# Glossary of Retirement & Investment Terms

| Investment Term | Definition |
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| 12b-1 Fees | Annual fees charged by a mutual fund company for marketing and distribution costs. Fund shareholders pay these fees. A majority of these fees are paid to agents and broker dealers as commissions. |
| 401(k) | A section of the Internal Revenue Code (IRC) that created a tax-deferred retirement plan for corporate employers. It is available to governmental employers who adopted plans prior to 1989. Certain non-profit organizations can also have these plans. Voluntary contributions must be deducted from an employee's paycheck. Employer contributions and transfers/rollovers are other ways that a 401(k) account can be funded. A 401(k) account can be invested in a wide array of investments. A 401(k) plan is the responsibility of the employer under federal tax and labor law. This employer responsibility is greater than with 403(b) plans. Because of this involvement an employer has fiduciary responsibility for the 401(k) plan. |
| 403(b) | A section of the Internal Revenue Code (IRC) that created a tax-deferred retirement plan for public school employees and certain other types of non-profit organizations. Voluntary contributions must be deducted from an employee's paycheck. Employer contributions and transfers/rollovers are other ways that a 403(b) account can be funded. A 403(b) account can only be invested with an annuity policy or a mutual fund held under a custodial account that meets the requirements of 403(b)(7) of the IRC. |
| 457(b) | A section of the Internal Revenue Code (IRC) that created a tax-deferred retirement plan for governmental employers, public school districts and certain other types of non-profit organizations. Voluntary contributions must be deducted from an employee's paycheck. Employer contributions and transfers/rollovers are other ways that a 457(b) account can be funded. A 457(b) account can be invested in a wide array of investments. A 457(b) plan is the responsibility of the employer under both federal and Texas law. This employer responsibility is greater than with 403(b) plans. Because of this involvement an employer has fiduciary responsibility for the 457(b) plan. The 457(b) is the only retirement account which does not carry a 10% early withdrawal tax penalty for distributions prior to age 59 1/2. |
| Active Money Management | An investment management strategy where active managers rely on analytical research, forecasts and their own judgment and experience in making investment decisions on what securities to buy, hold and sell. Refers to the use of a human element - such as a single manager, co-managers, or a team of managers - to actively manage a fund's portfolio. Funds with active management typically have higher fees than those with a passive investment strategy. |
| Balanced Funds | A fund which automatically rebalances to a predetermined asset allocation. An example would be a fund which holds 60% in stock, 30% in bonds, and 10% in cash. As the market goes up and down the fund will automatically adjust the holdings to the 60/30/10 allocation. Rebalancing a portfolio on a regular basis automatically results in buying more when prices are going down and selling more when prices are going up. |
| Bond (Debt Obligation) | A Bond is a debt issuance. The coupon of the bond is the interest earned by the investor. Loss is limited to the value of the bond. Gains are limited to the coupon (interest payments). Bonds can be investment grade or high yield junk bonds. The better the credit worthiness of the issuer, the lower the coupon interest rate and vice versa. |

