ANNE WELSH McNULTY
INSTITUTE FOR WOMEN'S LEADERSHIP

WOMEN'S LEADERSHIP TRANSITIONS SERIES*- providing programs and resources to prepare women to succeed in lifelong leadership development, especially through transition points in their lives and careers.*

Glossary of Financial Terms & Resources

401(k) -- An employer-sponsored retirement-savings program through which employees can make regularly scheduled contributions. 401(k) contributions grow tax-deferred until withdrawn from the account at retirement. 401(k) contributions can be made pre-tax up to certain limits, thus lowering your taxable income. Non-profit companies, religious groups, educational entities and government organizations provide a **403(b)** as their retirement-savings program. 403(b) contributions allow organizations to be exempt from certain administrative processes that apply to 401(k) contributions.

Adjustable-rate mortgage (ARM) --A type of mortgage loan in which the interest rate paid on the outstanding balance varies according to a specific benchmark.
Amortization -- Gradual reduction of loan principal that occurs as you make periodic loan payments.

Annuity --Insurance policy or an investment that pays out a fixed amount of money each year.

Appreciation --The increase in the value of an asset, measured in dollars or as a percentage.

Asset Allocation: The process by which you choose what proportion of your portfolio you'd like to dedicate to various asset classes, based on your goals, personal risk tolerance and time horizon. Stocks, bonds and cash or cash alternatives make up the three major types of asset classes.

Bankruptcy --A proceeding in U.S. Bankruptcy Court that may legally release a person from repaying debts owed. Credit reports normally include bankruptcies for up to 10 years.

Basis point --A basis point is 1/100 of a percentage point. Interest rates and bond yields are often stated in basis points.

Beneficiary -- Person or entity that is named as the legal recipient of the proceeds from a retirement account, insurance policy, trust, will, or other fiduciary arrangement.

Blue-book value --A phrase that gets its name from Kelley Blue Book, an authoritative source of used car values. Kelley Blue Book determines the blue-book value of an auto by considering its make, model, year, and condition.

Bonds -- Commonly referred to as fixed-income securities, bonds are investments in debt. When you buy a bond, you're lending money to an entity for a specified period at a fixed interest rate (also called a coupon). You then receive periodic interest payments over time, and get back the loaned amount at the bond's maturity date

Capital Gains -- The increase in the value of an asset or investment — like real estate or stock — above its original purchase price. The gain, however, is only on paper until the asset is actually sold. A capital loss, by contrast, is a decrease in the asset's or investment's value.

Certificate of deposit (CD) --A time deposit that you make at a bank generally ranging in amount from $500 to $250,000. The FDIC insures CDs for up to $250,000 per institution per depositor.

Collateral -- An asset that is used to secure the repayment of a loan.

Compound Interest -- The interest that you earn on the amount you deposit, plus any interest you've accumulated over time.

Credit risk -- Likelihood that a company, sovereignty or individual will pay their credit obligations as agreed.

Debt ratio -- Used by lenders to approve loan applicants. Debt ratio equals combined monthly debt payments divided by gross monthly income.

Deduction -- Amount that you subtract from your taxable income. As a result, a deduction lowers your taxable income, which, in turn, lowers your tax liability.

Defined-Benefit Plans: Employer-sponsored retirement plans, such as pensions, in which the employer promises a specified retirement benefit based on a formula that may include an employee's earnings history, length of employment and age. The employee may or may not be required to contribute anything to the plan. Because of their high costs, many companies no longer offer this type of benefit.

Defined-Contribution Plans: A retirement plan companies may offer as a job benefit, which lets employees contribute some of their own money into an account for retirement. The employer may also choose to match a certain amount of those contributions. The 401(k) and 403(b) are the most common forms of defined-contribution plans.

Dependent Care FSA (DCFSA) -- A pre-tax benefit account used to pay for eligible dependent care services, such as preschool, summer day camp, before or after school programs, and child or adult daycare. Any unused funds at the end of the plan year are forfeited.

Dividend - A portion of a company's profit paid to common and preferred shareholders. Dividends provide an incentive to own stock in stable companies even if they are not experiencing much growth. Companies are not required to pay dividends.

Dollar-cost averaging -- Investing technique that requires you to set aside a fixed amount at regular intervals to buy shares of an investment. Since share prices normally rise and fall, your cost to acquire the investment over time is, on average, cheaper than attempting to time your purchases.

Equity -- Value of ownership built up in a home that represents the current market value of the house less any remaining mortgage debt.

Escrow account -- A reserve account controlled by a fiduciary agent that is used to make regular homeowner's insurance and real estate tax payments. The borrower funds the account periodically.

Estate taxes -- Taxes levied on the assets of an estate. For 2018, the maximum amount of income that is excluded from estate taxes is $11.20 million. The maximum estate and gift tax rate in 2018 is 40%.

