

Administration/Management Fee (Expense Ratio)

Total annual college savings plan operating expenses, expressed as a percentage of the plan's assets. An expense ratio of 1% represents an annual charge to the fund's net assets—including your proportional interest in those assets—of 1% every year.

Age-Based Mutual Fund Portfolios

College savings plan portfolios that change their asset allocation according to the beneficiary's age. Initially age-based portfolios invest primarily in stock funds. As the beneficiary grows older, the stock funds are replaced by more conservative investments such as bond funds.

Agency Security

Debt security issued or guaranteed by an agency of the federal government or by a government-sponsored enterprise (GSE). These securities include bonds and other debt instruments. Agency securities are only backed by the "full faith and credit" of the U.S. government if they are issued or guaranteed by an agency of the federal government, such as Ginnie Mae. Although GSEs such as Fannie Mae and Freddie Mac are government-sponsored, they are not government agencies.

Annual Maintenance Fee

Total annual college savings plan upkeep expense. An annual charge of \$10-\$40 is a typical maintenance fee.

Annual Operating Expenses

The sum of all of a fund's annual expenses, expressed as a percentage of the plan's assets.

Annual Rate of Return

The rate of return on your investment, expressed as a percentage of the total amount invested.

Annual Report (Form 10-K)

Public companies are required to file an annual report with the Securities and Exchange Commission (SEC) detailing the preceding year's financial results and plans for the upcoming year. Its regulatory version is called "Form 10 K." The report contains financial information concerning a company's assets, liabilities, earnings, profits, and other year-end statistics. The annual report is also the most widely read shareholder communication.

Asset Allocation

A strategy for maximizing gains while minimizing risks in your investment portfolio. Asset allocation involves dividing your assets on a percentage basis among different broad categories of investments, including stocks, bonds, and cash.

Asset Class

Different categories of investments that provide returns in different ways are sometimes described as asset classes. Stocks, bonds, cash and cash equivalents, real estate, collectibles and precious metals are among the primary asset classes.

Average Maturity

The average time that a mutual fund's bond holdings will take to be fully payable. Interest rate fluctuations have a greater impact on the price per share of funds holding bonds with longer average lives.

Balanced Fund

Balanced funds are mutual funds that invest in a combination of common stock, preferred stock, and bonds or other fixed-income investments to meet their dual investment goal of seeking a strong return while minimizing risk.

Bear Market

A bear market is one in which stock and/or bond prices decline over an extended period of time, at times accompanied by an economic recession, rising inflation or rising interest rates.

Benchmark

A stock market benchmark is an index or average whose movement is considered a general indicator of the direction of the overall market and against which investors and financial professionals may measure the performance of individual stocks or market sectors. There are also benchmarks for other types of investments, such as bonds, mutual funds, and commodities.

Beneficiary

The individual who receives, or may become eligible to receive, the benefits of a college savings plan.

Bond

A debt instrument, also considered a loan, that an investor makes to a corporation, government, federal agency or other organization (known as an issuer) in which the issuer typically agrees to pay the owner the amount of the face value of the bond on a future date, and to pay interest at a specified rate at regular intervals.

Bond Funds

Mutual funds that invests in bonds. Some bond funds may focus primarily on short-term, intermediate-term and long-term maturities. Also known as fixed-investment funds.

Bondholder

Owner of a bond; may be an individual or institution such as a corporation, bank, insurance company or mutual fund. A Bondholder is typically entitled to regular interest payments as due and return of principal when the bond matures.

Bond Rating

A method of evaluating the quality and safety of a bond. This rating is based on an examination of the issuer's financial strength and the likelihood that it will be able to meet scheduled repayments. Ratings range from AAA (best) to D (worst). Bonds receiving a rating of BB or below are not considered investment grade because of the relative potential for issuer default.

Brokerage Window

Some 401(k) plans allow participants to invest in stocks and funds offered by a brokerage firm selected by your plan administrator. This is often referred to as a brokerage window, or a self-directed account.

Bull Market

A bull market is one in which prices rise during a prolonged period of time.

Call

The issuer's right to redeem outstanding bonds before the stated maturity.

Call Protection

A feature of some callable bonds that protects the investor from calls for some initial period of time.

Call Risk

The risk that a bond will be called prior to its maturity date, causing the bond's principal to be returned sooner than expected. If the bondholder wishes to reinvest the principal, it usually must be done at a lower rate than when the bond was originally purchased.

