OHIO TREASURER'S FINANCIAL EDUCATION
GLOSSARY OF TERMS

401(k) – An employer qualified retirement plan set up by a private company in which eligible employees may make salary-deferral (salary-reduction) contributions on a before- and/or after-tax basis. Employers may make matching or non-elective contributions to the plan on behalf of eligible employees and may also add a profit sharing feature to the plan. Earnings accrue on a tax-deferred basis.

403(b) – A salary-reduction plan. This is similar to 401(k) plan but is for employees of nonprofit, tax-exempt companies and institutions such as schools.

457 Plans – A salary-reduction plan. This is similar to 401(k) plan but is designated for state and municipal workers.

529 Savings Plan – A plan designed to help save and pay for children, grandchildren, or other children's educations. They are created by state governments (and differ state to state and year to year) to help prepare for the future costs of education or to prepay tuition costs for a specific in-state university.

With a 529 Savings Plan, the control of the funds resides with the contributor, who chooses the investments from among a set of approved alternatives set up by the state. Assets in these plans are not considered assets of the student, which increases the student's ability to apply for other financial aid.

Some states may even offer tax deductions for contributions you make to your local 529 funds (check by state). Earnings on these funds are tax free if principle and earnings are used for approved higher education expenses.

With a 529 Prepaid Tuition Plan, parents pay a specific amount, which guarantees that tuition will be paid at some specific point in the future when the child enters college.

Acceleration Clause – A loan requirement that maintains that if the borrower misses one payment, the entire loan comes due immediately.

Accrued Interest – Interest that has been earned on a bond but has not yet been paid out to the bondholder.

Active Income – Income that comes from wages or a business.

Adjustable-Rate Mortgage (ARM) – A mortgage loan in which the interest rate charged fluctuates with the level of current interest rates. The loan fluctuates, or is adjusted, at set intervals (i.e. every 5 years) and only within set limits specified in the loan agreements.

Adjusted Gross Income (AGI) – Your total income without the allowable deductions used in calculating income taxes.

After-Tax Return – The return you earn on taxable investments once taxes have been paid. It is equal to the taxable return times (1 - your marginal tax rate) + the nontaxable return.

Agency Bonds – Bonds issued by government agencies other than the Treasury.

Allowance – A sum of money allotted for a particular purpose.

Amortized Loan – A loan paid off in equal installments, including both principle and interest.

Annual Fee – A fixed charge imposed by a credit card company for the use of a credit card for one year.

Annual Percentage Rate – The true simple interest rate paid over the life of the loan. This is a reasonable approximation for the cost of borrowing, which does not take into account compounding. The Truth in Lending Act requires that all consumer loan agreements disclose the APR in bold print. It is calculated as the cost of interest and fees divided by the number of years, all divided by the average amount borrowed.

Annual Percentage Yield – The simple annual percentage yield that converts interest rates compounded for different periods into comparable annual rates. It allows you to easily compare interest rates.

Annuity – A series of equal dollar payments coming at the end of each time period for a specified number of time periods, generally months or years.

Asset Allocation – The process of determining what percent of investor's assets should be invested in which asset classes to enable the investor to reach his or her financial goals.

Assets – Are things that you own. They can be physical (i.e. autos, homes, etc.), financial (stocks, bonds, cash) or intellectual (i.e. knowledge, trademarks or patents).

Automobile Loans – A consumer loan to purchase and keep an automobile. Should the borrower fail to make payments, the lender can repossess the auto.

Average Daily Balance Method – A method of calculating the balance on which interest is paid by summing the outstanding balances owed each day during the billing period and dividing by the number of days in the period.

Balance– In a savings reference, your balance is what is left in a savings account after a deposit or withdrawl.

Balanced Mutual Fund – A mutual fund that tries to "balance" the objectives of long-term growth with current income and so includes portions of both risky and conservative assets.

Balloon Mortgage Loan – A mortgage with relatively small monthly payments for several years (generally 5 or 7 years), after which the loan must be paid off in full, in generally one large balloon payment.

Bank Credit Card – A credit card issued by a bank or large corporation, generally as a Visa or MasterCard.

Bankruptcy – A legal process whereby payment to creditors is administered by law.

Basic Health Insurance – A term used to describe most health insurance, which includes a combination of hospital, surgical, and physician expense insurance.

Bear Market – A stock market characterized by falling prices.

Beneficiary – The individual designated to receive specific assets in the case of a will, or the person designated to receive the insurance policy proceeds upon the death of the insured.