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| **Bond Funds** | A fund made up of a portfolio of bonds. A Bond Fund has an investment objective like stock Mutual Funds. It can be low risk or high risk, and short-term and long-term, depending on the creditworthiness and time until maturity of the bonds held. Unlike individual bonds held to maturity (that have adequate creditworthiness) there is a risk of loss of principal with Bond Funds. |
| **Bond Ladder** | A portfolio of individual bonds designed to hold each bond to maturity. The portfolio is structured so that bonds with different maturities will mature over an extended period of time. By building a ladder of varying maturities (including long and short term) the overall return can be higher and an income stream is created. The income can be used for living expenses, particularly with retirees, or used to reinvest in additional bonds. |
| **Contingent Deferred Sales Charge (CDSC)** | A charge imposed when redeeming a "B" share of a mutual fund. This charge is to compensate the individual or company selling the fund shares. A CDSC can also be call a Contingent Deferred Sales Load, or Back-end Load. The CDSC will usually be lowered gradually over time. Typically the CDSC will be about 3 to 5 percent declining over 3 to7 years. The annual fees associated with a B share typically are higher than an A shares. C shares typically also have a CDSC. |
| **Creditable Compensation** | The amount of salary paid to a member by their employer during the school year that is used in the calculation of the member's benefit (3 or 5 years highest average salary, depending on TRS status). |
| **Defined Benefit (DB) Plans** | A retirement plan in which by plan rules defines the benefit that will be paid to the plan participant. The plan sponsor is required to fund the plan based on an actuary's calculations in the amount that will provide the promised benefit. Most people call these plans "Pensions". TRS is a DB plan because it provides a defined benefit (Yrs of Service X Avg Salary X 2.3%). Typically a DB plan will have vesting requirements and then provide an annuity payment for the life of the recipient. |
| **Defined Contribution (DC) Plans** | A retirement plan which by plan rules defines the contribution. The benefit to the plan participant is the account value accumulated from the plan contributions and earnings on these. Employer sponsored retirement plans have been moving towards DC plans for many years. Most 401(k) plans, 403(b) plans, and 457(b) plans are all examples of DC plans. |
| **Emerging Market Funds** | A fund which focuses on companies in developing countries. Because of the inherent instability of developing markets these investments carry very high risk. |
| **Equity Indexed Annuities (EIA)** | An investment vehicle offered by an insurance company which is categorized as a type of Fixed Annuity. An insurance company invests a majority of the annuity funds in the same investment as a Fixed Annuity. The remaining balance is used to purchase call options on a particular equity index (e.g., the S & P 500). If the stock market goes down it does not affect the value of the policy because the actual index is not owned by the policyholder. If the market goes up the call options become more valuable and a higher interest rate (partially based on the index performance) can be paid to the policyholders. An EIA does not participate in dividends from the companies in the equity index. Dividends have made up a significant portion of the returns associated with some indicies, such as the S&P 500. EIAs are very complicated investments which provide for no investment losses and the potential for partial index investment gains. Most policies have Surrender Charges to withdraw funds (see the Surrender Charges definition). The sale of EIAs as promising stock market returns with no risk has been criticized by regulatory agencies as misleading. |
| **Expense Ratio** | The expense charged by a Mutual Fund for operating costs associated with running the fund. This includes administrative expenses, marketing and distribution costs, and fund manager compensation. These expenses can range from under .15% annually to over 3.00% annually depending on the type of share class, investment objective, and fund family. |

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| **Fiduciary Responsibility** | The legal obligation that requires anyone who provides services to others to make decisions that are in the sole interest of the person they serve. Plan Sponsors as well as Registered Investment Advisors have Fiduciary Responsibility. This term is most commonly used with regard to investments. |
| **Fixed Annuity** | An investment vehicle offered by an insurance company in which the company (a) guarantees the return of principal in the policy plus a guaranteed interest rate and (b) pays a "declared" interest rate based on current company returns. An insurance company generally bases its interest rate on the earnings of the general assets of the company. This usually includes high quality mortgages and intermediate term bonds. Fixed annuities typically do not have administrative fees. The insurance company makes money on the difference between what the investments earn and what is paid out to policyholders. It is difficult to determine what this difference is because it is not disclosed and is set by the insurance company. Most policies have Surrender Charges to withdraw funds (see the Surrender Charges definition). |
| **Front-End Sales Load** | A charge imposed on each share purchase (contribution) when buying an "A" share of a mutual fund. This charge is to compensate the individual or company selling the fund shares. A Front-end Sales Load is limited by to 8.5% and is typically 3 to 5 percent. |
| **Government Pension Offset (GPO)** | The Government Pension Offset affects the amount of Spousal or Widower's benefit you will receive from Social Security if you will be receiving a pension benefit from most federal, state or local governments, including TRS. Your Social Security benefit will be reduced by two-thirds of your TRS or other governmental pension. You will receive the difference in addition to your full pension benefit. This offset only effects those who will qualify for Social Security benefits through their spouse. |
| **Growth Funds** | A fund which focuses on companies which are believed to have growth potential. Usually a growth company will spend more of the company profits on internal company investment to grow the company. |
| **Guaranteed Period Annuity** | A reduced annuity payment made payable for a guaranteed minimum period of time. The Standard Annuity benefit is reduced based on the member's age and period chosen. The annuity payment is paid to the retiree throughout their lifetime; however, if the retiree dies before the guaranteed number of payments have been made a beneficiary will receive the remaining payments. TRS allows members to choose between a 5 and 10 year guaranteed period. |
| **Index Funds** | A fund that attempts to mimic a particular index. The most common example is the S & P 500. There are hundreds of indices available. These funds are not Actively Managed. |
| **Individual Retirement Account (IRA)** | A retirement account available to most taxpayers. Unlike employer sponsored retirement account an IRA has almost limitless investment vehicles. No loans are permitted and annual contribution limits are much lower than payroll deducted plans. Other retirement account with the same tax qualification status can be "rolled" into an IRA. |
| **International Funds** | A fund which focuses on companies which are based outside of the United States. There can be increased risks associated with non-US companies. However, in a global economy there can also be significant risk in not be adequately diversified. |
| **Joint and Survivor Annuity** | A reduced annuity payment that provides a life annuity to the participant and a survivor annuity for the spouse after the participant's death. The Standard Annuity benefit is reduced by TRS based on the age of the beneficiary and the percentage of benefit chosen for the beneficiary. TRS allows members to choose among a 100%, 75% and 50% survivor options. If the beneficiary was to pre-decease the member then the reduced benefit is increased back to the Standard Annuity amount. |

