Glossary

401(k) Plan

A defined contribution plan that permits employees to have a portion of their salary deducted from their paycheck and contributed to an account. Federal (and sometimes state) taxes on the employee contributions and investment earnings are deferred until the participant receives a distribution from the plan (typically at retirement). Employers may also make contributions to a participant's account.

403(b) Plan

See Tax Sheltered Annuity (TSA).

Actual Deferral Percentage (ADP)

An anti-discrimination test that compares the amount deferred by highly compensated employees to the deferrals of non-highly compensated employees.

Allocation

The employer's contribution to a defined contribution plan.

Alternate Payee

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.

Annual Audit

An independent audit required by federal law for all plans with more than 100 participants. It is also common to refer to a DOL or IRS examination of a plan as a plan audit.

Annual Report

A document filed annually (Form 5500) with the IRS that reports pension plan information for a particular year, including such items as participation, funding, and administration.

Annuity

A contract providing retirement income at regular intervals. See also Qualified Joint and Survivor Annuity.

Automatic Deferral Default Percentage

The percentage of pay that is deferred when an employee is enrolled in a plan through its automatic enrollment feature. The typical automatic deferral default percentage is 3% of pay. Participants can generally choose to defer an amount other than the default percentage.

Automatic Enrollment

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.

Beneficiary

A person, persons or trust designated to receive the plan benefits of a party participant in the event of the participant's death.

Cafeteria Plan

A benefit plan offering a choice from a "menu" of cash or two or more benefits.

Cash-Out

The distribution of assets from a qualified plan to a participant prior to retirement, or age 59 1/2 typically occurring when a participant has a balance under $1,000 and leaves a company without requesting to have their assets rolled over into an IRA or into a new employer's plan. Cash-outs are subject to federal withholding tax, and are subject to the 10% early withdrawal penalty if not rolled over.

Cash or Deferred Arrangement (CODA)

A type of profit sharing or stock bonus plan in which employees may defer current compensation on a pre-tax basis.

Cash or Deferred Election

A participant request to defer compensation, on a pre-tax basis to a CODA plan.

Cash Profit Sharing Plan

A type of profit sharing plan in which the company makes the contributions directly to employees in cash or stock. (This type of profit sharing plan is taxable and is not considered a qualified retirement plan.)

Common Control

Business are under common control when one entity owns at least 80% of the stock, profit, or capital interest in other organization, or when the same five or fewer people own a controlling interest in each entity.

Conversion

The process of changing from one service provider to another.

Deferred Profit Sharing Plan

A type of qualified retirement plan in which the company makes contributions to individual participant accounts.

Defined Benefit Plan

A retirement plan in which the sponsoring company provides a certain benefit to participants based on a pre-determined formula.

Defined Contribution Plan

An employer-sponsored plan in which contributions are made to individual participant accounts, and the final benefit consists solely of assets (including investment returns) that have accumulated in these individual accounts. Depending on the type of defined contribution plan, contributions may be made either by the company, the participant, or both.

Department of Labor (DOL)

The U.S. Department of Labor (DOL) deals with issues related to the American workforce–including topics concerning pension and benefit plans. Through its branch agency the EBSA, the DOL is responsible for administering the provisions of Title I of ERISA.

Determination Letter

Document issued by the IRS formally recognizing that the plan meets the qualifications for tax-advantaged treatment.

Discrimination Testing

Numerical measurements used to determine if tax qualified retirement plans are in compliance with several regulations. Typically, the process of determining whether the plan is in compliance is collectively called discrimination testing.

Disclosure

Certain types of information plan sponsors must provide plan participants to access certain types of information, including the summary plan descriptions, summary of material modifications, and summary annual reports.

Distribution

Any payout made from a retirement plan. See also Lump Sum Distribution and Annuity.

Early Withdrawal Penalty

A 10% penalty tax for withdrawal of assets from a qualified retirement plan prior to age 59 1/2, death, disability, or retirement. This 10% penalty tax is in addition to regular federal and (if applicable) state tax.

Eligibility

Conditions that must be met in order to participate in a plan, such as age or service requirements.

Eligible Employees

Employees who meet the requirements for participation in an employer-sponsored plan.

Employee Benefit Security Administration (EBSA)

An agency of the Department of Labor responsible for protecting the integrity of retirement plans, health plans and other employee benefits.

ERISA

A federal law that requires plan sponsors to design and administer their plans in accordance with the Employee Retirement Income Security Act of 1974 (ERISA). Among its statutes, ERISA calls for proper plan reporting and disclosure to participants.

ERISA Rights Statement

A statement required by ERISA that explains participant and beneficiary rights and must be included within a summary plan description (SDP).

ESOP (Employee Stock Ownership Plan)

A qualified defined contribution plan in which plan assets are invested primarily or exclusively in the securities of the sponsoring employer.

Excess Aggregate Contributions

After-tax participant contributions or matching employer contributions that cause a plan to fail the 401(m) actual contribution percentage (ACP) non-discrimination test.