Capital Gains Tax (CGT)

A capital gains tax is due on profits you realize on the sale of a capital asset, such as stock, bonds, or real estate. Long-term gains, on assets you own more than a year, are taxed at a lower rate than ordinary income while short-term gains are taxed at your regular rate. Assets held for over five years may be taxed at an even lower capital gains rate.

Cash Balance Plan

A cash balance retirement plan is a defined benefit plan that has some characteristics of a defined contribution plan, such as portability. The pension benefit accrues over time from contributions, based on a percentage of your current pay, which are credited to a hypothetical account in your name.

Collateralized Mortgage Obligation (CMO)

A bond backed by multiple pools (also called tranches) of mortgage securities or loans.

College Savings Plans

This type of 529 plan allows you to invest in various mutual fund portfolios or other investments on a tax-deferred bases, and to pay college or graduate school expenses with tax-free withdrawals. Many states now offer at least one college savings plan that has no residency restrictions.

Commission

A fee paid to a broker, as an agent of the customer, for executing a trade based on the number of bonds traded or the dollar amount of the trade.

Compounding

The process through which the value of an investment increases exponentially over time as interest or dividends are reinvested, so that additional interest or dividends are always paid based on the value of the initial investment plus the accumulated interest or dividends already received.

Contingent Deferred Sales Charge (CDSC)

A common type of deferred sales charge. The CDSC normally declines each year and is eliminated after a number of years.

Contrarian

A contrarian is an investor who buys things other investors are shunning. If most investors are buying stocks, a contrarian is concentrating on building a bond portfolio or putting more money into cash investments. Contrarians may also invest in unpopular market sectors and/or styles. Contrarian mutual funds use this approach as their investment strategy, concentrating on building a portfolio of out-of-favor (and therefore often undervalued) investments.

Convertible Bond

A bond with the option to convert into shares of common stock of the same issuer at a pre-established price.

Corporate Bond

A bond issued by a corporation to raise money for capital expenditures, operations and acquisitions.

Coupon

The interest payment made on a bond, usually paid twice a year. A \$1,000 bond paying \$65 per year has a \$65 coupon, or a coupon rate of 6.5%. Bonds that pay no interest are said to have a "zero coupon." Also called the coupon rate.

Coupon Yield

The annual interest rate established when the bond is issued. The same as the coupon rate, it is

the amount of income you collect on a bond, expressed as a percentage of your original investment.

Coverdell Education Savings Accounts (ESAs)

College savings plan in which contributions grow on a tax-deferred basis and withdrawals are tax-free if used to pay for a broad range of educational expenses, including private high school tuition. Unlike 529 plans, ESAs have annual contribution limits and income restrictions.

Creditor

A person or company who provides credit to another person or company functions as a creditor. For example, if you take out a mortgage or car loan at your bank, then the bank is your creditor. But if you buy a bond issued by a corporation or other institution, you are the creditor because the money you pay to buy the bond is actually a loan to the issuer.

Credit Risk

The possibility that the bond's issuer may default on interest payments or not be able to repay the bond's face value at maturity.

Current Yield

The yearly coupon payment divided by the bond's price, stated as a percent. A newly issued \$1,000 bond paying \$65 has a current yield of .065, or 6.5%. Current yield can fluctuate: If the price of the bond dropped to \$950, the current yield would rise to 6.84%.

Custodial Accounts

Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA) accounts, created for the benefit of a child. An adult controls the funds until the child reaches the age of majority, at which point the account transfers into the child's name.

Custodian

The adult who has control over a custodial account.

Debenture

An unsecured bond backed solely by the general credit of the borrower.

Debt Security

Any security that represents loaned money that must be repaid to the lender.

Deferred Annuity

A deferred annuity contract allows you to accumulate tax-deferred earnings during the term of the contract and sometimes add assets to your contract over time. Your deferred annuity earnings may be either fixed or variable, depending on the way your money is invested. Deferred annuities are subject to withdrawal rules so you may owe a 10% penalty if you withdraw earnings before you reach age 59 1/2. Surrender charges also may apply.

Defined Benefit Plan

A defined benefit plan provides a specific income for retired employees, either as a lump sum or as a pension, or lifetime annuity. The pension amount usually depends on the employee's age at retirement, final salary, and the number of years on the job.

Defined Contribution Plan

A defined contribution plan is an employer sponsored retirement plan. The income the plan provides is not predetermined or guaranteed, as it is with a defined benefit pension. Rather, it varies according to how much is contributed to the plan, how the contributions are invested, and what the return on that investment is. 401(k), 403(b), 457, and profit-sharing plans are examples of defined contribution plans.