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| **Large Capitalization (Large Cap)** | Companies which have a Market Capitalization of $10 billion or more (approximations, definitions vary by source). Please see the definition of Market Capitalization. |
| **Life Cycle Funds (Target Funds)** | A fund which automatically will change the investments and allocations to lower risk as time progresses. An example would be a fund designed to provide funds in 2030: In 2010 the allocation is 80% stocks, and 20% bonds. In 2020 the allocation is 60% stocks, 35% bonds, and 15% cash. In 2030 the allocation is 10% stocks, 50% bonds, and 40% cash. |
| **Market Capitalization** | The measure of a company's total value. It is estimated by determining the cost of buying an entire business in its current state. It is the total dollar value of all outstanding shares. It is calculated by multiplying the number of shares outstanding by the current market price of one share. |
| **Micro Capitalization (Micro Cap)** | Companies which have a Market Capitalization below $300 million (approximations, definitions vary by source). Please see the definition of Market Capitalization. |
| **Middle Capitalization (Mid Cap)** | Companies which have a Market Capitalization between $2 billion and $10 billion (approximations, definitions vary by source). Please see the definition of Market Capitalization. |
| **Money Market Funds** | A fund which has only short term investments which can be considered as cash or cash equivalents. Very low risk. Unlike most types of Mutual Funds in which the share value changes with the underlying value of the investments held by the fund, each share in a Money Market Fund is priced at a value of $1.00 and earnings are credited to this. |
| **Mortality & Expense Charge (M & E)** | A annual fee charged by an insurance company in a Variable Annuity contract. This fee covers the cost of providing a guaranteed return of principal in the event of the policy owner's death. |
| **Mutual Fund** | An investment vehicle offered by a registered investment company. A mutual fund is a pool of money which is invested for fund holders by the Mutual Fund company. Each fund has a stated objective for investment (growth, international, small capitalization, technology, etc). A Mutual fund will also typically invests in many different securities to lower the risk associated with investing through diversification. Some Mutual Funds will attempt to match the performance of an index, while others try to "beat the market" through analysis and better investment selection. There are over 30,000 different mutual funds. Each fund has expenses for operations, marketing, and transactions. Mutual funds are sold in many different share classes. For example, A shares charge a Front-end Sales Load and B shares charge a higher Expense Ratio and have a CDSC. Mutual funds can also be offered as load-waived or no-load. Institutional shares usually have lower expenses, but do not provide any compensation to the individual or company selling the fund. Institutional shares also typically have high minimum investment requirements. Thus, these shares are typically purchased by individuals through large purchasing arrangements, such as 401(k) plans. |
| **Non-creditable Compensation** | Compensation received by the member that is not counted towards salary for the purpose of the benefit calculation. A few examples of non-creditable compensation would include expense payments, payments for unused vacation or sick leave, allowances, and payments for work as an independent contractor or consultant (does not count towards 3 or 5 highest average salary). |
| **Partial Lump Sum Option (PLSO)** | A large one time distribution of retirement benefits resulting in a permanently lower annuity payment. The reduction is based upon age and amount of distribution selected. TRS allows for 12, 24, or 36 months of the Standard Annuity to be withdrawn under the PLSO. Contact your tax advisor for possible tax consequences. |

