

Institutional Retirement Income Council

Key Terms Glossary



Innovation, Communication, Evaluation.

Institutional Retirement Income Council Glossary



Term	Definition
Account Value	The market value of the fund.
Accumulation Phase ¹	The period of time when the annuitant is making contributions to the annuity and building up the value of his/her annuity account.
Accumulation Unit ¹	A measurement of the value invested in the account during the accumulation period of the contract.
Accumulation Unit Value ²	The value of a particular accumulation unit at a particular time.
Adjusted Contract Value ³	The contract value as of the annuity date, adjusted for any market value adjustment, less any applicable premium tax charge.
Anniversary Value	Market value or guaranteed values as measured at a point in time each year.
Annuitant ¹	A person who receives the benefits of an annuity or pension.
Annuitization ¹	The process of converting an annuity investment into a series of periodic income payments. Annuities may be annuitized regularly, over a long or short time period, or, in some cases, in one single payment.
Annuity ¹	A financial product sold by a life insurance company 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. Annuities are primarily used as a means of securing a steady cash flow for an individual during their retirement years.
Annuity Date ²	A date selected by the owner(s) for annuity income payments to begin. This date can be as late as the first day of the calendar month on or after the contract anniversary that falls on or after the oldest owner's 95th birthday.
Annuity Payment ⁴	Series of payments made on either a fixed dollar annuity basis or variable dollar annuity basis.
Appreciation ¹	An increase in the value of an asset over time. The increase can occur for a number of reasons including increased demand or weakening supply, or as a result of changes in inflation or interest rates.
Beneficiary ¹	A person or entity named in a will or a financial contract as the inheritor of property when the property owner dies.
Birthday Year	Year of individual's birth.
Business Day ⁵	The part of a day during which most businesses are operating, usually from 9 am to 5 pm, Monday through Friday.

Term	Definition
Call ¹	An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying security at a specified price within a specified time.
Code ²	The Internal Revenue Code of 1986 as amended.
COLA ¹	An adjustment made to Social Security and supplemental security income in order to adjust benefits to counteract the effects of inflation. Cost of Living Adjustments are generally equal to the percentage increase in the consumer price index for urban wage earners and clerical workers (CPI-W) for a specific period.
Collective Trust Funds ⁴	Collective investment fund managed by a bank trust department. A common trust fund is similar to an open-end investment company or mutual fund but participation is limited to those with trust accounts.
Contract ²	The annuity contract.
Contract Anniversary ²	The same month and day as the contract date in each later year.
Contract Date ⁴	The date the contract becomes effective.
Contract Owner ⁶	The contract owner is the person or entity that owns an annuity.
Contract Value	The total value of your contract equal to the sum of the values of each investment in each investment option elected.
Consumer Price Index (CPI) ¹	A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
Credit Risk ¹	The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation.
Custom Target Date Funds	A lifecycle mutual fund designed to become more conservative as the investor approaches retirement. Underlying assets are uniquely chosen by the client.
Death Benefit ¹	The amount on a life insurance policy or pension that is payable to the beneficiary when the annuitant passes away.
Deferral Bonus	An increase in the value of an account if individual waits to initiate a contract feature.
Deferred Annuity ¹	A type of annuity contract that delays payments of income, installments or a lump sum until the investor elects to receive them. This type of annuity has two main phases: the savings phase, in which you invest money into the account, and the income phase, in which the plan is converted into an annuity and payments are received.
Depreciation ¹	In accounting, an expense recorded to allocate a tangible asset's cost over its useful life. Because depreciation is a non-cash expense, it increases free cash flow while decreasing reported earnings.

Term	Definition
Diversification ¹	A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.
Excess Withdrawal	Withdrawals in each year in excess of the annual guaranteed withdrawal amount. Each excess withdrawal reduces your annual guaranteed withdrawal amount.
Fiduciary ¹	A person legally appointed and authorized to hold assets in trust for another person. The fiduciary manages the assets for the benefit of the other person rather than for his or her own profit.
Fixed Annuity ¹	An insurance contract in which the insurance company makes fixed dollar payments to the annuitant for the term of the contract, usually until the annuitant dies. The insurance company guarantees both earnings and principal.
Funds ²	The mutual fund portfolios in which the investment options invests.
Fund of Funds ¹	A mutual fund that invests in other mutual funds.
Futures Contract ¹	A contractual agreement, generally made on the trading floor of a futures exchange, to buy or sell a particular commodity or financial instrument at a predetermined price in the future. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash.
General Account ⁷	An undivided investment account in which insurers maintain funds that support contractual obligations for guaranteed insurance products such as whole life insurance or fixed-rate annuities.
Group Annuity Contract ⁸	An insurance contract that allows a tax-qualified plan to purchase retirement annuities for plan participants.
Guarantee Fee	An ongoing charge associated with insurance provided under the product.
Guaranteed Income ⁷	An income stream that is guaranteed to a contract holder by the insurance company.
Guaranteed Minimum Accumulation Benefit (GMAB) ¹	A rider on a variable annuity, which guarantees the minimum amount received by the annuitant after the accumulation period, or a set period of time, is either the amount invested or is locked-in gain. This protects the value of the annuity and the annuitant from market fluctuations.
Guaranteed Minimum Income Benefit (GMIB) ¹	Guarantees that when a contract is annuitized - i.e., converted into retirement income payments - the income payments will be based on the greater of the actual contract value or a minimum payout base, which typically is equal to the amount invested credited with a competitive rate of interest (five percent is common). If the contract value grows, monthly income payments may be higher, but never lower, than the guaranteed minimum amount.
Guaranteed Minimum Withdrawal Benefit (GMWB) ¹	Also known as a Guaranteed Lifetime Withdrawal Benefit. A rider on a variable annuity that allows minimum withdrawals from the invested amount without having to annuitize the investment. The amount that can be withdrawn is based on a percentage of the total amount invested in the annuity. The GMWB allows access to the invested capital, regardless of the performance of the investment, and continues to maintain and invest in the annuity.