Discount

The amount by which a bond's market price is lower than its issuing price (par value). A \$1,000 bond selling at \$970 carries a \$30 discount.

Diversification

Diversification is an investment strategy for allocating your assets available for investment among different markets, sectors, industries and securities. The goal is to protect the value of your overall portfolio by diversifying your investment risk among these different markets, sectors, industries and securities.

Employer Sponsored Retirement Plan

Employers may offer their employees either defined benefit or defined contribution retirement plans, or they may make both types of plans available. Any employer may offer a defined benefit plan, but certain types of defined contribution plans are available only through specific categories of employers. However, employers are not required to offer plans.

Enrollment Fee

A fee assessed when you enroll in a college savings plan. Enrollment fees are typically between \$10-\$90 although some college savings plans offer free enrollment.

Equity Fund

Equity mutual funds invest primarily in stocks. The particular stocks a fund buys depends on the fund's investment objectives and management style.

ERISA

The Employee Retirement Income Security Act of 1974 (ERISA) sets certain standards for 401(k) plan administrators and requires uniform rights for plan participants.

Event Risk

The risk that an event will have a negative impact on a bond issuer's ability to pay its creditors.

Expense Ratio

An expense ratio is the amount you pay annually to a mutual fund for operating expenses and management fees, expressed as a percentage of the net asset value of your investment in the fund.

Face Value

The amount the issuer must pay to the bondholder at maturity, also known as par.

Fixed-Income Funds

See Bond Funds.

Fixed-Rate Bond

A bond with an interest rate that remains constant or fixed during the life of the bond.

Floating-Rate Bond

A bond with an interest rate that fluctuates (floats), usually in tandem with a benchmark interest rate during the life of the bond.

Full Faith and Credit of the U.S. Government

A promise by the U.S. government to pay all interest when due and redeem bonds at maturity. Treasuries, savings bonds and debt securities issued by federal agencies are backed by the "full faith and credit" of the U.S. government.

Gift Tax

A tax assessed against a person who gives money or assets to another person without receiving fair compensation.

General Obligation Bond (GO)

A municipal bond secured by a governmental issuer's "full faith and credit," usually based on taxing power.

Government-Sponsored Enterprises

Federally chartered government-sponsored enterprises (GSEs) are shareholder-owned corporations, not federal agencies. Although GSEs, such as Fannie Mae and Freddie Mac, were created to fulfill a public purpose, the mortgage-backed bonds they issue are not insured by the government or backed by its full faith and credit.

Growth Fund

Growth fund managers invest in stocks of companies that have recently exhibited faster than average earnings gains. Such stocks generally have higher price/earning ratios and often do not pay dividends. Growth stock funds are often characterized by high levels of price volatility.

Growth and Income Fund

These mutual funds invest in securities that provide a combination of growth and income. They generally funnel most of their assets into common stocks of well-established companies that pay regular dividends. They may also invest in high-rated bonds.

Guaranteed Investment Contract (GIC)

A GIC (pronounced gick) is an insurance company product designed to preserve your principal and to provide a fixed rate of return. You may invest in a GIC through an employer sponsored salary reduction plan, such as a 401(k) or 403(b), if it is one of the investment options offered.

Hardship Withdrawal

A hardship withdrawal occurs when you take money out of your 401(k) or other qualified retirement savings plan to cover a pressing financial need. You must qualify to withdraw by meeting the conditions your plan imposes in keeping with Internal Revenue Service (IRS) guidelines. If you're younger than 59 1/2, you may have to pay a 10% penalty, plus income tax, on the amount you withdraw, and you may not be permitted to contribute to the plan again for a period of time.

Highly Compensated Employees

Highly compensated employees are people who earned more from their employer than the floor the government has established for this category of worker. In 2008, that amount is \$105,000. The drawback of being highly compensated is that you may be restricted on what you can contribute to a 401(k).

High-Yield Bond

A bond issued by an issuer that is considered a credit risk by a Nationally Recognized Statistical Rating Organization, as indicated by a low bond rating (e.g., "Ba" or lower by Moody's Investors Services, or "BB" or below by Standard & Poor's Corporation). Because of this risk, a high-yield bond generally pays a higher return (yield) than a bond with an issuer that carries lower default risk. Also known as a "junk" bond.

Holding Period Risk

The risk, while you are waiting for your bond to mature (holding it), that a better opportunity will come around that you may be unable to act upon. The longer the term of your bond, the greater the chance a more attractive investment opportunity will become available, or that any number of other factors may occur that negatively impact your investment.