Blue-Chip Stocks – Common stocks issued by large, nationally known companies with sound financial histories of solid dividend and growth records.

Bond Funds – Mutual funds that invest primarily in bonds.

Bonds – Are debt and are issued for a period of time. Governments, districts, companies, and other types of institutions sell bonds. When an investor buys bonds, they are lending money.

Borrowing – Using a bank’s or someone else’s money with their permission with an agreement to give it back to them, sometimes with extra money in return for use.

Budget – A plan for controlling inflows of funds with outflows to pay expenses.

Capital Gain – An increase in the value of a capital asset (investment or real estate) that gives it a higher value than the original purchase price. The gain is not realized until the asset is sold. A capital gain may be short-term (one year or less) or long-term (more than one year) and must be claimed on income taxes.

Compound Annuity – An investment that involves depositing an equal sum of money at the end of each year for a certain number of years and allowing it to grow.

Compound Interest – Is where interest is paid on previously earned interest, as well as on the principal.

Compounded – (annually, quarterly, daily, etc.) The number of periods during the year where interest is calculated. The shorter the compounding period, the higher the effective annual rate of interest.

Consolidation – Combining all debts into a single loan to help reduce interest.

Credit Bureaus – These are companies that collect and report financial information on individuals or firms. The information is collected from creditors, public records, and a variety of institutions. There are three major credit bureaus: Equifax, Experian, and Trans Union.

Credit Counseling – Performed by agencies who work with individuals and their credit card companies to reduce or eliminate interest payments.

Credit Evaluation – This is the process potential creditors use to determine an individual's credit worthiness by analyzing specific information, such as personal demographics and credit history, provided by various sources and generally included on credit reports.

Credit History – A record of an individual's personal credit. It includes what credit is open, closed, balances, etc.

Credit Report – A public record of information on a specific individual's credit standing compiled by a credit bureau. Most credit reports include the individual's name, address, credit history, and information from public records such as bankruptcy fillings and criminal convictions.

Credit Scores – These are ratings developed by financial institutions as a way of determining which borrowers are more likely to repay their loans. Credit scores are based on specific factors such as credit history, length of credit, repayment history, types of credit owned, and so on. Generally, the higher your credit score, the lower your risk, and the more likely you will repay your loans.

Debt – Money or an obligation owed.

Debt Reduction – A method of reducing debt in an acceptable length of time.

Defined Benefit Plan – A defined benefit plan (DBP) is a retirement plan funded entirely by the employer in which the payout amount is guaranteed based on a specific formula set by the company. Employees contribute to the plan, but they receive a promised defined payout at retirement. This payout is generally based on a formula, including formula variables such as age at retirement, average salary level, and years of service.

Defined Contribution Plan – A retirement plan into which the employer contributes a specific amount to the employee's retirement fund while the employee is working and then has no responsibilities once the employee retires.

Deposit – To put money into a bank or investment account.

Earned Income – Wages paid in exchange for work.

Education IRA – A type of savings plan that allows parents to save money to pay for their children's education. Investments accumulate tax free and the account creator determines how to invest the funds and how the funds will be spent. Eligible expenses include elementary, secondary, and college tuition, as well as the purchase of books and supplies. If the money is withdrawn for noneducation expenses, federal taxes will be charged to the account holder at the account holder's regular tax rate plus a 10 percent penalty.

Employee Stock Option Plan – Is a type of defined contribution plan in which retirement funds are invested in company stock. This is a very risky and nondiversified plan.

Employer Qualified Plans – These are retirement plans which comply with government regulations and allow you to place pretax dollars into the retirement plans.

Expenses – Things you pay money for – both needs and wants.

FICO score – This is the most commonly used credit score; it was developed by Fair, Isaac and Company.

Finance Charges –The fee you pay when you do not pay off the entire credit care debt or loan balance within a single payment period, usually about 25-28 days.

Fixed – Not changing. Fixed interest rates never change during the time of the investment or loan.

Fixed Expenses – Expenses you don't directly control (i.e. mortgage, rent, tuition, books, life and health insurance, etc).

Fixed Rate Loans – Consumer loans that have the same interest rate for the duration of the loan. Normally they have higher initial interest rates, because the lender could lose money if the rates increase.

Goal – Something that is important to you and which you are willing to put effort toward. Goals should be smart, specific, measurable, achievable, realistic, and time-bound.

Grace Period – The time, usually about 25-28 days, which you have to pay a bill or loan payment before it comes overdue. If you pay within the grace period, you do not have to pay a finance charge.