Excess Benefit Plan

A plan, or part of a plan, maintained to provide benefits that exceed IRS Code 415 limits on contributions and benefits

Excess Contributions

Pre-tax participant contributions that cause a plan to fail the 401(k) actual deferral percentage (ADP) non-discrimination test.

Expense Ratio

The percentage of a fund's assets that are used to pay its annual expenses.

Fact and Circumstances Test

The test determining whether financial need exists for a 401(k) hardship withdrawal.

Fidelity Bond

A bond that protects participants in the event a fiduciary or other responsible person steals or mishandles plan assets.

Fiduciary

A person with the authority to make decisions regarding a plan's assets or important administrative matters. Fiduciaries are required under ERISA to make decisions based solely on the best interests of plan participants.

Fiduciary Insurance

Insurance that protects plan fiduciaries in the event that they are found liable for a breach of fiduciary responsibility.

Forfeiture

Plan assets surrendered by participants upon termination of employment before being fully vested in the plan. Forfeitures may be distributed to the other participants in the plan or sued to offset employer contribution.

Form 1099R

A form sent to the recipient of a plan distribution and filed with the IRS listing the amount of the distribution.

Form 5500

A form which all qualified retirement plans (excluding SEPs and SIMPLE IRAs) must file annually with the IRS.

Guaranteed Investment Contracts (GICs)

Accounts with an insurance company at a fixed rate of interest.

Hardship or In-Service Distribution

A participant’s withdrawal of their plan contributions prior to retirement. Eligibility may be conditioned on the presence of financial hardship. These distributions are taxable as early distributions and are subject to a 10% penalty tax if the participant is under age 59Â½.

Highly Compensated Employees (HCEs)

An HCE, according to the Small Business Job Protection Act of 1996, is an employee who received more than $100,000 in compensation (indexed annually) during the last plan year OR is a 5% owner in the company.

Individual Retirement Account (IRA)

Personal retirement vehicles that allows a person to make annual tax deductible or non-deductible contributions. These accounts must meet IRS Code 408 requirements, but are created and funded at the discretion of the individual. They are not employer sponsored plans.

Internal Revenue Service (IRS)

The branch of the U.S. Treasury Department is responsible for administering the requirements of qualified pension plans and other retirement vehicles. The IRS also worked with the DOL and the PWBC to develop Form 5500, and is responsible for monitoring the data submitted annually on Form 5500 reports.

Keogh Plan

A qualified defined contribution plan permitting self-employed individuals to contribute a portion of their earnings pre-tax to an individual account.

KSOP

A plan arrangement that includes both 401(k) contributions and an ESOP.

Leased Employee

An individual contracted to a leasing organization that provides services for the company.

Lump-Sum Distribution

The distribution at retirement of a participantâ€™s entire account balance within one calendar year due to retirement, death or disability.

Matching Contributions

A contribution made by the company to the account of the participant in ratio to contributions made by the participant.

Material Modification

A change in the terms of the plan that may affect plan participants, or other significant changes in a summary plan document (SDP).

Median Market Cap

An indicator of the size of companies in which a fund invests.

Money Market Fund

A mutual fund seeking to generate income for participants through investments in short-term securities.

Money-Purchase Plan

A type of defined contribution plan in which the employer's contributions are determined by a specific formula, usually as a percentage of pay. Contributions are not dependent on company profits.

Multiemployer Plan

A pension plan receiving contributions from more than one employer contributes, and which usually is maintained according to collective bargaining agreements.

Mutual Fund

A single account designed to create a diverse portfolio that may help to reduce the risk of owning individual investments.

Named Fiduciary

One or more named individuals who have authority to control and manage the operations of the plan.

Nonelection Contribution

An employer contribution that cannot be withdrawn or paid to the employee in cash. This contribution is neither a matching contribution or an elective contribution.

Non-Highly Compensated Employees (NHCEs)

Employees who are not highly compensated. Generally, they are employees who earned less than $90,000 in 2002 (indexed for inflation). See highly compensated employees.

Non-Qualified Deferred Compensation Plan

A plan subject to tax, in which the assets of certain employees (usually Highly Compensated Employees) are deferred. These funds may be reached by an employer's creditors.

Participant Directed Accounts

Investment options offered to participants that allow them to choose their own investment mix.

Party-In-Interest

Any individual or group having direct interest in the plan including: the employer; the directors, officers, employees or owners of the employer; any employee organization whose members are plan participants; plan fiduciaries; and plan service providers.

Pension Benefit Guaranty Corporation (PBGC)

A federal agency established by Title IV of ERISA for the insurance of defined benefit pension plans. The PBGC provides payment of limited pension benefits if a plan terminates and is unable to cover all required benefits.

Plan Administration

The individual, group or corporation named in the plan document as responsible for day to day operations. The plan sponsor is generally the plan administer if no other entity is named.

Plan Loan

Loan from a participant's accumulated plan assets, not to exceed 50% of the balance or $50,000, whichever is less. Loans are an optional plan feature.

