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# **Glossaries**

# **CALAPRS**

EDUCATION • COMMUNICATION • NETWORKING

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

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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 than 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.

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**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

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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.

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**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

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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

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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.

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**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.

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**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.

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**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.

**Coinurance** (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'

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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

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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.

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**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

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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.

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