Home Equity – The difference between the value of the home and what is owed on the home (i.e. the mortgage).

Home Equity Loans – Are basically second mortgages. You can use the equity in your house, the difference between what you paid for the house and what it is worth today, to secure your loan. The benefits are that they normally allow you to borrow up to 80% of the equity in your home. The interest payments are generally tax deductible.

Income – Monetary payment received for goods or services or from other sources such as rents or investments.

Index Fund – A mutual fund which has the goal of matching the performance of a specific benchmark or index.

Inflation – An increase in the volume of money and credit relative to available goods and services resulting in a continuing rise in the general price level.

Insured Savings – Accounts that are insured up to $100,000 by the Federal Deposit Insurance Corporation (FDIC). Most banks are insured by the FDIC, so your money in bank accounts is insured.

Installment Loans – Loans repaid at regular intervals. The payment includes both principal and interest. It's normally used to finance houses, cars, appliances, and other expensive items.

Interest – A charge for borrowed money, often calculated as a percentage of the amount loaned.

Interest Rate – The stated rate that you will receive for investing for a specified time at a specified compounding period.

Investment – A current commitment of money or other resources in the expectation of reaping future benefits.

Investment Constraint – Investment constraints are factors which must be taken into account as you manage your portfolio. These include factors such as liquidity, investment horizon, taxes, and special needs.

Investment Plan – A detailed description of all the major areas of your investment strategy. It will help you understand yourself, and sets the framework for all investment activity you will participate in.

Investment Strategy – The understanding of how you will invest your assets. It clarifies how to select, manage, prioritize, fund, and evaluate your investments.

Investment Vehicle – A tax-law defined vehicle that has specific tax advantages, such as tax deferral or tax elimination. Examples include IRAs, 401(k) and Keogh plans, or 529 Plans

IRA – An individual retirement account is a retirement vehicle that allows you to set aside money for retirement, while at the same time possibly offering tax advantages.

IRA's can be invested in numerous types of investments, including stocks, bonds, mutual funds, etc.

Keogh Plan – A retirement plan for small businesses that allows the business to make tax-deductible payments to the retirement plans of employees. This plan is similar to a corporate pension or profit sharing plan. There are three Keogh options that provide for increased flexibility: the Profit Sharing Plan, the Money Purchase Plan, and the Paired Plan.

Liquidity – The speed and ease with which an asset can be converted into cash.

Loan – Money or an object that is lent, usually with the understanding that the loan will be paid back, usually with interest.

Minimum Payment – The smallest amount you are required to pay a lender each month on a debt.

Money Market Account – A savings account offered by a bank (or a mutual fund). The account typically requires 1) a minimum deposit and 2) that you maintain a minimum balance. The account is invested in certificates of deposit and treasury bills which pay a rate of interest that rises and falls with the economy.

Money Purchase Plan – A type of defined contribution plan in which the employer contributes a percentage of an employee’s salary each year.

Mortgage – A loan to finance the purchase of real estate, usually with specified payment periods and interest rates.

Mutual Fund – Pools of money managed by an investment company. These funds offer a variety of goals, depending on the fund and its investment objectives. Funds can impose a sales charge, or load, when investors buy and sell shares, or the funds may be no-load and impose no sales charge. Mutual funds may also be open-end funds, which create new shares on demand, or closed-end funds, which have set shares outstanding.

Net Worth – The difference between the assets that you own and the debts that you owe to others.

Payday Loans – These are loans secured with a post dated check. They have very high interest rates, some with APRs in excess of 520% on an annual basis and are not recommended for use. These loans are short term loans of one to two weeks.

Present Value – The current value, which is the value in today's value of a future sum of money.

Principal – The money that you have to invest or save, or the stated amount on a bond or deposit instrument.

Profit Sharing Plan – A type of defined contribution plan in which an employer's contributions vary year-to-year depending on the firm's profitability. (The contribution may be zero if the firm is not profitable.)

Qualified Retirement Plans – A retirement plan that allows a company to make tax-deductible contributions to employees through either a defined-benefit plan or a defined-contribution plan. Some of these plans require no employee contributions and some of these plans require employee contributions that are employer matched.

Real Return – The real rate of return on an investment after removing the impact of inflation. The approximation formula is the nominal return less inflation.

Reinvesting – Taking money that you have earned on an investment and investing it again

Roth 401(k) – See 401(k)

Roth 403(b) – See 403(b)

Roth IRA – Is a retirement plan that provides no tax deduction for contributions, but does provides a special benefit not available to other forms of retirement savings. All earnings and capital gains are distributed tax free when you retire after age 59 1/2.