Plan Sponsor

The entity responsible for establishing and maintaining the plan.

Plan Year

The calendar, policy or fiscal year for which plan records are maintained.

Portability

This occurs when, upon termination of employment, an employee transfers retirement funds from one employer's plan to another without penalty.

Price / Block Ratio

The share price of a stock divided by its net worth, or book value, per share.

Price / Earnings Ratio

The ratio of a stock's current price to its earnings per share over the past year. The P/E ratio of a fund is the weighted average of the P/E ratios of the stocks it holds.

Prohibited Transaction

Activities regarding treatment of plan assets by fiduciaries that are prohibited by ERISA. These include transactions with a party-in-interest, including, sale, exchange, lease, or loan of plan securities or other properties. Any treatment of plan assets by the fiduciary that is not consistent with the best interests of the plan participants is a prohibited transaction.

Profit Sharing Plan

A company-sponsored plan funded only by company contributions. Company contributions may be determined by a fixed formula related to the employer's profits, or may be at the discretion of the board of directors.

Qualified Domestic Relations Order (QDRO)

A judgment, decree or order that creates or recognizes an alternate payee's (such as former spouse, child, etc.) right to receive all or a portion of a participant's retirement plan benefits.

Qualified Joint and Survivor Annuity (QJSA)

An annuity with payments continuing to the surviving spouse after the participant's death, equal to at least 50% of the participant's benefit.

Qualified Plan

Any plan that qualifies for favorable tax treatment by meeting the requirements of section 401(a) of the Internal Revenue Code and by following applicable regulations. Qualified plans include 401(k) and deferred profit sharing plans.

Rollover

The action of moving plan assets from one qualified plan to another or to an IRA within sixty days of distributions, while retaining the tax benefits of a qualified plan.

Roth 401(k)

A 401(k) feature that allows employees to make elective contributions on an after-tax basis. Qualified distributions from these plans, including both the Roth contributions and their associated earnings, are distributed tax-free.

Safe Harbor Rules

Provisions that exempt certain individuals or kinds of companies from one or more regulations.

Savings Incentive Match Plan for Employees

See SIMPLE Plan.

Schedule SSA

A form that must be filed by all plans subject to ERISA Section 203 minimum vesting requirements. The schedule, which is attached to Form 5500, provides data on participants who separated from service with a vested benefit but were not paid their benefits.

Service Provider

A company that provides any type of service to the plan, including managing assets, recordkeeping, providing plan education, and plan administration.

SIMPLE Plan (Savings Incentive Match Plan for Employees)

A type of defined contribution plan for employers with 100 or fewer employees in which the employer matches 100% of employee deferrals up to 3% of compensation or provides non-elective contributions up to 2% of compensation. These contributions are immediately and 100% vested, and they are the only employer contribution to the plan. SIMPLE plans may be structured as individual retirement accounts (IRAs) or as 401(k) plans.

Simplified Employee-Pension Plan (SEP)

A defined contribution plan in which employers make contributions to individual employee accounts (similar to IRAs).

Stock Bonus Plan

A defined contribution plan in which company contributions are made in the form of company stock.

Summary Annual Report

A report that companies must file annually on the financial status of the plan. The summary annual report must be automatically provided to participants every year.

Summary of Material Modifications

A document that must be distributed to plan participants summarizing material modifications made to a plan.

Summary Plan Description (SPD)

A document describing the features of an employer-sponsored plan. The primary purpose of the SPD is to disclose the features of the plan to current and potential plan participants. ERISA requires that certain information be contained in the SPD, including participant rights under ERISA, claims procedures and funding arrangements.

Target-Benefit Plan

A type of defined contribution plan in which company contributions are based on an actuarial valuation designed to provide a target benefit to each participant upon retirement. The plan does not guarantee that such benefit will be paid; its only obligation is to pay whatever benefit can be provided by the amount in the participant's account. It is a hybrid of a money-purchase plan and a defined-benefit plan.

Tax Sheltered Annuity (TSA)

Also known as a 403(b) plan, a TSA provides a tax shelter for 501(c)(3) tax exempt employers (which include public schools). Employers qualifying for a TSA may defer taxes on contributions to certain annuity contracts or custodial accounts.

Top Heavy Plan

A plan in which 60% of account balances (both vested and non-vested) are held by certain highly compensated employees.

Trustee

The individual, group of individuals, bank, or trust company having fiduciary responsibility for holding plan assets.

Turnover Rate (of a mutual fund)

A measure of the trading activity in a mutual fund.

Vesting

The participants' ownership right to company contributions.

Vesting Schedule

The structure for determining participants' right to company contributions that have accrued in their individual accounts. In a plan with immediate vesting, company contributions are fully vested as soon as they are deposited to a participant's account. Cliff vesting provides that company contributions will be fully vested only after a specific amount of time, and that employees who leave before this happens will not be entitled to any of the company contributions (with certain exceptions for death, disability or retirement). In plans with graduated vesting, vesting occurs in specified increments.

Source: 401k.org