Hope Credit

An education tax credit designed to reduce education costs in the first two years of college. One Hope Credit may be claimed per dependent per year.

Indenture

A legal document between a bond issuer and a trustee appointed on behalf of all bondholders that describes all of the features of the bond, the rights of bondholders, and the duties of the issuer and the trustee. Much of this information is also disclosed in the prospectus or offering statement.

Index Fund

An index mutual fund is designed to mirror the performance of a stock or bond index, such as Standard & Poor's 500 Index (S&P 500) or the Russell 2000 Index. To do that, the fund purchases all of the securities included in the index, or a representative sample of them, and adds or sells investments only when the securities in the index are changed.

Individual Retirement Account (IRA)

Individual retirement accounts (IRAs) are self-directed investment accounts that provide the incentive of tax-deferred (in the case of traditional IRAs) or tax-free (in the case of Roth IRAs) earnings on assets in the account. If you earn income, or are married to someone who does, you can put up to \$5,000 per year in an IRA in 2008. If you're 50 or over, you can invest an additional \$1,000.

You must be at least 59 1/2, or qualify for an exception, to withdraw from your IRA without owing a 10% penalty. You must begin required withdrawals from traditional IRAs when you turn 70 1/2, and all earnings (plus any deductible contributions) are taxed at your current tax rate as they are withdrawn. Roth IRAs have no required withdrawals and any money you do take out is tax free if you are 59 1/2 or older, provided your account has been open at least five years.

Inflation Risk

The risk that a bond's returns may not keep pace with inflation, eroding purchasing power.

Interest Rate Risk

The risk that a bond's price will fall when interest rates rise.

Investment-Grade Bond

A bond whose issuer's prompt payment of interest and principal (at maturity) is considered relatively safe by a nationally recognized statistical rating agency, as indicated by a high bond rating (e.g., "Baa" or better by Moody's Investors Service, or "BBB" or better by Standard & Poor's Corporation).

Junk Bond

Another name for a high-yield bond.

Lifecycle Fund

A lifecycle fund is a package of individual mutual funds that a fund company puts together to help investors meet their investment objectives without having to select portfolios of funds on their own. The allocation of funds within the fund is altered as the investor moves closer to retirement to help reduce potential volatility and preserve capital.

Lifetime Learning Credit

An education tax credit designed to reduce the costs of college education. It can only be claimed once per tax return regardless of the number of children you have enrolled in college at the same time.

Liquid Investment

A liquid investment is one that can be bought or sold quickly in large volume without dramatically affecting its market price. However, the term is sometimes used more generally to describe investments you can buy or sell easily, including mutual funds and most publicly traded stocks and bonds. It may also be used to describe those investments you can sell or cash in easily without loss of principal, such as a money market fund.

Liquidity Risk

The risk of not being able to execute a trade at the time you desire, or being forced to accept a significantly discounted price of a bond at the time you desire to sell.

Lump-Sum Distribution

A lump-sum distribution is a one-time payout of assets in an account, typically a retirement savings account. When you retire or change jobs, you can take a lump-sum distribution as cash, or you can roll over the distribution into an individual retirement account (IRA). If you take the cash, you owe income tax on the full amount of the distribution, and you may owe an additional 10% penalty if you're younger than 59 1/2. If you roll over the lump sum into an IRA, the full amount continues to be tax deferred, and you can postpone paying income tax until you withdraw from the account.

Managed Account

A managed account is a portfolio of stocks or bonds owned by an individual investor. The account has a professional investment manager who makes buy and sell decisions, sometimes in response to the account owner's instructions. Each managed account has an investment objective, and each manager oversees multiple individual accounts invested to meet the same objective.

Managed Funds

Unlike index funds that are designed to track a market index, managed funds rely on the expertise of the mutual fund manager to research and select the stocks or bonds that make up the fund's portfolio.

Market Capitalization

Market capitalization is a measure of the value of a company, calculated by multiplying the number of existing shares, or shares the company has issued, by the current price per share. For example, a company with 100 million shares of stock with a current market value of \$25 a share would have a market capitalization of \$2.5 billion. Market capitalization is sometimes used interchangeably with market value. Mutual funds often will note if their focus is on large-, mid-, or small-cap stocks.

Market Index

A market index measures changes in the value of a specific group of stocks, bonds, or other investments that it tracks from a specific starting point, which may be as recent as the previous day or some date in the past. An index may be broad, encompassing a large number of stocks or bonds, or quite narrow, including only a limited number.

