# Financial glossary of terms

### 401(k)
A 401(k) is a retirement savings plan sponsored by an employer. Through a 401(k), you invest a portion of your income before taxes are taken out, and whatever money you earn on your investment grows tax free. You pay taxes on the money as you begin taking withdrawals in retirement.

### 529 Plan
A 529 plan is a college savings plan in which a parent, grandparent or other person contributes to the plan on behalf of the future student. Contributions made to a 529 are typically invested in mutual funds, and any earnings grow tax free. Once you start making withdrawals from the account, the money is not subject to federal income tax as long as it's used for qualified educational expenses.

### Annuity
An annuity is a contract you buy from an insurance company that's designed to give you a steady stream of income in retirement. You make a series of payments (or one lump-sum payment) to the insurance company — which it invests — and in exchange, the insurance company promises to provide you guaranteed monthly payments starting at some point in the future.

### Asset
An asset is anything of value: a car, a home, a business, collectibles, jewelry, savings accounts and life insurance cash value; and investments such as stocks, bonds or mutual funds.

### Asset Allocation
Asset allocation is the process of spreading investment assets across various asset classes (investment types and categories) to minimize the risk of losing everything if one type of investment performs poorly at any given time.

### Bond
A bond is a type of investment. When you purchase a bond, you are essentially loaning your money — for a defined period of time — to a company, a city, or the government. In exchange, the entity promises to pay you back in full, along with interest payments.

### Budget
A budget is an itemized list of expenses (or estimated expenses) for a given period, such as a monthly budget. A budget can be a helpful tool when you want to get a better handle on where your money is going or make changes to your spending habits.

### Credit Card Debt
Most credit cards are forms of what's called revolving debt; you're given a credit limit, and you can make charges up to that limit. You make payments on the balance each month (which can vary depending on how much you charge), and you can either pay it off entirely or you can carry a balance forward to the next month and pay interest.

### Credit Score
Your credit score is a reflection of your credit history: how long you've had credit, how much debt you have, and whether you pay your bills on time. Credit scores range from 300 to 850; the higher the score, the better.

- 760 – 850: Excellent
- 720 – 760: Very good
- 680 – 720: Average – very good
- 620 – 680: Fair – poor
- Below 620: Poor

### Debt-to-Income Ratio
A debt-to-income ratio is one of the factors that lenders consider if you try to obtain a loan or line of credit. If you have a high level of debt in relation to your income, you may be viewed as someone who'd have trouble making payments. It's also a factor considered by credit bureaus as they calculate your credit score.

### Disability Income Insurance
Disability income insurance replaces a portion of your income if you become injured or ill and are unable to work. Disability coverage can be offered through an employer (called group disability) and/or purchased individually.

### Emergency Fund
An emergency fund is designed to help you cover the cost of an unexpected expense without having to use a high-interest credit card or borrow the money. Experts recommend having three to six months of living expenses in a bank account you can access quickly.

### Estate Planning
Estate planning is the process of making sure your wishes are known and honored after you die. Estate plans typically include legal documents, such as a will; a living will (which states your preferences for medical care); and the naming of powers of attorney for health care and finances, who are people you legally empower to make decisions for you if you become ill or incapacitated.

## ETFs

An exchange-traded fund (ETF) is a type of security made up of a bundle of assets that track a particular securities index, commodity, bond type, or grouping of assets. They're bought and sold on securities exchanges throughout a trading day like stocks.

## FAFSA

FAFSA stands for Free Application for Federal Student Aid. All students who are interested in applying for federal aid or student loans will need to complete this form, which can be downloaded from the FAFSA website.

## Investing

Investing is the process of putting your money in a financial vehicle where it has the potential to grow more quickly than it would in a savings account. Some of the most common investment assets are stocks, bonds, mutual funds and exchange-traded funds.

## Living Will

A living will (sometimes called a health care power of attorney) is a legal document that states your preferences for medical care if you're unable to make decisions for yourself.

## Long-Term Care Needs

Long-term care refers to services provided to chronically ill people. These services are generally needed for an extended period of time and may not cure or heal the individual receiving them. Rather, these services help with routine tasks such as eating, bathing and dressing. Long-term care expenses are not typically covered by Medicare. Long-term care insurance is available to pay some of these expenses.

## Mutual Funds

Mutual funds are collections of stocks, bonds and other investments. When you invest in a mutual fund, your money is pooled with money from hundreds or thousands of other people and then invested (and managed) by professional money managers.

## Permanent Life Insurance

Permanent life insurance stays with you for life, as long as your premiums are paid. Not only does it provide a death benefit; it also builds cash value over time. As you make premium payments, this cash value grows and becomes a source of funding you can access to help meet other financial goals.

## Required Minimum Distributions

A required minimum distribution (RMD) is the amount the government requires you to withdraw from qualified retirement accounts each year, currently starting at age 73.

## Roth 401(k)

A Roth 401(k) is a retirement savings vehicle offered by an increasing number of employers. The big difference between a Roth 401(k) and a traditional 401(k) is this: When you make a contribution to a Roth 401(k), you pay taxes on that money before you make the contribution, which means your withdrawals (and gains) in retirement will generally be tax-free.

## Roth IRA

Contributions to a Roth IRA are made with after-tax dollars, meaning you don't get a tax deduction for your contributions. However, qualified withdrawals from a Roth IRA are tax-free, including both contributions and earnings. There are income and contribution limits. Unlike traditional IRAs, Roth IRAs do not have required minimum distributions.

## Social Security

Social Security is a source of guaranteed retirement income that lasts a lifetime — no matter how long you live. The benefit is typically adjusted for inflation and also provides benefits for spouses and survivors.

## Stocks

Stocks are a common investment vehicle. When you buy stock in a company, you become a shareholder, or part owner. When the company does well, the price of its stock (and the value of your investment) increases. When the company performs poorly, the price of its stock might drop, and you could lose some or all of your investment.

## Term Life Insurance

Term life insurance provides death benefit coverage only for a specific period of time. During that time, as long as your premiums are paid, coverage is in place. But if you stop making payments or if the term of your policy expires and you don't renew it, your coverage ends.

## Traditional IRA

Contributions to a traditional IRA are often made with pre-tax dollars (depending on your income and eligibility), and earnings grow tax-deferred, meaning you do not owe taxes until you make withdrawals.

## Wills and Trusts

Wills and trusts are legal documents that essentially spell out who gets what after you're gone. Both a will and a trust will help to ensure that the assets you've accumulated during life (car, house, investments, insurance) get transferred to the people you choose and according to your wishes. A big difference between them is this: A will becomes a matter of public record during a court process called probate. That means anyone can see what's in the will and who gets what. A trust is handled privately.