Term	Definition
Hedging ¹	Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.
Highest Birthday Value	For purposes of determining an income base, a value that reflects the highest measured values as of prior birthday measurement dates as stipulated under the contract.
Immediate Annuity ¹	An annuity contract that is purchased with one payment and has a specified payment plan that starts immediately.
Income Base (Income or Benefit Base)	A notional value under a guaranteed minimum withdrawal benefit contract on which the guaranteed annual withdrawals are based.
Income Replacement Fund	A mutual fund designed to pay out income via withdrawals over a predetermined time frame of retirement.
Individual Retirement Account (IRA) ¹	Traditional and Roth IRAs are established by individual taxpayers, who are allowed to contribute 100% of compensation (self-employment income for sole proprietors and partners) up to a set maximum dollar amount. Contributions to the traditional IRA may be tax deductible depending on the taxpayer's income, tax filing status and coverage by an employer-sponsored retirement plan. Roth IRA contributions are not tax deductible.
Inflation ¹	The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling.
Institutional ¹	A non-bank person or organization that trades securities in large enough share quantities or dollar amounts that they qualify for preferential treatment and lower commissions.
Insurer ⁵	The party to an insurance arrangement who undertakes to indemnify for losses.
Investment Options ²	The subaccounts of the variable account to which the annuitant may allocate the contract value. Each subaccount invests exclusively in the shares of one fund.
Joint Annuitant ¹	A type of annuity that makes payments for the lifetime of two or more beneficiaries.
Joint and Survivor Annuity ⁷	An annuity with two annuitants, usually spouses. Payments continue until the death of the longest living of the two.
Lifetime Annual Withdrawal or Annual Guaranteed Withdrawal Amount ¹	A rider on a variable annuity that allows minimum withdrawals from the invested amount without having to annuitize the investment. The amount that can be withdrawn is based on a percentage of the total amount invested in the annuity.

Term	Definition
Liquidity ¹	The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity.
Longevity Risk ¹	For an individual, this is the risk that an individual outlives his or her ability to generate ongoing retirement income.
Managed Accounts ¹	An investment account that is owned by an individual investor and looked after by a hired professional money manager. In contrast to mutual funds (which are professionally managed on behalf of many mutual-fund holders), managed accounts are personalized investment portfolios tailored to the specific needs of the account holder.
Management Fee ¹	A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their time and expertise. It can also include other items such as investor relations expenses and the administration costs of the fund.
Market Risk ¹	The day-to-day potential for an investor to experience losses from fluctuations in securities prices. This risk cannot be diversified away.
Market Value ¹	The current quoted price at which investors buy or sell a share of common stock or a bond at a given time.
Minimum Death Benefit ¹	A benefit term that guarantees that the beneficiary, as named in the contract, will receive a death benefit if the annuitant dies before the annuity begins paying benefits. The benefit received differs among companies and contracts, but the beneficiary is guaranteed an amount equal to what was invested or the value of the contract on the most recent policy anniversary statement, whichever is higher.
Minimum Required Distributions (MRD) ¹	The amount that traditional, SEP and SIMPLE IRA owners and qualified plan participants must begin distributing from their retirement accounts by April 1 following the year they reach age 70 ½. MRD amounts must then be distributed each subsequent year.
Mortality and Expense Fee (M&E) ¹²	A fee for insurance guarantees, including the death benefit, the choice of guaranteed lifetime payout options, and the guarantee that insurance charges will not increase.
Mutual Funds ¹	An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.
Nominal Income ⁹	Income that has not been adjusted for inflation and has decreasing purchasing power.
Participant ¹	A plan participant either contributes into a pension plan or is in a position to receive benefit payments from the plan. It includes a retired person receiving distributions from a pension plan, or a beneficiary or dependent named by a contributing member.
Pooling ¹⁰	A method of calculating group insurance premium rates by which the insurer considers several small groups as one large group for risk assessment purposes.