Maturity Date

A maturity date is the date when the principal amount of a bond, note or other debt instrument is typically repaid to the investor along with the final interest payment.

Minimum Required Distribution (MRD)

A minimum required distribution is the smallest amount you can take each year from your 401(k), 403(b), traditional IRA, or other retirement savings plan once you've reached the mandatory age for making withdrawals, usually 70 1/2. If you take less than the required minimum, you owe a 50% penalty on the amount you should have taken. You calculate your MRD by dividing your

account balance at the end of your plan's fiscal year—usually, but not always, December 31—using a divisor determined by your age.

Modified Adjusted Gross Income

Your annual adjusted gross income without taking into account any IRA deduction, student loan interest deduction, or certain other deductions as specified under the Internal Revenue Code.

Monte Carlo Simulation

A Monte Carlo simulation generates thousands of probable performance outcomes, called scenarios, which might occur in the future. An investment simulation incorporates economic data such as a range of potential interest rates, inflation rates, tax rates, and so on, combined in random order. As a result, it's designed to account for the uncertainty and performance variation that's always present in financial markets.

Mortgage-Backed Security

A security that is secured by home and other real estate loans.

Municipal Bond

A bond issued by states, cities, counties and towns to fund public capital projects like roads and schools, as well as operating budgets. These bonds are typically exempt from federal taxation and, for investors who reside in the state where the bond is issued, from state and local taxes too.

Mutual Funds

Types of investment funds that raise money from shareholders to invest in a group of assets such as stocks, bonds, and money market funds. Mutual Funds often have a minimum investment amount and a series of fees associated with them.

Net Asset Value (NAV)

The NAV is the dollar value of one share of a mutual fund at the close of the trading day. It is calculated by totaling the value of all the fund's holdings and dividing by the number of outstanding shares. That means the NAV changes regularly, though day-to-day changes are usually small.

Non-Age Based Investment Options

Any college savings plan portfolio that doesn't shift asset allocation according to the age of the beneficiary.

Non-Callable Bond

A feature of some bonds that stipulates the bond cannot be redeemed (called) before its maturity date. Also called a "bullet."

Non Investment-Grade Bond

A bond whose issuer's prompt payment of interest and principal (at maturity) is considered risky by a nationally recognized statistical rating agency, as indicated by a lower bond rating (e.g., "Ba" or lower by Moody's Investors Service, or "BB" or lower by Standard & Poor's Corporation).

Non-Qualified Withdrawals

Withdrawals from a college savings account that are used for non-college related expenses. Non-qualified withdrawals are subject to income tax and an additional 10% penalty on earnings.

Note

A short- to medium-term loan that represents a promise to pay a specific amount of money. A note may be secured by future revenues, such as taxes. Treasury notes are issued in maturities of two, three, five and 10 years.

Opportunity Risk

The risk that a better investment opportunity will come around that you may be unable to act upon because of a current investment. Generally, the longer the holding period of a bond, the greater the opportunity risk.

Over-the-Counter (OTC) Securities

Securities that are not traded on a national exchange. For such securities, broker-dealers negotiate directly with one another over computer networks and by phone.

Par Value

An amount equal to the nominal or face value of a security. A bond selling at par, for instance, is worth the same dollar amount at which it was issued, or at which it will be redeemed at maturity—typically \$1,000 per bond.

Phantom Income

Interest reportable to the IRS that does not generate income, such as interest from a zero-coupon bond.

Plan Administrator

Your 401(k) plan administrator is the person or more typically the company your employer chooses to manage the organization's retirement savings plan. The administrator works with the plan provider to ensure that the plan meets government regulations and that you and other employees have the information you need to enroll, select, and change investments in the plan, apply for a loan if the plan allows loans, and request distributions.

Plan Provider

A 401(k) plan provider is the mutual fund company, insurance company, brokerage firm, or other financial services company that creates and sells the plan your employer selects.

Plan Sponsor

A 401(k) plan sponsor is an employer who offers the plan to employees. The sponsor is responsible for choosing the plan, the plan provider, and the plan administrator, and for deciding which investments will be offered through the plan.

Portable

A portable retirement plan is one where you can take your contributions plus any earnings with you when you change jobs. 401(k) plans are portable and you can usually leave the money with your former employer, roll over the money into your new employer's plan, roll over the money into an IRA or take the cash value of your contributions and any earnings.