Save –Keeping money for future use instead of spending it. Saving is the opposite of spending.

Savings Account – A bank account that pays interest for keeping savings in it. Banks use the money in the savings to make loans, and in return provide interest to the saver.

Secured Loans – A loan guaranteed by a specific asset such as a home equity loan or a car loan. They typically have lower rates, as the security, i.e., the home, car, etc., is considered collateral for the loan.

SEP IRA – Is a Simplified Employee Plan Individual Retirement Account that allows a small business employer to contribute to the retirement of its employees. The employer contributes to each eligible employees' SEP-IRA, with the same percentage contributed to all employees. Contributions are tax deductible and earnings grow tax-deferred.

Series EE – Savings bonds issued by the United States Government that have a minimum maturity of five years. These are taxable bonds, which can be purchased in any combination of denominations up to $30,000 per year. The bonds can be purchased in small denominations (as low as $25) over the Internet, and they have competitive interest rates that change every six months and are calculated at 90% of the average 5 year Treasury yield. If the principle and earnings from these bonds are used for qualified educational expenses, the earnings are tax-free. However, if the bonds are cashed before maturity, there is a three-month interest penalty.

Series I – Savings bonds issued by the United States Government that have a minimum maturity of five years. These are taxable bonds, which anyone can purchase in any combination of denominations up to $30,000 per year.

The bonds can be purchased in small denominations (as low as $25) over the Internet, and they have competitive interest rates that change every six months, calculated by computing the rate of inflation over the previous year and adding a real return component.

If the principle and earnings from these bonds are used for qualified educational expenses, the earnings are tax-free. However, if the bonds are cashed before maturity, there is a three-month interest penalty.

Shareholder – A person or entity which owns equity or shares in a company.

SIMPLE-IRA – Savings Incentive Match Plan for Employees (SIMPLE-IRA) is a tax-sheltered retirement plan for small businesses or the self-employed that provides some matching funds by the employer similar to the matching of a 401(k) plan. Employees can contribute up to 100 percent of compensation to a maximum of $8,000 per year (a 2004 change). Contributions are tax deductible, so there is a penalty for early withdrawals. The employer is required to match employees' contributions.

Single-Payment Loan – Also known as a balloon loan, bridge loan or interim loan because it is traditionally used until permanent financing is arranged. The loan is repaid in one lump sum including interest. Normally used for lending of one year or less.

Social Security – A federal program that provides disability and retirement benefits based upon years worked, amount paid into the plan, and retirement age.

Stock – Ownership of a company or corporation indicated by shares. These shares represent ownership in the corporation's assets and earnings.

Student Loan –A loan with low federally subsidized interest rates used for higher education. Examples are federal direct and plus direct loans, Stafford and Stafford plus loans available to parents and students. These loans may have specific tax advantages. This loan may have lower than market rates, and payment on federal direct and Stafford loans are deferred until 6 months after graduation.

Tax Liability – Taxes that are owed but not yet paid.

Tax-adjusted Return – A return on an investment after taking into account the impact of taxes (both federal and state).

Tax-deferred Money – An increase in the value of a capital asset (investment or real estate) that gives it a higher value than the original purchase price. The gain is not realized until the asset is sold. A capital gain may be short-term (one year or less) or long-term (more than one year) and must be claimed on income taxes.

The Envelope System – A simplified cash budget system where you put money for each expense in an envelope. When the money is gone, it is gone.

Thrift and Savings Plan – A type of defined contribution plan in which the employer matches a percentage of employee contributions.

Time Value of Money – The basic principle that money can earn interest. Therefore, something that is worth $1 today will be worth more in the future if it is invested wisely. This is also referred to as future value.

Traditional IRA – A retirement account in which an individual can contribute up to $3,000 annually, depending on the contributor's income level and whether he or she has other retirement savings plans. This money is tax-deferred until retirement; it is taxed as ordinary income on withdrawal after age 59 and a half.

Unsecured Loans – Require no collateral and are generally offered only to borrowers with excellent credit history. However, unsecured loans normally have the highest interest rates, and can range in cost from12% to 23%, or even higher.

Variable Expenses – Expenses you have some control over, e.g., food, entertainment, clothing, etc.

Variable Rate Loan –Have an interest rate that is tied to an index. It adjusts at different intervals such as monthly, semiannually, or annually with a lifetime adjustment cap. Normally they have a lower initial interest rate.

Withdrawal – The act of taking money out of an account.