Term	Definition
Portable/Portability	The general characteristic of being readily transportable from one location to another, which may apply at a participant or plan level.
Principal Preservation Funds	A fund that guarantees return of principal after a period of time.
Principal Protected Notes ¹	A fixed-income security that guarantees a minimum return equal to the investor's initial investment (the principal amount).
Purchase Payments	Contributions made over time by the individual that are invested in products that will pay a future benefit.
Purchasing Power ¹	The value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. Purchasing power is important because, all else being equal, inflation decreases the amount of goods or services you'd be able to purchase.
Put ¹	An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying asset at a set price within a specified time. The buyer of a put option estimates that the underlying asset will drop below the exercise price before the expiration date.
Ratchet (annual reset method) ¹⁰	A method for crediting excess interest to a variable annuity that involves comparing the value of the annuity at the start of the contract year with its value at the end of the contract year. The starting value for the next year is reset to the value of the variable annuity at the end of the current contract year. The insurer determines the amount of excess interest by averaging the results for each contract year of the contract term.
Real Income ¹¹	The income of individuals or nations after adjusting for inflation. It is calculated by subtracting inflation from the nominal income.
Reserve	An amount set aside by an insurer that represents the present value of all payments to be made on account of an annuity.
Retail	Refers to the purchase of an investment or product outside of an institutional plan and is usually made through a financial advisor or directly with the product manufacturer.
Retirement Plan ¹	A plan that meets requirements of the Internal Revenue Code and, as a result, is eligible to receive certain tax benefits. These plans must be for the exclusive benefit of employees or their beneficiaries.
Rider ¹	A provision in an insurance policy allowing for amendments to its terms and/or coverage.
Roll-Up Value	A measurement used in determining an income base, which usually reflects aggregate contributions and earnings over time.
Rollover Individual Retirement Account ¹	A transfer of funds from a retirement account into a traditional IRA or a Roth IRA. This can occur either through a direct transfer or by a check, which the custodian of the distributing account writes to the account holder, who then deposits it into another IRA account.
Separate Account ¹	In the context of variable annuities, these are payments made to an insurance company for the purpose of investing in securities. These securities are kept separate from the insurer's general investments.
Single Counterparty Risk ¹	The risk to each party of a contract that the counterparty will not live up to its contractual obligations.
Single Premium	A one-time deposit into a contract.
Solvency ¹	The ability of a corporation to meet its long-term fixed expenses and to accomplish long-term expansion and growth.

Term	Definition
Spousal Benefit	An optional benefit that extends income guarantees to a participant's spouse.
Step Up ¹²	An account value guarantee to the beneficiary as of a particular anniversary date.
Structured Note ¹	A debt obligation that also contains an embedded derivative component with characteristics that adjust the security's risk/return profile. The return performance of a structured note will track that of the underlying debt obligation and the derivative embedded within it.
Surrender Charge ¹	A fee levied on a life insurance policyholder upon cancellation of his or her life insurance policy or annuity. The fee is used to cover the costs of keeping the insurance policy on the insurance provider's books.
Systematic Withdrawal Plan (SWP) ¹	A service offered by a mutual fund that provides a payout amount based on a specific percentage of the initial account value. The payout is disbursed to the shareholder at predetermined intervals, generally monthly, quarterly, semiannually or annually
Target Date Fund ¹	A mutual fund in the hybrid category that automatically resets the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a selected time frame that is appropriate for a particular investor. A target-date fund is similar to a life-cycle fund except that a target-date fund is structured to address some date in the future, such as retirement.
Target Risk Fund ¹	A fund that attempts to expose its investors to a specified amount of risk. The fund manager of a target risk fund is responsible for overseeing all the securities owned within the fund, to ensure that the level of risk isn't greater or less than the fund's target amount of risk exposure.
Tax Deferral ¹	Refers to investment earnings such as interest, dividends or capital gains that accumulate free from taxation until the investor withdraws and takes possession of them. The most common types of tax-deferred investments include those in individual retirement accounts (IRAs) and deferred annuities.
Variable Annuity ¹	An insurance contract in which, at the end of the accumulation stage, the insurance company guarantees a minimum payment. The remaining income payments can vary depending on the performance of the managed portfolio.
Withdrawal Period	The time frame in which amounts are extracted from an account to generate retirement income.

¹ <http://www.investopedia.com/terms>

² source: Fidelity GMWB Glossary Terms

³ <http://sec.edgar-online.com/2003/02/27/0000950123-03-002136/Section2.asp>

⁴ <http://www.answers.com/topic>

⁵ <http://www.investorwords.com>

⁶ <http://banking.about.com>

⁷ <http://www.iii.org/media/glossary>

⁸ <http://www.stablevalue.org/glossary>

⁹ <http://financial-dictionary.thefreedictionary.com/Nominal+income>

¹⁰ <http://www.imsaethics.org>

¹¹ <http://en.wikipedia.org>

¹² <http://www.annuitiesinstitute.com>