Premium

The amount by which a bond's market value exceeds its issuing price (par value). A \$1,000 bond selling at \$1,063 carries a \$63 premium.

Pre-Paid Tuition Plans

This type of 529 plan allows parents, grandparents, and others to lock in today's tuition rates for a future student beneficiary at any of a state's eligible public colleges or universities, avoiding future tuition increases. There are usually residency requirements and no investment options.

Prepayment Risk

The possibility that the issuer will call a bond and repay the principal investment to the bondholder prior to the bond's maturity date.

Primary Market

The market in which new issues of stock or bonds are priced and sold, with proceeds going to the

entity issuing the security. From there, the security begins trading publicly in the secondary market.

Principal

Principal can refer to an amount of money you invest, the face amount of a bond, or the balance you owe on a debt, aside from the interest.

Profit Sharing

A profit-sharing plan is a type of defined contribution retirement plan that employers may establish for their workers. The employer may add up to the annual limit set by Congress to each employee's profit-sharing account in any year the company has a profit to share, though there is no obligation to make a contribution in any year.

Prospectus

A formal written offer to sell securities that sets forth the plan for a proposed business enterprise, or the facts concerning an existing business enterprise that an investor needs to make an informed decision.

Qualified Education Expenses

Approved expenses for college savings plans. All withdrawals from a college savings account that are used to pay qualified expenses are tax-free. These expenses include: tuition, fees, books and supplies, equipment, and room and board.

Qualified Withdrawals

Any withdrawals from a college savings account that are used at eligible schools for college-related expenses. These withdrawals are tax-free and cover expenses such as tuition, room and board, book and supplies, and other equipment intended for college use.

Quarterly Report (Form 10-Q)

A report that the SEC requires publicly held companies to file quarterly, that provides unaudited financial information and other selected material.

Real Rate of Return

The rate of return minus the rate of inflation. For example, if you are earning 6% interest on a bond in a period when inflation is running at 2%, your real rate of return is 4%.

Registration Statement

A set of documents, including a prospectus, which must be filed with the Securities and Exchange Commission before a firm can release its initial public offering and begin trading.

Revenue Bond

A type of municipal security backed solely by fees or other revenue generated or collected by a facility, such as tolls from a bridge or road, or leasing fees. The creditworthiness of revenue bonds tends to rest on the bond's debt service coverage ratio—the relationship between revenue coming in and the cost of paying interest on the debt.

Risk

The possibility that an investment will lose, or not gain, value.

Risk Tolerance

A person's capacity to endure market price swings in an investment.

Rollover

If you move your assets from one tax-deferred or tax-free investment to another, it's called a rollover. For example, if you move money from one individual retirement account (IRA) to another IRA, or from a qualified retirement plan into an IRA, the transaction is a rollover.

Roth IRA

A Roth IRA is an individual retirement account from which you can withdraw your earnings completely tax free any time after you reach age 59 1/2, provided your account has been open at least five years. However, to qualify to contribute to a Roth IRA, your income must be less than the level set by Congress. You may also qualify to convert a traditional IRA to a Roth IRA if your modified adjusted gross income (MAGI) in the year you convert is less than \$100,000, whether you are single or married.

Salary Reduction Plan

A salary reduction plan, such as a traditional 401(k) or 403(b), is a type of employer sponsored retirement savings plan that allows you to contribute pretax income to a retirement account in your name and to accumulate tax-deferred earnings. In contrast, with a Roth 401(k) and 403(b) you contribute after-tax income to a retirement account in your name and may make tax-free withdrawals after you retire if you're at least 59 1/2 and your account has been open at least five years. All of these plans, which may be described as salary deferral plans because part of your current salary goes into your retirement account rather than being included in your take-home pay, have the same annual contribution cap, which is set by Congress, and allow annual catch-up contributions for participants 50 and older.

Sales Charge (Front-End Load)

The fee charged when you purchase mutual fund shares. For example, suppose you want to spend \$10,000 to purchase mutual fund shares, and the mutual fund imposes a front-end sales charge of 5%. You will be charged \$500, and you will receive shares with a market value of \$9500. A mutual fund may offer you a discount if you:

- Want to make a large purchase
- Already hold other mutual funds offered by the same fund family
- Commit to regularly purchasing the mutual fund's shares
- Have family members (or others with whom you may link according to fund rules)) who hold funds in the same fund family

You should ask your financial adviser whether these discounts or breakpoints are available to you. Not all mutual funds have a sales charge or load. Many mutual funds, called no-load funds, have no sales charge or load. You can find the sales charge in the fee table in the front of a fund's prospectus.