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| Passive Money Management | An investing strategy that mirrors market indexes and does not attempt to beat the market. Followers of Passive Money Management believe in efficient markets. In Efficient Market Theory once information becomes public the new information is incorporated into the pricing of securities immediately. Instead of focusing on "beating the market", a passive strategy attempts to control fees and costs of investing. This is the opposite of Active Money Management. |
| Retirement Gap | The difference in retirement income from TRS, Social Security, or other pensions and the actual cost of living. This difference can grow over time as inflation raises the cost of living. |
| Roth Retirement Accounts (401(k), 403(b), IRA) | A Roth retirement account has different tax treatment from traditional pre-tax accounts. Retirement accounts historically have tax sheltered contributions and are tax deferred until withdrawal. A Roth account contribution is not tax sheltered, but the earnings are never taxed if the account is operated in accordance with federal tax rules. |
| Rule of 80 | Refers to a vesting requirement by TRS to qualify for certain retirement benefits. '80' equals the total of the number of service credits (years of service) under TRS plus current age. This can be any combination (e.g. 25 years of service at 55 years old or 30 years of service at 50 years old). Other benefits may have different vesting requirements (Rule of 70 or Rule of 90), but the concept is the same. |
| Sector Funds | A fund which focuses on companies in a particular sector of the economy. Examples include healthcare, technology, or energy. |
| Small Capitalization (Small Cap) | Companies which have a Market Capitalization between $2 billion and $300 million (approximations, definitions vary by source). Please see the definition of Market Capitalization. |
| Stable Value Funds | Also called Stable Return Funds. Similar to Money Market fund, but with slightly longer maturities and a more diversified portfolio of fixed holdings, to provide a somewhat higher return over a long period of time. |
| Standard Annuity | Maximum payment for Texas Teachers Retirement System (TRS) retirement benefits to the member. The retiree receives the maximum amount each month and benefits cease at the member's death. |
| Stock (Ownership Share) | A share of stock represents a small piece of ownership in a corporation. Loss is limited to the value of the stock. Stocks may pay dividends. |
| Sub Transfer Agent Fees (Sub TA) | Fees by mutual funds to companies which service accounts, particularly retirement accounts. Usually paid to a third party administrator (TPA), insurance company, bank, trust company or other financial institution. The theory is that the institution receiving the fees does work that the mutual fund would otherwise have to perform. The criticism of these fees is that (a) they have in some cases simply served as an incentive for the institution to offer certain mutual funds and (b) they have not been disclosed to consumers. |
| Surrender Charge | A charge imposed by an insurance company to withdraw funds from an insurance policy or annuity contract. A surrender charge typically will be lowered gradually over time. The surrender charge protects an insurance company from a policy holder removing funds after a commission has been paid to an agent. Surrender Charges typically range from 5 to10 percent declining over 5 to 10 years in a Variable Annuity. Surrender Charges typically range from 10 to 15 percent declining over 5 to15 years in a Fixed Annuity. |

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| **Tax Deferred** | Refers to the tax treatment of investment returns. If an investment is tax deferred there is no annual tax liability created on investment gains. Any investment gains are taxed upon distribution only. |
| **Tax Free** | Refers to the tax treatment of investment returns. If an investment is Tax Free there will not be any tax due on investment gains. Tax Free treatment is generally subject to certain restrictions such as when withdrawals are taken, or for what purpose the funds are distributed for. |
| **Tax Sheltered** | Refers to the tax treatment of contributions. If an investment is tax sheltered the contributions are not subject to income tax withholding and certain contributions are eligible for a deduction from Adjusted Gross Income (AGI). |
| **Trust Platform** | An investment platform typically offered by Third Party Administrators, Custodians and other types of financial institutions. An administrative platform, usually Internet-based, is used to offer a choice of many Mutual Funds and families of funds. Often these are no- load funds and load-waived funds. The administrator and custodian charge a separate fee, usually fully disclosed. A Trust platform can offer many of the benefits of a Variable Annuity without the insurance "wrapper" and associated charges. Administrative services and cost can vary significantly by platform. |
| **Value Funds** | A fund which focuses on companies which are believed to be undervalued by the market. Generally a change of leadership, market conditions, or product development could indicate a value investment opportunity. |
| **Variable Annuity** | An investment vehicle offered by an insurance company. An insurance company will provide for a limited number (typically 30-60) of sub- accounts that are invested similar to mutual funds. These sub-accounts are usually operated to mimic the performance of Mutual Funds from a particular fund family or they may own the shares of underlying mutual funds. The annuity will have administrative and recordkeeping expenses, as well as M & E fees. Each sub account will also have an annual expense charge associated with the operation of that fund. It is not uncommon for an annuity company to also receive Sub TA fees from the mutual fund companies who operate the sub-accounts. If an annuity is not inside of a retirement plan it will still provide Tax Deferred treatment for investment gains. Most policies have Surrender Charges to withdraw funds (see the Surrender Charges definition). |
| **Windfall Elimination Provision (WEP)** | The Windfall Elimination Provision affects the amount of your retirement or disability benefit paid to you if you receive a pension from a pension plan of most federal, state or local governments, including TRS. A modified formula is used to calculate your benefit amount, and may result in a lower Social Security benefit than you otherwise would receive. This provision only effects those that qualify for Social Security based on their own earnings. |
| **World Funds** | A fund which focuses on companies which are based inside and outside of the United States. The fund seeks the best investments no matter where they are domiciled. |

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900 S. Capital of Texas Hwy, Suite 350, Austin, TX 78746

Office: 512-600-5200 | www.tcgservices.com