FICO Score -- A number used by banks and other financial institutions to measure a borrower's creditworthiness. FICO is an acronym for the Fair Isaac Corporation, a company that came up with the

methodology for calculating a credit score based on several factors. FICO scores range from 300 to 850, and the higher the score, the better the terms you may receive on your next loan or credit card

Fixed-Rate Mortgage -- A mortgage that carries a fixed interest rate for the entire life of the loan. With a fixed-rate mortgage, you don't have to worry about your payments going up if interest rates rise. The downside is that you could be locked into a more expensive mortgage if interest rates go down.

Flexible Spending Accounts (FSA) -- A Flexible Spending Account (also known as a flexible spending arrangement) is a special account that you contribute pre-tax earnings to and is used to pay for certain out-of-pocket health care costs.

Future value -- Amount to which your investment grows in the future. For example, the future value of $100 invested monthly at 8% is $1,245 after 12 months.
Gift taxes -- Paid by the benefactor (also called the donor). A gift tax is levied on amounts that exceed a yearly per-person exclusion of $15,000. The maximum gift tax rate is 40% in 2018.

Gross income -- The IRS defines gross income as all income that is not exempt from tax. Gross income may be received as money, goods, property, or services.

Growth stock - Typically a well-known, successful company that is experiencing rapid growth in earnings and revenue, and usually pays little or no dividend.

Health Savings Accounts (HSA)-- A health savings account is a tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in a high-deductible health plan. The funds contributed to an account are not subject to federal income tax at the time of deposit.

Home equity -- The current value of your home minus the total amount of mortgage debt on the home.

Home equity loan -- An amortizing mortgage loan that allows homeowners to borrow against the equity in the home for making home improvements, consolidating debt, or spending for general purposes.

Interest rate -- Amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of money.

Individual Retirement Account (IRA) — IRAs are retirement accounts with tax advantages. You may contribute up to the limit for each taxable year. Or, if you're age 50 or older, you can put aside more. The investment grows tax-free until you begin making withdrawals, usually after age 59½. Generally, if you have a traditional IRA, you must begin taking money out of the account by April 1 of the year after you turn 70½.

Joint account -- a standard banking account where two or more people own the account. As co-owners, both of you will be able to access and withdraw funds without the other's permission, and each of you will be able to talk to the bank about the account without the consent of the other.

Joint Tenants with Rights of Survivorship (JTWROS) -- Each account owner owns a percentage share of the account assets. Upon death of any owner, the ownership passes on to the other owner and not to the next of kin of the deceased.

Lien -- Legal claim held by a creditor against an asset to guarantee or secure repayment of the debt. Mortgage liens are regularly used in real estate lending as collateral for a loan.

Life-cycle fund — Also known as a target-date or target-retirement fund, it's a mutual fund that rebalances its investment mix based on proximity to a target date. As the date approaches, the fund automatically shifts its assets into a more conservative stance.

Line of credit -- A form of revolving credit whereby the borrower can draw down only the amount needed, up to the amount of the credit limit. The borrower only pays interest on the amount drawn or disbursed.

Linked account -- an account linked to another at the same financial institution so that funds can be transferred between them electronically

Liquidity -- A favorable characteristic of a stock, bond, or other security. It represents the relative ease with which a security may be sold.

Living trust -- Legal arrangement that allows you to transfer assets to a trust during your lifetime. A trust is a fiduciary arrangement that you establish to transfer your assets to the beneficiary of the trust. A living trust can be used to avoid probate.

Living will -- A will that you execute while you are still living that specifies whether or not you want to be kept alive by artificial means.

Market value -- Value of an asset as of a certain date. Market value is also called current value.

Medicare -- The federal health insurance program for persons who are eligible to receive Social Security benefits. Generally, you can apply for Medicare when you turn age 65.

Money market mutual fund - A short-term investment that seeks to protect principal and generate income by investing in Treasury bills, CDs with maturities less than one year and other conservative investments.

Mortgage interest tax deduction -- Deduction for taxpayers who pay interest on home mortgage and home equity loan interest, allowed primarily to encourage home ownership.
Mutual fund — An investment mix of stocks, bonds and other securities held by a group of investors. A professional portfolio manager uses the money pooled from the group to buy and sell securities based on the fund's objective. Investors buy shares in a mutual fund and share the losses and earnings from its performance.

Net Asset Value per share (NAV) - The current dollar value of a single mutual fund share; also known as share price. The fund's NAV is calculated daily by taking the fund's total assets, subtracting the fund's liabilities, and dividing by the number of shares outstanding.

Net income -- The amount of income left after all deductions, expenses and taxes.

Net Worth -- The difference between your assets and liabilities.

