Financial Fitness

A-Z Personal Finance Glossary

Not sure what exactly a 401(k) is or what a money market account does? Fear not! Consult this quick-reference glossary of some of the most common personal finance terms.

401(k) – A 401(k) plan is a qualified employer-established plan to which eligible employees may make salary deferral (salary reduction) contributions on a post-tax and/or pretax basis.

Amortization – Amortization is the paying off of debt with a fixed repayment schedule in regular installments over a period of time.

Annuity – An annuity is a contractual financial product sold by financial institutions that is designed to accept and grow funds from an individual and then, upon annuitization, pay out a stream of payments to the individual at a later point in time.

Asset Allocation – Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon. The three main asset classes - equities, fixed-income, and cash and equivalents - have different levels of risk and return, so each will behave differently over time.

Bond – A bond is a fixed income investment in which an investor loans money to an entity (typically corporate or governmental), which borrows the funds for a defined period of time at a variable or fixed interest rate.

Certificate of Deposit (CD) – A CD is a savings certificate with a fixed maturity date, specified fixed interest rate, and can be issued in any denomination aside from minimum investment requirements. A CD restricts access to the funds until the maturity date of the investment.

Debt Consolidation – Debt consolidation involves taking out a new loan to pay off a number of liabilities and consumer debts (generally unsecured ones). In effect, multiple debts are combined into a single, larger piece of debt, usually with more favorable pay-off terms: a lower interest rate, lower monthly payment, or both.

Individual Retirement Account (IRA) – An IRA is an investing tool used by individuals to earn and earmark funds for retirement savings. IRAs can consist of a range of financial products such as stocks, bonds, or mutual funds.

Money Market Account – A money market account is an interest-bearing account that typically pays a higher interest rate than a savings account, and which provides the account holder with limited check-writing ability. This type of account is likely to require a higher balance than a savings account and is Federal Deposit Insurance Corporation (FDIC)-insured.

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Mutual Fund – A mutual fund is an investment vehicle made up of a pool of monies collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's investments and attempt to produce capital gains and/or income for the fund's investors.

Pension Plan – A pension plan is a retirement plan that requires an employer to make contributions into a pool of funds set aside for a worker's future benefit. The pool of funds is invested on the employee's behalf, and the earnings on the investments generate income to the worker upon retirement.

Qualified Retirement Plan – A qualified retirement plan is a type of retirement plan established by an employer for the benefit of the company's employees. Qualified retirement plans give employers a tax break for the contributions they make for their employees. Qualified plans that allow employees to defer a portion of their salaries into the plan also reduce employees' present income tax liability by reducing taxable income.

Roth IRA – A Roth IRA is an individual retirement plan that bears many similarities to the traditional IRA, but contributions are not tax-deductible and qualified distributions are tax-free.

Security – A security is a fungible, negotiable financial instrument that holds some type of monetary value. It represents an ownership position in a publicly traded corporation (via stock), a creditor relationship with a governmental body or a corporation (represented by owning that entity's bond), or rights to ownership as represented by an option.

Stock – A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares.

Yield – Yield is the income return on an investment, such as the interest or dividends received from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Source: Investopedia (www.investopedia.com)