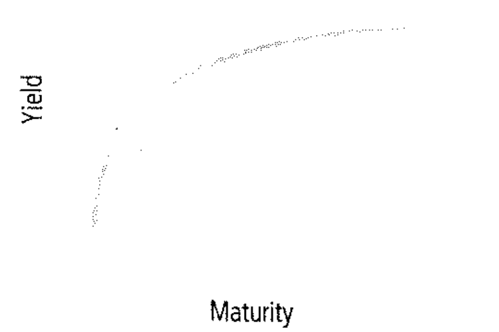
### Yield

A component of the return on an investment. In the equity market, a share's dividend yield is its annual dividend payment as a percentage of the share's market price. In the fixed-income market, a bond's yield is its annual interest payment as a percentage of the bond's market price. Various measures of yield exist: most notably, current yield, which considers only coupon interest; and yield to maturity, which is the rate that will make the present value of the bond's expected cash flows equal to the bond's market price.

### Yield Curve

A line connecting the yields of bonds from one end of the maturity spectrum to the other. Because yields typically rise sharply at the short end of the maturity spectrum and rise more gradually at longer maturities, the plotted line usually forms a curve. However, depending on a host of factors, yield curves may be steeply upward-sloping, flat, inverted, straight, bowed or even kinked.

**Yield Curve**



### Adjustable Rate Mortgage (ARM)

A mortgage loan whose interest rate is raised or lowered periodically in accordance with a stated reference rate. ARM refers both to the original homeowner loan and to a securitized pool of such loans. (See Securitization.)

### Agency

A bond issued by a government agency or quasi-government agency to finance that entity. Securities repackaged by an agency, as with mortgage-backed securities, are not considered agency debt. Unlike debt issued directly by the federal government or its agencies, quasi-government agency debt is not backed by the full faith and credit of the federal government but is nevertheless very highly rated. (See Government-Sponsored Enterprise.)

### Asset-Backed Security (ABS)

A fixed-income security created by pooling together loans of a similar type, such as home-equity loans, car loans or credit-card receivables. In the US, which has a very large mortgage-backed securities market, mortgages are not considered a type of ABS; however, mortgages are considered a subset of the ABS market in many other countries, including the UK. (See Securitization.)

### Collateralized Debt Obligation (CDO)

A fixed-income security created by pooling together bonds or loans of a similar type, such as corporate bonds (collateralized bond obligation) or mortgage-backed securities (collateralized mortgage obligation). A CDO repackages the cash flows of the pool of assets into tranches with different maturities, cash flows and risks. (See Collateralized Mortgage Obligation and Tranche.)

### Collateralized Mortgage Obligation (CMO)

A fixed-income security created by pooling together mortgage-backed securities. A CMO parses expected and unexpected cash flows from the underlying assets into multiple tranches according to a set of rules specified in the CMO's prospectus. Thus, the various tranches are subject to different amounts of risk and are suitable for different types of investors or investment purposes. (See Collateralized Debt Obligation and Tranche.)

### Commercial Mortgage-Backed Security (CMBS)

A mortgage-backed security collateralized by commercial rather than residential mortgage loans. Unlike residential mortgage-backed securities, CMBSs are not usually subject to prepayment risk, as most underlying loans do not permit prepayment without substantial penalties. (See Mortgage-Backed Security.)

### Corporate Bond

Debt issued by a corporation. As creditors, corporate bondholders have a prior legal claim over common and preferred stockholders.

### Credit Default Swap (CDS)

An instrument that transfers the credit risk of a specific entity (usually a corporation, financial institution or sovereign) from a protection buyer to a protection seller in exchange for a regular payment until the contract expires or a credit event occurs. (See Swap.)

### Emerging-Market Debt

Debt issued by governments of and corporations within developing economies. A country may issue such securities in its own currency or, commonly, in US dollars or the currency of another major economy. Many emerging-market issuers are rated below investment grade.

### Government Bond

Debt issued directly by a country's government in its own currency. Government bonds of the major developed countries are often, though not always, considered free of credit risk.

| Country | Common Name for Government Debt |
|---|---|
| Australia | Treasuries |
| Canada | Canadas |
| France | OATs (Obligations Assimilables du Trésor) |
| Germany | Bunds |
| Italy | BTPs (Buoni del Tesoro Poliennali) |
| Japan | JGBs (Japanese Government Bonds) |
| UK | Gilts |
| US | Treasuries |

### High-Yield Bond

A fixed-income security with a rating of BB or lower and thus considered non-investment, or speculative, grade. These instruments tend to offer substantially higher yields than investment-grade credits due to their greater likelihood of default.

### [illegible]

A bond indexed to and intended to protect the investor against inflation. A number of governments and some corporations issue such debt.

### Mortgage-Backed Security (MBS)

A fixed-income security, especially a mortgage "pass-through," created by pooling together home mortgage loans with similar interest rates and other characteristics. The pool of mortgages forms the collateral behind the mortgage-backed security. Bondholders receive cash flows based on the pooled mortgages' collective interest and principal payments, including prepayments of principal, less a fee reserved for the originator of the MBS. Originators are predominantly government or quasi-government agencies. (See Securitization.)

### Sovereign Bond

Debt issued directly by a country's government in a currency other than its own.

## About AllianceBernstein

AllianceBernstein is a research-driven organization that is global in scope and client-centered in its mission. It delivers preeminent investment services in key asset classes—Alliance Growth Equities, Bernstein Value Equities, AllianceBernstein Blend Strategies, AllianceBernstein Fixed Income and AllianceBernstein Alternatives. We have built one of the largest and broadest research footprints in our business. With roughly 260 buy-side analysts operating in 13 countries, we cover thousands of securities in every meaningful capital market around the world. We believe our range of services, global research coverage and ability to serve clients virtually anywhere make AllianceBernstein a preeminent resource for institutional investors worldwide. As of September 30, 2006, our firm managed US$659 (€520, £353) billion in assets, including US$418 (€330, £224) billion for institutions. These include pension plans, defined-contribution plans, foundations and endowments, insurance companies, central banks and governments in more than 35 countries.

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