Opportunity cost -- The sacrifice of benefits from the next-best alternative that you face when you make a financial or economic decision.

Permanent Life Insurance -- A type of policy that provides coverage over the lifetime of the insured and also offers a component called cash value that you can tap into while you're still alive.

Portfolio -- Group of securities or other investments. If you invest in a diversified portfolio of securities, you can generally reduce your investment risk.

Prepayment -- An amount that you pay on your mortgage or other loan that constitutes an additional, unscheduled payment.

Present value -- Value of a future payment, or series of payments, discounted at the appropriate interest rate to determine the value in today's dollars.

Premium -- The payments you make to an insurance company to maintain your coverage. You can pay premiums monthly, quarterly, semiannually or annually.

Probate -- Legal procedure settled by a state court of law that identifies the heirs to your estate and determines their legally entitled share.

Property tax -- A tax assessed on real estate by the local government, usually based on the value of the property (including the land) you own.

Rate of return -- Percentage gain or loss on an investment expressed as a yearly rate.

Rebalancing -- The process of buying or selling investments over time to maintain your desired asset allocation.

Refinancing -- Replacing an older loan with a new loan offering better terms, e.g. a lower interest rate, fixed vs. variable rate (or vice versa), or no balloon payment.

Residual value -- Residual value is the fair market value of a leased vehicle or other equipment at the end of the lease term.

Reverse mortgage -- A lump sum payment or annuity that is paid from a lender or insurance company to the homeowner to supplement or provide income. The homeowner or his estate repays the mortgage obligation when he sells or vacates the home, or dies.

Rollover IRA — This is the term used when transferring assets from one tax-deferred retirement plan to another. If you keep the money separate from your traditional IRA account, you'll be able to move the IRA rollover account into your new employers' 401(k) plan after you've met their length of employment requirement.

Roth 401(k) — An employer-sponsored retirement plan that lets employees have the option of setting aside money from their paychecks that's taxed upfront and saving it in a retirement account where it can grow tax-free forever. Money can be withdrawn tax- and penalty-free as long as the participant is age 59½ and has held the account for at least five years.

Roth IRA — An individual retirement account in which withdrawals are tax-free if the account has been open for at least five years and you're at least 59½ when you start to withdraw money. Contributions to a Roth are not tax-deductible.

Self-directed IRAs — An IRA that is set up with a brokerage is said to be "self-directed." You have the responsibility of deciding how the money will be invested — stocks, bonds, mutual funds, certificates of deposit and even real estate.

Simplified employee pension plan IRA (SEP-IRA) — A retirement plan similar to an individual retirement arrangement for self-employed individuals and their employees. But where an individual establishes the IRA account, an SEP is set up by the employer.

Savings incentive match plan for employees IRA (SIMPLE IRA) — A retirement plan that allows employees of small businesses with 100 or fewer employees and self-employed persons to make contributions to an IRA.

Social Security — America's government-run retirement supplement plan. Payroll taxes from employers and employees go to pay for the program.

Section 529 plans -- A special tax-advantaged plan, operated by a state government or an educational institution, used to save for the college education of a child, grandchild, or other dependent.

Stocks -- Also called equities or shares, stocks give you ownership in a company. When you buy stocks, you become a company shareholder, giving you a claim on part of that company's assets and earnings.

Term Life Insurance -- A type of policy that provides coverage over a set period, generally anywhere from 10 to 30 years. If you die within the set term, your beneficiaries receive a payout. If you don't, the policy expires with no value.

Tax-deferred investment -- Investment that allows you to postpone, or defer, paying income taxes until you begin to take money out of the account.

Treasury bills (T-bills) -- U.S. Treasury bills are short-term debt obligations of the U.S. Treasury. T-bills are usually issued to mature in three or six months. Prices for T-bills are stated as a discount to the par value

Trustee -- Custodian of a trust account responsible for distributing the trust's assets in accordance with the trust agreement.

Value investing - A strategy whereby investors purchase equity securities that they believe are selling below estimated true value. The investor can profit by buying these securities then selling them once they appreciate to their real value.

Will -- Legally enforceable statement of how you wish to distribute your wealth after your death.

Yield -- The annual income provided by a fund, share or bond expressed as a percentage. Yield is normally calculated by dividing the current price of the asset by the income.

This document was created by McNulty Institute Advisory Committee Transitions Series member, Kerry Walker CLAS '92.

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Additional Resources:

American Association of University Women (salary negotiation info): https://www.aauw.org/

Institute for Women's Policy Research: https://iwpr.org/

The Economics Security Database: http://www.basiceconomicsecurity.org/

Wi$e Up Women: http://wiseupwomen.tamu.edu/

MyMoney.Gov: http://mymoney.gov