Savings Bond

U.S. government bond issued in face denominations ranging from \$25 to \$10,000.

Secondary Market

Markets where securities are bought and sold subsequent to their original issuance.

Sector Fund

Sector mutual funds, also called specialty or specialized funds, concentrate their investments in a single segment of an industry, such as biotechnology, natural resources, utilities, or regional banks, for example. Sector funds tend to be more volatile than more broadly diversified funds, and often dominate both the top and bottom of annual mutual fund performance charts.

Self-Directed Retirement Plan

A self-directed retirement plan is one in which you select the investments. When the plan is employer sponsored, you usually select from a menu of choices your plan offers. When it's an individual retirement account (IRA), you typically may choose from the full range of investments other than collectibles and non-US coins. In contrast, if you're part of a defined benefit pension plan, your employer is responsible for making the investment decisions.

Stock Funds

Mutual funds that invest mainly in stocks. Some stock funds may focus primarily on smaller, mid-sized, or larger corporations, or on specific market sectors. Also known as equity funds.

STRIPS

Short for "Separate Trading of Registered Interest and Principal of Securities." STRIPS are Treasury Department-sanctioned bonds in which a broker-dealer is allowed to strip out the coupon, leaving a zero-coupon security.

Summary Plan Description (SPD)

A summary plan description is a document describing the features of an employer sponsored plan. The Employee Retirement Income Security Act (ERISA) requires that SPDs address several different aspects of the plan, such as participant rights.

Tax Deductible

An expense that can be deducted from annually reported income to reduce the amount of tax payments to the government.

Tax Deferral

Tax deferral means that income taxes that would otherwise be due on employment or investment earnings are postponed until some point in the future, often when you retire. Then tax is due on the amounts you withdraw, at the same rate you pay on your regular income. For example, if you contribute pretax income to a retirement savings plan, such as a 401(k) or 403(b), you owe no tax on the contributions or any earnings in the plan until you withdraw those funds. In other plans, such as individual retirement accounts (IRA), the contribution may be taxable but the earnings are tax deferred.

Tax-Deferred

Taxes that can be paid at a future date, typically when shares of certain investments are sold. Tax-deferred mutual funds can increase interest payments because more money is compounded in the fund.

TIPS

U.S. government securities designed to protect investors and the future value of their fixed-income investments from the adverse effects of inflation. Using the Consumer Price Index (CPI) as a guide, the value of the bond's principal is adjusted upward to keep pace with inflation.

Treasury

Negotiable debt obligations that include notes, bonds, and bills issued by the U.S. government at various schedules and maturities. Treasuries are backed by the "full faith and credit" of the U.S. government.

Treasury Bill

Non-interest bearing (zero-coupon) debt security issued by the U.S. government with a maturity of 4, 13, or 26 weeks. Also called a T-bill.

Treasury Bond

Long-term debt security issued by the U.S. government with a maturity of 10 to 30 years, paying a fixed interest rate semiannually.

Treasury Note

Medium-term debt security issued by the U.S. government that has a maturity of 2 to 10 years.

Total Return

Total return is your annual gain or loss on an equity or debt investment. It includes reinvested

dividends or interest, plus any change in the market value of the investment. When total return is expressed as a percentage, it's figured by dividing the increase in value, plus dividends or interest, by the original purchase price. On bonds you hold to maturity, however, your total return is the same as your yield to maturity (YTM).

Underlying Fund Expenses

Expenses or fees charged by an investment firm for managing funds for college savings plans. These fees come in addition to any administrative or management fees that a state government charges for running a college savings plan.

Uniform Gift to Minors Act (UGMA)

A tax-advantaged custodial account for college savings. An adult acts as the custodian for the account and makes all the investment decisions until the beneficiary reaches the age of majority. At that point the beneficiary controls the account and any assets in the account. UGMA accounts are limited to holding money and securities.

Uniform Transfer to Minors Act (UTMA)

A tax-advantaged custodial account for college savings. An adult acts as the custodian for the account and makes all the investment decisions until the beneficiary reaches the age of majority. These accounts are very similar to UGMA accounts, but in addition to money and securities, UTMA accounts can also hold real estate, fine art, and patents and royalties.

U.S. Series EE and I Savings Bonds

Backed by the full faith and credit of the United States government, U.S. government savings bonds offer a tax-advantaged way to save for college. The interest from these bonds is usually exempt from state and local taxes and is tax free if used for qualified higher education expenses.

Value Fund

When a mutual fund manager buys primarily undervalued stocks for the fund's portfolio with the expectation that these stocks will increase in value, that fund is described as a value fund. A value fund may be limited to stocks of a certain size, such as those included in a small-cap value fund, or it may include undervalued stocks with different levels of capitalization.

Variable Annuity

A variable annuity is a contract offered by an insurance company that can be used to accumulate savings tax deferred. You allocate your premium among a number of subaccounts or investment portfolios offered through the contract. Your contract value, which fluctuates over time, reflects the performance of the underlying investments held by the funds you have selected, minus the contract expenses. Withdrawals are taxed as ordinary income, rather than at the lower capital gains rate. If you make withdrawals before you reach age 59 1/2, you may also be subject to a 10% early withdrawal penalty. Unlike fixed annuities, variable annuities are securities registered with the Securities and Exchange Commission (SEC).

Vesting

If you are part of an employer pension plan or participate in an employer sponsored retirement plan, such as a 401(k), you become fully vested—or entitled to the contributions your employer has made to the plan, including matching and discretionary contributions—after a certain period of service with the employer. Qualified plans must determine the period using standards set by the federal government. If you leave your job before becoming fully vested, you forfeit all or part of those benefits.

Weighted Stock Index

In a market value or price weighted index, changes in some stocks have a greater impact than changes in others in computing the direction of the overall index. By contrast, in an equally weighted index, changes in all the stocks have an equal impact.

In a price weighted index, such as the Dow Jones Industrial Average (DJIA), changes in the prices of its higher-priced securities have more impact on the index than changes in the prices of lower-priced securities. Similarly, a market capitalization weighted index, such as the NASDAQ Composite Index, gives more weight to price changes in its securities with the highest market values, calculated by multiplying the current price per share by the number of existing shares.

Yield

The return earned on a bond, expressed as an annual percentage rate.

Yield Curve

A yield curve is a graph showing the relationship between yield (on the y– or vertical axis) and maturity (on the x– or horizontal axis) among bonds of different maturities and of the same credit quality.

Yield-to-Call (YTC)

The rate of return you receive if you hold the bond to its call date and the security is redeemed at its call price. YTC assumes interest payments are reinvested at the yield-to-call date.

Yield-to-Maturity (YTM)

The rate of return you receive if you hold a bond to maturity AND reinvest all of the interest payments at the YTM rate. It is calculated by taking into account the total amount of interest you will receive over time, your purchase price (the amount of capital you invested), the face amount (or amount you will be paid when the issuer redeems the bond), the time between interest payments, and the time remaining until the bond matures.

Yield-to-Worst (YTW)

The lower yield of yield-to-call and yield-to-maturity. Investors of callable bonds should always do the comparison to determine a bond's most conservative potential return.

Yield Reflecting Broker Compensation

Yield adjusted for the amount of the mark-up or commission (when you purchase) or mark-down or commission (when you sell) and other fees or charges that you are charged by your broker for its services.

Zero

Short for zero-coupon bond.

Zero-Coupon Bond

A type of bond that does not pay a coupon. Zero-coupon bonds are purchased by the investor at a discount to the bond's face value (e.g., less than \$1,000), and redeemed for the face value when the bond matures.

401(k)

A 401(k) plan is an employer sponsored retirement savings plan. 401(k)s are largely self-directed: You decide how much you would like to contribute, and which investments from among those offered by the plan you would like to invest in. Traditional 401(k)s are funded with money deducted from your pre-tax salary. Your earnings are tax deferred until you withdraw your money from your account. Roth 401(k)s are funded with after-tax income, but withdrawals are tax free if you follow the rules.

403(b)

A 403(b) plan, sometimes known as a tax-sheltered annuity (TSA) or a tax-deferred annuity (TDA), is an employer sponsored retirement savings plan for employees of not-for-profit organizations, such as colleges, hospitals, foundations, and cultural institutions. Some employers offer 403(b) plans as a supplement to—rather than a replacement for—defined benefit pensions.

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These tax-deferred retirement savings plans are available to state and municipal employees. Like traditional 401(k) and 403(b) plans, the money you contribute and any earnings that accumulate in your name are not taxed until you withdraw.

529 Plan

A tax-advantaged investment program designed to help finance education expenses. There are two types of 529 plans: prepaid tuition plans and college savings plans. Every state offers at least one of these. Tax advantages, investment options, restrictions, and fees can vary a great deal from one plan to another.